

**STORMWATER AUTHORITY OF THE
CITY OF CHESTER**

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

STORMWATER AUTHORITY OF THE CITY OF CHESTER
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JUNE 30, 2020 AND 2019

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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 the Stormwater Authority of the City of Chester ("the Authority"), as of and for the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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 18 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 8, 2021

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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 years ended June 30, 2020 and 2019. 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 \$337,598 for the year ended June 30, 2020.

The Authority's operating revenues increased \$513,270 or 18% over the prior year, while operating and general and administrative expenses increased \$1,169,417 or 64% 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 having successfully defending itself in the courts against an attempted injunction to cease collection of fees, and has engaged the services of a collection agency to pursue outstanding amounts owed. The collection firm has begun collections process on approximately 3,800 parcels that haven't been paid since the authority's inception.

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 States 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, 2020 AND 2019**

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 30, 2020 and 2019.

	2020	2019
Assets:		
Current assets	\$ 2,729,596	\$ 2,669,422
Capital assets	2,538,760	1,495,808
Construction in progress	9,732,684	1,959,534
Other assets	-	47,500
Total Assets	\$ 15,001,040	\$ 6,172,264
Liabilities:		
Short-term liabilities	\$ 1,652,264	\$ 414,142
Long-term liabilities	10,553,093	3,300,037
Total Liabilities	\$ 12,205,357	\$ 3,714,179
Net Position:		
Invested in capital assets	\$ 742,130	\$ 1,464,292
Restricted	2,053,553	993,793
Total Net Position	\$ 2,795,683	\$ 2,458,085

The Authority's current assets are comprised of cash in banks of \$1,337,568 and accounts receivable, net of allowance for doubtful accounts, in the amount of \$1,392,028. The Authority's capital assets are comprised of infrastructure, buildings, equipment and vehicles net of accumulated depreciation of - \$2,400,976, totaling capital assets of \$2,538,760. The Authority's short-term liabilities are comprised of accrued expenses of \$1,563,273 and a short term bank loan with a balance owed at the end of the fiscal year in the amount of \$88,991. The long-term liabilities represent deferred income from acquiring the infrastructure from the City of Chester in the amount of \$501,661 and \$10,051,432 of Pennvest loans borrowed from \$33,084,941 of approved and separate Pennvest loans. These loans are the funding source for five separate construction projects. There are five active Pennvest loans in place as of the end of the fiscal year. 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, 2020 AND 2019**

The following is a condensed statement of revenues, expenses, and changes in net position for the Authority on June 30th, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Storm drainage utility fees	\$ 3,375,240	\$ 2,855,470
Grants	-	6,500
Total Operating Revenues	<u>3,375,240</u>	<u>2,861,970</u>
Operating Expenses:		
Expenses except depreciation	2,806,986	1,689,283
Depreciation	165,413	113,699
Total Operating Expenses	<u>2,972,399</u>	<u>1,802,982</u>
Other Nonoperating Revenue		
Interest income	<u>538</u>	<u>2,131</u>
Other Nonoperating expense		
Interest expense	<u>65,781</u>	<u>20,728</u>
Change in Net Position	337,598	1,040,391
Net Position - Beginning	<u>2,458,085</u>	<u>1,417,694</u>
Net Position - Ending	<u>\$ 2,795,683</u>	<u>\$ 2,458,085</u>

This was the third 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 added two additional construction projects to bring to a total of five tranches, or infrastructure upgrade projects funded by individual Pennvest infrastructure loans. Initially, a grant received during 2018 from Pennvest to provide resources for 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 along with anticipated expenses related to depreciation and allowance for doubtful accounts receivable. Actual costs include accruals for Bad debt allowance and Depreciation which are considered noncash amounts and were considered part of the budget.

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.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current Assets		
Cash and Cash Equivalents:		
BMT#6847 Tranche 5 (72818) Checking	\$ 233,961	\$ -
BMT#5577 Tranche 4 (78023) Checking	279,216	-
BMT#5740 Tranche 3 (72817) Checking	159,163	54,643
BMT#8023 Tranche 2 (72701) Checking	14,586	133,106
BMT#8090 Tranche 1 (72811) Checking	339,272	959,594
BMT #8451 (Operational)	204,175	177,224
BMTMM #4767	-	242,534
Covenant CK #8895	40,459	19,966
Covenant MM #8779	53,872	250,665
BMTMM #4554 ICS	12,864	-
Total Cash and Cash Equivalents	1,337,568	1,837,732
Accounts Receivable:		
Accounts receivable	18,068	18,638
Accounts receivable - Minol	3,978,960	2,568,052
Allowance for bad debts	(2,605,000)	(1,755,000)
Total Accounts Receivable	1,392,028	831,690
Total Current Assets	2,729,596	2,669,422
Capital Assets- Fixed Assets		
Land	31,516	31,516
Buildings:		
29 E 5th St	173,537	160,022
31 E 5th St	724,410	520,062
410 Welsh St	142,533	106,583
Infrastructure	3,392,581	2,696,290
Vehicles, Equipment, Furniture	475,159	223,404
Accumulated depreciation	(2,400,976)	(2,242,069)
Net Fixed Assets	2,538,760	1,495,808
Capital Assets - Construction in Progress		
Construction in Progress	-	33,482
CIP- grant funding	-	662,809
CIP- Tranche 1	3,014,455	586,577
CIP- Tranche 2	3,554,295	537,507
CIP- Tranche 3	1,511,244	139,159
CIP- Tranche 4	1,132,765	-
CIP- Tranche 5	519,925	-
Total Construction in Progress	9,732,684	1,959,534
Escrow for Permits	-	47,500
Total Other Assets	-	47,500
Total Assets	\$ 15,001,040	\$ 6,172,264

See notes to financial statements.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019**

LIABILITIES AND NET POSITION

	2020	2019
Liabilities		
Current Liabilities:		
Accrued expenses	\$ 1,527,285	\$ 144,028
Accrued interest	7,957	2,015
Accrued payroll and taxes	28,031	30,645
Term Loan - Covenant	88,991	237,454
Total Current Liabilities	1,652,264	414,142
Long-term Liabilities:		
Deferred Revenue - Infrastructure	501,661	539,642
Pennvest Loan A #72811- Tranche 1	3,546,906	1,724,894
Pennvest Loan B #72701- Tranche 2	3,240,752	814,981
Pennvest Loan C #72817- Tranche 3	1,451,417	220,520
Pennvest Loan D #78023- Tranche 4	1,335,072	-
Pennvest Loan E #72818- Tranche 5	477,285	-
Total Long-term Liabilities	10,553,093	3,300,037
Total Liabilities	12,205,357	3,714,179
Net Position		
Invested in capital assets	742,130	1,464,292
Restricted	2,053,553	993,793
Total Net Position	2,795,683	2,458,085
Total Liabilities and Net Position	\$ 15,001,040	\$ 6,172,264

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues		
Certification fees	\$ 6,829	\$ 3,650
Grants	-	6,500
Stormwater revenue - in-house billing	450,058	630,546
Stormwater revenue - Minol	2,918,353	2,221,274
Total Operating Revenues	<u>3,375,240</u>	<u>2,861,970</u>
Operating Expenses		
Advertising and marketing	1,319	5,334
Bad debts expense	850,000	475,000
Bank charges and fees	622	762
Billing company fees	224,072	224,183
Charitable contributions	17,540	30,500
Depreciation expense	165,413	113,699
Dues and subscriptions	586	3,646
Gas	10,439	4,101
Insurance - liability, worker compensation	28,034	23,048
Insurance - medical, dental	158,163	107,813
Job supplies	1,420	2,120
Legal and professional services	246,583	149,575
Meals and entertainment	3,402	3,284
Office supplies and software	12,484	14,562
Outside services	8,861	-
Payroll processing fees	3,150	2,793
Payroll taxes - employer	70,473	46,749
Payroll wages and salary	832,081	542,472
Permits and inspections	55,305	-
Fringe benefits	57,237	13,370
Refund	1,259	-
Rent expense	-	9,282
Repairs and maintenance	195,300	17,969
SAC staff expenses	2,900	-
Supplies and materials	2,210	3,742
Taxes and licenses	90	778
Telephone	9,412	5,104
Travel	2,827	556
Utilities	10,444	2,438
Utilities-Delcora	773	102
Total Operating Expenses	<u>2,972,399</u>	<u>1,802,982</u>
Net Operating Income	<u>402,841</u>	<u>1,058,988</u>
Nonoperating Revenues		
Interest income	538	2,131
Nonoperating Expenses		
Interest expense	65,781	20,728
Net Nonoperating Revenues (Expenses)	<u>(65,243)</u>	<u>(18,597)</u>
Net Income	337,598	1,040,391
Net Position - Beginning of Fiscal Year	<u>2,458,085</u>	<u>1,417,694</u>
Net Position - End of Fiscal Year	<u>\$ 2,795,683</u>	<u>\$ 2,458,085</u>

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities		
Cash received from service fees and grants	\$ 1,926,921	\$ 2,116,906
Cash paid to and on behalf of employees	(962,405)	(700,022)
Cash paid for administrative activities	(934,352)	(484,945)
	30,164	931,939
Cash Flows From Capital and Related Financing Activities		
Debt incurred	7,291,036	2,760,395
Capital expenditures	(1,353,149)	(878,850)
Construction in progress	(6,260,451)	(1,350,496)
	(322,564)	531,049
Cash Flows From Non-Capital and Related Financing Activities		
Debt retired	(148,463)	(62,500)
Interest paid	(59,839)	(19,196)
	(208,302)	(81,696)
Cash Flows From Investing Activities		
Interest income	538	2,131
	(500,164)	1,383,423
Net Increase (Decrease) in Cash and Cash Equivalents		
	1,837,732	454,309
Cash and Cash Equivalents, Beginning		
	\$ 1,337,568	\$ 1,837,732
Reconciliation of operating income to cash flows provided by operating activities		
Operating income	\$ 402,841	\$ 1,058,988
Adjustments to reconcile operating income to cash flows provided by operating activities:		
Depreciation expense	165,413	113,699
Bad debt expense	850,000	475,000
Changes in:		
Accounts receivable	(1,410,338)	(714,996)
Escrow for permits	47,500	-
Accounts payable and accrued expenses	12,729	29,316
Deferred revenue	(37,981)	(30,068)
	\$ 30,164	\$ 931,939

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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, design and develop an infrastructure to separate from the existing waste water infrastructure, which presently the Authority is 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 has five active projects in place during the June 2020 fiscal year end.

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, 2020 AND 2019**

**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, 2020, 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 \$850,000 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 \$1,500 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 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, 2020 AND 2019

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, 2020.

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. The Authority has not determined the effect of this pronouncement.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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, 2020, 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 ninety percent of the Authority's depository accounts are in one Bank.

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital assets not being depreciated:				
Land	\$ 31,516	\$ -	\$ -	\$ 31,516
Construction-in-progress	1,959,534	8,469,441	(696,291)	9,732,684
Capital Assets Not Being Depreciated	<u>1,991,050</u>	<u>8,469,441</u>	<u>(696,291)</u>	<u>9,764,200</u>
Capital assets being depreciated:				
Building	786,667	290,991	(37,178)	1,040,480
Infrastructure	2,696,290	696,291	-	3,392,581
Equipment and furnishings	223,404	251,755	-	475,159
Capital Assets Being Depreciated	3,706,361	1,239,037	(37,178)	4,908,220
Less accumulated depreciation	<u>(2,242,069)</u>	<u>(165,413)</u>	<u>6,506</u>	<u>(2,400,976)</u>
Net Capital Assets Being Depreciated	<u>1,464,292</u>	<u>1,073,624</u>	<u>(30,672)</u>	<u>2,507,244</u>
Net Capital Assets	<u>\$ 3,455,342</u>			<u>\$ 12,271,444</u>

NOTE 4: DEBT

The Authority maintains 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 Authority has begun paying down this loan at an accelerated rate. There are five Pennvest loans (Pennsylvania Infrastructure Investment Authority) bearing interest at a rate of 1.0%, which 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 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 provides 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 will begin on three existing loans during fiscal year 2022 and will be amortized over 20 years.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 4: DEBT (continued)

	Balance July 1, 2019	Borrowings	Repayments	Balance June 30, 2020
Covenant - term loan	\$ 237,454	\$ -	\$ (148,463)	\$ 88,991
Pennvest - \$4,888,205 - Tranche #1	1,724,894	1,822,012	-	3,546,906
Pennvest - \$4,822,315 - Tranche #2	814,981	2,425,771	-	3,240,752
Pennvest - \$3,447,464 - Tranche #3	220,520	1,230,897	-	1,451,417
Pennvest - \$1,335,072 - Tranche #4	-	1,335,072	-	1,335,072
Pennvest - \$477,285 - Tranche #5	-	477,285	-	477,285
	<u>\$ 2,997,849</u>	<u>\$ 7,291,037</u>	<u>\$ (148,463)</u>	<u>\$ 10,140,423</u>

The principal payments on the individual debts for the future are as follows. The Covenant loan was paid off in the next fiscal year ended June 30, 2021. Each Pennvest loan represents a separate project the Authority is working towards improving the management of water runoff matters that has 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 payments are based on amounts presently borrowed on each project up through the end of May 2021. In addition to the \$10,140,423 of debt service itemized below, compared to the approved loan amounts, an additional \$13,009,839 of approved loan proceeds are available to the Authority as each project progresses, which will increase the future debt service listed below. 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.

For the Years Ending June 30:	Covenant	Pennvest #1	Pennvest #2	Pennvest #3	Pennvest #4	Pennvest #5	Total
2021	\$ 88,991	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,991
2022	-	171,192	209,994	109,596	-	-	490,782
2023	-	230,261	231,290	165,769	328,131	172,072	1,127,523
2024	-	232,575	233,614	167,434	496,314	305,213	1,435,150
2025	-	234,911	235,960	169,116	501,300	-	1,141,287
Thereafter	-	2,677,967	2,329,894	839,502	9,327	-	5,856,690
	<u>\$ 88,991</u>	<u>\$ 3,546,906</u>	<u>\$ 3,240,752</u>	<u>\$ 1,451,417</u>	<u>\$ 1,335,072</u>	<u>\$ 477,285</u>	<u>\$ 10,140,423</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.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

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

As of June 30, 2020, 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 \$13,000,000.

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 extent of any adverse impact of the COVID-19 outbreak on the Authority's account balances and the amounts reported in the 2020 Statements of Revenues, Expenses and Changes in Net Position cannot be predicted at this time.

NOTE 9: SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through October 8, 2021, 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

The Authority engaged legal representation (collection firm) to communicate with property owners with delinquent accounts related to their past due stormwater fee assessments. Trials by property owners have failed challenging the Authority's right to assess. The Authority has prevailed in all trials up through the date noted in subsequent events.

Capital Spending, Improvement Projects and Financing

Capital expenditures related to five existing projects funded with Pennvest loans, subsequent to the end of this fiscal year through June 2021, increased \$9,544,903. Additional capital expenditures associated to the same period, for buildings, equipment and vehicles increased \$809,982. The existing projects as of June 30, 2020 are being funded through Pennvest (Pennsylvania Infrastructure Investment Authority).

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

NOTE 9: SUBSEQUENT EVENTS (continued)

The Pennvest funding for existing and subsequent projects to these financial statements are as follows through the end of August 2021:

Loan #72811 Tranche #1 – Origination date – December 2018, \$4,888,205 was approved; \$4,227,076 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; \$3,875,776 has been drawn against this loan. Principal payments began in July 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; \$6,001,602 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; \$3,336,463 has been drawn against this loan. Principal payments begin in March 2023. The loan matures in February 2043.

As of the end of August 2021, five projects have approved funding through Pennvest totaling \$33,084,940. From available funding, \$20,075,102 has been borrowed and invested in improvements of the infrastructure and supporting assets.

Additional projects continue to be submitted to Pennvest to request funding. Presently under review with Pennvest is a request for a grant in the amount in excess of \$9,900,000 for another stormwater project.

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 2022 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, 2020

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Certification fees	\$ 6,829	\$ 4,000	\$ 2,829
Grants	-	6,500	(6,500)
Stormwater revenue - in-house billing	450,058	633,971	(183,913)
Stormwater revenue - Minol	2,918,353	2,222,274	696,079
Total Operating Revenues	<u>3,375,240</u>	<u>2,866,745</u>	<u>508,495</u>
Operating Expenses			
Advertising and marketing	1,319	6,934	5,615
Bad debts allowance	850,000	1,200,000	350,000
Bank charges and fees	622	23,087	22,465
Billing company fees	224,072	123,300	(100,772)
Charitable contributions	17,540	30,500	12,960
Depreciation expense	165,413	73,150	(92,263)
Dues and subscriptions	586	2,548	1,962
Gas	10,439	8,000	(2,439)
Insurance - liability, worker compensation	28,034	38,446	10,412
Insurance - medical, dental	158,163	117,610	(40,553)
Job Supplies	1,420	2,150	730
Legal and professional services	246,583	99,319	(147,264)
Meals and entertainment	3,402	3,500	98
Office supplies and software	12,484	76,000	63,516
Outside services	8,861	2,000	(6,861)
Payroll processing fees	3,150	1,263	(1,887)
Payroll taxes - employer	70,473	101,920	31,447
Payroll wages and salary	832,081	784,000	(48,081)
Fringe benefits	57,237	16,677	(40,560)
Permits and inspections	55,305	-	(55,305)
Petty cash	-	280	280
Refund	1,259	-	(1,259)
Repairs and maintenance	195,300	108,000	(87,300)
SAC staff expenses	2,900	-	(2,900)
Supplies and materials	2,210	6,000	3,790
Taxes and licenses	90	3,000	2,910
Telephone	9,412	5,059	(4,353)
Travel	2,827	2,000	(827)
Utilities	10,444	15,000	4,556
Utilities-Delcora	773	2,000	1,227
Total Operating Expenses	<u>2,972,399</u>	<u>2,851,743</u>	<u>(120,656)</u>
Net Operating Income	<u>402,841</u>	<u>15,002</u>	<u>387,839</u>
Nonoperating Revenues			
Interest income	538	-	538
Nonoperating Expenses			
Interest expense	65,781	-	(65,781)
Net Nonoperating Revenue (Expenses)	<u>(65,243)</u>	<u>-</u>	<u>(65,243)</u>
Net Income	337,598	<u>\$ 15,002</u>	<u>\$ 322,596</u>
Net Position - Beginning of Fiscal Year	<u>2,458,085</u>		
Net Position - End of Fiscal Year	<u>\$ 2,795,683</u>		