

SUSQUEHANNA RIVER BASIN COMMISSION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017
AND
INDEPENDENT AUDITOR'S REPORT

HAMILTON & MUSSER, P.C.
Certified Public Accountants

SUSQUEHANNA RIVER BASIN COMMISSION

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For the Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of
Susquehanna River Basin Commission
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Susquehanna River Basin Commission (the Commission), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Susquehanna River Basin Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Susquehanna River Basin Commission, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of the Commission's proportionate share of the net pension liability, and schedule of Commission contributions, 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 basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Susquehanna River Basin Commission's basic financial statements. The supplementary information on page 47 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The accompanying supplementary information on page 47 and the schedule of expenditures of federal awards 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 accompanying supplementary information on page 47 and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017, on our consideration of the Susquehanna River Basin Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Susquehanna River Basin Commission's internal control over financial reporting and compliance.

November 7, 2017

Mechanicsburg, Pennsylvania



Certified Public Accountants

SUSQUEHANNA RIVER BASIN COMMISSION

Management's Discussion and Analysis

June 30, 2017

This section of the Susquehanna River Basin Commission's (the Commission) Annual Report presents management's discussion and analysis of the Commission's financial performance during the fiscal year ended June 30, 2017. The reader is encouraged to consider this information in conjunction with the Commission's fiscal year- end financial statements.

Financial Highlights

The assets and deferred outflows of resources of the Susquehanna River Basin Commission exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by \$71,861,490, which is an increase of \$3,117,234 over the previous year. The Commission's cash and cash equivalents decreased by \$241,373 and its investments increased by \$5,119,020. Liabilities increased by \$802,306 during the same period due primarily to an increase in net pension liability of \$1,278,854.

The Commission's total revenues increased by \$2,493,737 this past year. This increase was due primarily to increases in investment income, which helped offset reductions to signatory party contributions. Total operating expenses increased by \$1,235,277 due to increases in pension contributions and the change in the net pension liability.

In fiscal year 2018, the Commission will continue to pursue grant opportunities and coordinate our activities with our member jurisdictions and other federal, state and local agencies. It is also our intent to increase scientific study activities, which will be funded through a combination of sources, including Commission funds.

In 2008, the Commission adopted a Consumptive Use Mitigation Plan (CUMP), which presented the current state of consumptive water use in the Basin, identified low flow mitigation needs, and introduced the Commission's plan for meeting these needs. The plan includes: re-evaluation of Commission-owned storage at Cowanesque and Curwensville reservoirs, acquisition of additional storage, and revision of the structure and level of consumptive use fees charged. Annual studies and activities associated with the CUMP cost approximately \$2 million and are entirely funded from the Commission's Water Management Fund.

Significant capital expenditures will be required to purchase additional water storage projects in the foreseeable future. The Commission is currently investigating a non-operational, flooded carbonate rock quarry as a potential source for consumptive use mitigation. The Commission will use its reserve funds and borrow to finance this and other projects.

In 2016 the Commission renamed the Settlement Fund the Sustainable Water Resources Fund. Starting in 2016, this fund is being used to replace data sondes that supply information to the Commission's Remote Water Quality Monitoring Network. The fund is also being used to support internally-developed scientific studies and ongoing efforts to provide assistance to small public water suppliers.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information (budgetary schedules and post-employment benefits plan information) in addition to the basic financial statements themselves. These components are described below:

Basic Financial Statements

The government-wide financial statements present the financial picture of the Commission from the economic resource measurement focus using the accrual basis of accounting. These statements include all assets of the Commission (including infrastructure) as well as all liabilities (including long-term debt and net pension liability).

SUSQUEHANNA RIVER BASIN COMMISSION

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The fund financial statements include statements for three categories of activities – governmental, proprietary, and fiduciary. The Governmental Funds are prepared using the current financial resource measurement focus and the modified accrual basis of accounting. The Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Proprietary Funds' principal ongoing operations. Proprietary Funds use the accrual basis of accounting. The Fiduciary Funds are used to account for resources held on behalf of other parties. Fiduciary Funds use the accrual basis of accounting.

The financial statements also include notes, which elaborate on some of the information in the financial statements that provide more detailed data. These financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business.

The statement of net position and the statement of activities report information about the Commission as a whole and about its activities. These statements include all assets and liabilities of the Commission using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Commission's net position and changes in it from year to year. You can think of the Commission's net position – the difference between assets and deferred outflows and liabilities and deferred inflows – as one way to measure the Commission's financial health or financial position. Over time, increases and decreases in the Commission net positions are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors such as changes in the Commission's federal and state grant programs and the condition of the Commission's capital assets, as well as other items, to assess the overall health of the Commission.

- Governmental Activities – Most of the Commission's basic services are reported here, including permitting and monitoring.
- Business-Type Activities – The Commission charges a consumptive water use fee which is used to finance the cost of water supply related projects.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The fund financial statements provide detailed information about the most significant funds – not the Commission as a whole. Some funds are required to be established by law or by bond covenants. However, the Commission may establish other funds to help it control and manage money for particular purposes or to show that it is setting aside money for larger capital improvement projects. The Commission has three kinds of funds.

Governmental Fund – Most of the Commission's basic services are reported in a Governmental Fund, which focuses on how money flows into and out of those funds and the balances left at year end that are available for spending. This fund is reported using the modified accrual method of accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Commission's general government operations and the basic services it provides. Governmental Fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and statement of activities) and Governmental Fund statements with a reconciliation following each Governmental Fund statement.

Proprietary Funds – When the Commission charges customers for the services it provides, these services are generally reported in Proprietary Funds.

SUSQUEHANNA RIVER BASIN COMMISSION

Management's Discussion and Analysis

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Fiduciary Funds – The Commission is the Fiduciary for its Post-Employment Healthcare Benefit Trust. All of the Commission's fiduciary activities are reported in separate statements of fiduciary fund net position and changes in fiduciary net position of the fund financial statements only. We exclude these activities from the Commission's government-wide financial statements because the Commission cannot use these assets to finance its operations. The Commission is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The Commission as a Whole

Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Commission's governmental and business-type activities.

| | Governmental Activities 2017 | Governmental Activities 2016 | Business- Type Activities 2017 | Business- Type Activities 2016 | Total Primary Government 2017 | Total Primary Government 2016 |
|---|---|---|---|---|--|--|
| Assets | | | | | | |
| Current Assets | \$ 12,230,576 | \$ 12,315,634 | \$ 39,493,870 | \$ 34,372,924 | \$ 51,724,446 | \$ 46,688,558 |
| Capital Assets, Net | 10,955,962 | 11,056,971 | - | - | 10,955,962 | 11,056,971 |
| Water Storage Rights, Net | - | - | 24,407,857 | 25,539,292 | 24,407,857 | 25,539,292 |
| Total Assets | 23,186,538 | 23,372,605 | 63,901,727 | 59,912,216 | 87,088,265 | 83,284,821 |
| Deferred Outflows of Resources | | | | | | |
| Prepaid Expenses | 75,659 | - | - | - | 75,659 | - |
| Pension | 3,502,973 | 2,854,476 | - | - | 3,502,973 | 2,854,476 |
| Total Deferred Outflows of Resources | 3,578,632 | 2,854,476 | - | - | 3,578,632 | 2,854,476 |
| Total Assets and Deferred Outflows of Resources | \$ 26,765,170 | \$ 26,227,081 | \$ 63,901,727 | \$ 59,912,216 | \$ 90,666,897 | \$ 86,139,297 |
| Liabilities | | | | | | |
| Current Liabilities | \$ 1,583,613 | \$ 2,234,038 | \$ 216,941 | \$ 214,645 | \$ 1,800,554 | \$ 2,448,683 |
| Long-Term loan payable | - | - | 1,976,720 | 2,194,048 | 1,976,720 | 2,194,048 |
| Long-Term Liabilities | 14,077,410 | 12,724,485 | - | - | 14,077,410 | 12,724,485 |
| Total Liabilities | 15,661,023 | 14,958,523 | 2,193,661 | 2,408,693 | 17,854,684 | 17,367,216 |
| Deferred Inflows of Resources, Pension | 342,663 | 27,825 | - | - | 342,663 | 27,825 |
| Net Position | | | | | | |
| Investment in Net Assets | 10,955,962 | 11,056,971 | 22,214,196 | 23,134,688 | 33,170,158 | 34,191,659 |
| Restricted | 46,473 | - | - | - | 46,473 | - |
| Unrestricted (Deficit) | (240,951) | 183,762 | 39,493,870 | 34,368,835 | 39,252,919 | 34,552,597 |
| Total Net Position | 10,761,484 | 11,240,733 | 61,708,066 | 57,503,523 | 72,469,550 | 68,744,256 |
| Total Net Position, Liabilities, and Deferred Inflows of Resources | \$ 26,765,170 | \$ 26,227,081 | \$ 63,901,727 | \$ 59,912,216 | \$ 90,666,897 | \$ 86,139,297 |

Total net position of the governmental activities amounts to \$10,761,484 at June 30, 2017, a decrease of \$479,249 from the prior year. Unrestricted net position (deficit) – the part of the net position that can be used to finance day-to-day operations without constraints established by enabling legislation or other legal requirements - amounts to a deficit of \$(240,951) at June 30, 2017 compared to a surplus of \$183,762 at June 30, 2016. Net investment in capital assets represents the Commission's investment in capital assets reduced by the amount of outstanding debt used to acquire those assets.

SUSQUEHANNA RIVER BASIN COMMISSION

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Total net position of the business-type activities amounts to \$61,708,066 for the year ended June 30, 2017, an increase of \$4,204,543 from the prior year. Unrestricted net position – the part of the net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – is \$39,493,870 at June 30, 2017 compared to \$34,368,835 at June 30, 2016.

| | Governmental Activities 2017 | Governmental Activities 2016 | Business- Type Activities 2017 | Business- Type Activities 2016 | Total Primary Government 2017 | Total Primary Government 2016 |
|--|---|---|---|---|--|--|
| Revenues | | | | | | |
| Charges for services | \$ 4,635,395 | \$ 5,685,637 | \$ 4,760,504 | \$ 4,078,525 | \$ 9,395,899 | \$ 9,764,162 |
| Operating grants | 2,094,585 | 1,942,710 | - | - | 2,094,585 | 1,942,710 |
| Contributions | 1,078,000 | 1,092,000 | - | - | 1,078,000 | 1,092,000 |
| Investment Earnings | 841,965 | 129,671 | 2,840,519 | 823,013 | 3,682,484 | 952,684 |
| Miscellaneous | 118,868 | 124,545 | - | - | 118,868 | 124,545 |
| Total Revenues | 8,768,813 | 8,974,563 | 7,601,023 | 4,901,538 | 16,369,836 | 13,876,101 |
| Expenses | | | | | | |
| General Government | 8,581,021 | 7,979,849 | - | - | 8,581,021 | 7,979,849 |
| Flood Forecast | - | 1,772 | - | - | - | 1,772 |
| Other | 2,000,726 | 1,892,825 | - | - | 2,000,726 | 1,892,825 |
| Water Management and Settlement | - | - | 2,062,795 | 2,142,881 | 2,062,795 | 2,142,881 |
| Total Expenses | 10,581,747 | 9,874,446 | 2,062,795 | 2,142,881 | 12,644,542 | 12,017,327 |
| Other Financing Sources | | | | | | |
| Transfers in (Out) | 1,333,685 | 1,117,347 | (1,333,685) | (1,117,347) | - | - |
| Total Other Financing Sources | 1,333,685 | 1,117,347 | (1,333,685) | (1,117,347) | - | - |
| Changes in Net Position | (479,249) | 217,464 | 4,204,543 | 1,641,310 | 3,725,294 | 1,858,774 |
| Net Position, Beginning of Year | 11,240,733 | 11,023,269 | 57,503,523 | 55,862,213 | 68,744,256 | 66,885,482 |
| Net Position, End of Year | \$ 10,761,484 | \$ 11,240,733 | \$ 61,708,066 | \$ 57,503,523 | \$ 72,469,550 | \$ 68,744,256 |

Governmental activities include the General Fund. Business-type activities are comprised of the operation of the Commission's Water Management and Sustainable Water Resources Funds.

Governmental Fund

The Commission's Governmental Fund is the General Fund. Below is a revenue comparison of the General Fund for the past two fiscal years.

| | General Fund Revenues 2017 | 2016 |
|----------------------------|---------------------------------------|---------------------|
| Signatory parties | \$ 1,078,000 | \$ 1,092,000 |
| Projects and programs | 2,059,585 | 1,942,710 |
| Permit and compliance fees | 4,635,395 | 5,685,637 |
| Interest and investments | 841,965 | 129,671 |
| Other | 162,331 | 141,333 |
| | \$ 8,777,276 | \$ 8,991,351 |

SUSQUEHANNA RIVER BASIN COMMISSION

Management's Discussion and Analysis

June 30, 2017

In fiscal year 2017, General Fund revenues decreased by \$214,075 as compared to fiscal year 2016. This was primarily due to a decrease in permit and compliance fees.

Below is an expenditure comparison of General Fund expenditures for the past two fiscal years.

| | General Fund Expenditures | |
|--|----------------------------------|---------------------|
| | 2017 | 2016 |
| Personnel Services | \$ 3,940,488 | \$ 3,843,061 |
| Employee Benefits | 3,006,335 | 2,589,671 |
| Special Contractual Services | 552,577 | 484,693 |
| Travel and Meeting Expenses | 76,586 | 68,327 |
| Communications | 91,137 | 84,772 |
| Postage and Freight | 10,550 | 12,875 |
| Janitorial | 28,027 | 22,598 |
| Utilities | 73,595 | 77,187 |
| Rent | 30,421 | 25,271 |
| Printing and Reproduction | 48,201 | 60,667 |
| Repairs and Maintenance | 156,368 | 166,674 |
| Software Purchase and Maintenance | 176,922 | 162,295 |
| Insurance | 114,483 | 106,832 |
| Supplies | 229,542 | 266,037 |
| Fees - Various | 342,432 | 477,770 |
| Commissions Meetings / Public hearings | 27,817 | 25,912 |
| Dues and Memberships | 16,730 | 20,977 |
| Staff Trainings | 35,658 | 38,346 |
| Miscellaneous | 33,351 | 26,544 |
| Capital Outlay | <u>412,005</u> | <u>296,812</u> |
| | <u>\$ 9,403,225</u> | <u>\$ 8,857,321</u> |

In fiscal year 2017, operating expenditures increased by \$545,904. Employee benefits increased by \$416,664 due to increases in paid leave of \$146,746, pension contributions of \$209,918, and benefit costs for retired employees of \$138,477.

| | General Fund Revenues | | |
|-------------------------------|------------------------------|---------------------|-------------------|
| | Final Budget | Actual | Variance |
| Signatory parties | \$ 1,192,000 | \$ 1,078,000 | \$ (114,000) |
| Projects and programs | 3,353,700 | 3,558,271 | 204,571 |
| Permit and compliance fees | 4,673,800 | 4,085,395 | (588,405) |
| Investments and Other Revenue | <u>243,500</u> | <u>1,004,296</u> | <u>760,796</u> |
| | <u>\$ 9,463,000</u> | <u>\$ 9,725,962</u> | <u>\$ 262,962</u> |

Revenue received in fiscal year 2017 was \$685,724 less than budgeted amounts. Projects and programs revenue was lower than budget due to delays in the progress of acid mine drainage grant projects and a lower than predicted volume of renewal applications for approval by rule projects.

SUSQUEHANNA RIVER BASIN COMMISSION

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| | General Fund Expenditures | | |
|--|----------------------------------|---------------------|-------------------|
| | Final Budget | Actual | Variance |
| Personnel Services | \$ 4,205,000 | \$ 3,940,488 | \$ 264,512 |
| Employee Benefits | 2,905,000 | 3,006,335 | (101,335) |
| Special Contractual Services | 750,000 | 552,577 | 197,423 |
| Travel and Meeting Expenses | 90,000 | 76,586 | 13,414 |
| Communications | 85,000 | 91,137 | (6,137) |
| Postage and Freight | 20,000 | 10,550 | 9,450 |
| Janitorial | 35,000 | 28,027 | 6,973 |
| Utilities | 75,000 | 73,595 | 1,405 |
| Rent | 35,000 | 30,421 | 4,579 |
| Printing and Reproduction | 60,000 | 48,201 | 11,799 |
| Repairs and Maintenance | 190,000 | 156,368 | 33,632 |
| Software Purchase and Maintenance | 120,000 | 176,922 | (56,922) |
| Insurance | 100,000 | 114,483 | (14,483) |
| Supplies | 200,000 | 229,542 | (29,542) |
| Fees - Various | 340,000 | 342,432 | (2,432) |
| Commissions Meetings / Public hearings | 48,000 | 27,817 | 20,183 |
| Dues and Memberships | 15,000 | 16,730 | (1,730) |
| Staff Trainings | 75,000 | 35,658 | 39,342 |
| Miscellaneous | 30,000 | 33,351 | (3,351) |
| Capital Outlay | <u>505,000</u> | <u>412,005</u> | <u>92,995</u> |
| | <u>\$ 9,883,000</u> | <u>\$ 9,403,225</u> | <u>\$ 479,775</u> |

Expenditures for fiscal year 2017 were \$479,775 below budget due to delays in the construction schedule of abandoned mine drainage restoration projects.

Business-Type Activities

Below is a two-year revenue comparison for the Commission's business-type activities.

| | Business - Type Activities Revenue | |
|---|---|---------------------|
| | 2017 | 2016 |
| Water Management Fees | \$ 3,709,522 | \$ 2,899,507 |
| Fines / Settlements | 221,244 | 272,800 |
| Utility Reimbursement for Operations and Maintenance - Cowanesque | 829,738 | 906,218 |
| Investment Income | <u>2,840,519</u> | <u>823,013</u> |
| | <u>\$ 7,601,023</u> | <u>\$ 4,901,538</u> |

In fiscal year 2017, business-type activities revenues increased \$2,699,485 as compared to 2016. Water management fees increased by \$810,015, partly due to increases in fees paid for the consumptive use of water by natural gas companies. Investment income increased by \$2,017,506 due to increases in the amount of cash invested and improved market performance of investments.

SUSQUEHANNA RIVER BASIN COMMISSION

Management's Discussion and Analysis

June 30, 2017

Below is a two-year expense comparison for the Commission's business-type activities.

| | Business-Type Activities Expenses | |
|---|--|---------------------|
| | <u>2017</u> | <u>2016</u> |
| Cowanisque and Curwensville, Pennsylvania - | | |
| Operations and Maintenance | \$ 865,641 | \$ 944,563 |
| Interest Expense - Curwensville | 65,719 | 66,734 |
| Other | - | 149 |
| Water Storage Rights - Amortization | <u>1,131,435</u> | <u>1,131,435</u> |
| | <u>\$ 2,062,795</u> | <u>\$ 2,142,881</u> |

In fiscal year 2017, business-type activities expenses decreased by \$80,086 due to decreases in operations and maintenance costs at the Cowanisque reservoir.

Capital Assets, Water Storage Rights, and Debt Administration

Capital Assets and Water Storage Rights

As of June 30, 2017, the Commission had \$35,363,819 invested in a variety of capital assets (net of accumulated depreciation), as reflected in the following schedule.

| | Governmental Activities | Business-Type Activities | Total |
|----------------------------|------------------------------------|-------------------------------------|----------------------|
| Land | \$ 2,104,170 | \$ - | \$ 2,104,170 |
| Buildings and Improvements | 7,304,084 | - | 7,304,084 |
| Equipment | 1,547,708 | - | 1,547,708 |
| Water Storage Rights | <u>-</u> | <u>24,407,857</u> | <u>24,407,857</u> |
| | <u>\$ 10,955,962</u> | <u>\$ 24,407,857</u> | <u>\$ 35,363,819</u> |

Additional information on the Commission's capital assets can be found in Notes 3 and 4.

Debt Administration

At June 30, 2017, the Commission has \$2,193,661 of debt outstanding, all recorded in business-type activities. This is a decrease of \$215,032 from the previous year. The Commission's long-term debt consists of borrowings related to the Curwensville Lake Water Supply project. The balance of this debt was paid on July 5, 2017. Additional information on the Commission's long-term debt can be found in Note 5.

Economic Factors and Next Year's Budget and Rates

On July 1, 2017, the Commission adopted a new regulatory program fee schedule. There were no significant changes made to the new fee schedule despite the ongoing losses incurred with processing applications for aquifer test plan and waiver reviews and for groundwater withdrawals, which are due to the level of effort required. The Commission also opted to waive its annual across-the-board increases which are based on inflation. The Commission continues to seek ways to improve efficiencies, cut costs, and streamline its processes in order to minimize, and even avoid, increases to fees.

SUSQUEHANNA RIVER BASIN COMMISSION

Management's Discussion and Analysis

June 30, 2017

The Commission's approved budget for fiscal year 2018 includes General Fund revenue of \$7,938,300 and Water Management Fund revenue of \$4,230,000, for combined revenue of \$12,168,300. Budgeted General Fund expenses are \$9,621,550 and Water Management Fund expenses are \$2,239,000, for total expenses of \$11,860,550. The budget also includes the transfer of \$502,500 from the Sustainable Water Resource Fund into the General Fund to cover specific one-time expenses.

This financial report is designed to provide a general overview of the Susquehanna River Basin Commission's finances. This financial report seeks to demonstrate the Commission's accountability for the money it receives and disburses. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Commission at 4423 North Front Street, Harrisburg, PA 17110.

SUSQUEHANNA RIVER BASIN COMMISSION

Statement of Net Position

June 30, 2017

| | <u>Governmental</u> <u>Activities</u> | <u>Business-Type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|-----------------------------|
| Assets | | | |
| Cash and Cash Equivalents (Note 2) | \$ 3,172,562 | \$ 7,737,757 | \$ 10,910,319 |
| Investments (Note 2) | 7,941,299 | 30,877,697 | 38,818,996 |
| Due to (from) Other Funds (Note 7) | 97,282 | (97,282) | - |
| Accounts Receivable | 953,832 | 975,698 | 1,929,530 |
| Capital Assets Not Being Depreciated (Note 4) | 2,104,170 | - | 2,104,170 |
| Capital Assets Being Depreciated, Net (Note 4) | 8,851,792 | - | 8,851,792 |
| Water Storage Rights, Net (Note 3) | - | 24,407,857 | 24,407,857 |
| Post-Employment Healthcare Benefit Asset (Note 9) | 57,356 | - | 57,356 |
| Security Deposits and Prepaid Expenses | <u>8,245</u> | <u>-</u> | <u>8,245</u> |
| Total Assets | <u>23,186,538</u> | <u>63,901,727</u> | <u>87,088,265</u> |
| Deferred Outflows of Resources | | | |
| Prepaid Expense | 75,659 | - | 75,659 |
| Deferred Outflows – Pension (Note 8) | <u>3,502,973</u> | <u>-</u> | <u>3,502,973</u> |
| Total Deferred Outflows | <u>3,578,632</u> | <u>-</u> | <u>3,578,632</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 26,765,170</u> | <u>\$ 63,901,727</u> | <u>\$ 90,666,897</u> |
| Liabilities | | | |
| Accounts Payable | \$ 530,359 | \$ - | \$ 530,359 |
| Accrued Payroll | 85,534 | - | 85,534 |
| Unearned Revenue | 967,720 | - | 967,720 |
| Loans Payable – Curwensville – Current Portion (Note 5) | - | 216,941 | 216,941 |
| Long-Term Loan Payable – Curwensville, Net (Note 5) | - | 1,976,720 | 1,976,720 |
| Accrued Sick Leave (Note 6) | 324,138 | - | 324,138 |
| Accrued Vacation (Note 6) | 453,782 | - | 453,782 |
| Net Pension Liability (Note 8) | <u>13,299,490</u> | <u>-</u> | <u>13,299,490</u> |
| Total Liabilities | <u>15,661,023</u> | <u>2,193,661</u> | <u>17,854,684</u> |
| Deferred Inflows of Resources | | | |
| Deferred Inflows – Pension (Note 8) | <u>342,663</u> | <u>-</u> | <u>342,663</u> |
| Total Deferred Inflows | <u>342,663</u> | <u>-</u> | <u>342,663</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 10,955,962 | 22,214,196 | 33,170,158 |
| Restricted | 46,473 | - | 46,473 |
| Unrestricted (Deficit) | <u>(240,951)</u> | <u>39,493,870</u> | <u>39,252,919</u> |
| Total Net Position | <u>10,761,484</u> | <u>61,708,066</u> | <u>72,469,550</u> |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | <u>\$ 26,765,170</u> | <u>\$ 63,901,727</u> | <u>\$ 90,666,897</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION

Statement of Activities

For the Year Ended June 30, 2017

| | Program Revenues | | | Net (Expense) Revenue and Changes In Net Position | | |
|--|----------------------|-----------------------------|---|---|---------------------------------|----------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Functions/Programs | | | | | | |
| Governmental Activities: | | | | | | |
| General/Administration | \$ 8,487,162 | \$ 4,635,395 | \$ - | \$ (3,851,767) | \$ - | \$ (3,851,767) |
| Chesapeake Bay | 461,074 | - | 461,074 | - | - | - |
| Cowanesque Project | 8,469 | - | 8,469 | - | - | - |
| EPA Water Quality | 457,601 | - | 457,601 | - | - | - |
| Swatara Creek | 35,000 | - | 35,000 | - | - | - |
| Flood Hazard Mitigation Grant | 58,859 | - | 58,859 | - | - | - |
| Leak Detection | 88,752 | - | 88,752 | - | - | - |
| Enhanced Bay Monitoring – EPA | 367,264 | - | 367,264 | - | - | - |
| AMD – Rausch, Sandy, Birch | 225,900 | - | 225,900 | - | - | - |
| Remote W/Q Monitoring Network | 87,158 | - | 87,158 | - | - | - |
| Chiques Creek – Bay | 107,166 | - | 107,166 | - | - | - |
| Dirt and Gravel Roads | 47,952 | - | 47,952 | - | - | - |
| Cedar Run Stormwater – Act 13 | <u>149,390</u> | <u>-</u> | <u>149,390</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Governmental Activities | <u>10,581,747</u> | <u>4,635,395</u> | <u>2,094,585</u> | <u>(3,851,767)</u> | <u>-</u> | <u>(3,851,767)</u> |
| Business-Type Activities: | | | | | | |
| Water Management and Sustainable Water Resources | <u>2,062,795</u> | <u>4,760,504</u> | <u>-</u> | <u>-</u> | <u>2,697,709</u> | <u>2,697,709</u> |
| Total Primary Government | <u>\$ 12,644,542</u> | <u>\$ 9,395,899</u> | <u>\$ 2,094,585</u> | <u>(3,851,767)</u> | <u>2,697,709</u> | <u>(1,154,058)</u> |
| General Revenues: | | | | | | |
| Signatory Contributions | | | | 1,078,000 | - | 1,078,000 |
| Investment Earnings | | | | 841,965 | 2,840,519 | 3,682,484 |
| Miscellaneous | | | | 118,868 | - | 118,868 |
| Fund Transfers | | | | <u>1,333,685</u> | <u>(1,333,685)</u> | <u>-</u> |
| Total General Revenues | | | | <u>3,372,518</u> | <u>1,506,834</u> | <u>4,879,352</u> |
| Changes in Net Position | | | | (479,249) | 4,204,543 | 3,725,294 |
| Net Position, Beginning of Year | | | | <u>11,240,733</u> | <u>57,503,523</u> | <u>68,744,256</u> |
| Net Position, End of Year | | | | <u>\$ 10,761,484</u> | <u>\$ 61,708,066</u> | <u>\$ 72,469,550</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION

Balance Sheet – Governmental Fund – General Fund

June 30, 2017

| | |
|------------------------------------|----------------------|
| Assets | |
| Cash and Cash Equivalents (Note 2) | \$ 3,172,562 |
| Investments (Note 2) | 7,941,299 |
| Due From Other Funds (Note 7) | 97,282 |
| Accounts Receivable | |
| Contracts | 951,541 |
| Wages | 2,291 |
| Security Deposit | <u>8,245</u> |
| Total Assets | <u>\$ 12,173,220</u> |
| | |
| Liabilities | |
| Accounts Payable | \$ 530,359 |
| Accrued Salaries and Taxes | 85,534 |
| Unearned Revenue | <u>967,720</u> |
| Total Liabilities | <u>1,583,613</u> |
| | |
| Fund Balance | |
| Assigned | 5,864,740 |
| Restricted | 46,473 |
| Unassigned | <u>4,678,394</u> |
| Total Fund Balance | <u>10,589,607</u> |
| Total Liabilities and Fund Balance | <u>\$ 12,173,220</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position
June 30, 2017

| | |
|--|-----------------------------|
| Total Fund Balance – Governmental Fund | \$ 10,589,607 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund financial statements. The cost of assets is \$14,831,009 and accumulated depreciation is \$3,875,047. | 10,955,962 |
| Governmental funds do not report accrued vacation and sick leave on the Governmental Fund Balance Sheet, which is reported on the Statement of Net Position of the government-wide statements. | (777,920) |
| Governmental funds do not report a post-employment healthcare benefit asset on the Governmental Fund Balance Sheet, which is reported on the Statement of Net Position of the government-wide statements. | 57,356 |
| Governmental funds do not report prepaid expenses on the Governmental Fund Balance Sheet, which is reported on the Statement of Net Position of the government-wide statements. | 75,659 |
| Governmental funds do not report the net pension liability and associated deferred outflows of resources and deferred inflows of resources on the Governmental Fund Balance Sheet, which is reported on the Statement of Net Position of the government-wide statements. | <u>(10,139,180)</u> |
| Total Net Position of Governmental Activities | <u>\$ 10,761,484</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Fund – General Fund
For the Year Ended June 30, 2017

| | |
|---|------------------|
| Revenues | |
| Signatory Parties | |
| Maryland | \$ 346,000 |
| New York | 259,000 |
| Pennsylvania | 473,000 |
| Projects and Programs | |
| Chesapeake Bay | 461,074 |
| Cowanesque Project | 8,469 |
| EPA Water Quality | 457,601 |
| Swatara Creek | 35,000 |
| Flood Hazard Mitigation Grant | 58,859 |
| PA Public Water Assistance Initiative | 88,752 |
| Enhanced Bay Monitoring – EPA | 367,264 |
| AMD – Rausch, Sandy, Birch | 225,900 |
| Remote W/Q Monitoring Network | 87,158 |
| Chiques Creek – Bay | 107,166 |
| Dirt and Gravel Roads | 47,952 |
| Watershed Restoration | 149,390 |
| Other Revenue | |
| Permit Application Fees | 1,228,910 |
| NOI Permit Fees | 819,670 |
| Compliance Monitoring Fees | 2,307,015 |
| Special Project Review Fees | 279,800 |
| Net Realized/Unrealized Loss on Investments | 628,464 |
| Interest and Dividend Income | 213,501 |
| Rental Income (Note 10) | 106,062 |
| Miscellaneous | <u>21,269</u> |
| Total Revenues | <u>8,777,276</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Fund – General Fund (Continued)
For the Year Ended June 30, 2017

| | |
|--------------------------------------|----------------------|
| Expenditures | |
| Personnel Services | 3,940,488 |
| Employee Benefits | 3,006,335 |
| Special Contractual Services | 552,577 |
| Travel and Subsistence | 76,586 |
| Communications | 91,137 |
| Postage and Freight | 10,550 |
| Janitorial | 28,027 |
| Utilities | 73,595 |
| Rent | 30,421 |
| Printing and Reproduction | 48,201 |
| Repairs and Maintenance | 156,368 |
| Software Maintenance | 176,922 |
| Insurance | 114,483 |
| Supplies | 229,542 |
| Fees – Various | 342,432 |
| Commission Meetings | 27,817 |
| Dues and Memberships | 16,730 |
| Staff Training | 35,658 |
| Miscellaneous | 33,351 |
| Capital Outlay | <u>412,005</u> |
| Total Expenditures | <u>9,403,225</u> |
| Excess of Revenues over Expenditures | (625,949) |
| Other Financing Sources | |
| Transfer in | <u>1,333,685</u> |
| Net Change in Fund Balances | 707,736 |
| Fund Balances, Beginning of Year | <u>9,881,871</u> |
| Fund Balances, End of Year | <u>\$ 10,589,607</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
 Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and
 Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2017

Net Change in Fund Balances – Governmental Fund \$ 707,736

Amounts reported for governmental activities in the
 Statement of Activities are difference because:

Capital outlays are reported in Governmental funds as expenditures.

However, in the Statement of Activities the cost of these assets is
 allocated over estimated useful lives as depreciation expense. This is the
 amount that capital outlay exceeds depreciation in the current period.

| | | |
|---------------------------|----------------|----------|
| Less Depreciation Expense | (525,763) | |
| Capital Outlays | <u>433,217</u> | (92,546) |

The governmental fund does not report gain or loss on disposal of assets as
 an increase or reduction of current year expenditures on the Statement of
 Revenues, Expenditures, and Changes in Fund Balance; however, this
 change is reported on the Statement of Activities of the government-wide
 statements.

(8,463)

The governmental fund reports prepaid purchases as an expenditure;
 however, this payments are reported as additions to prepaid expenses on
 the Statement of Net Position of the government-wide statements.

75,659

Some expenses reported in the Statement of Activities do not require the
 use of current financial resources and, therefore, are not reported as
 expenditures in the governmental fund.

| | | |
|--|------------------|--------------------|
| Compensated Absences | (74,071) | |
| Net Pension Liability | (1,278,854) | |
| Pension Deferred Outflows of Resources and | | |
| Deferred Inflows of Resources | 333,659 | |
| Post-Employment Healthcare Plan | <u>(142,369)</u> | <u>(1,161,635)</u> |

Change in Net Position of Governmental Activities \$ (479,249)

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION

Statement of Net Position – Proprietary Funds

June 30, 2017

| | Water Management <u>Fund</u> | Sustainable Water Resources <u>Fund</u> | <u>Total</u> |
|---|------------------------------------|--|----------------------|
| Current Assets | | | |
| Cash and Cash Equivalents (Note 2) | \$ 5,611,715 | \$ 2,126,042 | \$ 7,737,757 |
| Investments (Note 2) | 24,677,506 | 6,200,191 | 30,877,697 |
| Receivables – Fees | <u>975,698</u> | <u>-</u> | <u>975,698</u> |
| Total Current Assets | <u>31,264,919</u> | <u>8,326,233</u> | <u>39,591,152</u> |
| Water Storage Rights, Net (Note 3) | <u>24,407,857</u> | <u>-</u> | <u>24,407,857</u> |
| Total Assets | <u>\$ 55,672,776</u> | <u>\$ 8,326,233</u> | <u>\$ 63,999,009</u> |
| Current Liabilities | | | |
| Due to Other Funds (Note 7) | \$ 98,282 | \$ (1,000) | \$ 97,282 |
| Loan Payable – Current Portion (Note 5) | <u>216,941</u> | <u>-</u> | <u>216,941</u> |
| Total Current Liabilities | <u>315,223</u> | <u>(1,000)</u> | <u>314,223</u> |
| Loan Payable – Long-Term Portion (Note 5) | <u>1,976,720</u> | <u>-</u> | <u>1,976,720</u> |
| Total Liabilities | <u>2,291,943</u> | <u>(1,000)</u> | <u>2,290,943</u> |
| Net Position | | | |
| Invested in Capital Assets, Net of Related Debt | 22,214,196 | - | 22,214,196 |
| Unrestricted Net Position | <u>31,166,637</u> | <u>8,327,233</u> | <u>39,493,870</u> |
| Total Net Position | <u>53,380,833</u> | <u>8,327,233</u> | <u>61,708,066</u> |
| Total Liabilities and Net Position | <u>\$ 55,672,776</u> | <u>\$ 8,326,233</u> | <u>\$ 63,999,009</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds
For the Year Ended June 30, 2017

| | Water Management <u>Fund</u> | Sustainable Water Resources <u>Fund</u> | <u>Total</u> |
|--|------------------------------------|--|----------------------|
| Operating Revenues | | | |
| Water Management Fees | \$ 3,709,522 | \$ - | \$ 3,709,522 |
| Operating and Maintenance Fees – Cowanesque | 829,738 | - | 829,738 |
| Fines and Settlements | <u>-</u> | <u>221,244</u> | <u>221,244</u> |
| Total Operating Revenues | <u>4,539,260</u> | <u>221,244</u> | <u>4,760,504</u> |
| Operating Expenses | | | |
| Cowanesque and Curwensville – Operations & Maintenance | 865,641 | - | 865,641 |
| Water Storage Rights – Amortization Expense | <u>1,131,435</u> | <u>-</u> | <u>1,131,435</u> |
| Total Operating Expenses | <u>1,997,076</u> | <u>-</u> | <u>1,997,076</u> |
| Operating Income | <u>2,542,184</u> | <u>221,244</u> | <u>2,763,428</u> |
| Non-Operating Revenues (Expenses) | | | |
| Realized/Unrealized Gain on Investments | 1,735,809 | 305,054 | 2,040,863 |
| Investment Earnings | 612,149 | 187,507 | 799,656 |
| Interest Expense – Curwensville | <u>(65,719)</u> | <u>-</u> | <u>(65,719)</u> |
| Total Non-Operating Revenues | <u>2,282,239</u> | <u>492,561</u> | <u>2,774,800</u> |
| Income Before Fund Transfers | 4,824,423 | 713,805 | 5,538,228 |
| Transfers Out | <u>(913,685)</u> | <u>(420,000)</u> | <u>(1,333,685)</u> |
| Change in Net Position | 3,910,738 | 293,805 | 4,204,543 |
| Net Position, Beginning of Year | <u>49,470,095</u> | <u>8,033,428</u> | <u>57,503,523</u> |
| Net Position, End of Year | <u>\$ 53,380,833</u> | <u>\$ 8,327,233</u> | <u>\$ 61,708,066</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION

Statement of Cash Flows – Proprietary Funds

For the Year Ended June 30, 2017

| | Water Management <u>Fund</u> | Sustainable Water Resources <u>Fund</u> | <u>Total</u> |
|---|------------------------------------|--|---------------------|
| Cash Flows from Operating Activities: | | | |
| Receipts from Customers and Users | \$ 4,539,260 | \$ 222,244 | \$ 4,761,504 |
| Payments to Suppliers | <u>(1,148,847)</u> | <u>-</u> | <u>(1,148,847)</u> |
| Net Cash and Cash Equivalents Provided by Operating Activities | <u>3,390,413</u> | <u>222,244</u> | <u>3,612,657</u> |
| Cash Flows from Non-Capital Financing Activities: | | | |
| Transfers Out | <u>(913,685)</u> | <u>(420,000)</u> | <u>(1,333,685)</u> |
| Net Cash and Cash Equivalents Used by Financing Activities | <u>(913,685)</u> | <u>(420,000)</u> | <u>(1,333,685)</u> |
| Cash Flows from Capital Financing Activities: | | | |
| Principal Payment on Long-Term Debt | (210,943) | - | (210,943) |
| Payments for Interest Expense | <u>(65,719)</u> | <u>-</u> | <u>(65,719)</u> |
| Net Cash and Cash Equivalents Used by Capital Financing Activities | <u>(276,662)</u> | <u>-</u> | <u>(276,662)</u> |
| Cash Flows from Investing Activities: | | | |
| Purchases of Investments | (1,306,398) | (361,670) | (1,668,068) |
| Sales of Investments | 464,431 | 189,212 | 653,643 |
| Interest and Dividend Income | <u>612,149</u> | <u>187,802</u> | <u>799,951</u> |
| Net Cash and Cash Equivalents Provided (Used) by Investing Activities | <u>(229,818)</u> | <u>15,344</u> | <u>(214,474)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,970,248 | (182,412) | 787,836 |
| Cash and Cash Equivalents, Beginning of Year | <u>3,641,467</u> | <u>2,308,454</u> | <u>5,949,921</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 5,611,715</u> | <u>\$ 2,126,042</u> | <u>\$ 7,737,757</u> |
| Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities | | | |
| Operating Income | \$ 2,542,184 | \$ 221,244 | \$ 2,763,428 |
| Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities: | | | |
| Amortization | 1,131,435 | - | 1,131,435 |
| Changes in Assets and Liabilities: | | | |
| Increase in Accounts Receivable | (189,272) | - | (189,272) |
| Increase in Due to Other Funds | (89,845) | 1,000 | (88,845) |
| Decrease in Accounts Payable | <u>(4,089)</u> | <u>-</u> | <u>(4,089)</u> |
| Net Cash and Cash Equivalents Provided by Operating Activities | <u>\$ 3,390,413</u> | <u>\$ 222,244</u> | <u>\$ 3,612,657</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
Statement of Fiduciary Fund Net Position – Fiduciary Fund –
Defined Benefit Post-Employment Healthcare Plan
June 30, 2017

| | |
|---|---------------------|
| Assets | |
| Cash (Note 2) | \$ 40,598 |
| Investments (Note 2) | <u>1,817,996</u> |
| Total Assets | <u>\$ 1,858,594</u> |
| Net Position | |
| Reserved for Employees' Healthcare Benefits | <u>\$ 1,858,594</u> |
| Total Net Position | <u>\$ 1,858,594</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION
Statement of Changes in Fiduciary Fund Net Position – Fiduciary Fund –
Defined Benefit Post-Employment Healthcare Plan
June 30, 2017

| | | |
|---------------------------------|--|---------------------|
| Additions | | |
| Investment Income | | \$ <u>100,715</u> |
| Total Additions | | <u>100,715</u> |
| Deductions | | |
| Benefits | | 9,666 |
| Administrative Expenses | | <u>3,682</u> |
| Total Deductions | | <u>13,348</u> |
| Net Increase | | 87,367 |
| Net Position, Beginning of Year | | <u>1,771,227</u> |
| Net Position, End of Year | | <u>\$ 1,858,594</u> |

The Accompanying Notes are an Integral Part of the Financial Statements

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

The Susquehanna River Basin Commission (the Commission) was created by the Susquehanna River Basin Compact (the Compact) to develop and effectuate plans, policies, and projects relating to the water resources of the Susquehanna River Basin. The Compact was approved by the four signatory parties: the States of Maryland and New York, the Commonwealth of Pennsylvania, and the United States Government.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, these financial statements present the Commission (the primary government).

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in accounting principles generally accepted in the United States of America, which require a component unit to be included if the Commission's elected officials are financially accountable for the component unit. The Commission is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Commission. The Commission may be financially accountable if an organization is fiscally dependent on the Commission, regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board. There are no agencies or entities that should be presented with the Commission.

Basis of Presentation:

The accounts of the Commission are organized on the fund basis, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The various funds are summarized by type in the financial statements. The Commission's Governmental Fund is the General Fund. Its Proprietary Funds are the Water Management Fund and the Sustainable Water Resources Fund, and its Fiduciary Fund is the Defined Benefit Post-Employment Healthcare Plan.

Basis of Accounting:

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. The statements include the primary government, except for the fiduciary funds.

Separate rows and columns are used to distinguish between the governmental and business-type activities of the government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. These activities are usually reported in governmental funds. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For The Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting (Continued):

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Statement of Net Position and Statement of Activities are prepared using the economic measurement focus and the accrual basis of accounting. Revenue, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of governmental accounting standards.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds of the Commission are accounted for using the current financial resources measurement focus. Accordingly, only current assets and current liabilities are included on the balance sheet, and the fund balances reflect spendable or appropriable resources. The operation statements of these funds reflect increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Governmental fund financial statements are reported using the current financial resources measurement focus. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

The proprietary funds are accounted for using the economic resources measurement focus. All assets and liabilities (current and non-current) associated with the operation of the funds are included on its Statement of Net Position. The proprietary fund Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position. Proprietary funds use the accrual basis of accounting as previously described.

Fund Financial Statements

The financial transactions of the Commission are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The Commission reports the following major governmental funds:

General Fund – The General Fund is the general operating fund of the Commission. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements (Continued)

The Commission reports the following major proprietary funds:

Water Management Fund and Sustainable Water Resources Fund – The Commission currently charges entities using water that results in an evaporation process or that is not returned directly back into the water system. The fee charged for such use is currently \$0.33 per 1,000 gallons consumed. The money received under this agreement was internally designated by the Commissioners to be separate and used for research and development of water resource-related projects. The Sustainable Water Resources Fund represents fines and settlements related with non-compliance to the Commission’s requirements in administrating its water resource regulatory authority for water usage.

In addition, the Commission reports the following fiduciary fund types:

The Commission currently has one Fiduciary Fund. This fund reports the Commission’s post-employment healthcare benefit trust.

In the process of aggregating data for the Statement of Net Position, some amounts reported as inter-fund balances in the funds are eliminated or reclassified. Eliminations are made in the Statement of Net Position to minimize the “grossing-up” effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, amounts reported in the funds as inter-fund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

The Statement of Activities reports two categories of program revenues: (a) charges for services, and (b) program specific operating grants and contributions. Program revenues are derived directly from the program itself or from parties outside the reporting government’s taxpayers or citizenry. As a whole they reduce the net cost of the function to be financed from the government’s general revenues.

The Commission defines proprietary funds’ operation revenues based on how the individual transaction would be categorized for purposes of preparing the Statement of Cash Flows. Transactions for which cash flows are reported as capital and related financing activities, non-capital financing activities or investing activities would normally not be reported as operating revenues.

The Commission first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Vacation and Sick Leave:

Under terms of the Commission’s employment agreement, employees are granted vacation and sick leave in varying amounts. Salaried employees may accumulate up to 45 vacation days, which are payable by the Commission at the time of severance. Employees commencing employment prior to July 1, 2011 are permitted to accumulate a maximum of 90 sick days which are payable upon retirement at 40% of the vested balance. Vested balances in excess of 90 days (to the prior maximum of 180 days) as of June 30, 2011 have been grandfathered and remain payable unless used in the course of employment. Employees hired after July 1, 2011 are not eligible to accrue vested sick leave benefits.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments:

Investments are recorded at fair value for all mutual funds and equity securities held by the Commission. All cash and money market funds are recorded at cost, which approximates fair value.

Capital Assets and Depreciation:

In the government-wide financial statements and proprietary fund types in the fund financial statements, the Commission reports capital assets at historical cost or estimated historical cost. Capital assets include land, improvements, easements, buildings, building improvements, vehicles, machinery, equipment infrastructure, and all other tangible or intangible assets that are used in operations and that have useful lives extending beyond a single reporting period. The Commission's policy is to capitalize assets, or groups of assets with costs in excess of \$5,000.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

| | |
|----------------------------|-------------|
| Buildings and Improvements | 20-50 Years |
| Equipment | 2-15 Years |

Maintenance and repairs of capital assets are expensed when incurred.

Long-Lived Assets:

Long-lived assets, other than those held for sale, are reviewed for impairment whenever events or circumstances indicated that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Management has concluded that no impairment reserves are required at June 30, 2017.

Self-Insurance:

The Commission has elected to be a self-insured participant in the Pennsylvania Unemployment Compensation Program. The reserve for such claims is estimated by the Commission's administrators based on prior years' experience.

Accounts Receivable:

All accounts receivable are shown net of an allowance for uncollectibles, as applicable. Accounts receivable are continually evaluated for collectibility and an allowance is established, as deemed necessary, based on the best information available and in an amount that management believes is adequate. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. No allowance was deemed necessary at June 30, 2017.

Unearned Revenues:

The Commission recognizes revenue received for application and modification fees when an application is approved, denied, or rescinded. Unearned revenue represents fees paid for applications or modifications which are awaiting action by the Commission.

Cash and Cash Equivalents:

For the purpose of the Statement of Cash Flows, the Commission considers all highly liquid investments with an initial maturity date of three months or less to be equivalents.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined Benefit Pension Plan:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to the pension plan and pension expense, information about the fiduciary net position of the Pennsylvania State Employees' Retirement System (SERS), and additions to/deletions from SERS' fiduciary net position have been determined on the same basis as they are reported by SERS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Fund Balance Classifications:

A description of the fund balance classifications used by the Commission for its General Fund follows:

In the government-wide financial statements, net position is classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

Restricted Net Position – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This category represents the net position of the Commission, which is not restricted for any project or other purpose.

In the fund financial statements, fund balances of governmental funds are classified as follows:

In accordance with Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the Commission classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors, contributors, or laws and regulations of other governments, or amounts constrained by law through constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the Commission through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the governing body itself or a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Classifications (Continued):

- Unassigned – includes fund balance amounts that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

Approval of an official motion at a formal meeting by the Commissioners is required to establish, modify, or rescind committed fund balance. The Commissioners have the authority to express intended uses of resources that result in assigned fund balance.

When an expenditure is incurred for purposes for which more than one classification of fund balance is available, it is the Commission's policy to use fund balances in the following order: committed, assigned, and unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted resources are available, the Commission's policy is to spend resources in the following order:

1. Restricted
2. Unrestricted

Unless the Commissioners specifically approves the use of committed resources, or the Commissioners or the authorized body or official specifically approves the use of assigned resources, the Commission's policy is to spend unrestricted resources in the following order:

1. Unassigned
2. Assigned
3. Committed

The Commission does not have a formal minimum fund balance policy.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management:

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Significant losses are covered by commercial insurance for all major programs. There were no significant reductions in insurance coverage in fiscal year 2017. Settlement amounts have not exceeded insurance coverage for the current and prior two years.

Stewardship, Compliance, and Accountability:

The Commission had no material violations of finance-related legal and contractual obligations.

Recent Accounting Pronouncements:

In March 2017, the GASB issued Statement No. 85, *Omnibus*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This guidance is effective for periods beginning after June 15, 2017.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued):

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. Statement No. 84 is effective for periods beginning after June 15, 2017.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Statement No. 83 is effective for periods beginning after June 15, 2018.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 is effective for periods beginning after December 15, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. Statement No. 87 is effective for periods beginning after December 15, 2019.

The Commission is currently evaluating what effect the adoption of the GASB pronouncements listed above will have on the Commission's financial statements.

Deferred Outflows and Inflows of Resources:

Deferred Outflows of Resources – a consumption of net assets by the Commission that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

Deferred Inflows of Resources – an acquisition of net assets by the Commission that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

NOTE 2 DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned to them. The Commission does not have a policy for custodial credit risk on deposits.

At June 30, 2017, the carrying amount of the Commission's bank deposits was \$10,950,917, and the corresponding bank balance was \$11,110,853, of which \$500,000 was covered by the FDIC. An amount of \$10,610,853 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department, but not in the Commission's name. The Commission maintains a portion of its cash and cash equivalents in money market accounts which are insured by the FDIC, but not collateralized with securities held by the pledging financial institution's trust department. The amount not collateralized totaled \$685,039 at June 30, 2017. In addition, the Commission also maintained cash on hand of \$600 at June 30, 2017.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk:

Custodial credit risk is the risk that the counterparty to an investment transaction will fail and the government will not recover the value of the investment or collateral securities that are in possession of an outside party. The Commission does not have a formal policy investment policy for custodial credit risk. The Commission's investments cannot be classified by risk category because they are not evidenced by securities that exist in physical or book entry form.

Foreign Currency Risk:

The Commission's investment policy limits investment in foreign equity securities to 30% of portfolio value. Investments in foreign fixed income securities are not specifically limited.

The Commission records investments at their fair market value. Cash, cash equivalents, and investments are composed of the following at June 30, 2017:

| | <u>Cash and Cash Equivalents</u> | <u>Investments</u> | <u>Total Cash, Cash Equivalents, and Investments</u> |
|--------------|--------------------------------------|-----------------------------|--|
| Governmental | \$ 3,172,562 | \$ 7,941,299 | \$ 11,113,861 |
| Proprietary | 7,737,757 | 30,877,697 | 38,615,454 |
| Fiduciary | <u>40,598</u> | <u>1,817,996</u> | <u>1,858,594</u> |
| Total | <u>\$ 10,950,917</u> | <u>\$ 40,636,992</u> | <u>\$ 51,587,909</u> |

The Commission had the following investments with the following average maturities at June 30, 2017:

| <u>Investment Type</u> | <u>Total Fair Value</u> | <u>No Stated Maturity⁽¹⁾</u> | <u>Less Than 1 Year</u> | <u>1 to 5 Years</u> | <u>5 to 10 Years</u> | <u>Greater Than 10 Years</u> |
|---------------------------|-----------------------------|---|-----------------------------|-------------------------|--------------------------|----------------------------------|
| <i>Governmental Funds</i> | | | | | | |
| Stocks and ETFs | \$ 2,766,691 | \$ 2,766,691 | \$ - | \$ - | \$ - | \$ - |
| Equity Mutual Funds | <u>5,174,608</u> | <u>5,174,608</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Equities | <u>7,941,299</u> | <u>7,941,299</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Governmental Funds | <u>7,941,299</u> | <u>7,941,299</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Proprietary Funds</i> | | | | | | |
| Stocks and ETFs | 17,788,124 | 17,788,124 | - | - | - | - |
| Equity Mutual Funds | <u>13,089,573</u> | <u>13,089,573</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Equities | <u>30,877,697</u> | <u>30,877,697</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Proprietary Funds | <u>30,877,697</u> | <u>30,877,697</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <i>Fiduciary Funds</i> | | | | | | |
| Stocks and ETFs | 698,718 | 698,718 | - | - | - | - |
| Mutual Funds | <u>1,119,278</u> | <u>1,119,278</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Fiduciary Funds | <u>1,817,996</u> | <u>1,817,996</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Investments | <u>\$ 40,636,992</u> | <u>\$ 40,636,992</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

⁽¹⁾ Maturity data is not available for certain funds with diversified holdings.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 2 DEPOSITS AND INVESTMENTS (CONTINUED)

| | | Fair Value Measurements Using | | |
|---------------------------------------|----------------------|--|---|--|
| | 6/30/2017 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Investments by Fair Value Level | | | | |
| Equity Securities | | | | |
| Stocks and ETFs | \$ 21,253,533 | \$ 21,253,533 | \$ - | \$ - |
| Equity Mutual Funds | <u>19,383,459</u> | <u>19,383,459</u> | - | - |
| Total Equity Securities | <u>40,636,992</u> | <u>40,636,992</u> | - | - |
| Total Investments by Fair Value Level | <u>\$ 40,636,992</u> | <u>\$ 40,636,992</u> | <u>\$ -</u> | <u>\$ -</u> |

Interest Rate Credit Risk:

As a means of managing its exposure to fair value losses arising from increasing interest rates, the Commission's investment policy restricts the duration of short-term fixed income securities to a maximum of three years.

Concentration of Credit Risk:

The Commission places a limit on the amount the Commission may invest in any one company's stock at 3% of the total non-fiduciary portfolio, and no more than 20% of the total non-fiduciary portfolio shall be invested in any one industry sector. At year-end there were no investments in any one issuer greater than 3%.

NOTE 3 WATER STORAGE RIGHTS

On June 30, 1986, the Commission entered into a contract with the Department of the Army Corps of Engineers, for the inclusion of 24,335 acre-feet of additional water supply storage as an additional use at the Cowanesque Reservoir, Tioga County, Pennsylvania. The reformulation construction phase was completed in 1990 at a total cost of approximately \$16,500,000. The contract provides for the repayment to the Federal Government of \$39,414,000 of the original project construction costs with interest at 7.69%, amortized over a 50-year period. However, the debt repayment was completed during the year ended June 30, 2005. The Water Storage Rights Asset is reflected in the government-wide Statement of Net Position. The Commission is required to pay the Army Corps of Engineers a prorated share of the annual operations and maintenance cost of the project. The prorated share of annual operations and maintenance cost for the year ended June 30, 2017 amounted to \$829,738. The Commission now has a permanent right for the use of an additional 24,335 acre-feet of supply storage.

On September 30, 1994, the Commission entered into a contract with the Department of the Army Corps of Engineers, for the inclusion of 5,360 acre-feet of additional water supply storage at Curwensville Lake, Clearfield County, Pennsylvania. The reformulation construction phase was completed at a total allocated cost to the Commission of approximately \$4,878,000. The contract provides for the repayment to the Federal Government of \$4,878,000 of the original project construction costs. The Commission is also required to pay the Army Corps of Engineers a prorated share of the annual operations and maintenance cost of the project. The prorated share of annual operations and maintenance cost for the year ended June 30, 2017 amounted to \$35,903. The Commission now has a permanent right for the use of an additional 5,360 acre-feet of supply storage.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 3 WATER STORAGE RIGHTS (CONTINUED)

| | Balance <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2017</u> |
|-----------------------------------|--------------------------------|-----------------------|------------------|---------------------------------|
| Cowanesque Water Storage Rights | \$ 36,528,466 | \$ - | \$ - | \$ 36,528,466 |
| Curwensville Water Storage Rights | <u>4,878,000</u> | <u>-</u> | <u>-</u> | <u>4,878,000</u> |
| Total Water Storage Rights | <u>41,406,466</u> | <u>-</u> | <u>-</u> | <u>41,406,466</u> |
| Less Accumulated Depreciation | <u>15,867,174</u> | <u>1,131,435</u> | <u>-</u> | <u>16,998,609</u> |
| Water Storage Rights, Net | <u>\$ 25,539,292</u> | <u>\$ (1,131,435)</u> | <u>\$ -</u> | <u>\$ 24,407,857</u> |

Amortization expense is computed utilizing the straight-line method over periods ranging from 27 to 38 years.

Amortization expense included in the government-wide Statement of Activities for the year ended June 30, 2017 was \$1,131,435. Amortization expense is estimated to be \$1,131,435 per year for each of the next five years.

NOTE 4 CAPITAL ASSETS

A summary of capital asset activity follows for the year ended June 30, 2017:

| | Balance <u>July 1, 2016</u> | <u>Additions</u> | <u>Deletions</u> | Balance <u>June 30, 2017</u> |
|--|--------------------------------|--------------------|-------------------|---------------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | <u>\$ 2,104,170</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,104,170</u> |
| Total Capital Assets Not Being Depreciated | <u>2,104,170</u> | <u>-</u> | <u>-</u> | <u>2,104,170</u> |
| Capital Assets Being Depreciated | | | | |
| Buildings and Improvements | 7,976,182 | - | - | 7,976,182 |
| Equipment | <u>4,454,773</u> | <u>433,217</u> | <u>(137,333)</u> | <u>4,750,657</u> |
| Total Capital Assets Being Depreciated | <u>12,430,955</u> | <u>433,217</u> | <u>(137,333)</u> | <u>12,726,839</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings and Improvements | 484,668 | 187,430 | - | 672,098 |
| Equipment | <u>2,993,486</u> | <u>338,333</u> | <u>(128,870)</u> | <u>3,202,949</u> |
| Total – Less Accumulated Depreciation | <u>3,478,154</u> | <u>525,763</u> | <u>(128,870)</u> | <u>3,875,047</u> |
| Capital Assets Being Depreciated, Net | <u>8,952,801</u> | <u>(92,546)</u> | <u>(8,463)</u> | <u>8,851,792</u> |
| Capital Assets, Net | <u>\$ 11,056,971</u> | <u>\$ (92,546)</u> | <u>\$ (8,463)</u> | <u>\$ 10,955,962</u> |

Depreciation expense included in the government-wide Statement of Activities under general administration for the year ended June 30, 2017 was \$525,763.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 5 LOAN PAYABLE

The following is a summary of the changes in long-term liabilities for the year ended June 30, 2017:

| | <u>Balance</u> <u>July 1, 2016</u> | <u>Additions</u> <u>(Repayments)</u> | <u>Balance</u> <u>June 30, 2017</u> |
|--|---------------------------------------|---|--|
| Business-Type Activities: | | | |
| FNB Curwensville Lake Water Supply Loan, initial issue \$3,776,940; modified July 2012; fixed interest rate of 2.83% through July 2017, variable thereafter at WSJ Prime plus 1.00% (subject to 5.00% floor) through maturity in August 2026. | \$ 2,404,604 | \$ (210,943) | \$ 2,193,661 |

Aggregate maturities required on long-term debt are as follows at June 30, 2017:

| | <u>Principal</u> | <u>Interest</u> | <u>Total Debt Service</u> |
|-----------|---------------------|-------------------|---------------------------|
| 2018 | \$ 216,941 | \$ 57,925 | \$ 274,866 |
| 2019 | 223,024 | 51,678 | 274,702 |
| 2020 | 229,014 | 45,688 | 274,702 |
| 2021 | 235,414 | 39,288 | 274,702 |
| 2022 | 241,866 | 32,836 | 274,702 |
| 2023-2027 | <u>1,047,402</u> | <u>63,413</u> | <u>1,110,815</u> |
| Total | <u>\$ 2,193,661</u> | <u>\$ 290,828</u> | <u>\$ 2,484,489</u> |

Interest paid on this loan payable was \$65,719 for the year ended June 30, 2017. The balance of this debt was paid on July 5, 2017.

NOTE 6 LONG-TERM LIABILITIES

The following represents changes in long-term liabilities, other than the long-term loan payable:

| | <u>Balance</u> <u>Outstanding</u> <u>July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>Outstanding</u> <u>June 30, 2017</u> |
|-------------------------|---|---------------------|-----------------------|--|
| Governmental Activities | | | | |
| Accrued Vacation | \$ 406,477 | \$ 453,782 | \$ (406,477) | \$ 453,782 |
| Accrued Sick Leave | 297,372 | 304,829 | (278,063) | 324,138 |
| Net Pension Liability | <u>12,020,636</u> | <u>2,348,346</u> | <u>(1,069,492)</u> | <u>13,299,490</u> |
| Total | <u>\$ 12,724,485</u> | <u>\$ 3,106,957</u> | <u>\$ (1,754,032)</u> | <u>\$ 14,077,410</u> |

Maturity of the liabilities stated above is subject to future events and conditions, and accordingly, the Commission considers there to be no material current maturities.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Activities between funds that are representative of a lending/borrowing arrangement that are outstanding at the end of the period are referred to as “due to/from other funds” in the fund financial statements. Any residual balance outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as due to/from other funds. The purpose of the interfund transfer balances in the fund financial statement is to show all assets and liabilities of the major funds and the aggregate nonmajor funds.

Interfund balances consisted of the following at June 30, 2017:

| | <u>Due To</u> | <u>Due From</u> |
|--|-------------------------|-------------------------|
| Governmental Fund – General Fund | \$ - | \$ 98,282 |
| Proprietary Fund – Water Management Fund | 97,282 | - |
| Sustainable Water Resource Fund | <u>1,000</u> | <u>-</u> |
| Total | <u>\$ 98,282</u> | <u>\$ 98,282</u> |

This balance resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers consisted of the following during the year ended June 30, 2017:

| | <u>Transfers In</u> | <u>Transfers Out</u> |
|--|----------------------------|----------------------------|
| Governmental Fund – General Fund | \$ 1,333,685 | \$ - |
| Proprietary Fund – Water Management Fund | - | 913,685 |
| Proprietary Fund – Sustainable Water Resource Fund | <u>-</u> | <u>420,000</u> |
| Total | <u>\$ 1,333,685</u> | <u>\$ 1,333,685</u> |

Transfers from the Water Management Fund to the General Fund are to reimburse certain expenses related to ongoing projects paid by the General Fund on behalf of the Water Management Fund.

Transfers from the Sustainable Water Reserve Fund supported upgrades to the Commission’s remote water quality monitoring network hardware, and funded internally developed scientific studies.

NOTE 8 DEFINED BENEFIT PENSION PLAN

Plan Description:

Susquehanna River Basin Commission employees are provided with pensions through the Commonwealth of Pennsylvania State Employees’ Retirement System (SERS or the Plan), a cost-sharing multiple-employer defined benefit pension plan established by the Commonwealth of Pennsylvania (the Commonwealth) to provide pension benefits for employees of state government and certain independent agencies. SERS issues a publicly available financial report that can be obtained at www.SERS.pa.gov.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Benefits Provided:

SERS provides retirement, death, and disability benefits. Article II of the Commonwealth's constitution assigns the authority to establish and amend the benefit provision of the plan to the General Assembly. Member retirement benefits are determined by taking years of credited services, multiplied by final average salary, multiplied by 2%, multiplied by class of service multiplier. According to the State Employees' Retirement Code, 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 member to make contributions to the fund on behalf of all active members and annuitants necessary to fund the liabilities and provide the annuity reserves required to pay benefits. SERS funding policy, as set by the board, provides for periodic active member contributions at statutory rates. The SERS funding policy also provides for periodic employer contributions at actuarially determined rates based on SERS funding valuation, expressed as a percentage of annual retirement covered payroll, such that they, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate assets to pay benefits when due. However, Act 2010-120 imposes rate increase collars (limits on annual rate increases) on employer contributions. The collar for the Commonwealth fiscal year ending June 30, 2014 was 4.5% and will remain at that rate until no longer needed.

Most active Commission members contribute at a rate of 6.25% of their gross pay. The rate of employer contribution was 25% of covered payroll for the fiscal year ended June 30, 2017. Contributions to the pension plan from the Commission were \$1,198,332 for the year ended June 30, 2017.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension:

At June 30, 2017, the Commission reported a liability of \$13,299,490 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The allocation percentage assigned to each employer in the Plan is based on a projected-contribution method. This method applies the most recently calculated contribution rates for the fiscal year ending June 30, 2017, from the December 31, 2016 funding valuation, to the expected funding payroll for the allocation of the 2016 amounts, and the contribution rates for the fiscal year ending June 30, 2017 from the December 31, 2016 funding valuation to the expected funding payroll for the allocation of the December 31, 2016 net pension liability. At December 31, 2016, the Commission's proportion was 0.069%, which was an increase of 0.003% from its proportion measured as of December 31, 2016.

The Commission recognized pension expense of \$2,143,529 for the year ended June 30, 2017. The Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources at June 30, 2017:

Actuarial Assumptions:

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.60% |
| Salary Increases | Average of 5.60%, Range of 3.70% - 8.90% |
| Investment Rate of Return | 7.25%, Net of Expenses Including Inflation |

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for actual plan experience and future improvement.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2011 to December 31, 2015. As a result of the 2017 actuarial experience study, recommendations were made with respect to the actuarial assumptions and methods. The next experience study will cover the years 2016 through 2020 and is expected to be released in early 2021.

The long-term expected rate of return on pension plan investments was 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.

| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
|---|---|--|
| Differences Between Projected and Actual Experience | \$ 191,977 | \$ 297,562 |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | 1,117,688 | - |
| Changes in Assumptions | 812,358 | - |
| Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions | 772,890 | 45,101 |
| Commission Contributions Subsequent to the Measurement Date | <u>608,060</u> | <u>-</u> |
| Total | <u>\$ 3,502,973</u> | <u>\$ 342,663</u> |

An amount of \$608,060 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ended December 31:

| | |
|------|------------|
| 2018 | \$ 813,182 |
| 2019 | 692,528 |
| 2020 | 218,110 |
| 2021 | 27,268 |

The components of deferred outflows of resources and deferred inflows of resources, other than the difference between the projected and actual investment earnings on investments, are amortized into pension expense over a 5.2-year closed period for 2016, which reflects the weighted average remaining service life of all SERS members, beginning the year in which the deferred amount occurs (current year). The annual difference between the projected and actual earnings on SERS investments is amortized over a five-year closed period beginning the year in which the difference occurs (current year).

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 8 DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 are summarized in the following table at December 31, 2016:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Private Equity | 16.00 % | 8.00 % |
| Global Public Equity | 43.00 % | 5.30 % |
| Real Assets | 12.00 % | 5.44 % |
| Hedge Fund | 12.00 % | 4.75 % |
| Fixed Income | 14.00 % | 1.63 % |
| Cash | 3.00 % | (0.75) % |

Discount Rate:

The discount rate used to measure the total pension liability was 7.25%. 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 those 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 the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate:

The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.25%, as well as what 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:

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued):

| | 1% Decrease <u>(6.25%)</u> | Discount Rate <u>(7.25%)</u> | 1% Increase <u>(8.25%)</u> |
|---|-------------------------------|---------------------------------|-------------------------------|
| Commission's Proportionate Share of the Net Pension Liability | <u>\$ 16,458,737</u> | <u>\$ 13,299,490</u> | <u>\$ 10,594,050</u> |

Pension Plan Fiduciary Net Position:

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

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 POST EMPLOYMENT HEALTHCARE PLAN

The financial statements for the Susquehanna River Basin Commission Post-Employment Benefits Plan (SRBCPBP) are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair market value, which for SRBCPBP is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities. Securities for which market quotations are not readily available are valued at their face value as determined by the custodian under the direction of the Commission, with the assistance of a valuation service.

Plan Description and Contribution Information:

Membership of the plan consisted of the following at July 1, 2016, the date of the latest actuarial valuation:

| | |
|-----------------------|---------------|
| Active Participants | 15 |
| Vested Former Members | - |
| Retired Participants | <u>21</u> |
| Total | <u>36</u> |

SRBCPBP is a single-employer defined benefit healthcare plan administered by the Susquehanna River Basin Commission. SRBCPBP provides medical insurance benefits to eligible retirees and their spouses. The Commission does not issue a separate financial report for the SRBCPBP.

Funding Policy:

The contribution requirements of plan members and the Commission are established and may be amended by the Commission. The Commission did not make a contribution to the Plan in 2017. There were no contributions from plan members receiving benefits for the year ended June 30, 2017.

Annual Cost and Net Obligation:

The Commission's annual Other Post-Employment Benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the Commission's net OPEB obligation to SRBCPBP.

| | |
|--|----------------------|
| Annual Required Contribution | \$ (137,346) |
| Interest on Net OPEB Obligation | 21,475 |
| Adjustment to Annual Required Contribution | <u>(26,498)</u> |
| Decrease in Net OPEB Asset | (142,369) |
| Net OPEB Asset, Beginning of Year | <u>199,725</u> |
| Net OPEB Asset – End of Year | <u>\$ 57,356</u> |

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 POST EMPLOYMENT HEALTHCARE PLAN (CONTINUED)
Three-Year Trend Information:

| <u>Fiscal Years</u> <u>Ending June 30</u> | <u>Annual</u> <u>OPEB Cost</u> | <u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u> | <u>Net OPEB</u> <u>(Obligation)/</u> <u>Asset</u> |
|--|-----------------------------------|---|---|
| 2015 | \$ 78,335 | 0 % | \$ 277,052 |
| 2016 | 77,327 | 0 % | 199,725 |
| 2017 | 142,369 | 0 % | 57,356 |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status of each plan as of July 1, 2016, the most recent actuarial valuation date, is as follows:

| <u>Actuarial</u> <u>Valuation</u> <u>Date</u> | <u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u> | <u>Actuarial</u> <u>Liability</u> <u>(AAL) -</u> <u>Entry Age</u> <u>(b)</u> | <u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u> | <u>Funded</u> <u>Ratio</u> <u>(a/b)</u> | <u>Covered</u> <u>Payroll</u> <u>(c)</u> | <u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a) / c)</u> |
|---|--|--|--|---|--|--|
| July 1, 2016 | \$ 1,903,972 | \$ 2,651,149 | \$ 747,177 | 71.82 % | \$ 1,273,001 | 58.69 % |

The accompanying schedule of funding progress – post-employment benefits plan presents trend information about the amounts contributed to the plan by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the Plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Financial Statements
For the Year Ended June 30, 2017

NOTE 9 POST EMPLOYMENT HEALTHCARE PLAN (CONTINUED)

In the July 1, 2016 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.70% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the Plan at the valuation date, and an annual healthcare cost trend rate of 6.5% in 2016, 6.0% in 2017, and 5.5% in 2018 through 2020. Rates gradually decrease from 5.4% in 2021 to 3.8% in 2025 and later based on the Society of Actuaries Long-Run Medical Cost Trend Model. Dental and vision premiums are assumed to increase by 4% per year. The actuarial value of assets was determined by using the market value of assets. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2016 was 30 years.

NOTE 10 RENTAL INCOME

The Commission has entered into an agreement to rent a portion of its property to a tenant. Under the terms of the agreement, monthly rents range from \$5,833 to \$9,165. In addition, the tenant is required to maintain general liability and personal property insurance. The initial lease term extends through March 30, 2019 with an optional renewal term of up to five years. Rental income was \$106,062 for the year ended June 30, 2017. Future minimum rent under the agreement is as follows at June 30:

| | |
|-------|-------------------|
| 2018 | \$ 108,344 |
| 2019 | <u>82,487</u> |
| Total | <u>\$ 190,831</u> |

NOTE 11 SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 7, 2017, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SUSQUEHANNA RIVER BASIN COMMISSION

Notes to Budgetary Comparison Schedule

For the Year Ended June 30, 2017

The Commission follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Formal budgetary integration is employed as a management control device during the year for the General Fund.
2. The Commission approves the budget appropriation. The Director, Administration and Finance, and Executive Director are authorized to transfer budget amounts between departments. However, within any fund, the Commission's members must approve any revisions that alter the total appropriations of any fund.
3. Unused appropriations for the above annually budgeted funds lapse at the end of the year except for the unexpended balance of such appropriations where contracts are in course of construction at the end of the year.
4. The budget amounts shown in the required supplementary information are the final authorized amounts as approved by the Commission.

See Independent Auditor's Report

SUSQUEHANNA RIVER BASIN COMMISSION
 Budgetary Comparison Schedule – General Fund –
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis
 For the Year Ended June 30, 2017

| | <u>Original</u> <u>Budget</u> | <u>Final</u> <u>Budget</u> | <u>Actual</u> | Variance Favorable <u>(Unfavorable)</u> |
|---------------------------------------|----------------------------------|-------------------------------|------------------|---|
| Revenues | | | | |
| Signatory Parties | | | | |
| Maryland | \$ 395,625 | \$ 360,000 | \$ 346,000 | \$ (14,000) |
| New York | 395,625 | 259,000 | 259,000 | - |
| Pennsylvania | 791,250 | 573,000 | 473,000 | (100,000) |
| Federal | 782,500 | - | - | - |
| Projects and Programs | | | | |
| Chesapeake Bay | 131,200 | 336,200 | 461,074 | 124,874 |
| Cowanesque Project | - | 10,000 | 8,469 | (1,531) |
| EPA Water Quality | 676,000 | 608,000 | 457,601 | (150,399) |
| Flood Forecast | - | - | - | - |
| Flood Hazard Mitigation Grant | - | 68,000 | 58,859 | (9,141) |
| PA Public Water Assistance Initiative | 75,000 | 75,000 | 88,752 | 13,752 |
| Enhanced Bay Monitoring – EPA | 166,500 | 201,500 | 367,264 | 165,764 |
| AMD – Rausch, Sandy, Birch | 267,500 | 634,000 | 225,900 | (408,100) |
| Remote W/Q Monitoring Network | 145,000 | - | 87,158 | 87,158 |
| Didymo Sea Grant | - | 130,000 | 107,166 | (22,834) |
| Dirt and Gravel Roads | - | 65,000 | 47,952 | (17,048) |
| Surface Water | - | - | 149,390 | 149,390 |
| Other Revenue | | | | |
| Permit Application Fees | 750,000 | 1,219,675 | 1,228,910 | 9,235 |
| NOI Permit Fees | 1,300,000 | 1,481,400 | 819,670 | (661,730) |
| Compliance Monitoring Fees | 2,100,000 | 2,190,000 | 2,307,015 | 117,015 |
| Special Project Review Fees | 228,000 | 332,725 | 279,800 | (52,925) |
| Net Realized/Unrealized Gain | | | | |
| (Loss) on Investments | 250,000 | 100,000 | 628,464 | 528,464 |
| Interest and Dividend Income | 2,000 | 20,000 | 213,501 | 193,501 |
| Rental Income | 103,500 | 103,500 | 106,062 | 2,562 |
| Miscellaneous | <u>130,300</u> | <u>20,000</u> | <u>56,269</u> | <u>36,269</u> |
| Total Revenues | <u>8,690,000</u> | <u>8,787,000</u> | <u>8,777,276</u> | <u>(9,724)</u> |

See Independent Auditor's Report

SUSQUEHANNA RIVER BASIN COMMISSION
 Budgetary Comparison Schedule – General Fund –
 Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budgetary Basis (Continued)
 For the Year Ended June 30, 2017

| | Original <u>Budget</u> | Final <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|---------------------------|------------------------|-----------------------|--|
| Expenditures | | | | |
| Personnel Services | 4,900,000 | 4,205,000 | 3,940,488 | 264,512 |
| Employee Benefits | 2,155,000 | 2,905,000 | 3,006,335 | (101,335) |
| Special Contractual Services | 850,000 | 750,000 | 552,577 | 197,423 |
| Travel and Subsistence | 90,000 | 90,000 | 76,586 | 13,414 |
| Communications | 90,000 | 85,000 | 91,137 | (6,137) |
| Postage and Freight | 20,000 | 20,000 | 10,550 | 9,450 |
| Janitorial | 25,000 | 35,000 | 28,027 | 6,973 |
| Utilities | 75,000 | 75,000 | 73,595 | 1,405 |
| Rent | 35,000 | 35,000 | 30,421 | 4,579 |
| Printing and Reproduction | 60,000 | 60,000 | 48,201 | 11,799 |
| Repairs and Maintenance | 145,000 | 190,000 | 156,368 | 33,632 |
| Software Maintenance | 160,000 | 120,000 | 176,922 | (56,922) |
| Insurance | 95,000 | 100,000 | 114,483 | (14,483) |
| Supplies | 205,000 | 200,000 | 229,542 | (29,542) |
| Fees – Various | 330,000 | 340,000 | 342,432 | (2,432) |
| Commission Meetings/Public Hearings | 40,000 | 48,000 | 27,817 | 20,183 |
| Dues and Memberships | 15,000 | 15,000 | 16,730 | (1,730) |
| Staff Training | 75,000 | 75,000 | 35,658 | 39,342 |
| Miscellaneous | 30,000 | 30,000 | 33,351 | (3,351) |
| Capital Outlay | <u>305,000</u> | <u>505,000</u> | <u>412,005</u> | <u>92,995</u> |
| Total Expenditures | <u>9,700,000</u> | <u>9,883,000</u> | <u>9,403,225</u> | <u>479,775</u> |
| Excess (Deficiency) of Revenue Over (Under) Expenditures | <u>(1,010,000)</u> | <u>(1,096,000)</u> | <u>(625,949)</u> | <u>470,051</u> |
| Other Financing Sources | | | | |
| Transfer in | <u>1,010,000</u> | <u>1,096,000</u> | <u>1,333,685</u> | <u>237,685</u> |
| Net Changes in Fund Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 707,736</u> | <u>\$ 707,736</u> |

See Independent Auditor's Report

SUSQUEHANNA RIVER BASIN COMMISSION
 Schedule of Funding Progress – Post-Employment Benefits Plan
 For the Year Ended June 30, 2017

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a) / c) |
|--------------------------------|--|--|------------------------------------|-----------------------|---------------------------|---|
| July 1, 2010 | \$ 1,430,541 | \$ 2,609,019 | \$ 1,178,478 | 54.83 % | \$ 1,819,564 | 64.77 % |
| July 1, 2013 | 2,055,978 | 2,109,092 | 53,114 | 97.48 % | 1,368,819 | 3.88 % |
| July 1, 2016 | 1,903,972 | 2,651,149 | 747,177 | 71.82 % | 1,223,001 | 61.09 % |

See Independent Auditor's Report

SUSQUEHANNA RIVER BASIN COMMISSION
Schedule of the Commission's Proportionate Share of the Net Pension Liability
For the Last Ten Years*
For the Year Ended June 30, 2017

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------------|----------------------|---------------------|
| Commission's Proportion of the Net Pension Liability | 0.069 % | 0.066 % | 0.064 % |
| Commission's Proportionate Share of the Net Pension Liability | <u>\$ 13,299,490</u> | <u>\$ 12,020,636</u> | <u>\$ 9,556,824</u> |
| Commission's Covered-Employee Payroll | <u>\$ 4,388,113</u> | <u>\$ 4,260,921</u> | <u>\$ 3,990,940</u> |
| Commission's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered-Employee Payroll | 303.08 % | 282.11 % | 239.46 % |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 57.80 % | 58.90 % | 64.80 % |

* Information for years prior to June 30, 2015 is not available.

See Independent Auditor's Report

SUSQUEHANNA RIVER BASIN COMMISSION
Schedule of Commission Contributions
For the Last Ten Years*
For the Year Ended June 30, 2017

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------------------|-------------------------|-------------------------|
| Contractually Required Contribution | \$ 1,199,492 | \$ 965,512 | \$ 743,951 |
| Contributions in Relation to the Contractually Required Contribution | <u>1,199,492</u> | <u>988,414</u> | <u>743,951</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ (22,902)</u> | <u>\$ -</u> |
| Commission's Covered Employee Payroll | <u>\$ 4,388,113</u> | <u>\$ 4,260,921</u> | <u>\$ 3,990,940</u> |
| Contributions as a Percentage of Covered Employee Payroll | 27.34 % | 23.20 % | 18.64 % |

* Information for years prior to June 30, 2015 is not available.

See Independent Auditor's Report

SUPPLEMENTARY INFORMATION

SUSQUEHANNA RIVER BASIN COMMISSION
Schedule of Changes in Fund Balance – General Fund
For the Year Ended June 30, 2017

| | Assigned Fund Balance | | | | | | Unassigned Fund Balance | |
|--------------------------------|--|-------------------------------------|--|---|---|--|-------------------------|-------------------------------|
| | Budgetary Working <u>Capital</u> | Unemployment <u>Compensation</u> | Accrued Vacation and <u>Sick Leave</u> | Reserve for Programmatic <u>Changes</u> | Future Pension <u>Contributions</u> | Total Assigned <u>Fund Balance</u> | <u>Unassigned</u> | <u>Total Fund Balance</u> |
| Balances at July 1, 2016 | \$ 2,500,000 | \$ 86,820 | \$ 703,849 | \$ 500,000 | \$ 1,000,000 | \$ 4,790,669 | \$ 5,091,202 | \$ 9,881,871 |
| Revenues | - | - | - | - | - | - | 8,777,276 | 8,777,276 |
| Expenditures | - | - | - | - | - | - | (9,403,225) | (9,403,225) |
| Other Financing Sources | - | - | - | - | - | - | 1,333,685 | 1,333,687 |
| Assignment or Reclassification | - | - | 74,071 | - | 1,000,000 | 1,074,071 | (1,074,071) | - |
| Balances at June 30, 2017 | <u>\$ 2,500,000</u> | <u>\$ 86,820</u> | <u>\$ 777,920</u> | <u>\$ 500,000</u> | <u>\$ 2,000,000</u> | <u>\$ 5,864,740</u> | <u>\$ 4,724,867</u> | <u>\$ 10,589,607</u> |

See Independent Auditor's Report

SINGLE AUDIT SECTION



HAMILTON & MUSSER, P.C.

Certified Public Accountants • Consultants to Management

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

To the Commissioners of
Susquehanna River Basin Commission
Harrisburg, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Susquehanna River Basin Commission, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Susquehanna River Basin Commission's basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Susquehanna River Basin Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Susquehanna River Basin Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Susquehanna River Basin Commission's internal control.

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

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

Members of the American and Pennsylvania Institutes of CPAs

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Susquehanna River Basin Commission'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 is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

November 7, 2017

Mechanicsburg, Pennsylvania



Certified Public Accountants



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Commissioners of
Susquehanna River Basin Commission
Harrisburg, Pennsylvania

Report on Compliance for Each Major Federal Program

We have audited Susquehanna River Basin Commission's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Susquehanna River Basin Commission's major federal programs for the year ended June 30, 2017. Susquehanna River Basin Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Susquehanna River Basin Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Susquehanna River Basin Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Susquehanna River Basin Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, Susquehanna River Basin Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Members of the American and Pennsylvania Institutes of CPAs

Report on Internal Control Over Compliance

Management of Susquehanna River Basin Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Susquehanna River Basin Commission's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Susquehanna River Basin Commission's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

November 7, 2017

Mechanicsburg, Pennsylvania



Certified Public Accountants

SUSQUEHANNA RIVER BASIN COMMISSION

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2017

| <u>Federal Grantor/Pass Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-Through Number</u> | <u>Federal Award Expended</u> |
|--|--------------------------------|--|---------------------------------------|
| Passed through the Commonwealth of Pennsylvania, Department of Environmental Protection: | | | |
| Chesapeake Bay Program | 66.466 | ME4100070824 | \$ 406,584 |
| NFWF – Dirt & Gravel Roads | 66.466 | 0603-14-045237 | 47,952 |
| Enhanced CB Monitoring | 66.466 | 7025800000 | <u>367,427</u> |
| | | | 821,963 |
| Water Pollution Control State, Interstate, and Tribal Program Support | 66.419 | I-00399113 | 457,601 |
| Rausch Creek Mine Pool | Unknown | ME41000740114 | <u>8,482</u> |
| Total Federal Awards Expended | | | <u>\$ 1,288,046</u> |

SUSQUEHANNA RIVER BASIN COMMISSION
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Susquehanna River Basin Commission under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Susquehanna River Basin Commission, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Susquehanna River Basin Commission.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 INDIRECT COST RATE

Susquehanna River Basin Commission has elected to not use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

SUSQUEHANNA RIVER BASIN COMMISSION
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

Financial Statement Audit:

None

Findings and Questioned Costs – Major Federal Awards Programs Audit:

None

SUSQUEHANNA RIVER BASIN COMMISSION

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Summary of Auditors' Results:

Financial Statements:

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
Material weaknesses identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted which would be required to be reported in accordance with *Government Auditing Standards*? Yes No

Federal Awards:

Internal control over major programs:
Material weaknesses identified? Yes No

Significant deficiencies identified? Yes None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? Yes No

Identification of major programs:
CFDA number(s): 66.466

Name of Federal Program:
Chesapeake Bay Program

Amount expended: \$821,963

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

Auditee qualified as low-risk auditee Yes No

Findings – Financial Statement Audit:

None

Findings and Questioned Costs – Major Federal Award Programs Audit:

None