

**STORMWATER AUTHORITY OF THE
CITY OF CHESTER**

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020

STORMWATER AUTHORITY OF THE CITY OF CHESTER
TABLE OF CONTENTS
JUNE 30, 2021 AND 2020

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Statements of Net Position	8-9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
REQUIRED SUPPLEMENTARY INFORMATION	
Statement of Revenues and Expenses – Actual vs. Budget and Change in Net Position	19



940 West Sproul Road, Suite 101, Springfield, PA 19064 | PHONE: 610.544.5900 | FAX: 610.544.7455

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 the Stormwater Authority of the City of Chester ("the Authority"), as of and for the years ended June 30, 2021 and 2020, 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 the Stormwater Authority of the City of Chester, as of June 30, 2021 and 2020, 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 7 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
June 2, 2022

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

This section of the annual financial report of the Stormwater Authority of the City of Chester, hereafter referred to as "the Authority", presents management's analysis of the Authority's financial condition, changes in financial position, and cash flows for the year ended June 30, 2021. 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.

Financial Highlights

The Authority's Board adopts its rates at an annual Board meeting. The operating expenses, capital spending and debt service budgeted determines the rate to charge property owners within the area the Authority oversees stormwater runoff. Budgeted Operating Revenue is then allocated based on each parcel's square footage that may contribute to managing the stormwater runoff.

For the fiscal year ended June 30, 2021, the total assets increased \$10,863,619 to reflect total Assets of \$25,864,659. The total liabilities increased \$10,372,497 to reflect total Liabilities of \$22,577,854. This resulted in an increase in Net Position of \$419,122 to reflect total Net Position of \$3,286,805.

Capital Assets and Construction in Progress during the fiscal year ended June 30, 2021 increased \$11,409,626. Depreciation expense related to Capital Assets during this fiscal year was \$454,617 resulting in a net increase of \$10,955,009 of Capital Assets and Construction in Progress to reflect total Capital Assets and Construction in Progress of \$23,226,453.

Operating revenues were \$3,496,100, which is an increase of \$120,860 or 3.6% compared to the prior year. Total operating revenues were in line with the budgeted amount.

Operating expenses, excluding depreciation expense, for the year were \$2,417,092. This is a decrease of \$389,894 or 15.0% over the prior year operating expenditures. Total operating expenses, excluding depreciation were under budget by \$226,667, mainly due to a reduced amount recorded as bad debt expense. Non-operating income and expenses are not included in this analysis. Additional efforts to collect on past due amounts contributed to a lesser amount of bad debt expenses recorded in the current fiscal year.

The Authority has continued its efforts to collect past due outstanding amounts owed through mailing delinquent notices and having successfully defending itself in the courts against an attempted injunction to cease collection of fees. Beginning in July 2021, the Authority engaged the services of a collection agency to pursue outstanding amounts owed. The collection firm has begun collections process on approximately 3,800 parcels with delinquent amounts.

Overview of Annual Financial Statements

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the independent auditor's report and the Authority's audited financial statements and supplementary information, which follow this section.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

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

The annual report consists of three parts: the MDA, the financial statements, and supplementary information.

The financial statements report information about the Authority using full accrual accounting methods similar to those used by the private sector.

The financial statements include: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; Statements of Cash Flows; and the related Notes to Financial Statements along with required Supplementary information.

The **Statement of Net Position** presents the financial position of the Authority on a full accrual, historical cost basis. This statement presents information on the Authority's assets and liabilities with the difference, or total assets in excess of total liabilities, reported as net position.

While the Statement of Net Position provides information about the nature and amount of resources and obligations at fiscal year-end, the **Statement of Revenues, Expenses and Changes in Net Position** present the results of the business activities and the amount by which the net position changed at the end of the fiscal year. Changes in net position are reported as an underlying event giving rise to the change that occurs, regardless of the timing of the related cash flows. These statements also provide certain information about the Authority's recovery of its capital costs.

The **Statement of Cash Flows** reports changes in cash and cash equivalents resulting from; operating activities; capital and related financing activities; and investing activities. This statement presents cash receipts and cash disbursements information, without consideration of the earnings event; when an obligation arises; or depreciation of capital assets.

The **Notes to Financial Statements** provide required disclosures and other information that are essential to a full understanding of the financial data provided in the financial statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The Supplementary Information includes the Statement of Revenues, Expenses and Changes in Net Position compared to the Authority's approved operating budget.

The financial statements were prepared from the books and records of the Authority and audited annually by an independent external audit firm.

Summary of Organization and Business

Changes made to the Pennsylvania Municipal Authorities Act in 2013 allows for the formation of stormwater authorities to address stormwater-related issues through planning, management, and implementation of stormwater controls. In response to these changes, the Stormwater Authority of the City of Chester was formed to regulate discharges to the Municipal Separate Storm Sewer System (MS4) to protect the City of Chester and Delaware County's water Bodies and groundwater and to safeguard the public health, safety, welfare and the environments. The Authority is a body created in October 2016 under the provisions of the PA Municipal Authority Act. The governing body of the Authority is a Board consisting of five members. The Board consists of a Chairperson, Vice-

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

Chairperson, Secretary and Treasurer and such other Board members as the Officers deem necessary. The Board appointed an Executive Manager who shall have general and active management responsibility of the affairs of the Authority and shall jointly with the Chairperson execute all contracts of the Authority.

Financial Analysis

The following is a condensed statement of net position of the Authority at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets	\$ 2,638,206	\$ 2,729,596
Capital assets	10,684,530	2,538,760
Construction in progress	12,541,923	9,732,684
Total Assets	<u>\$ 25,864,659</u>	<u>\$ 15,001,040</u>
Liabilities:		
Short-term liabilities	\$ 2,095,961	\$ 1,652,264
Long-term liabilities	20,481,893	10,553,093
Total Liabilities	<u>\$ 22,577,854</u>	<u>\$ 12,205,357</u>
Net Position:		
Invested in capital assets	\$ 1,360,300	\$ 742,130
Restricted	1,926,505	2,053,553
Total Net Position	<u>\$ 3,286,805</u>	<u>\$ 2,795,683</u>

For the year ended June 30, 2021, the Authority's current assets are comprised of; cash in banks of \$748,297; accounts receivable, net of doubtful accounts of \$1,854,146, and prepaid expenses of \$35,763. The capital assets during this same period are comprised of; infrastructure, buildings, equipment and vehicles net of accumulated depreciation of \$2,855,593 representing \$10,684,530. Two construction projects were completed during the year ended June 30, 2021, and associated costs were capitalized as additions to infrastructure. Depreciable infrastructure cost recovery reflected in the statement of revenues, expenses and changes in net position is based on recovery of costs over the next twenty-five years once placed in service. The amount added to infrastructure from construction in progress is \$7,697,881. Construction in progress costs represents three existing projects with additional capital spending during this fiscal year of \$9,377,989 totaling \$12,541,923 as of June 30, 2021. The Authority's short-term liabilities are comprised of; accrued costs related to construction and operating expenses of \$1,783,135. Short-term liabilities also include a remaining payment related to acquired real property deferred to be paid within the next twelve months of \$312,826. The long-term liabilities represent deferred income from acquiring the existing infrastructure from the City of Chester in the amount of \$463,681 amortized to income over the next twelve and a half years, and \$20,018,212 representing the long-term portion of Pennvest loans. Each Pennvest loan funds a separate construction project of which there were five projects in progress with two completed during this fiscal year. Under the terms of each 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, 2021 AND 2020**

The following is a condensed statement of revenues, expenses, and changes in net position for the Authority for the years ended June 30, 2021 and 2020:

	2021	2020
Operating Revenues:		
Storm drainage utility fees	\$ 3,496,100	\$ 3,375,240
Total Operating Revenues	3,496,100	3,375,240
Operating Expenses:		
Expenses except depreciation	2,417,092	2,806,986
Depreciation	454,617	165,413
Total Operating Expenses	2,871,709	2,972,399
Other Nonoperating Revenue		
Interest income	193	538
Rental income	10,050	-
Total Nonoperating Revenue	10,243	538
Other Nonoperating Expense		
Interest expense	(143,512)	(65,781)
Change in Net Position	491,122	337,598
Net Position - Beginning	2,795,683	2,458,085
Net Position - Ending	\$ 3,286,805	\$ 2,795,683

The Authority was created by the City of Chester establishing a Stormwater Authority to improve existing infrastructure and to transfer the City's infrastructure they maintained, to manage, maintaining, and improve the stormwater system.

During this fiscal year ended, two construction projects, funded from Pennvest loans, were completed. Three projects remain in progress. During this fiscal year, the Authority began servicing debt on two Pennvest loans associated to two completed projects.

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. The Authority is in the final stages of attaining a \$9.9 million dollar grant to continue capital improvements to infrastructure and redirect the flow of stormwater away from a waste water treatment plant.

The annual budget is developed initially by anticipating operating revenues based on historical trends of anticipated amounts collected. The budgeted expenses represent anticipated costs of operating expenses, capital expenditures and debt service. Actual costs include bad debt expense and depreciation which are considered noncash amounts and were considered part of the budget.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2021 AND 2020**

The Authority continues to invest in improvements to the existing infrastructure from available funding provided by Pennvest. Total funding presently provided by Pennvest is \$33,084,941. At the time of the release of these financial statements, the Authority has borrowed \$25,266,800 to continue the process of enabling 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, 2021 AND 2020

	<u>ASSETS</u>	
	2021	2020
Current Assets		
Cash and Cash Equivalents:		
BMT#6847 Tranche 5 (72818) Checking	\$ 5,821	\$ 233,961
BMT#5577 Tranche 4 (78023) Checking	5,188	279,216
BMT#5740 Tranche 3 (72817) Checking	11,873	159,163
BMT#8023 Tranche 2 (72701) Checking	22,322	14,586
BMT#8090 Tranche 1 (72811) Checking	3,618	339,272
BMTC #8451 (Operational)	219,595	204,175
Covenant CK #8895	3,710	40,459
Covenant MM #8779	101,025	53,872
BMTMM #4554 ICS	375,145	12,864
Total Cash and Cash Equivalents	748,297	1,337,568
Accounts Receivable:		
Accounts receivable	-	18,068
Accounts receivable - Minol	4,673,646	3,978,960
Allowance for bad debts	(2,819,500)	(2,605,000)
Total Accounts Receivable	1,854,146	1,392,028
Other Current Assets		
Prepaid Expenses		
Total Other Current Assets	35,763	-
Total Current Assets	2,638,206	2,729,596
Capital Assets- Fixed Assets		
Land	89,516	31,516
Buildings:		
3215 W 3rd St	348,975	-
29 E 5th St	175,432	173,537
31 E 5th St	725,110	724,410
410 Welsh St	163,633	142,533
Infrastructure	11,090,462	3,392,581
Vehicles, Equipment, Furniture	946,995	475,159
Accumulated depreciation	(2,855,593)	(2,400,976)
Net Fixed Assets	10,684,530	2,538,760
Capital Assets - Construction in Progress		
CIP- Tranche 1	-	3,014,455
CIP- Tranche 2	-	3,554,295
CIP- Tranche 3	2,727,742	1,511,244
CIP- Tranche 4	6,210,723	1,132,765
CIP- Tranche 5	3,603,458	519,925
Total Construction in Progress	12,541,923	9,732,684
Total Assets	\$ 25,864,659	\$ 15,001,040

See accompanying notes.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF NET POSITION
JUNE 30, 2021 AND 2020**

LIABILITIES AND NET POSITION

	2021	2020
Liabilities		
Current Liabilities:		
Property settlement payable	\$ 312,826	\$ -
Accrued expenses	1,742,319	1,527,285
Accrued interest	3,523	7,957
Accrued payroll and taxes	37,293	28,031
Term Loan - Covenant	-	88,991
Total Current Liabilities	2,095,961	1,652,264
Long-term Liabilities:		
Deferred Revenue - Infrastructure	463,681	501,661
Pennvest Loan A #72811- Tranche 1	4,227,076	3,546,906
Pennvest Loan B #72701- Tranche 2	3,818,885	3,240,752
Pennvest Loan C #72817- Tranche 3	2,634,185	1,451,417
Pennvest Loan D #78023- Tranche 4	6,001,603	1,335,072
Pennvest Loan E #72818- Tranche 5	3,336,463	477,285
Total Long-term Liabilities	20,481,893	10,553,093
Total Liabilities	22,577,854	12,205,357
Net Position		
Invested in capital assets	1,360,300	742,130
Restricted	1,926,505	2,053,553
Total Net Position	3,286,805	2,795,683
Total Liabilities and Net Position	\$ 25,864,659	\$ 15,001,040

See accompanying notes.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Certification fees	\$ 18,105	\$ 6,829
Stormwater revenue - in-house billing	700,831	450,058
Stormwater revenue - Minol	<u>2,777,164</u>	<u>2,918,353</u>
Total Operating Revenues	<u>3,496,100</u>	<u>3,375,240</u>
Operating Expenses		
Advertising and marketing	11,320	1,319
Bad debts expense	214,500	850,000
Bank charges and fees	1,416	622
Billing company fees	226,613	224,072
Charitable contributions	49,500	17,540
Depreciation expense	454,617	165,413
Dues and subscriptions	2,794	586
Gas	18,721	10,439
Insurance - liability, worker compensation	26,498	28,034
Insurance - medical, dental	177,447	158,163
Job supplies	2,989	1,420
Legal and professional services	282,194	246,583
Meals and entertainment	2,310	3,402
Office supplies and software	9,951	12,484
Outside services	35,683	8,861
Payroll processing fees	2,083	3,150
Payroll taxes - employer	84,706	70,473
Payroll wages and salary	1,067,020	832,081
Permits and inspections	1,000	55,305
Fringe benefits	93,591	57,237
Refund	2,799	1,259
Rent expense	9,100	-
Repairs and maintenance	51,518	195,300
SAC staff expenses	-	2,900
Supplies and materials	10,771	2,210
Taxes and licenses	6,218	90
Telephone	4,792	9,412
Travel	-	2,827
Utilities	20,759	10,444
Utilities-Delcora	799	773
Total Operating Expenses	<u>2,871,709</u>	<u>2,972,399</u>
Net Operating Income	<u>624,391</u>	<u>402,841</u>
Nonoperating Revenues		
Rental Income	10,050	-
Interest income	193	538
Nonoperating Expenses		
Interest expense	<u>(143,512)</u>	<u>(65,781)</u>
Net Nonoperating Revenues (Expenses)	<u>(133,269)</u>	<u>(65,243)</u>
Net Income	491,122	337,598
Net Position - Beginning of Fiscal Year	<u>2,795,683</u>	<u>2,458,085</u>
Net Position - End of Fiscal Year	<u>\$ 3,286,805</u>	<u>\$ 2,795,683</u>

See accompanying notes.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities		
Cash received from service fees	\$ 2,781,501	\$ 1,926,921
Cash paid to and on behalf of employees	(1,201,097)	(962,405)
Cash paid for administrative activities	(935,376)	(934,352)
	645,028	30,164
Cash Flows From Capital and Related Financing Activities		
Debt incurred	10,023,671	7,291,036
Debt retired	(56,891)	-
Interest paid	(147,946)	(49,800)
Capital expenditures	(780,090)	(1,353,149)
Construction in progress	(10,194,295)	(6,260,451)
	(1,155,551)	(372,364)
Cash Flows From Non-Capital and Related Financing Activities		
Debt retired	(88,991)	(148,463)
Rental income	10,050	-
Interest paid	-	(10,039)
	(78,941)	(158,502)
Cash Flows From Investing Activities		
Interest income	193	538
	(589,271)	(500,164)
Net Decrease in Cash and Cash Equivalents		
	(589,271)	(500,164)
Cash and Cash Equivalents, Beginning	1,337,568	1,837,732
Cash and Cash Equivalents, Ending	\$ 748,297	\$ 1,337,568
Reconciliation of operating income to cash flows provided by operating activities		
Operating income	\$ 624,391	\$ 402,841
Adjustments to reconcile operating income to cash flows provided by operating activities;		
Depreciation expense	454,617	165,413
Bad debt expense	214,500	850,000
Changes in:		
Accounts receivable	(676,618)	(1,410,338)
Prepaid expenses	(35,763)	-
Escrow for permits	-	47,500
Accrued expenses	101,881	12,729
Deferred revenue	(37,980)	(37,981)
	\$ 645,028	\$ 30,164

See accompanying notes.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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 repair and improve the existing infrastructure, and design and develop an infrastructure separate from the existing waste water infrastructure, which the Authority is presently part of. The Authority took legal possession of the stormwater infrastructure in September 2018. Work began on improving the infrastructure prior to receiving legal ownership from grants and loans. Funding for repairs and improvements to the infrastructure presently consists of five active projects in place as of June 30, 2021.

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

The Authority's management prepares the Authority's operating budget. 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. The budget lapses at the end of each year.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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, 2021, 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 increase to the allowance of \$214,500 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, and equipment, 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 \$1,500 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 to 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.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

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

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. \$34,957 and \$0 has been accrued for compensated absences and recorded as Accrued Expenses at June 30, 2021 and 2020, respectively.

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. 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, 2021.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 2: 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, 2021, 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.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	Balance July 1, 2020	Increases	Decreases	Balance June 30, 2021
Capital assets not being depreciated:				
Land	\$ 31,516	\$ 58,000	\$ -	\$ 89,516
Construction-in-progress	9,732,684	9,377,989	(6,568,750)	12,541,923
Capital Assets Not Being Depreciated	<u>9,764,200</u>	<u>9,435,989</u>	<u>(6,568,750)</u>	<u>12,631,439</u>
Capital assets being depreciated:				
Buildings	1,040,480	372,670	-	1,413,150
Infrastructure	3,392,581	7,697,881	-	11,090,462
Vehicles, Equipment and Furniture	475,159	471,836	-	946,995
Capital Assets Being Depreciated	<u>4,908,220</u>	<u>8,542,387</u>	<u>-</u>	<u>13,450,607</u>
Less accumulated depreciation	<u>(2,400,976)</u>	<u>(454,617)</u>	<u>-</u>	<u>(2,855,593)</u>
Net Capital Assets Being Depreciated	<u>2,507,244</u>	<u>8,087,770</u>	<u>-</u>	<u>10,595,014</u>
Net Capital Assets	<u>\$ 12,271,444</u>	<u>\$ 17,523,759</u>	<u>\$ (6,568,750)</u>	<u>\$ 23,226,453</u>

NOTE 4: DEBT

The Authority had a term loan with Covenant Bank bearing an interest at 3.75% which was a line of credit and converted to a term loan during September 2018. The loan was paid off during the year ended June 30, 2021. There are five Pennvest loans (Pennsylvania Infrastructure Investment Authority) bearing interest at a rate of 1.0%, which represent 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 continues to utilize the loan proceeds. The loan amounts provided to the Authority from Pennvest are listed below. Each project is individually accounted for.

The terms of each loan from Pennvest provide the Authority to pay interest only at 1% rate for up to 36 months from the amortization date, adjusted, as the Authority continues borrowing from approved loan amounts. Principal payments began during 2021 on one of the loans. The loan will be amortized over twenty years.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 4: DEBT (continued)

	Balance July 1, 2020	Borrowings	Repayments	Balance June 30, 2021
Covenant - term loan	\$ 88,991	\$ -	\$ (88,991)	\$ -
Pennvest - \$4,888,205 - Tranche #1	3,546,906	680,170	-	4,227,076
Pennvest - \$4,822,315 - Tranche #2	3,240,752	635,024	(56,891)	3,818,885
Pennvest - \$3,447,464 - Tranche #3	1,451,417	1,182,768	-	2,634,185
Pennvest - \$9,980,156 - Tranche #4	1,335,072	4,666,531	-	6,001,603
Pennvest - \$9,946,801 - Tranche #5	477,285	2,859,178	-	3,336,463
	<u>\$ 10,140,423</u>	<u>\$ 10,023,671</u>	<u>\$ (145,882)</u>	<u>\$ 20,018,212</u>

The principal and interest payments on the individual loans for the future are as follows. The Covenant loan was paid off during the fiscal year ended June 30, 2021. Each Pennvest loan represents a separate project. The Authority is working towards improving the management of water runoff issues that have existed for many years. Each Pennvest loan, from the closing date, has a deferral of principal payments of up to 36 months with interest only payments at 1% during this time. Future principal and interest payments are based on amounts borrowed on each project up through the end of March 2022. In addition to the \$25,209,889 of existing debt service itemized below, an additional \$7,818,161 of approved loan proceeds are available to the Authority. As each project progresses additional borrowings will increase the future debt service listed below. Pennvest future debt service, listed below, exceeds present liability balances presented on the Statement of Net Position, because of continued borrowings against the loans, subsequent to the end of this fiscal year end of June 30, 2021. 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 9, for additional information.

Future principal payments are as follows:

For the Years Ending June 30:	Pennvest #1	Pennvest #2	Pennvest #3	Pennvest #4	Pennvest #5	Total
2022	\$ 170,899	\$ 180,648	\$ -	\$ -	\$ -	\$ 351,547
2023	229,651	231,088	109,595	316,804	160,668	1,047,806
2024	231,957	233,409	165,769	479,182	485,228	1,595,545
2025	234,288	235,753	167,434	483,995	490,103	1,611,573
2026	236,642	238,123	169,116	488,858	495,027	1,627,766
Thereafter	3,184,165	2,719,888	2,022,271	5,926,824	5,122,504	18,975,652
	<u>\$ 4,287,602</u>	<u>\$ 3,838,909</u>	<u>\$ 2,634,185</u>	<u>\$ 7,695,663</u>	<u>\$ 6,753,530</u>	<u>\$ 25,209,889</u>

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 4: DEBT (CONTINUED)

Future interest payments are as follows:

For the Years Ending June 30:	Pennvest #1	Pennvest #2	Pennvest #3	Pennvest #4	Pennvest #5	Total
2022	\$ 42,007	\$ 37,191	\$ 28,288	\$ 70,063	\$ 54,279	\$ 231,828
2023	40,116	35,042	27,451	76,034	67,335	245,978
2024	37,809	32,721	25,816	71,596	63,709	231,651
2025	38,346	30,677	24,164	66,782	58,834	218,803
2026	33,125	28,008	22,495	61,920	54,911	200,459
Thereafter	205,566	144,976	133,529	320,191	258,247	1,062,509
	<u>\$ 396,969</u>	<u>\$ 308,615</u>	<u>\$ 261,743</u>	<u>\$ 666,586</u>	<u>\$ 557,315</u>	<u>\$ 2,191,228</u>

NOTE 5: 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 6: COMMITMENTS

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 was for a period of 36 months, expiring in November 2020, at which point the agreement continued on a month-to-month basis.

As of June 30, 2021, the Authority has agreements in place with various contractors to complete the open construction in progress projects. The balance to finish, including retainage, on these agreements prior to any subsequent change orders was approximately \$7,800,000.

NOTE 7: CONTINGENCIES – LEGAL PROCEEDINGS

The Authority is subject to various disputes and legal proceedings, including billing disputes, 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.

NOTE 8: RISKS AND UNCERTAINTIES

The 2019 novel coronavirus (or "COVID-19") has adversely affected, and may continue to adversely affect, economic activity globally, nationally and locally. These economic and market conditions and other effects of the COVID-19 outbreak may continue to cause volatility. The full extent of any adverse impact of the COVID-19 outbreak on the Authority's financial statements cannot be predicted at this time.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2021 AND 2020

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through June 2, 2022, which is the date the financial statements were available to be issued.

Collection Efforts

During July 2021, The Authority engaged legal representation (collection firm) to communicate with property owners with delinquent accounts related to their past due stormwater fee assessments. The Collection firm has begun contacting property owners and collecting on past due accounts. Challenges by property owners have failed to deter the Authority's right to assess. The Authority has prevailed in challenges up through the date noted in subsequent events.

Additional Projects and Financing

The Authority is expecting to receive a \$9,900,000 grant during 2022, to continue to improve infrastructure and redirect the flow of stormwater away from a waste water treatment plant.

The Pennvest funding for existing and subsequent projects to these financial statements are as follows through the date of the March 2022:

Loan #72811 -Tranche #1 – Origination date - December 2018, \$4,888,205 was approved; \$4,287,602 has been drawn against this loan. Principal payments begin in October 2021. The loan matures in September 2041.

Loan #72701 Tranche #2 - Origination date - November 2018, \$4,822,315 was approved; \$3,838,909 has been drawn against this loan. Principal payments began in April 2021. The loan matures in March 2041.

Loan #72817 Tranche #3 - Origination date - May 2019, \$3,447,464 was approved; \$2,634,185 has been drawn against this loan. Principal payments begin in November 2021. The loan matures in October 2041.

Loan #78023 Tranche #4 – Origination date - February 2020, \$9,980,156 was approved; \$7,695,663 has been drawn against this loan. Principal payments begin in November 2022. The loan matures in October 2042.

Loan #72818 Tranche #5 – Origination date – May 2020, \$9,946,801 was approved; \$6,753,530 has been drawn against this loan. Principal payments begin in March 2023. The loan matures in February 2043.

As of the end of March 2021, five projects have approved funding through Pennvest totaling \$33,084,940. From available funding, \$25,266,780 has been borrowed and invested in improvements of the infrastructure and supporting assets.

The terms of each loan from Pennvest allow the Authority to pay interest only at a 1% rate for up to 36 months. Afterwards, principal and interest payments will begin on the existing loans starting in 2021 and 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, 2021

	<u>Actual</u>	<u>Budget</u>	<u>Variance Favorable (Unfavorable)</u>
Operating Revenues			
Certification fees	\$ 18,105	\$ 17,000	\$ 1,105
Stormwater revenue - in-house billing	700,831	830,000	(129,169)
Stormwater revenue - Minol	2,777,164	2,595,955	181,209
Total Operating Revenues	<u>3,496,100</u>	<u>3,442,955</u>	<u>53,145</u>
Operating Expenses			
Advertising and marketing	11,320	7,800	(3,520)
Bad debts allowance	214,500	475,000	260,500
Bank charges and fees	1,416	1,430	14
Billing company fees	226,613	226,650	37
Charitable contributions	49,500	50,000	500
Depreciation expense	454,617	430,000	(24,617)
Dues and subscriptions	2,794	2,793	(1)
Gas	18,721	19,000	279
Insurance - liability, worker compensation	26,498	39,000	12,502
Insurance - medical, dental	177,447	195,000	17,553
Job Supplies	2,989	6,500	3,511
Legal and professional services	282,194	265,000	(17,194)
Meals and entertainment	2,310	2,350	40
Office supplies and software	9,951	8,500	(1,451)
Outside services	35,683	19,500	(16,183)
Payroll processing fees	2,083	3,000	917
Payroll taxes - employer	84,706	92,000	7,294
Payroll wages and salary	1,067,020	1,122,000	54,980
Fringe benefits	93,591	55,000	(38,591)
Permits and inspections	1,000	1,000	-
Refund	2,799	2,500	(299)
Repairs and maintenance	51,518	57,000	5,482
Rent expense	9,100	5,600	(3,500)
Supplies and materials	10,771	10,200	(571)
Taxes and licenses	6,218	370	(5,848)
Telephone	4,792	5,000	208
Utilities	20,759	20,000	(759)
Utilities-Delcora	799	800	1
Total Operating Expenses	<u>2,871,709</u>	<u>3,122,993</u>	<u>251,284</u>
Net Operating Income	<u>624,391</u>	<u>319,962</u>	<u>304,429</u>
Nonoperating Revenues			
Interest income	193	-	193
Rental income	10,050	10,000	50
Nonoperating Expenses			
Interest expense	143,512	200,000	56,488
Net Nonoperating Revenue (Expenses)	<u>(133,269)</u>	<u>(200,000)</u>	<u>66,731</u>
Net Income	491,122	<u>\$ 119,962</u>	<u>\$ 371,160</u>
Net Position - Beginning of Fiscal Year	<u>2,795,683</u>		
Net Position - End of Fiscal Year	<u>\$ 3,286,805</u>		