

**STORMWATER AUTHORITY OF THE
CITY OF CHESTER**

FINANCIAL STATEMENTS

JUNE 30, 2018

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
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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 year ended June 30, 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 audit. We conducted our audit 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, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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
January 31, 2020

Stormwater Authority of the City of Chester Management Discussion and Analysis

As management of the Stormwater Authority of the City of Chester, Pennsylvania ("the Authority"), we are providing this narrative overview and analysis of the financial activities of the Authority for the year ended June 30, 2018. Readers should consider the information presented in the Authority's basic financial statement in addition to that presented in this analysis.

Background

The Stormwater Authority of the City of Chester ("the Authority") was formed under the PA Municipal Authorities Act for the purpose of continuing the stormwater planning, management, and implementation of improvements to the existing infrastructure received from the City of Chester, under Ordinance No. 17, 2016 during October 2016. The Authority was incorporated within the Commonwealth of Pennsylvania on October 31, 2016. The purpose of the Authority is to plan, fund, construct, operate, and maintain drainage and flood control facilities within the Authority's boundaries.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The basic financial statements include four components: 1) statement of net position; 2) statement of revenues, expenses, and change in net position; 3) statement of cash flows; and 4) notes to the financial statements.

Statement of Net Position: The Statement of Net Position presents information on the Authority's assets and liabilities, with the difference between the two reported as net position.

Statement of Revenues, Expenses, and Change in Net Position: The Statement of Revenues, Expenses, and Change in Net Position presents information showing how the Authority's net position changed during the period. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of related cash flows.

Statement of Cash Flows: The Statement of Cash Flows presents information reflecting the source and use of funds flowing through the Authority's bank accounts during the period. The measure of cash flows is measured by generally three categories; Operating, Investing and Financing activity.

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.

Stormwater Authority of the City of Chester Management Discussion and Analysis

Financial Analysis

The following is a condensed statement of net position of the Authority on June 30, 2018:

Assets:	
Current assets	\$ 1,046,003
Capital assets	94,335
Construction in progress	609,039
Total Assets	\$ 1,749,377
Liabilities:	
Short-term liabilities	\$ 331,683
Long-term liabilities	-
Total Liabilities	\$ 331,683
Net Position:	
Invested in capital assets	\$ 703,374
Restricted	714,320
Total Net Position	\$ 1,417,694

The Authority's current assets are comprised of cash in banks of \$346,448 and accounts receivable of \$699,555. The Authority's capital assets are comprised of building, equipment and furniture, net of depreciation of \$94,335. Additional investment in construction in progress represents \$609,039 for drainage improvement projects. The office building of \$90,643 was not yet placed in service as of the date of these financial statements. The Authority's liabilities are comprised of accrued expenses of \$31,729 and a bank line of credit of \$299,954.

The following is a condensed statement of revenues, expenses, and change in net position for the Authority for the year ended June 30, 2018.

Operating Revenues:	
Storm drainage utility fees	\$ 3,007,901
Grants	941,500
Total Operating Revenues	3,949,401
Operating Expenses:	
Expenses except depreciation	2,148,424
Depreciation	983
Total Operating Expenses	2,149,407
Other Nonoperating Revenue	
Interest income	15
Other Nonoperating expense	
Interest expense	23,483
Change in Net Position	1,776,526
Net Position Beginning	(358,832)
Net Position - Ending	\$ 1,417,694

Stormwater Authority of the City of Chester Management Discussion and Analysis

The June 30, 2018 year end was the first full year of operation for the Authority. In the prior fiscal year, the City of Chester established the Authority and it became incorporated on October 31, 2016. The City of Chester transferred the stormwater infrastructure it maintained, along with the responsibility of managing, maintaining and improving the system to the newly established entity. The Stormwater Authority of the City of Chester during September 2018 took responsibility of the infrastructure from the City. During the first fiscal year ended June 30, 2017, a grant of one million dollars was provided from Pennvest for developing long term plans and projects. During the Authority's second fiscal year ended June 30, 2018, \$904,178 was received as the remainder of the balance of the one-million-dollar grant from Pennvest. These funds were used to fund \$609,039 of engineering and contractor costs associated to developing a design and plan to upgrade the existing infrastructure, community outreach and administrative costs. In December 2017, the Authority engaged the services of a billing company to be responsible for invoicing residents and businesses, along with related collection of payments. This additional source of funds is anticipated to cover growing administrative costs as the Authority expands and provide funding for debt service to begin in the next couple of years.

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.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS

Current Assets

Cash and Cash Equivalents:	
BMTC #8451 (Operational)	\$ 158,030
BMTCS #9303	226,156
Covenant CK #8895	70,123
Total Cash and Cash Equivalents	454,309
Accounts Receivable:	
Accounts receivable	1,151
Accounts receivable - Minol	1,870,543
Allowance for bad debts	(1,280,000)
Total Accounts Receivable	591,694
Total Current Assets	1,046,003

Capital Assets

Land	3,673
Building	86,970
Equipment and furniture	5,483
Accumulated depreciation	(1,791)
Total Capital Assets	94,335

Construction in Progress

609,039

Total Assets

\$ 1,749,377

LIABILITIES AND NET POSITION

Liabilities

Current Liabilities:	
Accrued expenses	\$ 13,267
Accrued interest	483
Accrued payroll and taxes	17,470
Advances	509
LoFC - Covenant	299,954
Total Current Liabilities	331,683

Net Position

Invested in capital assets	703,374
Restricted	714,320
Total Net Position	1,417,694
Total Liabilities and Net Position	\$ 1,749,377

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENT OF REVENUES AND EXPENSES - ACTUAL VS. BUDGET
AND CHANGE IN NET POSITION
YEAR ENDED JUNE 30, 2018

	<u>Actual</u>	<u>Budget</u>	Variance Favorable (Unfavorable)
Operating Revenues			
Certification fees	\$ 1,440	\$ -	\$ 1,440
Grants	941,500	-	941,500
Stormwater revenue - in-house billing	206,237	419,748	(213,511)
Stormwater revenue - Minol	2,800,224	-	2,800,224
Total Operating Revenues	<u>3,949,401</u>	<u>419,748</u>	<u>3,529,653</u>
Operating Expenses			
Advertising and marketing	4,118	-	(4,118)
Bad debts allowance	1,280,000	-	(1,280,000)
Billing company fees	205,375	-	(205,375)
Charitable contributions	2,000	-	(2,000)
Depreciation expense	983	-	(983)
Dues and subscriptions	1,000	-	(1,000)
Gas	40	-	(40)
Insurance - liability, worker compensation	16,528	4,648	(11,880)
Insurance - medical, dental	39,899	19,200	(20,699)
Legal and professional services	161,634	85,000	(76,634)
Meals and entertainment	2,635	5,000	2,365
Office supplies and software	13,389	5,000	(8,389)
Outside services	1,587	-	(1,587)
Payroll processing fees	1,263	-	(1,263)
Payroll taxes - employer	28,543	-	(28,543)
Payroll wages and salary	357,760	265,000	(92,760)
Fringe benefits	12,800	12,000	(800)
Reconciliation discrepancies	124	-	(124)
Rent expense	9,482	9,300	(182)
Repairs and maintenance	644	-	(644)
Taxes and licenses	2,769	-	(2,769)
Telephone	3,452	3,000	(452)
Travel	1,643	10,000	8,357
Utilities	1,647	1,600	(47)
Utilities-Delcora	92	-	(92)
Total Operating Expenses	<u>2,149,407</u>	<u>419,748</u>	<u>(1,729,659)</u>
Net Operating Income	<u>1,799,994</u>	<u>-</u>	<u>(1,799,994)</u>
Nonoperating Revenues			
Interest income	15	-	15
Total Nonoperating Revenues	<u>15</u>	<u>-</u>	<u>15</u>
Nonoperating Expenses			
Interest paid	23,483	-	(23,483)
Total Nonoperating Expenses	<u>23,483</u>	<u>-</u>	<u>23,483</u>
Net Nonoperating Income (Expenses)	<u>(23,468)</u>	<u>-</u>	<u>(23,468)</u>
Net Income	1,776,526	<u>\$ -</u>	<u>\$ (1,823,462)</u>
Net Position - Beginning of Fiscal Year	<u>(358,832)</u>		
Net Position - End of Fiscal Year	<u>\$ 1,417,694</u>		

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

Cash Flows From Operating Activities	
Cash received from service fees and grants	\$ 2,077,707
Paid to and on behalf of employees	(435,733)
Cash paid for administrative activities	<u>(436,857)</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>1,205,117</u>
Cash Flows From Capital and Related Financing Activities	
Capital expenditures	(89,643)
Construction in progress	<u>(609,039)</u>
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	<u>(698,682)</u>
Cash Flows From Non-Capital and Related Financing Activities	
Debt incurred	188,411
Debt retired	(257,660)
Interest paid	<u>(24,321)</u>
Net Cash and Cash Equivalents Used in Non-Capital and Related Financing Activities	<u>(93,570)</u>
Cash Flows From Investing Activities	
Interest income	<u>15</u>
Net Increase in Cash and Cash Equivalents	412,880
Cash and Cash Equivalents, Beginning	<u>41,429</u>
Cash and Cash Equivalents, Ending	<u><u>\$ 454,309</u></u>
Reconciliation of operating income to net cash and cash equivalents provided by operating activities	
Operating income	\$ 1,799,994
Adjustments to reconcile operating income to cash provided by operating activities;	
Depreciation and amortization	983
Bad debt expense	1,280,000
Changes in:	
Accounts receivable	(1,871,694)
Accounts payable and accrued expenses	<u>(4,166)</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u><u>\$ 1,205,117</u></u>

See notes to financial statements.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

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

The Stormwater Authority of the City of Chester ("the Authority") was established and incorporated by the City of Chester during 2016 for the purpose to plan, fund, construct, acquire, operate, and maintain drainage and flood control facilities within the Authority's boundaries.

Reporting Entity

The Authority is a separate stand-alone governmental entity. The Authority's Board of Directors consist of Council members, Directors of the City of Chester along with two board members of the Chester Water Authority.

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. Due to the Authority being newly formed, the majority of actual operating expenses exceeded appropriation. The excess of expenditures over appropriations was offset by actual operating revenues.

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 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, 2018, an allowance was recorded to reflect anticipated compliance in the early phase of charging residents the fee on an assessment established during this fiscal year. An allowance of \$1,280,000 was recorded to provide a reserve for doubtful accounts. The allowance is determined based on collection rates and management's analysis of specific accounts.

Capital Assets

Capital assets, which include property, plant, 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:

Office furniture and fixtures	7 years
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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 begin depreciating.

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
YEAR ENDED JUNE 30, 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, 2018. This pronouncement does not impact the Authority for the year ending June 30, 2018.

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, 2018.

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, 2018.

**STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 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 December 15, 2019. This pronouncement does not impact the Authority for the year ended June 30, 2018.

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 - Operational Account	\$ 158,030
Bryn Mawr Trust - Savings	226,156
Covenant - Operation Accounts	70,123
Total Cash and Cash Equivalents	\$ 454,309

NOTE 3: CREDIT RISK

Custodial Credit Risk

Investments of the Authority were exposed to custodial credit risk for amounts in excess of the federal depository insurance amount of \$250,000 per bank. At June 30, 2018, \$26,325 was subject to credit risk.

Concentration of Credit Risk

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

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Increases	Decreases	Balance June 30 2018
Capital assets not be depreciated:				
Land	\$ -	\$ 3,673	\$ -	\$ 3,673
Building*	1,000	85,970	-	86,970
Construction-in-progress	104,961	504,078	-	609,039
Capital Assets Not Being Depreciated	<u>105,961</u>	<u>593,721</u>	<u>-</u>	<u>699,682</u>
Capital assets being depreciated:				
Equipment and furnishings	5,483	-	-	5,483
Capital Assets Being Depreciated	<u>5,483</u>	<u>-</u>	<u>-</u>	<u>5,483</u>
Less accumulated depreciation	(808)	(983)	-	(1,791)
Net Capital Assets Being Depreciated	<u>4,675</u>	<u>(983)</u>	<u>-</u>	<u>3,692</u>
 Net Capital Assets	 <u>\$ 110,636</u>			 <u>\$ 703,374</u>

*Not placed in service at June 30, 2018

NOTE 5: DEBT

At the beginning of this fiscal year, the Authority maintained two lines of credit. One with Bryn Mawr Trust Bank and the other is with Covenant Bank in amounts of \$169,203 and \$300,000, respectively. The activity during the year follows:

	Balance July 1, 2017	Borrowings	Repayments	Balance June 30, 2018
Bryn Mawr Trust	\$ 169,203	\$ 88,411	\$ (257,614)	\$ -
Covenant	200,000	100,000	(46)	299,954
	<u>\$ 369,203</u>	<u>\$ 188,411</u>	<u>\$ (257,660)</u>	<u>\$ 299,954</u>

The line of credit with Covenant Bank bears interest at 5.5% and was amended during September 2018 to a term loan of \$300,000 with principal payments amortized over 48 months, with principal and interest payments beginning in September 2018. The principal payments for the next five fiscal years are as follows:

For the Years Ending June 30:	Principal	Interest	Total
2019	\$ 62,500	\$ 12,174	\$ 74,674
2020	75,000	10,828	85,828
2021	75,000	6,703	81,703
2022	75,000	2,578	77,578
2023	12,500	29	12,529
	<u>\$ 300,000</u>	<u>\$ 32,312</u>	<u>\$ 332,312</u>

STORMWATER AUTHORITY OF THE CITY OF CHESTER
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

NOTE 6: COMMITMENTS

The Authority leases office space in the City of Chester, Pennsylvania, which expires at the end of June 2019. Future minimum lease payments are as follows: year ending June 2019 rent payments are \$9,282. 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 7: 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 establishing a reserve for doubtful collections of accounts receivable.

On January 12, 2018, the Authority was served with four Complaints in Equity and Petitions for Preliminary and Permanent Injunctive Relief by over 50 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 8: SUBSEQUENT EVENTS

Subsequent events have been evaluated by management through January 31, 2020, which is the date the financial statements were available to be issued.

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. In early 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 to the end of this fiscal year and through the end of December 2019 has continued. The Authority acquired real estate to provide facilities for the administrative and operational staffs as well as purchased vehicles to be used in operations. These expenditures total \$1,154,248.

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

NOTE 8: SUBSEQUENT EVENTS (continued)

The Authority has progressed significantly in designing, repairing and making improvements to the infrastructure. The Authority took legal possession of the infrastructure in September 2018, although work began improving the infrastructure prior to receiving legal ownership. The work began during 2017 funded from a grant received from Pennvest on March 22, 2017. Since June of 2018, the Authority has spent \$4,622,515 towards improving the infrastructure.

The Authority currently has three active projects funded with loans through Pennvest. Two additional projects are in the process of being finalized to provide additional funding for future projects.

The Pennvest funding for the current projects is as follows:

November 6, 2018, \$4,822,315 was approved; \$2,248,721 has been drawn against this loan, the loan matures March 2041.

December 18, 2018, \$4,888,205 was approved; \$2,218,773 has been drawn against this loan, the loan matures September 2041.

May 9, 2019, \$3,447,464 was approved; \$524,065 has been drawn against this loan, the loan matures October 2041.

The fourth and fifth projects approved by Pennvest, but not yet closed are; a \$9,980,156 loan approved at the July 2019 board meeting and an additional \$9,946,800 loan approved at the October 2019 board meeting.

Available funding for the five projects approved by Pennvest totals \$33,084,940.

Additional projects will continue to be submitted to Pennvest requesting additional funding beyond the amounts already approved. The terms of the loans from Pennvest allow the Authority to pay interest at 1% for up to 36 months. After this period, principal and interest payments will begin on the three active loans in 2021 and will be amortized over 20 years to be paid in full by the year 2041.