

**STORMWATER AUTHORITY OF THE
CITY OF CHESTER**

FINANCIAL STATEMENTS

JUNE 30, 2019 AND 2018

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
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JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stormwater Authority of the City of Chester
Chester, Pennsylvania

We have audited the accompanying financial statements of the business-type activities of Stormwater Authority of the City of Chester (the Authority), as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Stormwater Authority of the City of Chester, as of June 30, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison on pages 3 through 6 and on page 19 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.



Brinker Simpson & Company, LLC
Springfield, Pennsylvania
October 2, 2020

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

This section of the annual financial report of the Stormwater Authority of the City of Chester, hereafter referred to as "Authority", presents management's analysis of the Authority's financial condition, changes in financial position, and cash flows for the years ended June 30, 2019 and 2018. Please consider the information presented here in conjunction with the accompanying financial statements and related footnotes.

The Stormwater Authority of the City of Chester is a municipal authority under the Commonwealth of Pennsylvania established by the City of Chester, Pennsylvania in October 2016. The purpose of the Authority is to continue maintaining drainage and flood control facilities related to the operation of the infrastructure, as well as plan, fund, and construct improvements to the infrastructure within the Authority's boundaries.

Authority Activities and Highlights

The Authority's net position increased by \$1,040,391 for the year ended June 30, 2019.

The Authority's operating revenues decreased \$152,431 or 5% over the prior year, while operating and general and administrative expenses decreased \$346,425 or 16% over the prior year. Grant income and Interest expense each year is not included in this analysis.

The Authority has continued its efforts to collect outstanding amounts owed through mailing delinquent notices and now, that the Authority having successfully defending itself in the courts against an attempted injunction to cease collection of fees, has engaged the services of a collection agency to pursue outstanding amounts owed.

Overview of the Financial Statements

The Stormwater Authority of the City of Chester's basic financial statements include a statement of net position, statement of revenues, expenses, and changes in net position, statement of cash flows and notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements.

The Authority's financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United State of America promulgated by the Governmental Accounting Standards Board (GASB).

Statement of Net Position

The Statement of Net Position presents the financial position on the Authority. It provides information on the Authority's assets and liabilities, with the difference, or total assets in excess of total liabilities, reported as total net position.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the information reflecting how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

Statement of Cash Flows

The Statement of Cash Flows reflects changes in cash and cash equivalents resulting from operating activities; capital and related financing activities; and investing activities.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information as listed in the table of contents.

Financial Analysis

The following is a condensed statement of net position of the Authority on June 30th, 2019 and 2018.

	2019	2018
Assets:		
Current assets	\$ 2,669,422	\$ 1,046,003
Capital assets	1,495,808	94,335
Construction in progress	1,959,534	609,039
Other assets	47,500	-
Total Assets	\$ 6,172,264	\$ 1,749,377
Liabilities:		
Short-term liabilities	\$ 414,142	\$ 331,683
Long-term liabilities	3,300,037	-
Total Liabilities	\$ 3,714,179	\$ 331,683
Net Position:		
Invested in capital assets	\$ 1,464,292	\$ 703,374
Restricted	993,793	714,320
Total Net Position	\$ 2,458,085	\$ 1,417,694

The Authority's current assets are comprised of cash in banks of \$1,837,732 and accounts receivable, net of allowance for doubtful accounts, in the amount of \$831,690. The Authority's capital assets comprise infrastructure, buildings, equipment and vehicles net of accumulated depreciation of \$2,242,069 as Capital assets of \$1,495,808. The Authority's short-term liabilities comprise accrued expenses of \$176,688 and a bank line of credit balance with a balance owed at the end of the fiscal year in the amount of \$237,454. The long-term liabilities of \$3,300,037 represent amounts borrowed on \$13,157,984 of approved and separate Pennvest loans. These loans are the funding source for the construction projects. The three present Pennvest loans were approved during this fiscal year just ended. Under the terms of the loan from Pennvest, no principal payments are required on the loans for up to 36 months beginning at the loan origination date, but interest is due on any amounts borrowed from the approved amounts.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

The following is a condensed statement of revenues, expenses, and changes in net position for the Authority on June 30th, 2019 and 2018.

Operating Revenues:		
Storm drainage utility fees	\$ 2,855,470	\$ 3,007,901
Grants	6,500	941,500
Total Operating Revenues	<u>2,861,970</u>	<u>3,949,401</u>
Operating Expenses:		
Expenses except depreciation	1,689,283	2,148,424
Depreciation	113,699	983
Total Operating Expenses	<u>1,802,982</u>	<u>2,149,407</u>
Other Nonoperating Revenue		
Interest income	<u>2,131</u>	<u>15</u>
Other Nonoperating expense		
Interest expense	<u>20,728</u>	<u>23,483</u>
Change in Net Position	1,040,391	1,776,526
Net Position - Beginning	<u>1,417,694</u>	<u>(358,832)</u>
Net Position - Ending	<u>\$ 2,458,085</u>	<u>\$ 1,417,694</u>

This was the second full year of operation for the Authority. The Authority came into existence from the City of Chester establishing the Authority and transferring over the infrastructure they maintained, and the responsibility of managing, maintaining, and improving the stormwater system. The authority acquired buildings from which the administrative and plant operations occupy. To support the infrastructure operating maintenance, the Authority acquired additional equipment and vehicles for the ground crews to continue to maintain the overall system.

During this fiscal year, the Authority began construction on the first 3 tranches, or infrastructure upgrade projects funded by individual Pennvest infrastructure loans. In a prior year, a grant received from Pennvest to enable the Authority to research and develop plans for enhancing and modifying the existing infrastructure.

Economic Factors and Next Year's Budget and Rates

The Stormwater Authority of the City of Chester continues to focus on improving the stormwater management and enhancing the present infrastructure. Additional borrowings continued subsequent to these financial statements as more projects are added.

When the budget is created each year, it includes anticipated revenues that will be collected. The budgeted expenses represent anticipated costs without considering noncash expenses. Actual costs include accruals for Bad debt allowance and Depreciation which are considered noncash amounts and were not considered in this year's budget. Future budgets will consider revenues at full invoice amount and not on anticipated collected amount. The future budgeted expenses will include any anticipated noncash expenses such as an allowance for doubtful accounts from analysis of accounts receivable and depreciation.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2019 AND 2018**

The Authority intends to invest over the next few years, in infrastructure, over \$49,000,000 to enable the stormwater management system to efficiently manage water runoff and reduce contaminants from entering the region's fresh water system.

This report is designed to provide a general overview of the Authority's finances for all interested parties. Questions concerning any of the information provided or requests for additional information should be addressed to the Director of Finance and Administration at:

Stormwater Authority of the City of Chester
31 East 5th Street
Chester, PA 19013
Phone # 610-872-1000

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents:		
BMT#5740 Tranche 3 (72817) Checking	\$ 54,643	\$ -
BMT#8023 Tranche 2 (72701) Checking	133,106	-
BMT#8090 Tranche 1 (72811) Checking	959,594	-
BMT#8451 (Operational)	177,224	158,030
BMTCS #9303	-	226,156
BMTMM #4767	242,534	-
Covenant CK #8895	19,966	70,123
Covenant MM #8779	250,665	-
Total Cash and Cash Equivalents	1,837,732	454,309
Accounts Receivable:		
Accounts receivable	18,638	1,151
Accounts receivable - Minol	2,568,052	1,870,543
Allowance for bad debts	(1,755,000)	(1,280,000)
Total Accounts Receivable	831,690	591,694
Total Current Assets	2,669,422	1,046,003
Capital Assets- Fixed Assets		
Land	31,516	3,673
Buildings		
29 E 5th St	160,022	-
31 E 5th St	520,062	86,970
410 Welsh St	106,583	-
Infrastructure	2,696,290	-
Vehicles, Equipment, Furniture	223,404	5,483
Accumulated depreciation	(2,242,069)	(1,791)
Net Fixed Assets	1,495,808	94,335
Capital Assets - Construction in Progress		
Construction in Progress	33,482	-
CIP- grant funding	662,809	609,039
CIP- Tranche 1	586,577	-
CIP- Tranche 2	537,507	-
CIP- Tranche 3	139,159	-
Total Construction in Progress	1,959,534	609,039
Escrow for Permits	47,500	-
Total Other Assets	47,500	-
Total Assets	\$ 6,172,264	\$ 1,749,377

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF NET POSITION
JUNE 30, 2019 AND 2018

LIABILITIES AND NET POSITION

	2019	2018
Liabilities		
Current Liabilities:		
Accrued expenses	\$ 144,028	\$ 13,267
Accrued interest	2,015	483
Accrued payroll and taxes	30,645	17,470
Advances	-	509
Line of Credit - Covenant	237,454	299,954
Total Current Liabilities	414,142	331,683
Long-term Liabilities:		
Deferred Revenue - Infrastructure	\$ 539,642	\$ -
Pennvest Loan A #72811- Tranche 1	1,724,894	-
Pennvest Loan B #72701- Tranche 2	814,981	-
Pennvest Loan C #72817- Tranche 3	220,520	-
Total Long-term Liabilities	3,300,037	-
Total Liabilities	3,714,179	331,683
Net Position		
Invested in capital assets	1,464,292	703,374
Restricted	993,793	714,320
Total Net Position	2,458,085	1,417,694
Total Liabilities and Net Position	\$ 6,172,264	\$ 1,749,377

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Certification fees	\$ 3,650	\$ 1,440
Grants	6,500	941,500
Stormwater revenue - in-house billing	630,546	206,237
Stormwater revenue - Minol	2,221,274	2,800,224
Total Operating Revenues	<u>2,861,970</u>	<u>3,949,401</u>
Operating Expenses		
Advertising and marketing	5,334	4,118
Bad debts expense	475,000	1,280,000
Bank charges and fees	762	-
Billing company fees	224,183	205,375
Charitable contributions	30,500	2,000
Depreciation expense	113,699	983
Dues and subscriptions	3,646	1,000
Gas	4,101	40
Insurance - liability, worker compensation	23,048	16,528
Insurance - medical, dental	107,813	39,899
Job supplies	2,120	-
Legal and professional services	149,575	161,634
Meals and entertainment	3,284	2,635
Office supplies and software	14,562	13,389
Outside services	-	1,587
Payroll processing fees	2,793	1,263
Payroll taxes - employer	46,749	28,543
Payroll wages and salary	542,472	357,760
Fringe benefits	13,370	12,800
Reconciliation discrepancies	-	124
Rent expense	9,282	9,482
Repairs and maintenance	17,969	644
Supplies and materials	3,742	-
Taxes and licenses	778	2,769
Telephone	5,104	3,452
Travel	556	1,643
Utilities	2,438	1,647
Utilities-Delcora	102	92
Total Operating Expenses	<u>1,802,982</u>	<u>2,149,407</u>
Net Operating Income	<u>1,058,988</u>	<u>1,799,994</u>
Nonoperating Revenues		
Interest income	2,131	15
Nonoperating Expenses		
Interest paid	20,728	23,483
Net Nonoperating Income (Expenses)	<u>(18,597)</u>	<u>(23,468)</u>
Net Income	1,040,391	1,776,526
Net Position - Beginning of Fiscal Year	1,417,694	(358,832)
Net Position - End of Fiscal Year	<u>\$ 2,458,085</u>	<u>\$ 1,417,694</u>

See notes to financial statements.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF CASH FLOWS
YEAR ENDED JUNE 30, 2019 AND 2018**

	2019	2018
Cash Flows From Operating Activities		
Cash received from service fees and grants	\$ 2,116,906	\$ 2,077,707
Cash paid to and on behalf of employees	(700,022)	(435,733)
Cash paid for administrative activities	(484,945)	(436,857)
	931,939	1,205,117
Cash Flows From Capital and Related Financing Activities		
Capital expenditures	(878,850)	(89,643)
Construction in progress	(1,350,496)	(609,039)
	(2,229,346)	(698,682)
Cash Flows From Non-Capital and Related Financing Activities		
Debt incurred	2,760,395	188,411
Debt retired	(62,500)	(257,660)
Interest paid	(19,196)	(24,321)
	2,678,699	(93,570)
Cash Flows From Investing Activities		
Interest income	2,131	15
	1,383,423	412,880
Net Increase in Cash and Cash Equivalents	1,383,423	412,880
Cash and Cash Equivalents, Beginning	454,309	41,429
Cash and Cash Equivalents, Ending	\$ 1,837,732	\$ 454,309
Reconciliation of operating income to cash flows provided by operating activities		
Operating income	\$ 1,058,988	\$ 1,799,994
Adjustments to reconcile operating income to cash flows provided by operating activities;		
Depreciation and amortization	113,699	983
Bad debt expense	475,000	1,280,000
Changes in:		
Accounts receivable	(714,996)	(1,871,694)
Accounts payable and accrued expenses	29,316	(4,166)
Deferred income	(30,068)	-
	931,939	1,205,117
Cash Flows Provided by Operating Activities	\$ 931,939	\$ 1,205,117

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Stormwater Authority of the City of Chester ("the Authority") was incorporated on October 28th of 2016. The Authority, under the provisions of the Municipal Authorities Act, will enhance, protect and safeguard the water bodies and groundwater and improve the public health, safety within the Authority's boundaries.

Reporting Entity

The Authority is a separate governmental entity. The Authority's Board of Directors consists of City of Chester Council members and Directors along with two board members of the Chester Water Authority.

The Authority was established to enhance the repairing and improvements of existing infrastructure as well as design and develop infrastructure, separating from the existing waste water infrastructure the Authority is presently part of. The Authority took legal possession of the infrastructure in September 2018, although work began improving the infrastructure prior to receiving legal ownership. Repairs on the infrastructure during 2017 were funded from a one-million-dollar grant received from Pennvest during March of 2017. Funding for improvements to the infrastructure became available during this fiscal year and construction on three projects has now begun.

The Authority follows Governmental Accounting Standards Board ("GASB") accounting pronouncements which provide guidance for determining which governmental activities are to be included within the financial reporting entity. GASB pronouncements set forth the financial accountability of the government governing body. Financial accountability includes, but is not limited to, the appointment of a majority of the organization's governing body, who has the ability to impose its will on the organization.

The Authority is not financially accountable for any other organization, nor is the Authority a component unit of any other primary governmental entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Authority adheres to the provisions of GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and GASB Statement No. 38, "Certain Financial Statement Note Disclosure". Both GASB's establish standards for external financial reporting for all state and local governmental entities.

Budgets and Budgetary Accounting

An annual budget is established for the Authority. The Authority's Director submits a proposed operating budget to its Board of Directors before the beginning of the fiscal year. The Board adopts the budget and passes the appropriation resolution. After commencement of the fiscal year, the appropriation is irrevocable. However, the Board may adopt supplemental appropriations by resolution due to circumstances which could not be foreseen at the time of the adoption of the original budget. Appropriations lapse at the end of the fiscal period.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

Statement of Cash Flows

For purposes of the statement of cash flows, the Authority considers highly liquid investments with a maturity of three months or less when acquired to be cash equivalents.

Accounts Receivables

Accounts receivables are expressed net of allowances for doubtful accounts. On June 30, 2019, an additional allowance was recorded to reflect compliance in the early phase of charging residents the fee based on an assessment established from the beginning of operations. An allowance of \$475,000 was recorded to adjust the reserve for doubtful accounts during this fiscal year. The allowance is determined based on collection rates and management's analysis of specific accounts.

Capital Assets

Capital assets, which include infrastructure, property, equipment, and drainage improvements, are reported in the financial statements. Capital assets are defined by the Authority as assets with an estimated useful life greater than one year. The Authority has set a threshold of \$1,000 in determining expenditures to be capitalized and depreciated over a useful life as follows:

Infrastructure	25 years
Buildings	30 years
Office furniture and fixtures	7 years
Vehicles	5 years

Certain capital expenditures related to construction in progress of the infrastructure ("CIP") are not depreciated. When construction projects are complete, the project cost is transferred to the infrastructure account and depreciation of the capital cost begins. On September 12, 2018, the mayor of the City of Chester transferred the infrastructure assets, they maintained, over to the Stormwater Authority of the City of Chester to continue maintaining and seek funding for improving the infrastructure. These assets are continuing to be depreciated over their remaining useful lives.

Expenditures for maintenance, repairs and minor replacements, which do not improve or extend the life of the asset, are expensed as incurred.

Compensated Absences

The Authority's policy is to accrue as an expense and liability for employee vacation, sick leave, and compensatory time when the employee vests in such benefits. This policy has been incorporated into the Authority's company policy as of the date of these financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Net position comprises the various net earnings from operating income, nonoperating revenues and expenses, and capital contributions. Net position is classified in the following components:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributed to the acquisition, construction or improvement of those assets.

Restricted - This component of net position consists of constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law.

Unrestricted - This component of net position consists of net position that does not meet the definition of net investment in capital assets, or restricted.

New Accounting Pronouncements

GASB Statement No. 83 – In November 2016, 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. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2019. This pronouncement does not impact the Authority for the year ending June 30, 2019.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017. This pronouncement does not impact the Authority for the year ending June 30, 2019.

GASB Statement No. 86 – In May 2017, 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 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. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017. This pronouncement does not impact the Authority for the year ending June 30, 2019.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018**

NOTE 1: NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

GASB Statement No. 87 – In June 2017, 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. This Statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The Statement is effective for the reporting periods after June 15, 2021. This pronouncement does not impact the Authority for the year ended June 30, 2019.

NOTE 2: CASH AND CASH EQUIVALENTS

The Authority maintains funds in two local banks, where the funds are segregated for specific use. Deposit amounts in each bank at the end of this fiscal year are:

Bryn Mawr Trust - Tranche 1 Checking Account	\$ 959,594
Bryn Mawr Trust - Tranche 2 Checking Account	133,106
Bryn Mawr Trust - Tranche 3 Checking Account	54,643
Bryn Mawr Trust - Operational Account	177,224
Bryn Mawr Trust - Money Market	242,534
Covenant - Operation Accounts	19,966
Covenant - Money Market	250,665
Total Cash and Cash Equivalents	<u><u>\$ 1,837,732</u></u>

NOTE 3: CREDIT RISK

Custodial Credit Risk

Investments of the Authority may be exposed to custodial credit risk for amounts in excess of the federal depository insurance amount of \$250,000 per bank. At June 30, 2019, both banks, Bryn Mawr Trust and Covenant established pools to protect amounts held by each to eliminate credit risk.

Concentration of Credit Risk

More than eighty percent of the Authority's depository accounts are in one Bank.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Increases	Decreases	Balance June 30 2019
Capital assets not be depreciated:				
Land	\$ 3,673	\$ 27,843	\$ -	\$ 31,516
Construction-in-progress	609,039	1,350,495	-	1,959,534
Capital Assets Not Being Depreciated	<u>612,712</u>	<u>1,378,338</u>	<u>-</u>	<u>1,991,050</u>
Capital assets being depreciated:				
Building	86,970	699,697	-	786,667
Infrastructure	-	2,696,290	-	2,696,290
Equipment and furnishings	5,483	217,921	-	223,404
Capital Assets Being Depreciated	<u>92,453</u>	<u>3,613,908</u>	<u>-</u>	<u>3,706,361</u>
Less accumulated depreciation	<u>(1,791)</u>	<u>(2,240,278)</u>	<u>-</u>	<u>(2,242,069)</u>
Net Capital Assets Being Depreciated	<u>90,662</u>	<u>1,373,630</u>	<u>-</u>	<u>1,464,292</u>
Net Capital Assets	<u>\$ 703,374</u>			<u>\$ 3,455,342</u>

NOTE 5: DEBT

The Authority maintains a term loan with Covenant Bank bearing an interest at 5.5%, which was a line of credit and converted to a term loan during September 2018. The Authority has begun paying down this loan at an accelerated rate. The Pennvest loans (Pennsylvania Infrastructure Investment Authority) bearing an interest rate of 1.0%, represents funding for individual infrastructure projects. The approved amount of each loan is listed below. The proceeds of each Pennvest loan during this fiscal year and beyond are disbursed periodically based on reimbursing costs incurred during the progress on completion of each project. The Authority's future planning and related capital spending on infrastructure will utilize the remaining loan amounts. The loan amounts provided to the Authority from Pennvest are listed in the margin below. Each project is individually accounted for.

The terms of each loan from Pennvest provides that the Authority pay interest at 1% for up to 36 months, adjusted as the Authority continues spending from approved loan amounts. Principal payments will begin on the existing three loans during 2021 and will be amortized over 20 years to pay these loans in full during the years; 2041, 2042 and 2043, relative to the loan origination dates.

	Balance July 1, 2018	Borrowings	Repayments	Balance June 30, 2019
Covenant - term loan	\$ 299,954	\$ -	\$ (62,500)	\$ 237,454
Pennvest - \$4,888,205 - Tranche #1	-	1,724,894	-	1,724,894
Pennvest - \$4,822,315 - Tranche #2	-	814,981	-	814,981
Pennvest - \$3,447,464 - Tranche #3	-	220,520	-	220,520
	<u>\$ 299,954</u>	<u>\$ 2,760,395</u>	<u>\$ (62,500)</u>	<u>\$ 2,997,849</u>

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 5: DEBT (continued)

The principal payments on the loans for the next five fiscal years are as follows. The Authority has taken an aggressive approach paying off the Covenant loan evident by reflecting actual principal payments made during the next fiscal year which ended June 2020 and estimated for the following fiscal year. The Pennvest loan principal payments are based upon full usage of approved loan amounts. These amounts will not agree to the loan balances as of the end of this fiscal year ended June 30, 2019. Pennvest future debt service will exceed present liability balances. This is attributed to continued borrowings against the Pennvest loans subsequent to the end of this fiscal year ended June 30, 2019. Interest is paid monthly to Pennvest at a 1% annual rate on amounts drawn down from the approved loan amounts listed below. See Subsequent Events, Note 10, for additional information.

For the Years Ending June 30:	Covenant	Pennvest #1	Pennvest #2	Pennvest #3	Total
2020	\$ 237,454	\$ -	\$ -	\$ -	\$ 237,454
2021	-	-	74,384	-	74,384
2022	-	237,718	299,400	208,316	745,434
2023	-	319,737	302,408	314,816	936,961
2024	-	322,949	305,446	317,979	946,374
Thereafter	-	4,007,801	3,840,677	2,606,533	6,447,210
	<u>\$ 237,454</u>	<u>\$ 4,888,205</u>	<u>\$ 4,822,315</u>	<u>\$ 3,447,644</u>	<u>\$ 9,387,817</u>

NOTE 6: DEFERRED REVENUES

On September 12th, 2018, after a resolution signed by the mayor of the City of Chester, the stormwater infrastructure they maintained was transferred to the Authority. The value received, determined by remaining depreciable value, is being realized as annual revenue by the Authority over a 15-year period beginning on the date the resolution was signed by the mayor of the City of Chester.

NOTE 7: COMMITMENTS

The Authority leases office space in the City of Chester, Pennsylvania, which expired at the end of June 2019. As of the date of these financial statements, the Authority now occupies offices owned by the Authority.

During December 2017, the Authority entered into an agreement with a utility billing service company. The billing company provides customer billing services, collection of payments, and customer services on a monthly basis, based on an agreed upon fee schedule. The agreement is for a period of 36 months, expiring in November 2020.

NOTE 8: CONTINGENCIES – LEGAL PROCEEDINGS

The Authority is subject to various disputes and legal proceedings which arise in the normal course of its operations. Management's belief with respect to these activities is that the outcome, if any, will not be material to the Authority's financial condition, partially attributable to maintaining a reserve for doubtful collections of accounts receivable.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 8: CONTINGENCIES – LEGAL PROCEEDINGS (continued)

During 2018, the Authority was served with Complaints in Equity and Petitions for Preliminary and Permanent Injunctive Relief by businesses and residents. The complaints asked for a permanent injunction to enjoin the Authority from collecting any impact fee from the property owners of the City of Chester. The Authority felt the plaintiffs' arguments were without merit. On December 13, 2019, the court ruled in the Authority's favor and dismissed all claims by the plaintiffs. It is uncertain if the plaintiffs will appeal. Regardless of an appeal, the plaintiffs must pay their back fees as well as their current fees.

NOTE 9: RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily. These actions have expanded significantly in the past several weeks and are expected to continue to expand. Given the uncertainty regarding the spread of this coronavirus, the related financial impact on the Authority cannot be reasonably estimated at this time.

NOTE 10: SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through October 2, 2020, which is the date the financial statements were available to be issued.

As stated in Note 9, Risks and Uncertainties, the financial impact of the COVID-19 pandemic on the Authority cannot be reasonably estimated at this time.

Collection Efforts

To address the significant amount of outstanding accounts receivable, the Authority has engaged legal representation to communicate with the property owners who have delinquent accounts. During 2020, the collection firm will start notifying commercial and residential property owners with accounts in arrears that the Authority has a right to collect the outstanding fees and move forward in filing liens against these property owners who refuse to meet their financial obligation to the Authority.

Capital Spending, Improvement Projects and Financing

Capital spending subsequent, mainly from Pennvest loans since the end of this fiscal year and through the end of August 2020, has increased an additional \$8,055,000. Two additional projects have been added to the three existing projects as of June 30, 2019. These projects are being funded through Pennvest (Pennsylvania Infrastructure Investment Authority).

The Authority presently has five active projects funded through Pennvest. Additional projects are in the process of being finalized to provide additional funding for future projects.

The Pennvest funding for existing and subsequent projects to these financial statements are as follows through the end of August 2020:

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 10: SUBSEQUENT EVENTS (continued)

Tranche #1 – Origination date - December 18, 2018, \$4,888,205 was approved; \$3,600,344 has been drawn against this loan. Principal payments begin on October 1, 2021. The loan matures September 2041.

Tranche #2 - Origination date - November 6, 2018, \$4,822,315 was approved; \$3,721,740 has been drawn against this loan. Principal payments begin on April 1, 2021. The loan matures March 2041.

Tranche #3 - Origination date - May 9, 2019, \$3,447,464 was approved; \$1,904,395 has been drawn against this loan. Principal payments begin on November 1, 2021. The loan matures October 2041.

Tranche #4 – Origination date - February 21, 2020, \$9,980,156 was approved; \$1,633,753 has been drawn against this loan. Principal payments begin on November 1, 2022. The loan matures October 2042.

Tranche #5 - Origination date - May 5, 2020, \$9,946,801 was approved; \$1,524,815 has been drawn against this loan. Principal payments begin on March 1, 2023. The loan matures February 2043.

As of the end of August 2020, five projects have been approved with available funding by Pennvest totaling \$33,084,940. From available funding, \$12,385,047 has been borrowed and invested in improvements of the infrastructure and supporting assets.

Additional projects will continue to be submitted to Pennvest requesting additional funding beyond the amounts reflected. The terms of the loans from Pennvest allow the Authority to pay interest at 1% for up to 36 months. Afterwards, principal and interest payments begin on the existing five active loans beginning in 2021 and will be amortized over 20 years to pay back these loans in full during the years; 2041, 2042 and 2043, relative to the loan origination dates.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENT OF REVENUES AND EXPENSES - ACTUAL VS. BUDGET
AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2019

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Certification fees	\$ 3,650	\$ -	\$ 3,650
Grants	6,500	-	6,500
Stormwater revenue - in-house billing	630,546	200,000	430,546
Stormwater revenue - Minol	2,221,274	980,562	1,240,712
Total Operating Revenues	<u>2,861,970</u>	<u>1,180,562</u>	<u>1,681,408</u>
Operating Expenses			
Advertising and marketing	5,334	-	(5,334)
Bad debts allowance	475,000	-	(475,000)
Billing company fees	224,183	-	(224,183)
Charitable contributions	30,500	-	(30,500)
Depreciation expense	113,699	-	(113,699)
Dues and subscriptions	3,646	-	(3,646)
Gas	4,101	-	(4,101)
Insurance - liability, worker compensation	23,048	24,277	1,229
Insurance - medical, dental	107,813	94,632	(13,181)
Job Supplies	2,120	-	(2,120)
Legal and professional services	149,575	90,000	(59,575)
Meals and entertainment	3,284	4,500	1,216
Office supplies and software	14,562	2,000	(12,562)
Outside services	-	8,087	8,087
Payroll processing fees	2,793	3,000	207
Payroll taxes - employer	46,749	63,000	16,251
Payroll wages and salary	542,472	730,980	188,508
Fringe benefits	13,370	45,000	31,630
Rent expense	9,282	9,300	18
Repairs and maintenance	17,969	-	(17,969)
Supplies and materials	3,742	3,000	(742)
Taxes and licenses	778	89	(689)
Telephone	5,104	3,700	(1,404)
Travel	556	5,500	(689)
Utilities	2,438	1,300	(1,404)
Utilities-Delcora	102	150	4,944
Total Operating Expenses	<u>1,802,982</u>	<u>1,088,515</u>	<u>(715,470)</u>
Net Operating Income	<u>1,058,988</u>	<u>92,047</u>	<u>966,941</u>
Nonoperating Revenues			
Interest income	2,131	-	2,131
Nonoperating Expenses			
Interest paid	20,728	92,047	71,319
Net Nonoperating Income (Expenses)	<u>(18,597)</u>	<u>(92,047)</u>	<u>73,450</u>
Net Income	1,040,391	<u>\$ -</u>	<u>\$ 1,040,391</u>
Net Position - Beginning of Fiscal Year	<u>1,417,694</u>		
Net Position - End of Fiscal Year	<u>\$ 2,458,085</u>		