

2019-2020 ANNUAL REPORT



PENNVEST

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

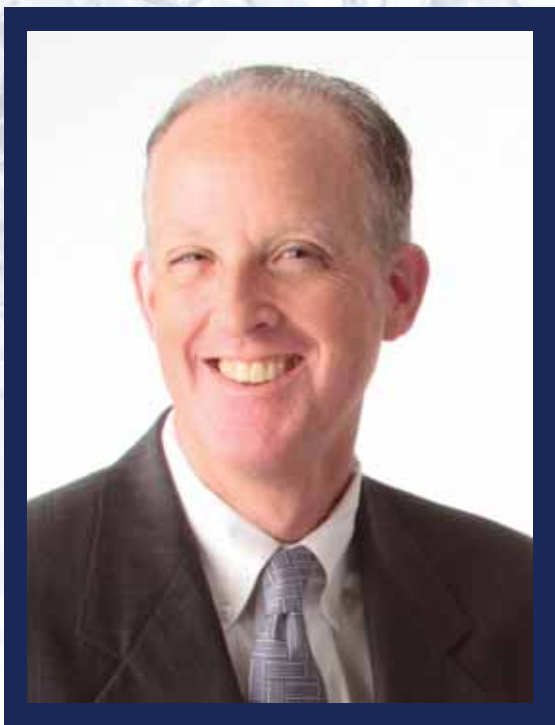
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GOVERNOR TOM WOLF

CHAIRMAN'S STATEMENT



Eric Menzer

On behalf of Governor Wolf, I am pleased to report to the citizens of the Commonwealth on the success of the PENNVEST program for the 2019-2020 Fiscal Year.

Along with Pennsylvania's incredibly diverse terrain – from the lush, mountainous forest of the Allegheny National Forest to the bustling riverside of Philadelphia's ports – comes a wide array of challenges to our water quality. This year featured numerous unique efforts to address and improve our collective ecology, including agricultural best management practices (BMPs), comprehensive wastewater treatment plant upgrades, and system replacements that ended decades of hazardous material infiltration in our communities' drinking water.

I am proud to say that PENNVEST has utilized its innovative revolving loan program to help address those challenges, providing \$469 million in capital for 69 drinking water, wastewater, stormwater and non-point source projects across the Commonwealth this fiscal year. Expanding on a track record of innovation, investments for non-point source (NPS) projects increased by nearly \$2 million over last year's total, along with significant investment growth in wastewater and drinking water project awards. Following the direction of the PENNVEST Board in 2019, staff have been working to implement two new major initiatives

– the Center for Water Quality Excellence, and a state-wide lead testing program for schools and child care facilities. By the fourth quarter of 2020, the Center for Water Quality Excellence will be in development to serve as a one-stop shop for customized NPS funding packages, offering collaborative opportunities with PENNVEST, the U.S. Department of Agriculture (USDA), and the Pennsylvania Department of Conservation and Natural Resources (DCNR). Lead testing activities will also commence in the fourth quarter of 2020, utilizing grant funding from the U.S. Environmental Protection Agency (EPA) to support competitively-bid efforts to deliver and evaluate lead testing kits to over 3,000 Pennsylvania schools and child care facilities.

The Board's leadership is also exemplified by a \$65 million investment in the Pittsburgh Water & Sewer Authority service area, marking the single largest drinking water award made in PENNVEST's thirty-one-year history. The project and PENNVEST's financial investment match long-term financial commitment with approved capital improvement planning, making PENNVEST a partner in multi-stage community improvements. The award will address existing lead contaminant issues and improve water quality for a service area of more than 300,000 Pennsylvanians.

The Board also approved two capitalization grant applications for federal funding in January, and authorized staff to proceed with these application submissions to the EPA. The first application was for the Clean Water State Revolving Fund for a capitalization grant of \$62.9 million. The second was for a capitalization grant for the Drinking Water State Revolving Fund in the amount of \$33.9 million. These approved applications will allow PENNVEST to continue to fund innovative projects that improve Pennsylvania's waterways, community drinking water, and stormwater mitigation efforts.

While the transformation into spring traditionally creates an opportune time for robust outreach efforts across the Commonwealth, including face-to-face discussions about PENNVEST programs with local officials, agricultural professionals, and technical staff, this year presented unique and unexpected challenges because of the COVID-19 pandemic. Due to an ongoing disaster declaration and efforts to mitigate the spread of the virus, staff had to transform several scheduled in-person seminars, and were able to expand PENNVEST's al-

ready-vigorous virtual presence by holding four on-line informational sessions. These no-cost virtual presentations were offered at various workday and evening times, to accommodate numerous schedule changes and encourage participation. Despite the adjusted format, each session produced invaluable feedback, which staff has applied to the expansion of new funding initiatives, including: lead line replacement, small system upgrades, polyfluoroalkyl substances (PFAS), and programmatic financing.

PENNVEST maintains significant focus on traditional drinking and wastewater projects, while we continue to expand and promote additional opportunities through new innovative programs. The Center for Water Quality Excellence will directly address Pennsylvania's contribution to the multi-state Chesapeake Bay Tributary Strategy, while also promoting NPS opportunities for best management practices. The lead testing program will help to identify "hot spot" areas of increased hazardous lead exposure throughout the Commonwealth, and in turn, provide prospective avenues for prioritized lead line replacement funding. Additionally, more specialized funding can be utilized

to accommodate a variety of project capacities, including programmatic financing for long-term, large-scale projects, as well as small systems funding for emergencies, repairs, and lower-cost improvements.

At the heart of each of these programs is the revolving fund, which is what makes PENNVEST so unique and successful. This fund has proven to be enormously effective with addressing Pennsylvania's clean water goals, providing over \$10 billion for project funding in the program's thirty-one-year history. With a reputedly strong record of success, and ongoing efforts to improve water quality and sound environmental stewardship, I am pleased to see PENNVEST continue to address existing issues and prepare to contribute support for future emerging challenges.



Eric Menzer
Chairman of the Board



BOARD OF DIRECTORS



Eric Menzer
Chair



Patrick McDonnell
Vice Chair
Secretary of Environmental
Protection



Dennis Davin
Secretary-Treasurer
Secretary of Community and
Economic Development



Donald Genusso
Engineering Community



Tim Moury
Local Government



Donna Oberlander
Pennsylvania House of
Representatives

BOARD OF DIRECTORS



M. Joel Bolstein
Water and Sewer Industry



Lisa Boscola
Senate of Pennsylvania



Anthony DeLuca
Pennsylvania House of
Representatives



Joe Pittman
Senate of Pennsylvania



Jen Swails
Secretary of the Budget



Curt Topper
Secretary of
General Services

PENNVEST STAFF



Ken Anderson



Steve Anspach



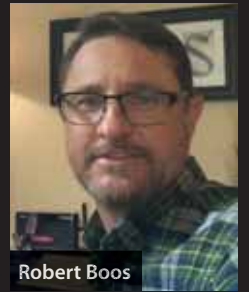
Dawn Bigham



Jayne Blake



Loren Blickstein



Robert Boos



Heather Brookmyer



Leeann Brown



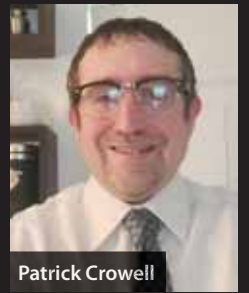
Qing Cheema



Michael Chiarkas



Leslie Cote



Patrick Crowell



Ellen Dunlap



Hannah George



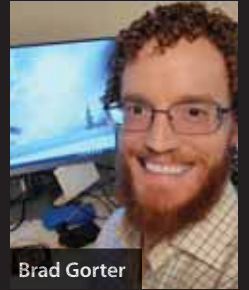
Robert Gill



Rod Glass



Earl Goldsborough



Brad Gorter



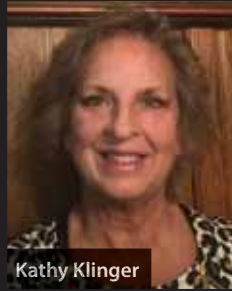
Dave Henning



Brion Johnson



Rebecca Kennedy



Kathy Klinger



Laura Lewis



Dan Mikesic



Kyle Mooney



John Moore



Heather Myers



Brent Sailhamer



Tesra Schlupp



Michelle Seltzer



Melissa Smith



Shawn Weis



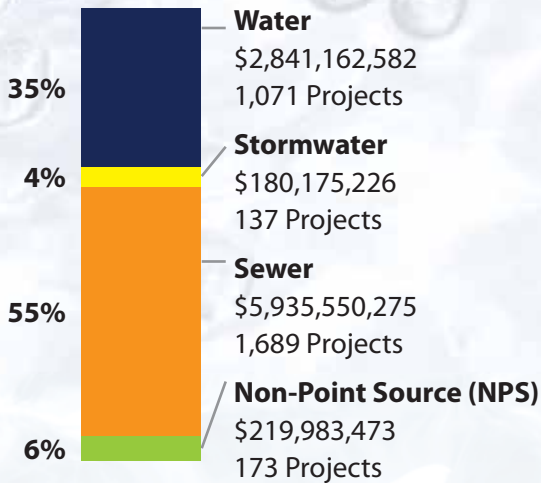
Denise Zern

PROGRAM HIGHLIGHTS

During Fiscal Year 2019-2020, PENNVEST continued more than three decades of water infrastructure investment, adding 69 new projects with a total investment of nearly \$470 million. The bulk of that total consisted of 20 drinking water projects and 33 wastewater projects; plus, an additional 4 stormwater projects and 12 non-point source projects – all targeting agricultural improvements and best management practices (BMPs).

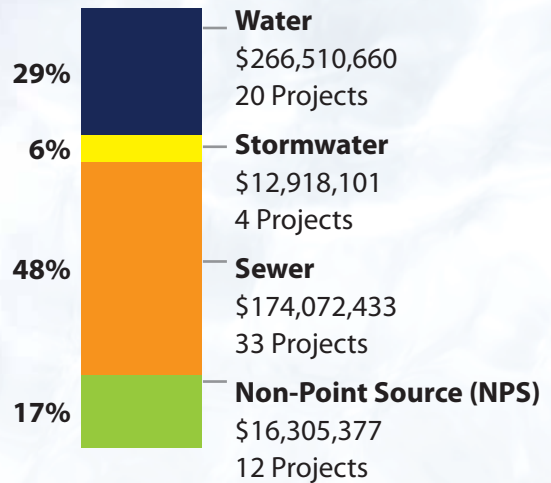
Project Summary (1988 to Present)

\$9,271,700,983 Combined Total
3,090 Projects

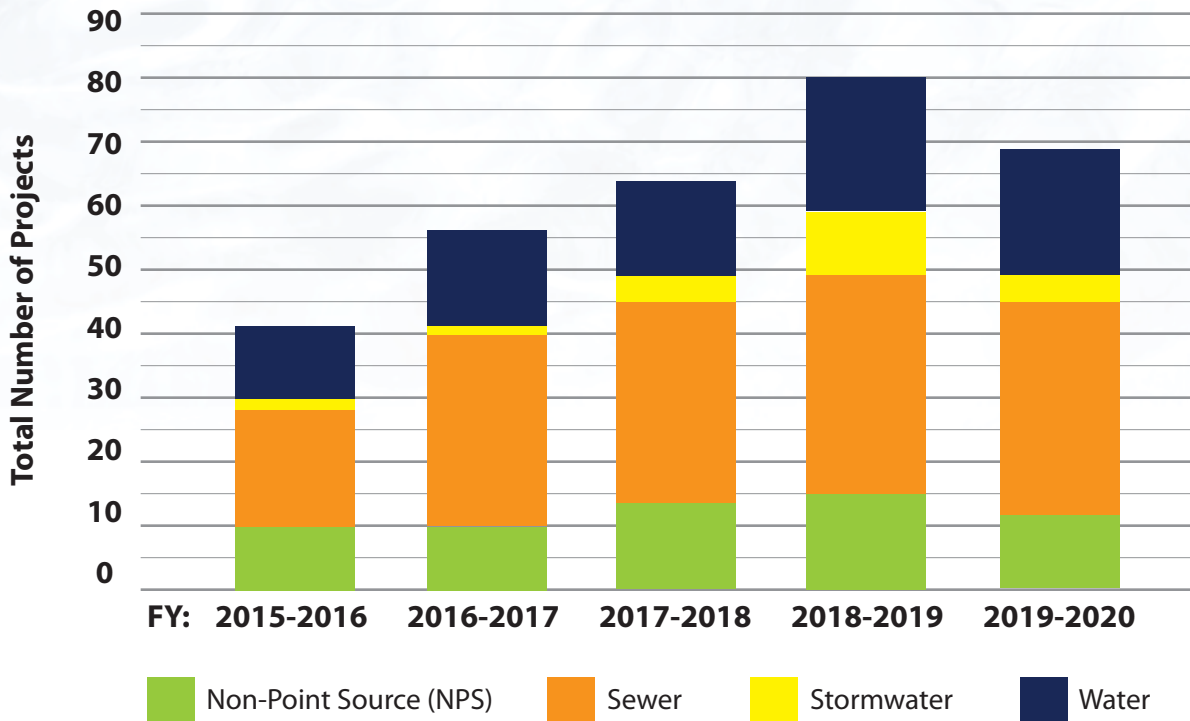


2019-2020 Funding

\$469,806,571 Combined Total
69 Projects



Five-Year Project Summary



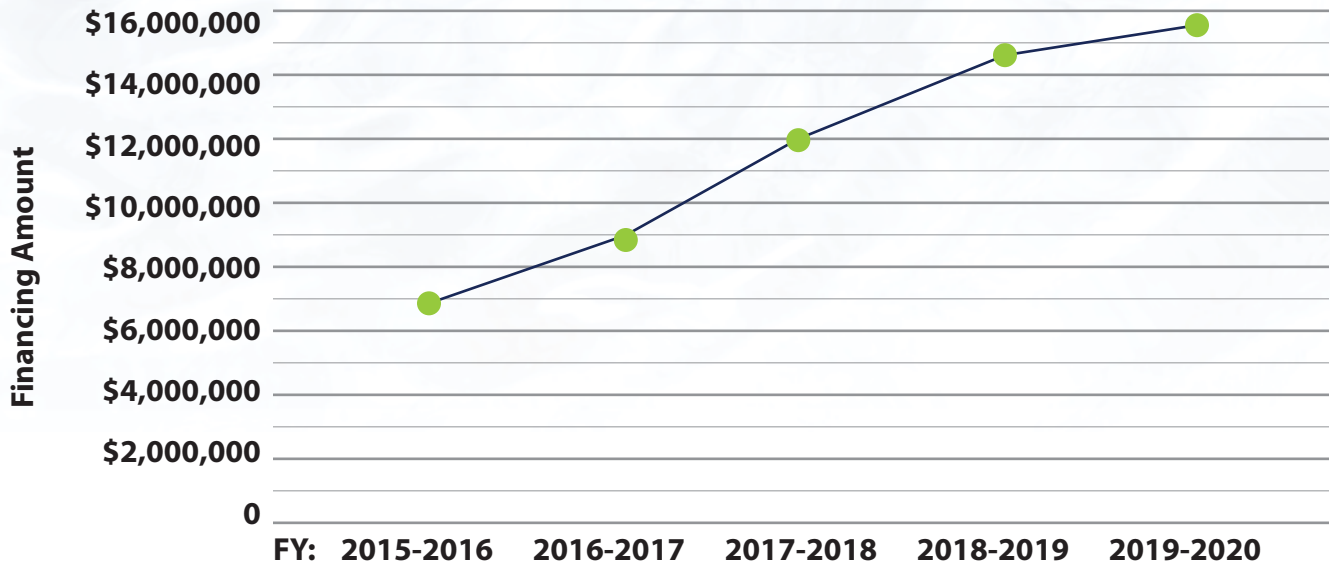
PROGRAM HIGHLIGHTS

The Homeowner Septic Loan Program, which is jointly administered by PENNVEST and the Pennsylvania Housing Finance Agency (PHFA), continues to grow. Since modifications were made to eligibility criteria in 2015, the program has seen exponential growth, accommodating residential clean water needs across the Commonwealth.

Five Years of Approved Homeowner Projects



Five Years of Approved Financing



2019-2020 PROJECT FUNDING

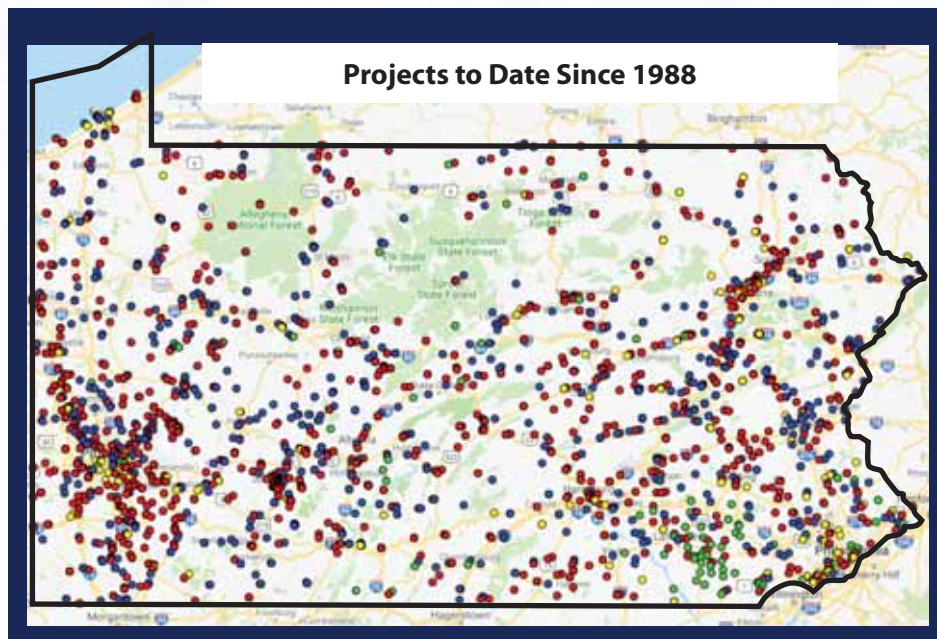
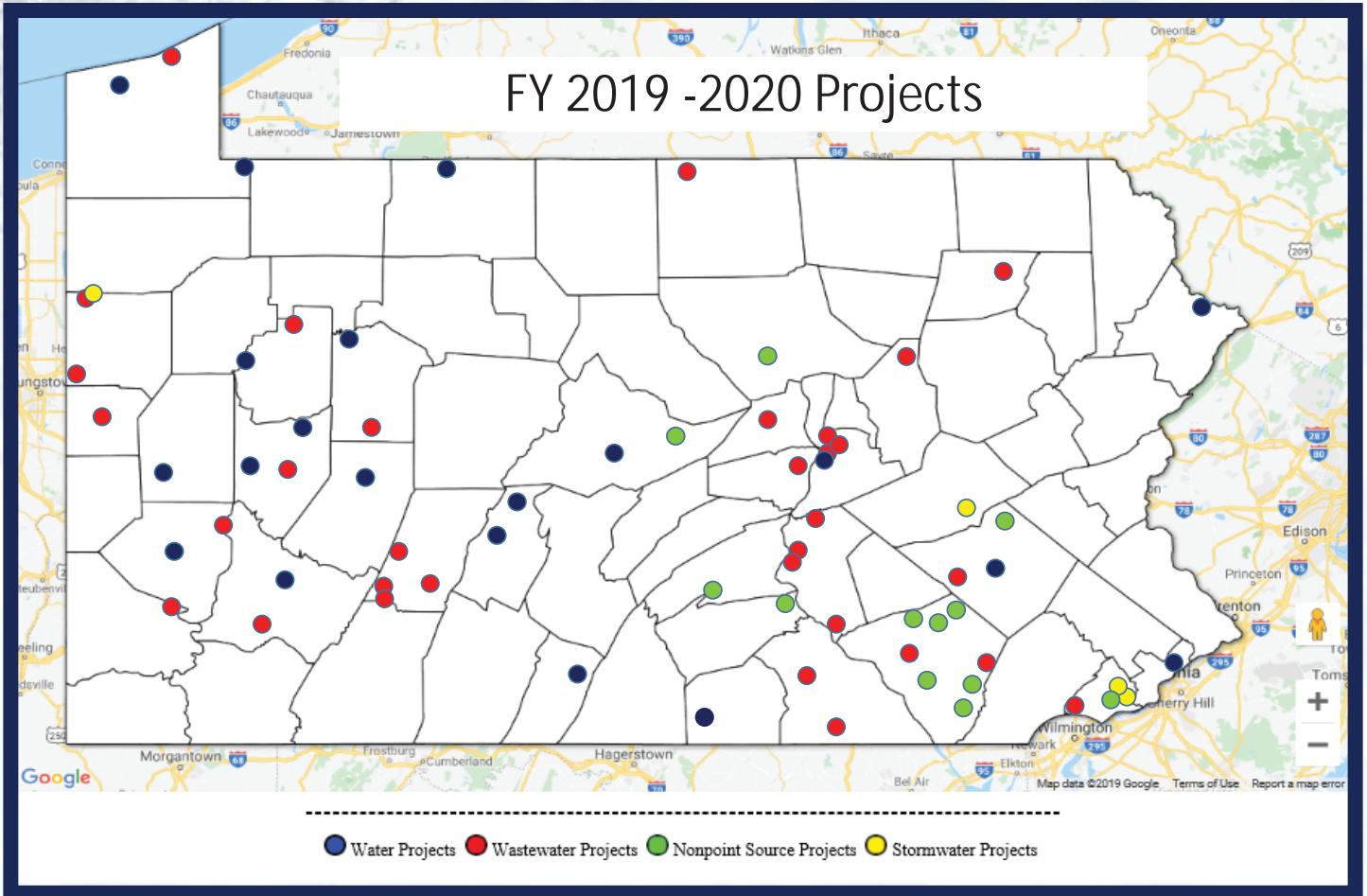
Board Meeting Date/ Project Name	County	Loan	Grant	Project Type
July 17, 2019				
Eldred Township Municipal Authority	Jefferson	\$2,406,096.00	\$2,188,027.00	W-MA
Latrobe Municipal Authority	Westmoreland	\$2,691,060.00	\$-	W-MA
Old Lycoming Township	Lycoming	\$384,465.00	\$-	NPS-M
Jamestown Municipal Authority	Mercer	\$918,850.00	\$1,243,150.00	S-MA
Pine Valley Associates, LP	Union	\$550,000.00	\$-	S-PIO
Shrewsbury Borough	York	\$1,000,000.00	\$-	S-M
Auburn Borough	Schuylkill	\$350,000.00	\$-	NPS-M
New Castle Sanitation Authority	Lawrence	\$23,437,982.00	\$8,562,018.00	S-MA
Connellsville Municipal Authority	Fayette	\$14,978,870.00	\$4,116,385.00	S-MA
Forest Hills Municipal Authority	Cambria	\$4,467,500.00	\$-	S-MA
Westfield Borough	Tioga	\$2,908,555.00	\$3,935,104.00	S-M
Upper Augusta Township	Northumberland	\$1,492,019.00	\$1,697,027.00	S-M
Stormwater Authority of the City of Chester	Delaware	\$9,980,156.00	\$-	NPS-MA
State College Borough Water Authority	Centre	\$24,950,000.00	\$-	W-MA
Bradford City Water Authority	McKean	\$11,520,000.00	\$-	W-MA
The Municipal Authority of the City of Corry	Erie	\$6,590,000.00	\$-	W-MA
Waynesboro Borough Authority	Franklin	\$5,743,200.00	\$-	W-MA
October 16, 2019				
West Kittanning Municipal Authority	Armstrong	\$305,000.00	\$-	W-MA
Chester County Conservation District	Lancaster	\$-	\$454,148.00	NPS-MA
Chester County Conservation District	Lancaster	\$-	\$429,513.00	NPS-MA
East Pennsboro Township Authority	Cumberland	\$500,000.00	\$-	NPS-M
Chester County Conservation District	Berks	\$-	\$895,700.00	NPS-MA
Upper Augusta Township Supervisors	Northumberland	\$250,326.00	\$2,938,720.00	S-M
Christiana Borough Authority	Lancaster	\$450,000.00	\$-	S-MA
The Municipal Authority of the Borough of Kittanning	Armstrong	\$435,000.00	\$-	S-MA
Ridley Township	Delaware	\$2,287,945.00	\$-	NPS-M
Stormwater Authority of the City of Chester	Delaware	\$9,946,801.00	\$-	NPS-MA
Capital Region Water	Dauphin	\$13,000,000.00	\$-	S-MA
Lancaster City	Lancaster	\$11,200,000.00	\$-	S-M
Jackson East Taylor Sewer Authority	Cambria	\$5,500,000.00	\$-	S-MA
Lemon Twp & Tunkhannock Twp Joint MSA	Wyoming	\$3,317,652.00	\$10,008,698.00	S-MA
Erie City Water Authority	Erie	\$32,000,000.00		W-MA
Municipal Authority of the Borough of St. Petersburg	Clarion	\$-	\$4,400,000.00	W-MA

2019-2020 PROJECT FUNDING

Board Meeting Date/ Project Name	County	Loan	Grant	Project Type
January 29, 2020				
Indiana County Municipal Services Authority	Indiana	\$-	\$10,775,000.00	W-MA
Twin Lakes Utilities, Inc.	Pike	\$304,573.00	\$4,660,027.00	W
Altoona Water Authority	Blair	\$2,100,000.00	\$-	W-MA
Tyrone Borough	Blair	\$5,710,200.00	\$-	W-M
The Municipal Authority of the City of Sunbury	Northumberland	\$1,550,000.00	\$-	W-MA
Perry County Conservation District	Perry	\$796,305.00	\$-	NPS-MA
Murmac Farms LLC	Centre	\$800,000.00	\$-	NPS-PNIO
Londonderry Township	Dauphin	\$283,700.00	\$108,300.00	S-M
Union Township	Washington	\$593,148.00	\$-	S-M
Harborcreek Township Sewer Authority	Erie	\$7,250,000.00	\$-	S-MA
York City Sewer Authority	York	\$6,807,942.00	\$-	S-MA
Lower Yoder Township	Cambria	\$561,032.00	\$3,438,968.00	S-M
Elizabethville Area Authority	Dauphin	\$1,100,000.00	\$-	S-MA
The Municipal Authority of the City of Sunbury	Northumberland	\$950,000.00	\$-	S-MA
City of Arnold	Westmoreland	\$1,797,027.00	\$-	S-M
Borough of Sinking Spring	Berks	\$1,750,000.00	\$-	S-M
Chadds Ford Township Sewer Authority	Delaware	\$2,447,500.00	\$-	S-MA
Pittsburgh Water and Sewer Authority	Allegheny	\$65,220,000.00	\$-	W-MA
April 22, 2020				
McConnellsburg Borough Municipal Authority	Fulton	\$2,498,915.00	\$-	W-MA
Mount Penn Borough Municipal Authority	Berks	\$1,700,000.00	\$-	W-MA
Evans City Water and Sewer Authority	Butler	\$1,960,000.00	\$-	W-MA
Shenango Township Municipal Authority	Mercer	\$481,491.00	\$3,676,509.00	S-MA
Jamestown Area School District	Crawford	\$300,000.00	\$-	NPS-M
Chester County Conservation District	Lancaster	\$-	\$803,522.00	NPS-MA
Chester County Conservation District	Lancaster	\$-	\$612,290.00	NPS-MA
Chester County Conservation District	Lancaster	\$-	\$361,500.00	NPS-MA
Chester County Conservation District	Lancaster	\$-	\$321,133.00	NPS-MA
Halifax Area Water and Sewer Authority	Dauphin	\$7,384,000.00	\$-	S-MA
The Borough of Punxsutawney	Jefferson	\$1,969,660.00	\$-	S-M
Washington Township Municipal Authority of Clarion County	Clarion	\$364,486.00	\$1,599,514.00	S-MA
Benton Municipal Water and Sewer Authority	Columbia	\$2,200,000.00	\$-	S-MA
Eastern Snyder County Regional Authority	Snyder	\$12,901,300.00	\$-	S-MA
City of Philadelphia	Philadelphia	\$73,350,000.00	\$-	W-M
Mahoning Township Municipal Authority	Armstrong	\$850,336.00	\$3,038,226.00	W-MA
TOTAL		\$399,543,092.00	\$70,263,479.00	

DISTRIBUTION OF PROJECTS

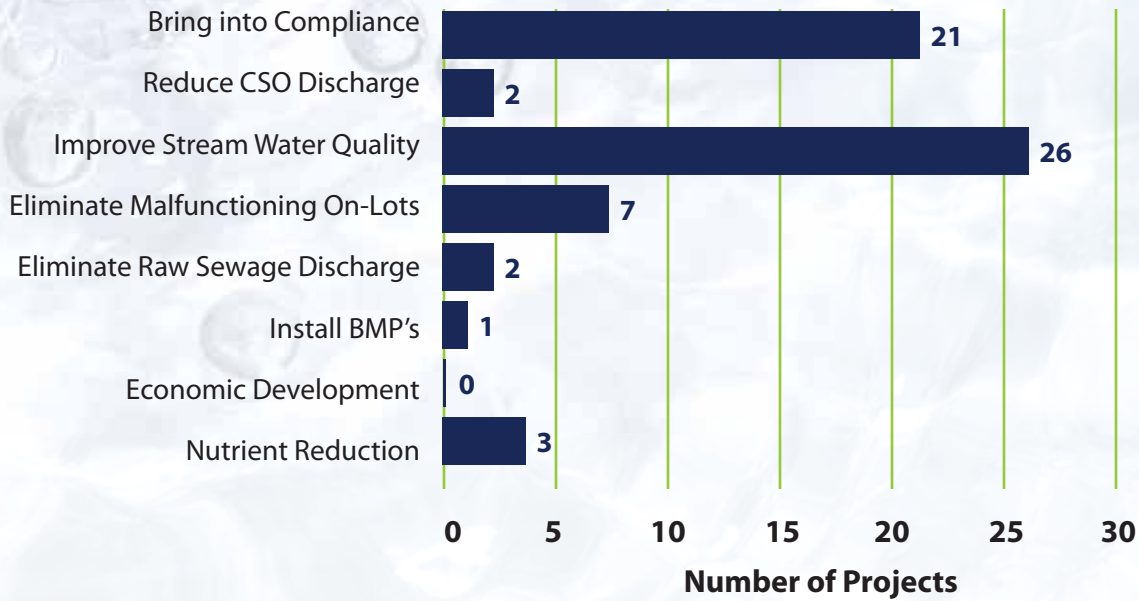
The maps shown below display the geographic location of projects approved in FY 2019-2020 as well as all projects approved by the Board of Directors since 1988.



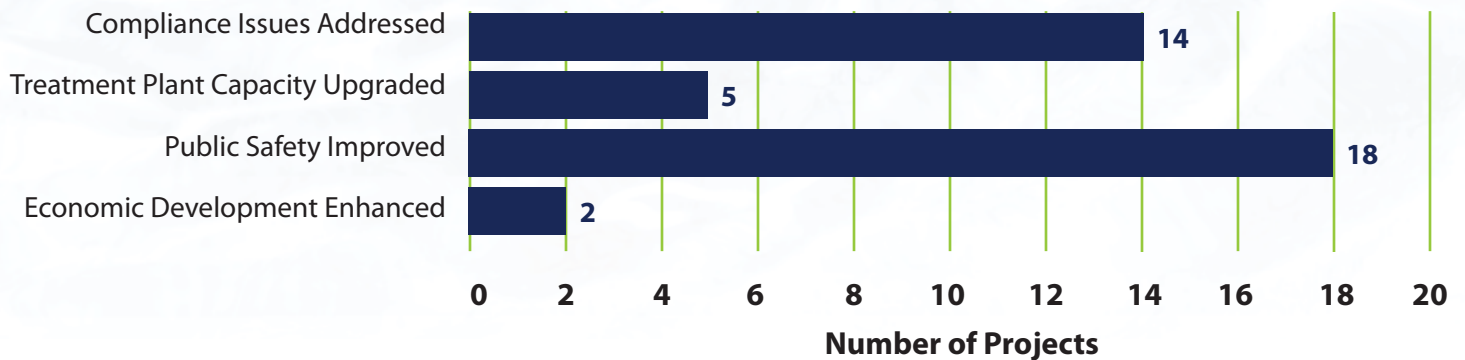
BENEFITS

At the heart of PENNVEST's mission is ensuring sustainable water quality throughout the Commonwealth. Project applications are evaluated for their ecological benefit and have demonstrated their value to the environment in a variety of ways.

Wastewater Project Benefit Summary



Drinking Water Project Benefit Summary



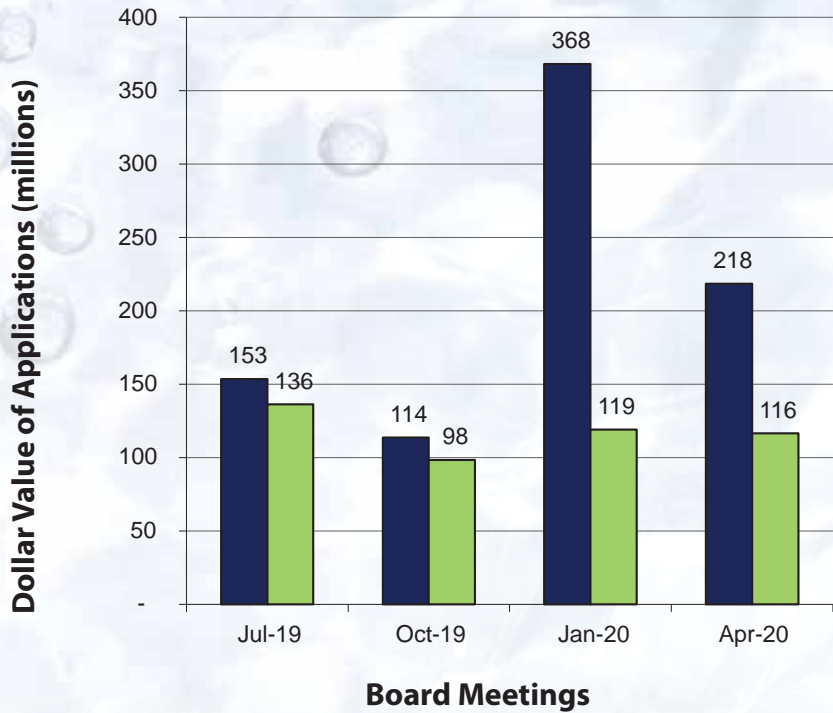
APPLICATIONS

For more than five consecutive years, PENNVEST has extended funding offers to all applicants who satisfy three criteria prior to consideration:

1. A complete application package was submitted for an eligible project prior to the consideration cut-off date.
2. Those applications were recommended by the Department of Environmental Protection (DEP) as being technically complete.
3. The projects were ready to undergo construction in a timely fashion.

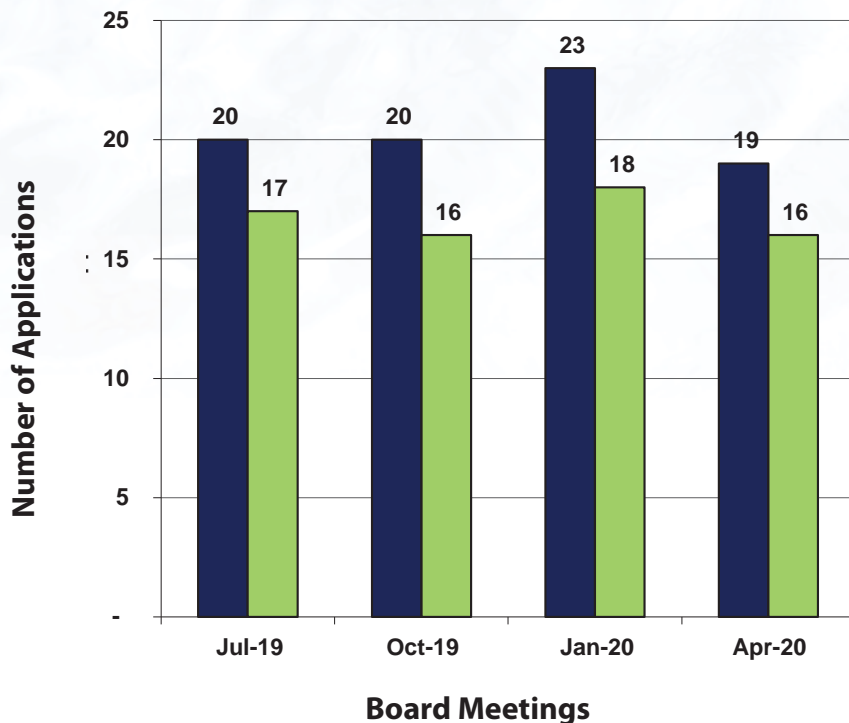
The graphs highlight both the number of applications and the value of those applications for board meetings in FY 2019-2020.

Applications Received vs. Approved (\$ millions)



■ Applications Received ■ Applications Approved

Applications Received vs. Approved (#)

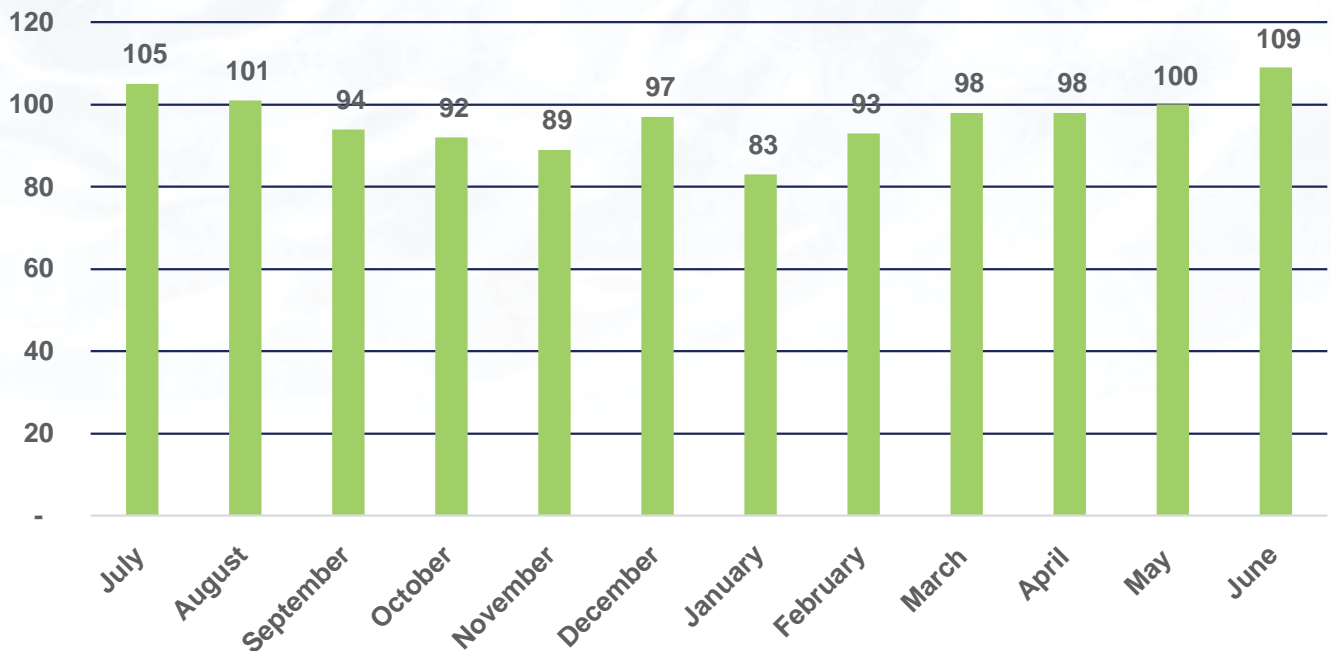


DISBURSEMENTS

Disbursement Amounts (\$ millions) FY 2019-2020



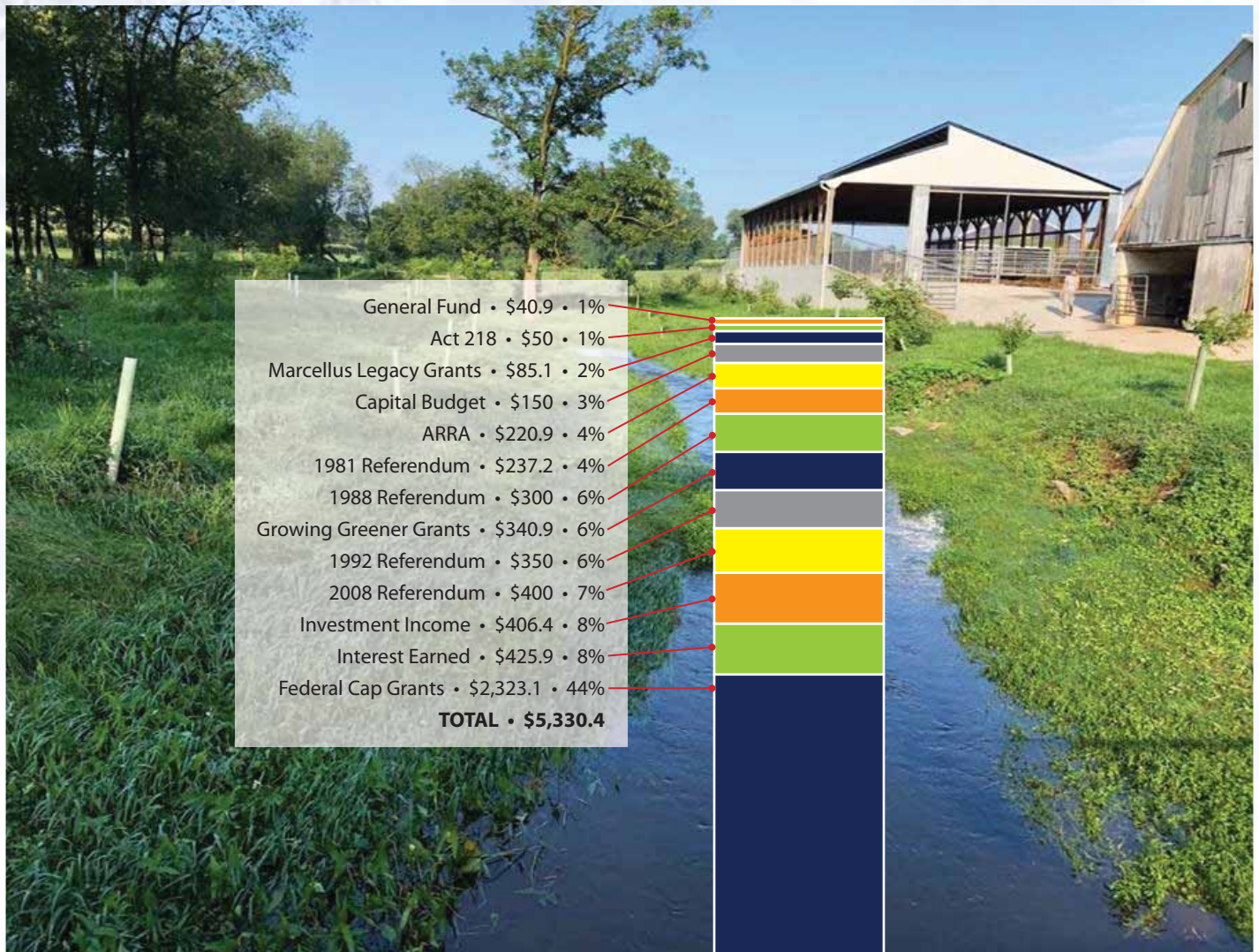
Number of Monthly Disbursements in FY 2019-2020



FUNDING SOURCES

PENNVEST uses a variety of funding sources to provide financial support for the drinking water, wastewater, stormwater, and non-point source projects that are approved by the Board every year.

These sources include Commonwealth general obligation bond proceeds, which are approved by a number of referenda, and normal capitalization grant proceeds that PENNVEST receives annually from the U.S. Environmental Protection Agency (EPA). The chart below displays the sources of PENNVEST's funding since the program's inception in 1988.



ADMINISTRATIVE IMPROVEMENTS

In FY 2019-2020, PENNVEST continued to demonstrate Commonwealth-wide leadership in innovation and efficiency, serving as a leader in virtual operation during the COVID-19 pandemic. As other agencies constructed and implemented remote work policies, PENNVEST offered technical assistance based on years of successful practices already in place.

PENNVEST took advances toward two major programmatic initiatives throughout the year, furthering development of the Center for Water Quality Excellence, a one-stop shop for agricultural best management practice (BMP) funding, and a statewide testing program for lead exposure in drinking water in schools and child care facilities. Both of these programs are expected to be fully operational by the fourth quarter of 2020.

The Authority continues to improve technological capability to increase virtual service and borrower processing. Also into the fourth quarter of 2020, it is anticipated that PV Apply will be operational and will completely overhaul the PENNVEST funding application process. The new system will not only increase efficiency in application and review, but will offer a considerably more user-friendly interface. Information Technology (IT) staff also implemented heightened security improvements for current application systems, enhancements in record retention systems, and changes to the Online Funding Request (OFR) system for a new Small Projects program, which will allow for rapid deployment of funding for requests under \$500,000. In addition, upgrades have been made to the settlement process, to accommodate Programmatic Financing, which addresses applicants with large infrastructure needs in phases as part of their capital improvement plans. Since the implementation of on-line signature capability, PENNVEST has been able to save nearly five tons of wood consumption and more than 28,000 gallons of water, reduce more than 22,000 pounds of carbon, and eliminate 1,570 pounds of waste.

Significant steps were also taken to improve customer service by strengthening project management staff and restructuring regional operations. With the addition of two new project specialists, and dedicated staff now representing five regional operation centers throughout the Commonwealth, PENNVEST can offer more prompt, reliable service for borrowers and prospective applicants. In addition, to ensure that



resulting transactions are processed more timely and efficiently, an additional Settlement Officer was added to the Agency's complement, to better assist and manage financial processing.

Coupled with ongoing technological upgrades, PENNVEST continues to recruit and retain an exceptionally knowledgeable, professional staff who all strive personally to improve the overall user experience. In FY 2019-2020, PENNVEST staff played a role in the following positions:

- Board Member, Council of Infrastructure Financing Authorities
- Board Member, Ladies First in Finance
- Board Member, Pennsylvania State Employees Credit Union
- Chair, Office of General Counsel Finance Practice Group
- National Association of Bond Lawyers
- Office of General Counsel, Transactions Practice Group
- Office of General Counsel, Technology Practice Group
- Office of General Counsel, Records Access Management Committee
- Pennsylvania Bar Association
- Pennsylvania Association of Bond Lawyers
- Dauphin County Bar Association
- Chair, Office of General Counsel Finance and Bankruptcy Practice Group
- Chesapeake Bay Program Trading and Offsets Workgroup

ADMINISTRATIVE IMPROVEMENTS

- Chesapeake Bay Program Watershed Implementation Plan III Finance Work Group
- Member, American Water Works Association
- Member, Pennsylvania Rural Water Association
- Member, Three Rivers Wet Weather Finance Committee
- Member, University of Pittsburgh Regional Water Management Task Force
- Member, Westmoreland County Smart Growth Task Force
- Member, DEP Technical Assistance Committee
- Member, Appalachian Regional Commission (ARC) Project Review Committee
- Member, Society of Women Environmental Professionals
- Member, Women in the Environment
- Member, EPA Revolving Loan Program Advisory Group
- Member, EPA America's Water Infrastructure Act - WIFA/SWIFIA Working Group
- Member, Penn's Corner Alternative Wastewater Committee
- Member, Schuylkill Action Network
- Member, American Society of Civil Engineers (ASCE)
- Member, Water Environment Association
- U.S. Army Corps of Engineers' Ohio River Basin Group Enterprise and Infrastructure Committee
- Member, Leadership Development Institute Alumni Association
- PA Recovery Resource Team: Infrastructure Recovery Workgroup Lead
- Member, Westmoreland County Conservation District Stormwater Management Advisory Committee
- Member, Government Finance Officers Association
- Member, American Water Resources Association (AWRA)
- President, Water Coalition of the Lehigh Valley
- Leader, Master Watershed Steward Program
- Member, Environmental Advisory Councils
- Member, Perkiomen Watershed Conservancy
- Member, Pennsylvania Environmental Council
- Member, Pennsylvania Organization for Watersheds and Rivers



*Broad Top Borough (right)
Hawley Borough (left)*

APPROVALS BY COUNTY

PROJECTS APPROVED THROUGH FY 2019-2020

County	Number of Projects	\$ Approved of Loan	\$ Approved of Grant	\$ Total Approved
Adams	25	63,038,439	7,173,234	70,211,673
Allegheny	199	548,964,960	57,978,107	606,943,067
Armstrong	70	121,060,633	56,492,905	177,553,538
Beaver	77	206,052,921	16,926,412	222,979,333
Bedford	53	102,041,905	16,642,470	118,684,375
Berks	57	245,360,886	11,836,320	257,197,206
Blair	60	237,849,888	22,449,955	260,299,843
Bradford	34	48,169,007	12,573,166	60,742,173
Bucks	40	104,099,066	4,343,192	108,442,258
Butler	49	136,125,454	6,482,722	142,608,176
Cambria	163	571,269,396	126,920,819	698,190,215
Cameron	7	67,426,465	2,636,615	70,063,080
Carbon	43	101,635,186	7,860,577	109,495,763
Centre	47	98,318,119	16,093,873	114,411,992
Chester	48	81,406,750	9,153,559	90,560,309
Clarion	61	89,892,027	57,593,457	147,485,484
Clearfield	79	216,919,036	40,666,229	257,585,265
Clinton	25	66,926,295	15,140,980	82,067,275
Columbia	24	59,133,467	10,499,338	69,632,805
Crawford	41	78,339,021	10,668,441	89,007,462
Cumberland	17	33,459,344	6,514,991	39,974,335
Dauphin	54	206,789,566	25,380,308	232,169,874
Delaware	53	128,525,105	4,060,038	132,585,143
Elk	27	46,637,685	15,157,728	61,795,413
Erie	70	236,140,103	31,416,921	267,557,024
Fayette	72	193,382,057	34,994,453	228,376,510
Forest	4	1,711,071	1,104,500	2,815,571
Franklin	27	83,295,663	2,454,219	85,749,882
Fulton	10	4,107,760	4,041,646	8,149,406
Greene	35	69,037,447	27,423,912	96,461,359
Huntingdon	45	60,313,287	33,181,325	93,494,612
Indiana	52	108,772,263	65,631,824	174,404,087
Jefferson	33	67,754,035	15,713,855	83,467,890
Juniata	10	16,033,671	1,310,658	17,344,329

APPROVALS BY COUNTY

PROJECTS APPROVED THROUGH FY 2019-2020

County	Number of Projects	\$ Approved of Loan	\$ Approved of Grant	\$ Total Approved
Lackawanna	45	171,960,539	1,775,000	173,735,539
Lancaster	89	108,317,989	22,424,332	130,742,321
Lawrence	38	118,910,629	23,042,093	141,952,722
Lebanon	26	86,884,406	4,839,037	91,723,443
Lehigh	34	70,382,232	6,169,820	76,552,052
Luzerne	117	239,007,959	48,113,613	287,121,571
Lycoming	41	178,024,141	24,775,537	202,799,678
McKean	28	64,714,466	11,062,476	75,776,942
Mercer	54	126,955,819	24,398,511	151,354,330
Mifflin	20	59,249,333	18,499,586	77,748,919
Monroe	38	103,437,829	14,533,001	117,970,830
Montgomery	28	71,659,463	11,373,273	83,032,736
Montour	8	16,980,686	13,475,007	30,455,693
Northampton	42	148,873,679	4,335,894	153,209,573
Northumberland	47	125,890,957	58,257,576	184,148,533
Perry	23	39,986,995	15,453,580	55,440,575
Philadelphia	25	367,106,417	4,387,217	371,493,634
Pike	18	20,692,407	5,872,444	26,564,851
Potter	15	22,748,583	7,614,882	30,363,465
Schuylkill	124	308,469,250	27,054,407	335,523,657
Snyder	19	27,925,823	4,719,301	32,645,124
Somerset	71	127,990,551	26,464,013	154,454,564
Sullivan	10	3,176,224	1,934,478	5,110,702
Susquehanna	9	7,863,228	12,063,263	19,926,491
Tioga	41	46,218,305	23,655,748	69,874,053
Union	16	22,808,432	2,875,139	25,683,571
Venango	25	38,320,707	10,810,870	49,131,577
Warren	22	67,989,572	12,053,381	80,042,953
Washington	86	191,976,630	24,811,096	216,787,726
Wayne	27	62,163,220	16,654,349	78,817,569
Westmoreland	150	338,025,973	40,450,814	378,476,787
Wyoming	14	13,678,684	11,506,643	25,185,327
York	29	54,976,231	4,370,517	59,346,748
Grand Total	3,090	\$ 7,953,355,336	\$ 1,318,345,647	\$ 9,271,700,983



(Component Unit
of the
Commonwealth
of Pennsylvania)

**FINANCIAL
STATEMENTS
AND
REPORT OF INDEPENDENT PUBLIC
ACCOUNTANTS**

**For the Years Ended June 30, 2020
and 2019**

PENNSYLVANIA INFRASTRUCTURE INVESTMENT
AUTHORITY
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REPORT OF INDEPENDENT PUBLIC ACCOUNTS

Board of Directors
Pennsylvania Infrastructure Investment Authority
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Pennsylvania Infrastructure Investment Authority ("PENNVEST") as of and for the year ended June 30, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 basic financial statements.

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



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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, 2020, and the changes in financial position and cash flows thereof for the year 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 and the schedules of PENNVEST's proportionate share of the net pension and OPEB liabilities and the schedules of PENNVEST's contributions for the net pension and OPEB liabilities, as listed in the table of contents, 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise PENNVEST's basic financial statements. The schedules and notes for the Federal Clean Water State Revolving Loan Fund and the Federal Drinking Water State Revolving Loan Fund are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules for the Federal Clean Water State Revolving Loan Fund and the Federal Drinking Water State Revolving Loan Fund and the related notes are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules for the Federal Clean Water State Revolving Loan Fund and the Federal Drinking Water State Revolving Loan Fund are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



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

2019 Financial Information

The financial statements of PENNVEST as of June 30, 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements in their report dated October 29, 2019.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2020 on our consideration of PENNVEST's internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering PENNVEST's internal controls over financial reporting and compliance.

Philadelphia, Pennsylvania
October 21, 2020

SB & Company, LLC

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

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, 2020. It is intended to be read in conjunction with the PENNVEST financial statements and accompanying notes, which follow this section.

FINANCIAL HIGHLIGHTS

In 2020, Total Net Position increased by \$154 million. The increase was a result of Total Assets increasing by \$139 million and Total Liabilities decreasing by \$16.7 million. Total assets increased as a result of higher loan receipts from borrowers of \$33.7 million and lower loan disbursements to borrowers of \$37.5 million, from the previous year. In addition, an increase in proceeds from Investing Activities, including the sale of investments in the Treasury Commonwealth Investment Program attributed to the overall increase in Net Position.

In 2019, 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 payments. All 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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

REQUIRED FINANCIAL STATEMENTS (continued)

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.

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, 2020, 2019 and 2018.

Table 1 (in thousands)
Condensed Statements of Net Position

	2020	2019	2018
Current Assets	\$ 1,975,794	\$ 1,839,878	\$ 1,756,147
Noncurrent Assets	<u>2,465,013</u>	<u>2,461,786</u>	<u>2,385,903</u>
Total Assets	<u>4,440,807</u>	<u>4,301,664</u>	<u>4,142,050</u>
Deferred Outflows	<u>1,678</u>	<u>1,868</u>	<u>1,178</u>
Total Assets and Deferred Outflows	<u>4,442,485</u>	<u>4,303,532</u>	<u>4,143,228</u>
Current Liabilities	69,298	63,139	82,314
Noncurrent Liabilities	<u>241,324</u>	<u>264,187</u>	<u>285,144</u>
Total Liabilities	<u>310,622</u>	<u>327,326</u>	<u>367,458</u>
Deferred Inflows	<u>4,404</u>	<u>2,786</u>	<u>1,167</u>
Total Liabilities and Deferred Inflows	<u>315,026</u>	<u>330,112</u>	<u>368,625</u>
Total Net Position	<u>\$ 4,127,459</u>	<u>\$ 3,973,420</u>	<u>\$ 3,774,603</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

FINANCIAL ANALYSIS (continued)

The above table provides several financial indicators that depict the fiscal health of PENNVEST. First, Total Net Position increased in 2020 by 3.9%. The Federal Clean Water State Revolving Fund ("CWSRF") has a significant impact on the Total Net Position line, as it represents 60% of the Total Net Position. This reflects the strength of the Federal Clean Water program.

Current Assets increased in 2020 by \$135.9 million or 7.4%. The increase in Current Assets was largely due to increased loan repayments, decreased loan and grant disbursements and an increase in proceeds from sale of investments in the state Treasury Pool and from other investment income.

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 slightly in 2020, by just over \$3 million. 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.

Noncurrent assets increased by \$75.9 million or 3.2% in 2019. 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.

The ability to encumber against future year revenues is critical for a revolving program. Noncurrent Loans Receivable, Gross, are those future loans that are due in more than one year. The Noncurrent Asset total is reduced by the Allowance for Loan Losses which is \$24.6 million for the year ended June 30, 2020.

Current Liabilities increased in 2020 by \$6 million or 10%; driven by increased cost of Commercial Paper issuances.

Noncurrent Liabilities decreased in 2020 by \$22.9 million or 9%. The decrease is primarily the result debt service payments on outstanding General Obligation bonds.

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues:			
Interest on loan receivables	\$ 36,516	\$ 37,594	\$ 36,407
Other Federal and state	41,482	41,566	33,424
Total Operating Revenues	<u>77,998</u>	<u>79,160</u>	<u>69,831</u>
Recovery/(Provision) of loan losses	<u>195</u>	<u>16,100</u>	<u>(4,870)</u>
Net Operating Revenues	<u>78,193</u>	<u>95,260</u>	<u>64,961</u>
Operating Expenses:			
Administration	(17,737)	(15,835)	(15,075)
Grants/"principal forgiveness" to program participants	<u>(52,303)</u>	<u>(54,874)</u>	<u>(51,938)</u>
Total Operating Expenses	<u>(70,040)</u>	<u>(70,709)</u>	<u>(67,013)</u>
Nonoperating Revenues	59,637	87,382	43,169
Capital Contributions	86,249	86,884	84,508
Increase in Net Position	<u>\$ 154,039</u>	<u>\$ 198,817</u>	<u>\$ 125,625</u>

The Operating Revenues (as shown in Table 2), in 2020 were driven by the Other federal and State Operating Grants of \$41.5 million, and interest repayments on loans of \$36.5 million.

The Total Operating Expenses (as shown in Table 2) decreased by 0.9%, or \$699 thousand in 2020. Increases in Interest and Amortization Expense and 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.

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 repayments on loans of \$37.6 million.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

OPERATING REVENUES AND EXPENSES (continued)

The Total Operating Expenses (as shown in Table 2) increased by 5.5%, or \$3.7 million in 2019. Increases in Interest and Amortization Expense and 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

Loan Loss Allowance	<u>2020</u>	<u>2019</u>	<u>2018</u>
CWSRF	\$ 13,019	\$ 17,103	\$ 16,384
DWSRF	1,760	1,707	3,518
State and Revenue Bonds	9,856	10,070	25,078
Total program	<u>\$ 24,635</u>	<u>\$ 28,880</u>	<u>\$ 44,980</u>

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. In 2020, this risk code increased by \$93.3 million and the total for this risk code represented \$1.84 billion and 69% of the portfolio. In 2019, 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

Risk Codes	<u>2020</u>	<u>2019</u>	<u>2018</u>
Speculative	\$ 729,288	\$ 840,745	\$ 806,924
Concern High Rate Impact	80,904	60,093	66,379
Concern Service User	11,914	9,009	10,659
Non-Speculative	1,843,532	1,750,223	1,697,517
Total Loan Portfolio	<u>\$ 2,665,638</u>	<u>\$ 2,660,070</u>	<u>\$ 2,581,479</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

REVENUES

As PENNVEST is a Revolving Loan Program, it is essential that loan repayments be made in a timely manner. Over 95.284% of all loans in the 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 \$164 million or 70% of the total collected. The CWSRF is a major portfolio in the PENNVEST program. Total loan receipts decreased by \$4.4 million from 2019, 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**

Loan Receipts	<u>2020</u>	<u>2019</u>	<u>2018</u>
CWSRF Federal Loans	\$ 94,282	\$ 109,164	\$ 125,356
DWSRF Federal Loans	51,267	44,118	41,927
State and Revenue Bond Loans	62,067	58,684	64,426
Total	<u>\$ 207,616</u>	<u>\$ 211,966</u>	<u>\$ 231,709</u>

Table 6 is an illustration of the PENNVEST disbursements to customers. The total disbursement of \$217.5 million reflects a decrease of \$38 million from 2019. The CWSRF Federal disbursements were the primary driver of this decrease, making up 56.8% 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 Customer**

Loan Disbursements	<u>2020</u>	<u>2019</u>	<u>2018</u>
CWSRF Federal Loans	\$ 123,466	\$ 195,321	\$ 154,194
DWSRF Federal Loans	78,990	37,403	37,897
State and Revenue Bond Loans	15,030	22,315	38,065
Total	<u>\$ 217,486</u>	<u>\$ 255,039</u>	<u>\$ 230,156</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

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.

At June 30, 2020, PENNVEST had \$108.8 million of revenue bond debt and \$30.4 million commercial paper debt outstanding. Revenue Bonds Payable decreased in 2020 by \$6.65 million from the previous year due to debt service payments. The following is a summary of Revenue Bond activity for the 2019-2020 fiscal year.

Table 7 (in thousands)

	2020	2019
Outstanding debt, beginning of year	\$ 146,847	\$ 174,609
Additions	233	-
Less: Principal payments	(6,650)	(26,691)
Net change in amortized premium	(1,254)	(1,071)
Outstanding debt, end of year	\$ 139,176	\$ 146,847

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

FUTURE PROGRAMS UNDER DEVELOPMENT (continued)

Commercial Paper Programs (continued)

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.

Nutrient Trading

During FY 2019-2020, PENNVEST continues 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 two projects. DEP continues to certify, verify and register nutrient credits.

Loan Guarantee Program

During 2019-2020, 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

The 2019-2020 fiscal year brought the final series of approvals for this program to establish forest buffers within the Chesapeake Bay watershed to help to meet the Commonwealth obligation to reduce sediment, nitrogen and phosphorus in the Chesapeake Bay. The expectation is that Pennvest can collect business model related information in as few as three years after installation.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

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, 2020 AND 2019
 (In Thousands)

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 281,912	\$ 184,104
Investment - securities lending collateral	13,825	8,249
Investments	1,288,247	1,457,063
Loans receivable, gross	175,990	169,404
Accounts receivables, net	242	-
Accrued interest receivable	4,546	5,868
Due from Commonwealth of Pennsylvania	211,032	15,190
Total Current Assets	1,975,794	1,839,878
Noncurrent Assets:		
Loans receivable, gross	2,489,648	2,490,666
Allowance for loan losses	(24,635)	(28,880)
Total Noncurrent Assets	2,465,013	2,461,786
TOTAL ASSETS	4,440,807	4,301,664
 DEFERRED OUTFLOWS OF RESOURCES		
Pension	1,366	1,659
Other Post Employment Benefits (OPEB)	312	209
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 1,678	\$ 1,868

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019
(In Thousands)

	2020	2019
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 1,556	\$ 1,862
Due to Federal government	947	1,934
Due to Commonwealth of Pennsylvania	15,334	14,120
Securities lending obligation	13,825	8,249
Short-term obligations	30,356	30,123
Compensated absences	131	117
Net OPEB liability	169	84
Current portion of revenue bonds payable	6,980	6,650
Total Current Liabilities	69,298	63,139
Noncurrent Liabilities:		
Due to Commonwealth of Pennsylvania	127,985	140,480
Compensated absences	688	500
Noncurrent revenue bonds payable, net	101,840	110,074
Net pension liability	7,134	7,573
Net OPEB liability	3,677	5,560
Total Noncurrent Liabilities	241,324	264,187
TOTAL LIABILITIES	310,622	327,326
DEFERRED INFLOWS OF RESOURCES		
Pension	613	142
OPEB	3,791	2,644
TOTAL DEFERRED INFLOWS OF RESOURCES	4,404	2,786
NET POSITION		
Restricted		
Federal clean water revolving loan program	2,466,423	2,378,279
Federal drinking water revolving loan program	816,745	762,295
Total Restricted	3,283,168	3,140,574
Unrestricted	844,291	832,846
TOTAL NET POSITION	\$ 4,127,459	\$ 3,973,420

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, 2020 AND 2019
 (In Thousands)

	2020	2019
OPERATING REVENUES:		
Interest and fee receivable on loans	\$ 36,516	\$ 37,594
Other Federal and state	41,482	41,566
OPERATING REVENUES BEFORE PROVISION FOR LOAN LOSS	77,998	79,160
Recovery of loan losses	195	16,100
NET OPERATING REVENUES	78,193	95,260
OPERATING EXPENSES:		
Administration	17,737	15,835
Grants/"principal forgiveness" to program participants	52,303	54,874
TOTAL OPERATING EXPENSES	70,040	70,709
OPERATING INCOME	8,153	24,551
NONOPERATING REVENUES (EXPENSES):		
Investment income	64,987	94,641
Interest and amortization expense	(5,350)	(7,259)
NONOPERATING REVENUES, NET	59,637	87,382
CAPITAL CONTRIBUTIONS		
Other Federal and state	86,249	86,884
TOTAL CAPITAL CONTRIBUTIONS	86,249	86,884
INCREASE IN NET POSITION	154,039	198,817
NET POSITION, BEGINNING OF YEAR	3,973,420	3,774,603
TOTAL NET POSITION, END OF YEAR	\$ 4,127,459	\$ 3,973,420

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
(In Thousands)

	2020	2019
Cash Flows from Operating Activities:		
Loan receipts from borrowers	\$ 245,706	\$ 211,966
Loan disbursements to borrowers	(217,486)	(255,039)
Payments for goods and services	(19,257)	(14,779)
Grants/"principal forgiveness" to program participants	(52,303)	(54,873)
Other Federal and state receipts	41,045	41,775
Net Cash Used In Operating Activities	(2,295)	(70,950)
Cash Flows from Capital Financing Activities:		
Other Federal and state capital contributions	86,444	86,884
Advances to Commonwealth of Pennsylvania	(195,842)	-
Proceeds of short term obligations	233	30,123
Repayments of short term obligations	-	(50,371)
Repayment of bonds payable	(7,904)	(7,330)
Repayment of due to Commonwealth of Pennsylvania	(11,281)	(12,257)
Payment of interest on bonds payable	(5,350)	(7,259)
Net Cash (Used In) Provided by Capital Financing Activities	(133,700)	39,790
Cash Flows from Investing Activities:		
Receipts from depositories	64,987	94,641
Net purchases of State Treasury Commonwealth Investment Pool	168,816	(13,847)
Net Cash Provided by Investing Activities	233,803	80,794
Increase in Cash and Cash Equivalents	97,808	49,634
Cash and Cash Equivalents, Beginning of Year	184,104	134,470
Cash and Cash Equivalents, End of Year	\$ 281,912	\$ 184,104

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
 STATEMENTS OF CASH FLOWS, Continued
 FOR THE YEARS ENDED JUNE 30, 2020 AND 2019
 (In Thousands)

	<u>2020</u>	<u>2019</u>
Reconciliation of operating income to net cash		
from operating activities:		
Operating income	\$ 8,153	\$ 24,551
Adjustments to reconcile operating income to net cash (used in)/provided by		
operating activities		
Recovery of loan losses	(195)	(16,100)
Effect of changes in non-cash operating assets and liabilities:		
Loan receivable, gross	(9,813)	(80,222)
Accrued interest receivable	1,322	(444)
Accounts receivables, net	(242)	-
Due to Federal government	(987)	209
Deferred outflow	190	(690)
Accounts payable	(306)	828
Accrued compensated absences	202	86
Net pension liability	(439)	1,468
Net OPEB liability	(1,798)	(2,255)
Deferred inflow	1,618	1,619
Total adjustments	<u>(10,448)</u>	<u>(95,501)</u>
Net Cash Used in Operating Activities	<u>\$ (2,295)</u>	<u>\$ (70,950)</u>

See the accompanying notes to these financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(In Thousands Except for Percentages)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(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
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(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.

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adopted Accounting Principle

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 adoption of this statement had no significant impact on the financial statements.

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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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2. DEPOSIT AND INVESTMENT RISK (continued)

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.

As of June 30, 2020 and 2019, PENNVEST’s investments, excluding securities lending balances (see below), held in the Commonwealth investment pools, were \$1,288,247 and \$1,457,063, respectively.

As of June 30, 2020 and 2019, PENNVEST also had bank balances of cash and cash equivalents in the amount of \$281,912 and \$184,104, respectively. These balances were 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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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2. DEPOSIT AND INVESTMENT RISK (continued)

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.

During the fiscal years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, PENNVEST's portion of securities lending collateral within the Commonwealth Investment Pool was \$13,825 and \$8,249, respectively.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(In Thousands Except for Percentages)

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, 2020 and 2019.

PENNVEST has the following recurring fair value measurements:

- Level 2 – Commonwealth Investment Program Pool 99 (“Pool 99”) of \$368,500 and \$209,010, as of June 30, 2020 and 2019, respectively, were 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 \$919,747 and \$1,248,053, as of June 30, 2020 and 2019, respectively, were 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.

PENNVEST has loans outstanding throughout the Commonwealth. The eleven largest loans amount to 14% and 13%, of gross loans receivable as of June 30, 2020 and 2019, 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.

4. LOANS RECEIVABLE

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% as of June 30, 2020 and 2019.

As of June 30, 2020 and 2019, PENNVEST had approved approximately \$657,605 and \$410,905, 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.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(In Thousands Except for Percentages)

4. LOANS RECEIVABLE (continued)

Loans receivable, gross, as of June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Current portion	\$ 175,990	\$ 169,404
Noncurrent portion	<u>2,489,648</u>	<u>2,490,666</u>
Total loans receivable, gross	<u>\$ 2,665,638</u>	<u>\$ 2,660,070</u>

5. ALLOWANCE FOR LOAN LOSSES

Changes in allowance for loan losses during years ended June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 28,880	\$ 44,980
Write off	(4,050)	-
Recovery of loan losses	(195)	(16,100)
Balance, end of year	<u>\$ 24,635</u>	<u>\$ 28,880</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 2020 and 2019, PENNVEST issued short-term obligations in the amount of \$30,356 and \$30,123, respectively, to finance the issuance of loans to program participants. Interest rates on these instruments ranged from 0.50% to 1.26% and 1.40% to 1.90% during 2020 and 2019, respectively, with no maturity being greater than 120 days. Changes in short-term obligations for the fiscal years ended June 30, 2020 and 2019 were:

Balance as of July 1, 2019	Additions	Reductions	Balance as of June 30, 2020
\$ 30,123	\$ 233	\$ -	<u>\$ 30,356</u>
Balance as of July 1, 2018	Additions	Reductions	Balance as of June 30, 2019
\$ 50,371	\$ 30,123	\$ 50,371	<u>\$ 30,123</u>

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
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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, 2020 and 2019, are as follows:

Series	Balance as of July 1, 2019	Additions	Reductions	Balance as of June 30, 2020	Amounts Due within One Year
2015A Revenue Bonds	\$ 56,489	\$ -	\$ 2,469	\$ 54,020	\$ 2,590
2018A SRF Bonds	46,090	-	4,180	41,910	4,390
Bond Premium	14,145	-	1,255	12,890	-
Total	\$ 116,724	\$ -	\$ 7,904	\$ 108,820	\$ 6,980

Series	Balance as of July 1, 2018	Additions	Reductions	Balance as of 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

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
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7. REVENUE BONDS PAYABLE (continued)

Information regarding revenue bonds issued is presented below:

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

A summary of debt service requirements (payable semi-annually) as of June 30, 2020, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	8,485	3,052	11,537
2026-2030	31,700	8,796	40,496
2031-2035	25,660	2,723	28,383
Total	<u>\$ 95,930</u>	<u>\$ 30,630</u>	<u>\$ 126,560</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
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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 as of June 30, 2020 are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	13,004	849	13,853
2026-2030	51,598	2,640	54,238
2031-2034	25,141	257	25,398
Total	\$ 140,480	\$ 8,421	\$ 148,901

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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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 \$1,658,596 and \$637,765, in Federal loan funds for water pollution control and drinking water, respectively, as of June 30, 2020. Of the \$1,658,596 and \$637,765, approved, \$1,595,657 and \$627,382, respectively, have been received as of June 30, 2020. For the period July 1, 2019 through June 30, 2020, \$62,939 and \$33,883 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, 2019 through June 30, 2020, was \$12,588 and \$6,777, 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 as of June 30, 2020, was \$331,470 and \$132,738, respectively. As of June 30, 2020, \$333,963 and \$136,654, 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 as of 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.

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, 2020 and 2019, PENNVEST has authorized unfulfilled grant commitments of \$52,544 and \$44,664, respectively, remaining.

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9. CAPITAL CONTRIBUTIONS (continued)

For the years ended June 30, 2020 and 2019, capital contributions were \$86,249 and \$86,884, respectively. State and federal funded grants and principal forgiveness to program participants of \$52,303 and \$54,874 are reported as operating expenses, for the years ended June 30, 2020 and 2019, respectively.

10. RELATED PARTY TRANSACTIONS

PENNVEST contracts for services necessary to carry out its operations from various Commonwealth of Pennsylvania departments and agencies. PENNVEST paid the following departments and agencies for accounting services and loan project technical assistance during the fiscal year ended June 30, 2020:

	2020	2019
Office of Comptroller Operations	\$ 214	\$ 194
Department of Environmental Protection	1,082	1,328

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.

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12. RETIREMENT BENEFITS (continued)

Benefits Provided

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

Contributions

Section 5507 of the SERC (71 Pa. C.S. §5507) requires the Commonwealth and other employers whose employees are SERS members to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. 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 \$796 and \$738 for the fiscal years ended June 30, 2020 and 2019, respectively.

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

As of June 30, 2020 and 2019, PENNVEST reported a liability of \$7,134 and \$7,573, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019 and 2018, 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. As of December 31, 2019 and 2018, PENNVEST's proportion was 0.039 and 0.036 percent, respectively.

For the fiscal years ended June 30, 2020 and 2019, PENNVEST recognized pension expense of \$1,193 and \$1,189, respectively.

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12. RETIREMENT BENEFITS (continued)

As of June 30, 2020 and 2019, PENNVEST reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2020	2019	2020	2019
Differences between expected and actual experience	\$ 89	\$ 114	\$ 48	\$ 82
Net difference between projected and actual investment earnings on pension plan investments	-	737	509	-
Changes in proportion	544	216	36	53
Changes in assumptions	275	202	-	-
Differences between PENNVEST contributions and proportionate share of contribution	10	13	20	7
PENNVEST contributions subsequent to measurement date	448	377	-	-
Total	\$ 1,366	\$ 1,659	\$ 613	\$ 142

The \$448 and \$377, 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, 2020 and 2019, respectively. Other amounts reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ (110)
2022	(42)
2023	(210)
2024	100
2025	(43)
Total	<u>\$ (305)</u>

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NOTES TO FINANCIAL STATEMENTS
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12. RETIREMENT BENEFITS (continued)

Actuarial Assumptions

The following methods and assumptions were used in the December 31, 2019 and 2018, actuarial valuations. These methods and assumptions did not change from prior year and were applied to all periods included in the measurement:

Actuarial method	Entry age
Investment rate of return	7.125%, 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 for actual plan experience and future improvement
Cost of living adjustments	Ad hoc

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, 2019 and 2018, are summarized in the following table:

Asset Class	December 31, 2019		December 31, 2018	
	Target Allocation	Long-term Expected Rate of Return	Target Allocation	Long-term Expected Rate of Return
Private Equity	16%	7.25%	16%	7.25%
Global Public Equity	48%	5.15%	48%	5.15%
Real Estate	12%	5.26%	12%	5.26%
Multi-Strategy	10%	4.44%	10%	4.44%
Fixed Income	11%	1.26%	11%	1.26%
Cash	3%	0.00%	3%	0.00%
Total	100%		100%	

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
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12. RETIREMENT BENEFITS (continued)

Discount Rate

The discount rates used to measure the total pension liability were 7.125% and 7.25%, respectively, for 2019 and 2018 actuarial valuations. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each member and that employer contributions will be made based on rates determined by the actuary. Based on the assumptions, SERS fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active SERS members. Therefore, the long-term expected rate of return on SERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following schedule presents PENNVEST's proportionate share of the 2019 and 2018 net pension liability calculated using the discount rate of 7.125% and 7.25%, respectively, for 2019 and 2018. 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:

	<u>1% Decrease</u> <u>6.125%</u>	<u>Current</u> <u>7.125%</u>	<u>1% Increase</u> <u>8.125%</u>
Net Pension Liability as of December 31, 2019 (Measurement Date)	\$ 9,065	\$ 7,134	\$ 5,481
	<u>1% Decrease</u> <u>6.25%</u>	<u>Current</u> <u>7.25%</u>	<u>1% Increase</u> <u>8.25%</u>
Net Pension Liability as of December 31, 2018 (Measurement Date)	\$ 9,300	\$ 7,573	\$ 6,094

Pension Plan Fiduciary Net Position

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

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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.

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 \$188 (not in thousands) during July 1, 2018 to December 31, 2018 and \$300 (not in thousands) during January 1, 2019 to June 30, 2019 per biweekly pay period for each REHP eligible active employee to REHP per the actuarial valuation report as of June 30, 2019 (the measurement date). PENNVEST contributed \$300/\$188 (not in thousands) per biweekly pay period for each REHP eligible active employee to REHP per the actuarial valuation report as of June 30, 2018. Total contributions to the REHP were \$209 and \$230 for the year ended June 30, 2019 and 2018, respectively. These contributions are included in the determination of OPEB liability as of June 30, 2019, and 2018.

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

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.

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

As of June 30, 2020 and 2019, PENNVEST reported a liability of \$3,846 and \$5,644, 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, 2019 and 2018, with the exception that the census data information which was as of December 31, 2018 and 2017. 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. As of June 30, 2019 and 2018, the measurement date, PENNVEST’s proportionate share was 0.04 percent.

For the year ending June 30, 2020 and 2019, PENNVEST recognized OPEB expense of \$1,778 and \$321, respectively.

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

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

As of June 30, 2020 and 2019, PENNVEST reported deferred outflows and deferred inflows of resources related to OPEB from the following:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
	2020	2019	2020	2019
Differences between expected and actual earnings on plan investments	\$ -	\$ -	\$ 7	\$ 9
Differences between expected and actual experience	-	-	2,860	1,729
Changes in proportion	-	-	391	164
Changes in assumptions	123	-	533	742
PENNVEST contributions subsequent to measurement date	189	209	-	-
Total	<u>\$ 312</u>	<u>\$ 209</u>	<u>\$ 3,791</u>	<u>\$ 2,644</u>

Deferred outflows of resources related to OPEB resulting from PENNVEST’s contributions subsequent to the measurement dates, June 30, 2019 and 2018, but prior to the reporting dates, June 30, 2020 and 2019, of \$189 and \$209, 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:

<u>Year Ending June 30</u>	<u>Amount</u>
2021	\$ (933)
2022	(933)
2023	(889)
2024	(682)
2025	(230)
Thereafter	(1)
Total	<u>\$ (3,668)</u>

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

Actuarial Methods and Assumptions

The following methods and assumptions were used in the June 30, 2019 and 2018, actuarial valuation.

Actuarial cost method	Entry age, normal
Discount rate	3.50% as of June 30, 2019; 3.87% as of June 30, 2018 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
Investment rate of return	5.00%
Initial medical trend rate	6.0% (non-Medicare)/5.9% (Medicare) as of June 30, 2019; 6.2% (non-Medicare)/5.9% (Medicare) as of June 30, 2018
Ultimate medical trend rate	4.10% as of June 30, 2019 and 2018
Inflation	2.60%
Payroll growth	2.90%
Year ultimate trend rate reached	2075
Mortality rate	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 3.50% and 3.87% as of June 30, 2019 and 2018, 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:

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

Long-term Expected Return on Plan Assets (continued)

<u>Asset Class</u>	<u>June 30, 2019</u>		<u>June 30, 2018</u>	
	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
U.S Equity	47%	5.6%	47%	6.6%
International Equity	20%	5.8%	20%	8.6%
Fixed Income	25%	1.7%	25%	3.0%
Real Estate	8%	4.6%	8%	6.9%
Cash	-	0.9%	-	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 2020 and 2019 OPEB liability calculated using the discount rate of 3.50 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:

	1% Decrease 2.50%	Current Discount Rate 3.50%	1% Increase 4.50%
Total OPEB Liability as of June 30, 2020	\$ 4,461	\$ 3,846	\$ 3,489
	1% Decrease 2.87%	Current Discount Rate 3.87%	1% Increase 4.87%
Total OPEB Liability as of June 30, 2019	\$ 6,466	\$ 5,644	\$ 4,966

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 2020 OPEB liability calculated using the assumed trend rates of 6.0% / 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:

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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)

	1% Decrease 5.00%/4.90% <u>Down to 3.10%</u>	Current Trend Rate 6.00%/5.90% <u>Down to 4.10%</u>	1% Increase 7.00%/6.90% <u>Down to 5.10%</u>
Total OPEB Liability as of June 30, 2020	\$ 3,415	\$ 3,846	\$ 4,567

The following presents PENNVEST’s 2019 OPEB liability calculated using the assumed trend rates of 6.20% / 5.90% grading down to 4.10%, 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:

	1% Decrease 5.20%/4.90% <u>Down to 3.10%</u>	Current Trend Rate 6.20%/5.90% <u>Down to 4.10%</u>	1% Increase 7.20%/6.90% <u>Down to 5.10%</u>
Total OPEB Liability as of June 30, 2019	\$ 4,845	\$ 5,644	\$ 6,637

14. SUBSEQUENT EVENTS

PENNVEST has evaluated subsequent events through October 21, 2020 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
 PRIOR 10 FISCAL YEARS*

(In Thousands Except for Percentages)

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)

	2020	2019	2018	2017	2016
PENNVEST's proportion of the collective net pension liability	0.03924610%	0.03635722%	0.03530670%	0.03577823%	0.03585011%
PENNVEST's proportionate share of the collective net pension liability	\$ 7,134	\$ 7,573	\$ 6,105	\$ 6,891	6,519
PENNVEST's covered-employee payroll	2,496	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	285.82%	334.79%	290.58%	324.28%	297.54%
Plan's fiduciary net position as a percentage of the total pension liability	63.10%	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 five 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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 796	\$ 738	\$ 675	\$ 560	\$ 537
Contributions in relation to the contractually required contribution	(796)	(738)	(675)	(560)	(537)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PENNVEST's covered-employee payroll	\$ 2,496	\$ 2,262	\$ 2,101	\$ 2,125	\$ 2,191
Contributions as a percentage of covered-employee payroll	31.89%	32.63%	32.13%	26.35%	24.51%

NOTES TO SCHEDULE:

Contributions rates are calculated as of December 31, 2018, 2017, 2016, 2015, and 2014 for the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine Contribution Rates:

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarial valuation date: December 31,					
Actuarial cost method	Entry Age for all years shown				
Amortization method	Straight-line amortization of investments over five years and				
Investment rate of return, net of manger fees including inflation	7.13%	7.25%	7.25%	7.25%	7.50%
Projected salary increases	5.60%	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%	2.60%	2.75%
Mortality rate	Projected RP-2000 Mortality Tables adjusted for actual plan				
Cost of living adjustments	None				

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

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>2020</u>		<u>2019</u>		<u>2018</u>
PENNVEST's proportion of the collective net OPEB liability	0.037755%		0.039208%		0.040139%
PENNVEST's proportionate share of the collective net OPEB liability	\$ 3,846	\$	5,644	\$	7,899
PENNVEST's covered-employee payroll	1,507		1,603		1,874
PENNVEST'S proportionate share of the collective net OPEB liability as a percentage of its covered-employee payroll	255.21%		352.09%		421.50%
REHP fiduciary net position as a percentage of the total OPEB liability	3.80%		2.20%		1.40%

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 220	\$ 191	293
Contributions in relation to the contractually required contribution	(209)	(230)	(259)
Contribution deficiency (excess)	<u>\$ 11</u>	<u>\$ (39)</u>	<u>\$ 34</u>
PENNVEST's covered-employee payroll	\$ 1,507	\$ 1,603	\$ 1,874
Contributions as a percentage of covered-employee payroll	14.60%	11.92%	15.64%

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	\$300/\$188	\$ 362
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Methods and Assumptions Used to Determine OPEB Liability:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Actuarial valuation date: June 30,			
Actuarial cost method	Entry Age for all years shown		
Discount rate	3.50%	3.87%	3.58%
Initial medical trend rate	6.0%/5.9%	6.2%/5.9%	6.00%
Ultimate medical trend rate	4.10%	4.10%	3.90%
Year ultimate trend rate reached	2075	2075	2075
Mortality rate	Project RP-2000 Mortality Tables for all years shown		

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

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
FEDERAL CLEAN WATER STATE REVOLVING LOAN FUND
SCHEDULES OF NET POSITION
JUNE 30, 2020 AND 2019
(In Thousands)

	2,020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 164,073	\$ 103,183
Investment - securities lending	5,651	4,862
Investments	663,144	861,279
Loans receivable, gross	91,537	83,812
Accounts receivables, net	180	-
Accrued interest receivable	1,823	2,411
Due from Commonwealth of Pennsylvania	191,566	173
Total Current Assets	1,117,974	1,055,720
Noncurrent Assets:		
Loans receivable, gross	1,430,289	1,410,823
Allowance for loan losses	(13,020)	(17,103)
Total Noncurrent Assets	1,417,269	1,393,720
TOTAL ASSETS	2,535,243	2,449,440
LIABILITIES		
Current Liabilities:		
Accounts payable	769	1,040
Due to Commonwealth of Pennsylvania	639	519
Due to Federal government	288	288
Current portion of revenue bonds payable	2,810	2,675
Short-term obligations	30,356	30,123
Securities lending obligation	5,651	4,862
Total Current Liabilities	40,513	39,507
Noncurrent Liabilities:		
Noncurrent revenue bonds payable, net	28,307	31,654
Total Noncurrent Liabilities	28,307	31,654
TOTAL LIABILITIES	68,820	71,161
NET POSITION		
Restricted for Federal Clean Water State Revolving Loan Fund	2,466,423	2,378,279
TOTAL NET POSITION	\$ 2,466,423	\$ 2,378,279

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, 2020 AND 2019
 (In Thousands)

	2020	2019
Operating Revenues		
Interest on loans receivable	\$ 18,332	\$ 18,156
Operating revenues before provision for loan loss	18,332	18,156
(Recovery)/Provision for Loan Loss	(33)	722
Net Operating Revenues	18,365	17,434
Operating Expenses		
Administration	4,722	3,997
Other state and Federal "principal forgiveness" to program participants	14,352	17,991
Total Operating Expenses	19,074	21,988
Operating Loss	(709)	(4,554)
Nonoperating Revenues (Expense)		
Investment income	34,547	57,915
Interest and amortization expense	(1,221)	(1,934)
Net Nonoperating Revenues	33,326	55,981
Capital Contributions		
Other Federal and state	75,527	75,447
Total Capital Contributions	75,527	75,447
Other Financing Uses		
Transfer to Federal Drinking Water State Revolving Loan Fund	(20,000)	-
	(20,000)	-
Increase in Net Position	88,144	126,874
Net Position- Beginning of Year	2,378,279	2,251,405
Net Position- End of Year	\$ 2,466,423	\$ 2,378,279

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, 2020 AND 2019
(In Thousands)

	2020	2019
Cash Flows from Operating Activities:		
Loan receipts from borrowers	\$ 111,088	\$ 109,164
Loan disbursements to borrowers	(123,466)	(193,387)
Payments for goods and services	(4,873)	(2,920)
Grants/"principal forgiveness" to program participants	(14,352)	(17,991)
Other Federal and state receipts	-	299
Net Cash Used In Operating Activities	(31,603)	(104,835)
Cash Flows from Capital Financing Activities:		
Proceeds of short term obligations	233	30,123
Repayment of short term obligations	-	-
Repayment of bonds payable	(3,212)	(3,039)
Advance to Commonwealth of Pennsylvania	(191,393)	-
Payment of interest on bonds payable	(1,221)	(1,934)
Other Federal and state grants received	75,527	75,447
Net Cash Provided by Capital Financing Activities	(120,066)	100,597
Cash flows from Non-Capital Financing Activities		
Transfer to Federal Drinking Water State Revolving Loan Fund	(20,000)	-
Net Cash Used in Non-Capital Financing Activities	(20,000)	-
Cash Flows from Investing Activities:		
Receipts from depositories	34,547	57,915
Net sales (purchases) of State Treasury Commonwealth Investment Pool	198,012	(763)
Net Cash Provided by(Used In) Investing Activities	232,559	57,152
Increase in Cash and Cash Equivalents	60,890	52,914
Cash and Cash Equivalents, Beginning of Year	103,183	50,269
Cash and Cash Equivalents, End of Year	\$ 164,073	\$ 103,183
Reconciliation of operating income to net cash from operating activities:		
Operating income (loss)	\$ (709)	\$ (4,554)
Adjustments to reconcile operating income (loss) to net cash (used in)/provided by (Recovery)/Provision of loan losses	(33)	722
Effect of changes in non-cash operating assets and liabilities:		
Loan receivable, gross	(31,118)	(102,289)
Accounts receivables, net	(180)	-
Accrued interest receivable	588	(169)
Due from/to the Commonwealth of Pennsylvania	120	138
Due from/to Federal government	-	288
Other receivable	-	1,848
Accounts payable and accrued liabilities	(271)	(819)
Total adjustments	(30,894)	(100,281)
Net Cash Used in Operating Activities	\$ (31,603)	\$ (104,835)

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, 2020 AND 2019
 (In Thousands)

	2020	2019
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 42,083	\$ 51,247
Investment-securities lending	3,258	1,324
Investments	279,604	243,543
Loans receivable, gross	37,978	36,456
Accounts receivables, net	11	-
Accrued interest receivable	739	891
Due from Commonwealth of Pennsylvania	-	16
Total Current Assets	363,673	333,477
Noncurrent Assets:		
Loans receivable, gross	478,544	454,120
Allowance for loan losses	(1,760)	(1,707)
Total Noncurrent Assets	476,784	452,413
TOTAL ASSETS	840,457	785,890
LIABILITIES		
Current Liabilities:		
Accounts payable	438	450
Due to Commonwealth of PA	1,854	865
Due to Federal government	659	1,646
Current portion of revenue bonds payable	1,580	1,505
Securities lending obligation	3,258	1,324
Total Current Liabilities	7,789	5,790
Noncurrent Liabilities:		
Noncurrent revenue bonds payable, net	15,923	17,805
Total Noncurrent Liabilities	15,923	17,805
TOTAL LIABILITIES	23,712	23,595
NET POSITION		
Restricted for Federal Drinking Water State Revolving Loan Fund	816,745	762,295
TOTAL NET POSITION	\$ 816,745	\$ 762,295

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, 2020 AND 2019
 (In Thousands)

	2020	2019
Operating Revenues		
Interest and fee receivable on loans	\$ 8,477	\$ 8,435
Other Federal grants	8,578	9,374
Operating revenues before provision for loan loss	17,055	17,809
Provision (Recovery) for Loan Loss	53	(1,811)
Net Operating Revenues	17,002	19,620
Operating Expenses		
Administration	8,626	8,435
Other state and Federal "principal forgiveness" to program participants	16,109	9,707
Total Operating Expenses	24,735	18,142
Operating Loss	(7,733)	1,478
Nonoperating Revenues (Expense)		
Investment income	12,591	15,042
Interest and amortization expense	(494)	(971)
Net Nonoperating Revenues	12,097	14,071
Capital Contributions		
Other Federal and state	30,086	29,190
Total Capital Contributions	30,086	29,190
Other Financing Sources		
Transfer From Federal Clean Water State Revolving Loan Fund	20,000	-
	20,000	-
Increase in Net Position	54,450	44,739
Net Position- Beginning of Year	762,295	717,556
Net Position- End of Year	\$ 816,745	\$ 762,295

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, 2020 AND 2019
(In Thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Loan receipts from borrowers	\$ 59,949	\$ 44,113
Loan disbursements to borrowers	(77,264)	(37,403)
Payments for goods and services	(9,625)	(7,898)
Grants/"principal forgiveness" to program participants	(16,109)	(9,707)
Other Federal and state receipts	8,567	9,279
Net Cash Used In Operating Activities	<u>(34,482)</u>	<u>(1,616)</u>
Cash Flows from Capital Financing Activities:		
Repayment of bonds payable	(1,809)	(1,710)
Payments to Commonwealth of Pennsylvania	1,005	-
Payment of interest on bonds payable	(494)	(971)
Other federal and state grants received	30,086	29,190
Net Cash Provided by Capital Financing Activities	<u>28,788</u>	<u>26,509</u>
Cash flows from Non-Capital Financing Activities		
Transfer from Federal Clean Water State Revolving Loan Fund	20,000	-
Net Cash Used in Non-Capital Financing Activities	<u>20,000</u>	<u>-</u>
Cash Flows from Investing Activities:		
Receipts from depositories	12,591	15,045
Net purchases of State Treasury Commonwealth Investment Pool	(36,061)	(23,705)
Net Cash Provided by(Used In) Investing Activities	<u>(23,470)</u>	<u>(8,660)</u>
Increase in Cash and Cash Equivalents	(9,164)	16,233
Cash and Cash Equivalents, Beginning of Year	51,247	35,014
Cash and Cash Equivalents, End of Year	<u>\$ 42,083</u>	<u>\$ 51,247</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income (loss)	\$ (7,733)	\$ 1,478
Adjustments to reconcile operating income (loss) to net cash (used (Recovery)/Provision of loan losses	53	(1,811)
Effect of changes in non-cash operating assets and liabilities:		
Loan receivable, gross	(25,944)	(1,654)
Accrued interest receivable	152	(71)
Due from/to Federal government	(987)	(95)
Accounts receivables, net	(11)	574
Accounts payable and accrued liabilities	(12)	(37)
Total adjustments	<u>(26,749)</u>	<u>(3,094)</u>
Net Cash Used in Operating Activities	<u>\$ (34,482)</u>	<u>\$ (1,616)</u>

See the accompanying notes to these loan fund financial statements.

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY
NOTES TO FUND SCHEDULES
FOR THE YEARS ENDED JUNE 30, 2020 and 2019
(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 \$13,020 and \$1,760, for the Federal Clean Water State Revolving Loan Fund, and the Federal Drinking Water State Loan Fund, respectively, as of June 30, 2020, and \$17,103 and \$1,707, respectively, as of June 30, 2019.

5. COMMITMENTS & CONTINGENT LIABILITIES

As of June 30, 2020, PENNVEST had approved approximately \$5,839 and \$2,944, 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)

Federal Clean Water Program On-Lot Loans

Loan Number	Delinquent Amount	Original Loan Balance	Loan Balance as of June 30, 2020
72501	\$ 53	\$ 253	\$ 55
76114	868	7,631	1,081
	<u>\$ 921</u>	<u>\$ 7,884</u>	<u>\$ 1,136</u>

Loan Number	Delinquent Amount	Original Loan Balance	Loan Balance as of June 30, 2019
1239839	\$ 99	\$ 17,393	\$ 6,997
3358678	113	22,850	22,371
	<u>\$ 212</u>	<u>\$ 40,243</u>	<u>\$ 29,368</u>



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS' ON INTERNAL CONTROLS
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The Board of Directors
Pennsylvania Infrastructure Investment Authority

We have audited, 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, the financial statements of the Pennsylvania Infrastructure Investment Authority (PENNVEST), as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered PENNVEST's internal controls over financial reporting (internal controls) 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 controls. Accordingly, we do not express an opinion on the effectiveness of PENNVEST's internal controls.

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



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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 this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal controls 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 controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Philadelphia, Pennsylvania
October 21, 2020

A handwritten signature in black ink that reads "SB & Company, LLC".



PENNVEST

PENNSYLVANIA INFRASTRUCTURE INVESTMENT AUTHORITY

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