

**DELAWARE COUNTY REGIONAL
WATER QUALITY CONTROL AUTHORITY**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2019



CYNTHIA FEITZER LEITZELL, CPA
STELLA C. ECONOMIDIS, CPA

LEITZELL & ECONOMIDIS, PC
CERTIFIED PUBLIC ACCOUNTANTS

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

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DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY

Management's Discussion and Analysis (Unaudited)

December 31, 2019

DELCORA Mission Statement

“Provide Environmentally Responsible and Cost Effective Waste Water Management Services to the Citizens, Businesses and Industries of Southeastern Pennsylvania”

Executive Summary

DELCORA's performance for the year ended December 31, 2019 includes the following key highlights:

- DELCORA is facing significant infrastructure improvements and increased expenses as a result of more stringent and costly environmental regulations. These significant additional costs would have led to large rate increases for all customers. For this reason, DELCORA sought a local partner with experience in large scale capital investment projects, an excellent reputation and close proximity to us. These factors led us to the proposed asset sale to Aqua Pennsylvania Wastewater, Inc. (Aqua)
- On September 17, 2019, DELCORA entered into an Asset Purchase Agreement with Aqua Pennsylvania Wastewater, Inc.
- On March 3, 2020, the Pennsylvania Public Utility Commission (PUC) conditionally accepted for filing the application of Aqua for approval to acquire the DELCORA wastewater system assets.
- On April 1, 2013, a fifteen-year agreement between the City of Philadelphia and DELCORA became effective. Due to the significant anticipated expenses from the increased environmental regulations facing Philadelphia and DELCORA's contractual proportionate share of those costs, it is DELCORA's intention to not renew the agreement when it reaches its term in 2028. Instead, DELCORA has initiated plans to redirect DELCORA's wastewater away from Philadelphia and send it to DELCORA's Western Regional Treatment Plant (WRTP). The design is scheduled to be completed in 2023 with construction completed in 2028. Please refer to Note 9 – Wastewater Treatment Agreement in the Notes to the Financial Statements for further details on the agreement.
- DELCORA entered into a Consent Decree (CD) with the United States Government in August 2015. The CD involves a Combined Sewer Overflow Long-Term Control Plan Update (CSO LTCPU) which evaluates the DELCORA's sewer systems according to United States Environmental Protection Agency (USEPA) requirements and guidance. The updated plan addresses all aspects of the Consent Decree issued to DELCORA by USEPA. Several capital projects are being implemented at significant costs to comply with the CD requirement. Also involved is the implementation of “Early Action Combined Sewer Overflow (CSO) Control Measures”. These measures achieve a reduction in CSO volume.
- Prior to this LTCPU, DELCORA has expended approximately \$150 million in capital improvements to address CSOs as planned in the original 1999 Long Term Control Plan. This update adds over \$120 million in life cycle costs to the prior and ongoing investment within an accelerated 10-year schedule.
- The Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) Update Report and the Nine Minimum Controls Plan were submitted on February 17, 2019. Currently, the LTCP Team is awaiting comments from the USEPA / Pennsylvania Department of Environmental Protection (PADEP) on the submittal of the LTCP Updated Report and the Updated Nine Minimum Controls.
- In 2019, DELCORA completed the replacement of the Bar Screens (4 pump stations) Project - Bar screens at the pump stations perform coarse debris removal. The bar screens at four major pump stations had seen dramatic increases in the required maintenance requirements. This

project replaced the bar screens at the following pump stations: Central Delaware County Pump Station; Muckinipates Pump Station; Darby Creek Pump Station; and Chester Pump Station.

- DELCORA also initiated the design of several major projects in 2019. The largest is the design of a major program to redirect DELCORA's wastewater away from Philadelphia and send it to DELCORA's WRTP. The design is scheduled to be completed in 2023 with construction completed in 2028. Two other design projects are listed below. These relate to the Long Term Control Plan that has been submitted to EPA for approval.

Major Capital projects completed in 2019 included:

• Solids Handling Upgrade Construction	\$ 11,000,000
• HVAC Energy Upgrades – Phase 1	\$ 4,985,046
• Bar Screen Replacements	\$ 3,070,000
• Rehab 7 Siphons	\$ 2,675,000
• I-95 Combined Sewer Line Repair Work	\$ 1,198,000
• Marcus Hook Pump Station & Chester Ridley Creek Pump Station Electrical Upgrades	\$ 789,127

Major Projects in Progress in 2020

- | | |
|---|---------------|
| • 2018 WRTP Upgrades | \$ 22,220,000 |
| • HVAC Energy Upgrades – Phase 2 | \$ 1,149,670 |
| • WRTP Substation No. 2 Replacement | \$ 1,442,777 |
| • Springhill Farm WWTF Pump Station And Sanitary Force Main Project | \$ 678,847 |
| • Eastern Service Area Program | In-Design |
| • Crum Creek Pump Station Bypass Force Maim | In-Design |
| • CSO #5 Partial Separation | In-Design |
- DELCORA sent an average of 26.04 million gallons per day (MGD) in 2019 to the Philadelphia Water Department's (PWD) Treatment Plant vs. 26.41 MGD in 2018. Flow in 2019 at DELCORA's Western Regional Treatment Plant (WRTP) was 40.23 MGD vs. 39.18 MGD in 2018. Total flow in the East and West did not vary significantly in 2019 from 2018 despite a decrease in rainfall from 61.52 inches in 2018 to 47.33 inches in 2019, as a significant amount of 2018's rainfall occurred in late in 2018, resulting in high flow in the first half of 2019. Flow in the East and West both decreased significantly in the second half of 2019.
 - In 2019, revenue from the trucked waste receiving business reached \$6,414,861 an increase of \$1,664,861 (35.0%) over the 2019 budget and an increase of \$692,862 (12.1%) over the prior year. Part of the increase is associated with an overall average price increase of 3% in August of 2019. Revenue has consistently increased annually from a level of approximately \$300,000 in 2004 to the present level.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY

Management's Discussion and Analysis (Unaudited)
December 31, 2019

Summary of Organization and Business

The Delaware County Regional Water Quality Control Authority (DELCORA) is a body, politic and corporate, created October 20, 1971, by a resolution of the Council of the County of Delaware, Pennsylvania, the County, under an Act of General Assembly of the State, approved May 2, 1945, P.L. 382, as amended and supplemented, known as the Municipality Authorities Act of 1945, as amended (the "Act").

The governing body of DELCORA is a Board of Directors consisting of nine members appointed by the Delaware County Council. The Board is authorized to exercise any and all powers conferred by the aforementioned Act necessary for the acquisition, construction, improvement, extension, maintenance and operation of the system facilities. A Board Member's term is for 5 years. The terms of the Board members are staggered.

DELCORA does not have taxing power. Ongoing operations are funded from customer revenues. The acquisition and construction of capital assets are funded by capital borrowing, contributions from developers, Federal and State grants and loans, and customer revenues.

The system is divided into two regions: the Eastern Service Area and the Western Service Area. Each is served by a regional wastewater treatment plant. DELCORA is responsible for building and operating interceptors, force mains and pump stations in both regions, building the regional treatment plant in the Western Service Area and acquiring capacity at the Philadelphia Water Department's Southwest Water Pollution Control Plant (SW WPCP) for wastewater treatment for the Eastern Service Area. DELCORA currently owns and operates sewer collection systems serving eight municipalities: the City of Chester, parts of the Township of Chester, and the Boroughs of Parkside, Upland, Trainer, Marcus Hook, Rose Valley and Edgmont. In addition, DELCORA owns and operates 2 treatment plants in housing developments in Pocopson Township, Chester County.

DELCORA History & Background

- Late 1960's—Delaware County recognized the need for a regional wastewater management plan
- All 49 Municipalities designated the Delaware County Planning Commission to develop the plan
 - First phase (1971)—Identified problems, future needs, alternate solutions
 - Second Phase (1972)—Regional plan divided the county into Eastern and Western services areas
 - Eastern Flows (about 50MGD) conveyed to PWD's Southwest Water Pollution Control Plant
 - Western Flows consisting of mixed Municipal/Industrial Waste (Sun Oil, Scott Paper, FMC) conveyed to a new 44MGD, \$50MM plant in Chester
 - Federal construction grants (~\$100MM) utilized in Delaware County and the City of Philadelphia
- DELCORA was created by the County to implement the plan

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2019

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of DELCORA's financial condition and performance. Summary financial statement data, key financial and operational indicators from DELCORA's strategic plan, the current year budget, bond resolutions, and other management tools were used for this analysis.

The financial statements report information about DELCORA using full accrual accounting methods as utilized by similar business activities in the private sector.

The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net position; a statement of cash flows; and notes to the financial statements. The statement of net assets presents the financial position of DELCORA on a full accrual historical cost basis. While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net position presents the results of the business activities over the course of the fiscal year and the amounts by which the net assets changed during the year. All changes in net assets are reported concurrently with the occurrence of the underlying event giving rise to the change, regardless of the timing of the related cash flows. This statement also provides certain information about DELCORA's recovery of its costs.

The statement of cash flows reports changes in cash and cash equivalents resulting from operations, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, the timing of any arising obligations, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that is essential to a full understanding of the financial data provided in the statements. The notes also present information about DELCORA's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses, as well as statements of operating expenses, is also provided.

The financial statements were prepared by DELCORA's staff from the detailed books and records of DELCORA. The financial statements were audited and adjusted, if the adjustments were material, during the independent external audit process.

DELCORA uses the rate model developed by Municipal & Financial Services Group. Rate setting policies employ different methods of cost recovery not fully provided for by generally accepted accounting principles. The primary objective of a rate model is to improve upon the equitable allocation of costs among customer classes and to ensure that capital costs are allocated on the basis of long-term capacity needs, following the axiom that growth pays for growth.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**
Management's Discussion and Analysis (Unaudited)
December 31, 2019

Financial Analysis

The following comparative general information and condensed financial statements serve as the key financial data and indicators for management, monitoring and planning. Comments regarding budget-to-actual variances and actual year-to-year variances are included in each section by the name of the statement or account.

	2018	2019	Difference	%
<i>Revenues per thousand gallons billed:</i>				
Residential	\$2.63	\$2.82	.19	7.2
Commercial	\$2.64	\$2.81	.17	6.4
<i>Ratio of Operating Revenue to:</i>				
-Operating Expenses	1.32	1.31	(.01)	(0.8)
-Operating Expenses, net of depreciation	1.54	1.54	.00	0.0
-Total assets (asset turnover)	0.16	0.17	.01	6.2
<i>Ratio of Operating Income to:</i>				
-Operating Revenue	0.24	0.24	.00	0.0
<i>Debt-related ratios:</i>				
Total debt to total assets	0.45	.42	(.03)	(6.7)

Financial Results of System-wide Operations

- Total Liabilities	\$ 188,522,743
Long Term	\$ 172,252,455
Other	\$ 16,270,288
- Total Net Assets	\$ 197,904,415
Invested in capital assets (net of related debt)	\$ 100,754,217
Restricted for Debt Service	\$ 11,116,069
Unrestricted	\$ 86,034,129
- Revenues (By source)	
Commercial Industries	\$ 15,627,770
Residential	50,436,552
Total Operating Revenue	<u>\$ 66,064,322</u>

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2019

2019 Actual Compared to 2019 Budget Results:

	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>
Total Revenues	\$ 68,670,531	\$ 66,528,097	\$ 2,142,434 Favorable
Operating Expenses (Net of Depreciation and Debt Service)	\$ 42,869,486	\$ 44,189,788	\$ 1,320,302 Favorable

Total revenue is \$68,670,531, 3.2% higher than the budget of \$66,528,097, due to a favorable variance in sludge revenue of \$1,665,000 and a favorable variance of \$1,203,000 in interest income. These two favorable variances were partially offset by small variances in other operating revenue categories to get to the overall favorable variance of \$2,142,000.

Significant variances to budget in operating expenses are as follows:

PWD Treatment Costs – actual treatment costs were less than budget by \$1,296,000. Although flow approximated the budget, BOD and TSS readings were lower than the budget. In addition, DELCORA's share of the PWD Long Term Control Plan for 2019 was lower than anticipated.

Chemicals – Total Chemicals was over budget by approximately \$425,000 or 42.9%, due to several factors. These include a substantial increase in the use of RAS chlorination due to process issues, a 30% increase in the price of polymer that was not in the budget, and the use of an un-budgeted chemical that was used to address H2S concentrations in the belt filter press room.

Solicitor and Consulting – These expenses were a combined \$570,000 or 78% over budget due to expenses associated with the Aqua merger, Consent Decree and the PWD contract.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
Management's Discussion and Analysis (Unaudited)
December 31, 2019

2019 Actual Compared to 2018 Actual Results:

Operating Revenues and Expenses: DELCORA has various classes of wastewater customers depending on assets used in conveying flow to both the Philadelphia and Chester plants. Retail residential sewer rates increased from \$4.93 to \$5.32 per 1,000 gallons (a 7.9% increase) from calendar year 2018 to 2019. Retail Residential customers are Chester City, Chester Township, and the Boroughs of Parkside, Upland, Marcus Hook, Trainer, Rose Valley and Edgmont Township. Total operating revenues increased \$3,906,000 from 2018. This was primarily the result of increased Residential billing of \$500,000, an increase in Western Municipal Authorities of \$950,000, an increase in Eastern Authorities of \$1,540,000 and an increase of \$700,000 in outside hauling.

The following table shows the composition of wastewater operating expenses by major classification of expense for the last two fiscal years.

	2018	% of Total	2019	% of Total	Variance	% Change
PWD Plant Treatment	\$9,625,120	20.5%	\$9,890,358	19.6%	\$265,238	2.8%
Salary and Wages	12,396,648	26.4%	13,039,649	25.9%	643,001	5.2%
Depreciation and Amortization	6,588,896	14.0%	7,526,695	14.9%	937,799	14.2%
Utilities	2,529,871	5.4%	2,719,105	5.4%	189,234	7.5%
Pension	1,944,894	4.1%	2,128,575	4.2%	183,681	9.4%
Employee Benefits	4,648,744	9.9%	4,664,693	9.3%	15,949	0.3%
Solids Disposal	1,329,837	2.8%	1,240,682	2.5%	(89,155)	-6.7%
Repairs and Maintenance	2,778,617	5.9%	2,829,079	5.6%	50,462	1.8%
Engineering and Tech Services	198,361	0.4%	375,692	0.7%	177,331	89.4%
Legal Fees	172,119	0.4%	682,624	1.4%	510,505	296.6%
Minor Equipment and Supplies	2,915,007	6.2%	2,882,190	5.7%	(32,817)	-1.1%
Other Operating Expenses	1,836,288	3.9%	2,417,039	4.8%	580,751	31.6%
Total Operating Expenses	<u>\$46,964,402</u>	100.0%	<u>\$50,396,381</u>	100.0%	<u>\$3,431,979</u>	7.3%

PWD Treatment Costs -- 2019 treatment costs were higher than 2018 by 2.8% (\$265,238). Flow in 2019 to PWD was close to 2018. The increase was due to a price increase instituted by PWD.

Salaries and Wages -- Increased by 5.2% due to normal salary and wage increases of approximately 3.25% along with several positions added in 2019.

Utilities – Increased by almost \$190,000 or 7.5% due primarily to higher natural gas usage. To reduce the chance of RTO short stack openings during the year, we purposely reduced RTO efficiency which resulted in higher natural gas usage.

Depreciation – Increased by \$938,000 or 14.2% from 2018 to 2019 due to a number of significant projects that have been completed and placed in service in both 2018 and 2019.

Cash Flow Activity

The following table shows DELCORA's ability to generate net operating cash. Net cash provided by operating activities is shown both in total dollars and as a percentage of operating revenues.

Net cash flow from operations increased by \$2,851,790 to \$18,764,868 in 2019 from 2018.

	2018	2019	Difference	% Change
Total operating revenues	\$62,157,984	\$66,064,322	\$3,906,338	6.3%
Net cash provided by operations	\$15,913,078	\$18,764,868	\$2,851,790	17.9%
Net operating cash as a % of operating revenue	25.6%	28.4%		

Rate Covenant

In the Bond Resolution, DELCORA covenants and agrees that it will, at all times, prescribe and maintain, and thereafter collect rates and charges for the services and facilities furnished by DELCORA, together with other income, that will yield annual income from operations before depreciation in the calendar year equal to at least one hundred ten percent (110%) of the sum of the annual debt service payments. The rate covenant in the Bond Resolution obligates DELCORA to review rates not less than once a year and to revise such rates and charges as necessary to meet the coverage test.

2019 Operations

WRTP—Water Quality Performance

- Average Suspended Solids - 15 mg/L for the year
- Average cBOD5 - 9 mg/L for the year
- Average cBOD20 % Removal – 96.4% for the year

WRTP—Solids Handling Performance

- Average Dry Tons/Day - 64.3 tons for the year
- Average Cake Solids - 22.3 % for the year
- Average Fuel Oil Usage – 4.87 MCF/Dry Ton for the year

Waste Water Conveyed and Treated

- Western Delaware County To WRTP, including 10.82 MGD from CDCA — ~ 40.23 MGD
- Eastern Delaware County To Philadelphia Southwest Treatment Plant— ~26.04 MGD

Environmental Compliance Issues and Capital Projects

In 2019, DELCORA continued the project called 2018 WRTP Upgrades. This is an expansive overhaul of many of the mechanical and electrical systems at WRTP. Most of the systems included in this project have been in-service since the construction of the WRTP in the mid-1970's. An example is the substations that supply electrical power to the treatment and pumping facilities. A life of 40 years is exceptional service-life for these components. Their decreased reliability indicates that replacement is needed to maintain uninterrupted permit compliance. Another example is the clarifier equipment. It was fabricated from steel. Some minor components were replaced approximately 20 years ago but the main/largest components date back to the original plant construction from 40 years ago. Over the years, minor repairs and recoating has extended the life, but they have now reached a point where repairs are

not effective. The 2018 WRTU Upgrades Project includes replacement of these examples and many other components.

DELCORA's Monitoring and Modeling required by the DELCORA/USEPA/Pennsylvania Department of Environmental Protection Consent Decree has shown that high wet weather flows in the separate serviced areas result in Sanitary Sewer Overflows (SSOs) and contribute to increased CSO discharges. Projects planned under the LTCPU address the impact of CSO discharges as required by the Clean Water Act. However, while SSOs are reduced under the plan, the DELCORA/USEPA consent decree requires the elimination of SSOs. To address the Consent Decree, DELCORA will continue to monitor and model the hydraulically connected system to evaluate SSOs and identify additional areas where remediation is needed. While some of these areas in need of remediation are likely to be in a DELCORA owned system, it is known that there are significant areas in non-DELCORA owned satellite systems that will require investment to address SSOs.

Although monitoring and modeling studies show DELCORA is not causing Water Quality Standards to be exceeded, the plan includes further investment to reduce Combined Sewer Overflow (CSO) discharges and improve water quality. The investments include improvements to the collection system, the treatment plant and the implementation of green infrastructure that will provide multiple benefits to DELCORA customers. These improvements increase the level of system wide annual average wet weather flow capture to at least 90% of the total wet weather flow. This level of capture exceeds the Federal Clean Water Act requirements under USEPA's "Presumptive" approach.

TO CONTACT MANAGEMENT AND REQUESTS FOR INFORMATION

This financial report is designed to provide our clients, taxpayers, customers, investors and creditors with a general overview of the Organization's finances and to demonstrate DELCORA's accountability of its funds. If you have questions regarding this report or would like additional information, contact the Chief Financial Officer at 100 East 5th Street, Chester, Pennsylvania 19013.



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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delaware County Regional Water Quality Control Authority
Chester, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Delaware County Regional Water Quality Control Authority ("DELCORA"), as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise DELCORA's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Delaware County Regional Water Quality Control Authority as of December 31, 2019 and 2018 and the 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 net pension liability historical information on pages 1-9 and 35 and 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the Delaware County Regional Water Quality Control Authority's basic financial statements. The schedules of operating revenues-budget comparison, operating expenses, debt service and cash receipts and disbursements-trust funds established under an indenture dated July 15, 2001 and total investments are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating revenues-budget comparison, operating expenses, debt service and cash receipts and disbursements-trust funds established under an indenture dated July 15, 2001 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues-budget comparison, operating expenses, debt service and cash receipts and disbursements-trust funds established under an indenture dated July 15, 2001 is fairly stated in all material respects in relation to the basic financial statements as a whole.



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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 15, 2020, on our consideration of the Delaware County Regional Water Quality Control Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Delaware County Regional Water Quality Control Authority's internal control over financial reporting and compliance.

Leitzell & Economidis, PC

Leitzell & Economidis, PC
Media, Pennsylvania

April 15, 2020

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY
STATEMENTS OF NET POSITION
DECEMBER 31,**

	2019	2018
ASSETS		
Current:		
Cash and cash equivalents	\$ 49,554,394	\$ 58,897,690
Investments	50,496,995	54,120,668
Receivables:		
Western Region		
Residential, net of allowance for doubtful accounts of \$110,333 and \$113,776 in 2019 and 2018, respectively	815,092	810,662
Municipal	2,219,787	1,884,022
Major industries	370,023	511,785
Permit industries	114,730	95,505
Notes receivable, current portion	77,814	75,255
Other receivables	1,852,846	1,966,955
Prepaid expenses	450,012	530,461
Total current assets	105,951,693	118,893,003
Non Current:		
Capital assets, net of accumulated depreciation	260,506,518	240,841,951
Notes receivable, net of current portion	1,673,971	1,751,785
Restricted cash and cash equivalents	4,757,706	1,741,419
Restricted investments	6,744,000	9,438,760
Total non current assets	273,682,195	253,773,915
DEFERRED OUTFLOWS OF RESOURCES		
Deferred expense on refunding	3,793,516	4,065,290
Pension plan related deferred outflows	4,598,710	4,172,616
Total assets and deferred outflows of resources	<u>\$ 388,026,114</u>	<u>\$ 380,904,824</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,500,399	\$ 5,910,736
Payable to the City of Philadelphia	1,462,680	1,784,671
Current portion of long-term debt	6,383,067	6,142,895
Accrued bond interest payable	1,116,400	1,154,760
Advances on services		
Central Delaware County Authority	-	-
Muckinipates Authority	259,375	343,216
Darby Creek Joint Authority	652,075	559,963
Municipal	260,684	293,326
Major industries	514,777	482,172
Permit industries	120,831	109,323
Total current liabilities	16,270,288	16,781,062
Noncurrent		
Long term debt, net of current portion	158,332,081	164,715,148
Deferred revenue - Philadelphia rate stabilization	9,021,335	8,825,277
Net pension liability	3,068,684	3,407,987
Deferred compensation plan	350,649	214,870
Deferred revenue - long term control plan	1,479,706	1,440,301
Total non current liabilities	172,252,455	178,603,583
Total liabilities	<u>188,522,743</u>	<u>195,384,645</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan related deferred inflows	1,598,956	484,843
Total liabilities and deferred inflows of resources	<u>190,121,699</u>	<u>195,869,488</u>
NET POSITION		
Invested in capital assets, net of related debt	100,754,217	94,186,478
Restricted for debt service	11,116,069	11,114,826
Unrestricted	86,034,129	79,734,032
Total net position	<u>197,904,415</u>	<u>185,035,336</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 388,026,114</u>	<u>\$ 380,904,824</u>

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2019</u>	<u>2018</u>
Operating revenues		
Western Region:		
Major Industries	\$ 7,056,587	\$ 6,817,336
Residential	8,532,868	8,044,641
Municipal	9,974,845	9,033,912
Contract operation fees	638,548	652,965
Permit Industries	1,517,774	1,498,561
Total Western Region	<u>27,720,622</u>	<u>26,047,415</u>
Eastern Region:		
Darby Creek Joint Authority	18,173,876	17,299,667
Central Delaware County Authority	9,638,024	9,152,096
Muckinipates Authority	4,116,939	3,936,807
Total Eastern Region	<u>31,928,839</u>	<u>30,388,570</u>
Sludge disposal and processing	6,414,861	5,721,999
Total operating revenues	<u>66,064,322</u>	<u>62,157,984</u>
Operating expenses, including depreciation of \$7,526,695 in 2019 and \$6,588,896 in 2018	<u>50,396,381</u>	<u>46,964,402</u>
Operating income	<u>15,667,941</u>	<u>15,193,582</u>
Nonoperating revenues (expense)		
Interest income	2,453,200	2,405,360
Interest expense	(6,808,997)	(6,888,255)
Bond premium amortization	1,322,852	1,341,976
Deferred cost on refunding amortization	(271,774)	(271,774)
Gain on asset disposition	-	7,847
Other income	153,009	151,074
Total non operating revenues (expense)	<u>(3,151,710)</u>	<u>(3,253,772)</u>
Net income before capital contributions	12,516,231	11,939,810
Capital contributions:	352,848	244,281
Net income	<u>12,869,079</u>	<u>12,184,091</u>
Net position - beginning	<u>185,035,336</u>	<u>172,851,245</u>
Net position - ending	<u><u>\$ 197,904,415</u></u>	<u><u>\$ 185,035,336</u></u>

The accompanying notes to the financial statements are an integral part of these statements.

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY
STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31,

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from customers	\$ 65,707,551	\$ 61,823,371
Payments to suppliers	(26,869,325)	(26,911,160)
Payments to employees	(20,073,358)	(18,999,133)
Net cash provided by operating activities	<u>18,764,868</u>	<u>15,913,078</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(27,263,712)	(37,949,513)
Collection of notes receivable	75,255	90,800
Gain on asset disposition	-	7,847
Other income	153,009	151,074
Interest paid	(6,847,097)	(6,926,355)
Repayment of long-term debt	(4,820,044)	(4,594,927)
Net cash used by capital and related financing activities	<u>(38,702,589)</u>	<u>(49,221,074)</u>
Cash flows from investing activities:		
Investments redeemed (purchased)	7,525,023	35,568,749
Investment interest received	2,863,222	2,043,466
Net cash provided by investing activities	<u>10,388,245</u>	<u>37,612,215</u>
Net increase (decrease) in cash and cash equivalents	(9,549,476)	4,304,219
Cash and cash equivalents - beginning	59,103,870	54,799,651
Cash and cash equivalents - ending	<u>\$ 49,554,394</u>	<u>\$ 59,103,870</u>
Reconciliation of operating income to net cash provided by operating activities:		
Net income	\$ 12,869,079	\$ 12,184,091
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	7,526,695	6,588,896
Amortization	(1,051,078)	(1,070,202)
Provision for doubtful accounts	102,494	61,782
Decrease (increase) in:		
Receivables:		
Residential	(4,430)	(24,349)
Municipal	(335,765)	(599,308)
Major industries	141,762	205,260
Permit industries	(19,225)	48,965
Note receivables	75,255	90,800
Other receivables	(295,903)	(571,356)
Prepaid expenses	80,449	(448,452)
Deferred compensation plan		
Deferred outflows/inflows - pension plan	688,019	(484,582)
Increase (decrease) in:		
Accounts payable and accrued expenses	(410,337)	27,200
Net pension liabilities	(339,303)	(170,644)
Payable to the City of Philadelphia	(321,991)	358,139
Deferred revenue - long term control plan	39,405	145,820
Advances on services	19,742	(428,982)
Net cash provided by operating activities	<u>\$ 18,764,868</u>	<u>\$ 15,913,078</u>

The accompanying notes to the financial statements are an integral part of these statements.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - Summary of Significant Accounting Policies

Nature of Operations - Delaware County Regional Water Quality Control Authority ("DELCORA") was created by the County Council of Delaware County, Pennsylvania, on October 20, 1971, pursuant to the Municipality Authorities Act of 1945. DELCORA has the power to construct, finance, operate and maintain sewer systems throughout Delaware County and adjacent areas included in its drainage basin.

Reporting Entity - The reporting entity has been defined in accordance with the criteria established in Statement 14 issued by the Governmental Accounting Standards Board (GASB) and as amended by GASB Statement 61. The specific criteria used in determining whether DELCORA should be included in another organization's financial reporting entity are financial accountability, fiscal dependency and legal separation.

As defined above, DELCORA should not be included in another organization's financial statements.

Basis of Presentation - DELCORA's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

DELCORA's accounts are organized as a governmental enterprise fund, and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

DELCORA distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with DELCORA's principal ongoing operations. Operating revenues are charges to customers for services provided. Operating expenses include the cost of services, administrative expenses and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Basis of Accounting - The financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reporting 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.

Cash and Cash Equivalents - DELCORA considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Statements of Cash Flows - For the purposes of the statements of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, and highly liquid investments with a maturity of three months or less from the date of purchase (as noted above). For financial statement presentation purposes, cash and cash equivalents are shown accordingly. Investments include certificates of deposit with a maturity of over three months from the date of purchase.

Capital Assets - Capital assets have been financed primarily through proceeds from various bond issues, grants from the Environmental Protection Agency and funds generated from ongoing operations. Capital assets are recorded at cost. If actual cost could not be determined from available records, estimated historical cost was used.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Western Region Treatment	5 - 40	Years
Plant service lines	10 - 60	Years
Force mains pumping	10 - 40	Years
Stations	5 - 10	Years
Machinery and equipment	40	Years

Investments - Investments represent funds established under various trust indentures and secured sewer revenue bonds outstanding. Restricted investments are reserved for liquidation of specific obligations. Investments are stated at fair value.

Advances on Services - Advances on services represents user charges collected in excess of the user's respective share of operating expenses.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 - Summary of Significant Accounting Policies (continued)

Vacation, Sick Leave and Other Compensated Absences - DELCORA employees are entitled to certain compensated absences based on their length of employment. Compensated absences are accrued when earned.

Allowance for Doubtful Accounts - Provisions for doubtful accounts are provided for on the reserve method based on historical experience and management's evaluation of outstanding residential receivables.

Deferred Outflows/Inflows of Resources - DELCORA reports decreases in net assets that relate to future periods as deferred outflows of resources in the statements of net position. DELCORA reports deferred outflows of resources for contributions made to the defined benefit pension plan between the measurement date of the net pension liability and DELCORA's year end. The statement of financial position also reports a section for deferred inflows of resources that represent an acquisition of net position that applies to a future period and so not be recognized as an inflow of resources (revenue) until that time. DELCORA reports deferred inflows of resources related to pension.

New Pronouncements

In 2018, DELCORA early adopted GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The pronouncement establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for the reporting period. It also simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost had previously been capitalized as part of the historical cost of a capital asset. Under this pronouncement, which is being applied prospectively, this interest cost should be recognized as an expense in the period in which the cost is incurred.

In 2019, DELCORA adopted GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This pronouncement establishes guidance designed to enhance debt-related disclosures in notes to financials statements including those addressing direct borrowings and direct placements. DELCORA does not have direct borrowings or direct placements or unused lines of credit and is in compliance with requisite disclosures pursuant to the pronouncements.

NOTE 2 - Deposits and Investments

Under Section 7.1 of the Pennsylvania Municipality Authorities Act and the Trust Indenture, DELCORA is permitted to invest funds consistent with sound business practices in the following types of investments:

- Obligations of the United States government or its agencies or instrumentalities;
- Obligations of the Commonwealth of Pennsylvania or any of its political subdivisions;
- Deposits in savings accounts or time deposits must be insured by the Federal Deposit Insurance Corporation (FDIC). For amounts above the insured limit, collateral must

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 - Deposits and Investments (continued)

- be pledged by the depository.
- Other investments as described in the Trust Indenture Agreement between DELCORA and TD Bank, N.A. dated July 15, 2001.

Deposits - As of December 31, 2019 and 2018, the carrying amount of the entity's deposits was \$9,496,028 and \$6,770,927, respectively.

All funds in the Pennsylvania Local Government Investment Trust ("PLGIT") are invested in accordance with the Pennsylvania Municipality Authorities Act. Each entity owns a prorata share of each investment or deposit which is held in the name of the fund. Other fixed-term investments purchased by the entity through the fund's administrator are purchased in the name of the entity. The balance of the funds as of December 31, 2019 and 2018 was \$48,695 and \$57,039, respectively, included in the deposits noted above.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The entity's investment policy limits the exposure to custodial credit risk by requiring all deposits in excess of federal depository insurance limits to be secured with collateralization pledged by the applicable financial institution. Of the deposits, \$548,695 was covered by federal depository insurance, inclusive. The remaining balance was uninsured and covered by collateral in accordance with the Intergovernmental Cooperation Act of 1972. The entity's certificates of deposit are in excess of three months maturity and are held in a Certificate of Deposit Account Registry program and are covered in their entirety by federal depository insurance.

Investments - The entity's investments are categorized as either (1) insured and registered, or securities held by the entity or its agent in the entity's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name, or (3) uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

All funds held in accordance with the Trust Indenture for the Sewer Revenue Bonds (see page 44) are invested in accordance with the Trust Indenture Agreement between DELCORA and TD Bank, N.A. dated July 15, 2001. The balance as of December 31, 2019 and 2018 was \$103,186,134 (including cash of \$6,164; certificates of deposit of \$16,865,583, PLGIT Term investments of \$72,075,000 PLGIT Arm of \$11,599,388 and repurchase agreements of \$2,639,999) and \$118,210,406 (including cash of \$997,665; certificates of deposit of \$24,792,948, PLGIT Term investments of \$72,681,248, PLGIT Arm of \$18,119,333 and repurchase agreements of \$1,619,212) respectively. Certificates of deposit are held in a PLGIT CD program and are covered in their entirety by federal depository insurance. These funds are included as part of the overall cash and cash equivalent and investments as shown in the chart on page 21.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 - Deposits and Investments (continued)

Investments maturing in less than one year from original purchase are recorded at unamortized cost. Investments maturing beyond one year from original purchase are recorded at fair value.

Custodial Credit Risk - Investments - For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the entity will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The entity has no investments subject to custodial credit risk.

Fair Value Measurement

The Authority's investments are measured and reported at fair value and are classified according to the following hierarchy:

Level 1—Investments reflect prices quoted in active markets

Level 2—Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3—Investments which reflect prices based on unobservable resources

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

The Authority considers all investments to be Level 1.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 2 - Deposits and Investments (continued)

	2019	2018
Unrestricted cash and investments:		
Cash and cash equivalents		
Cash	\$ 9,496,028	\$ 6,770,927
PLGIT ARM	11,597,070	18,111,912
PLGIT CD	9,880,330	6,848,069
PLGIT TERM	18,575,000	27,158,092
TD Ameritrade	5,966	8,690
Cash and cash equivalents	<u>\$49,554,394</u>	<u>\$58,897,690</u>
Investments		
Certificates of deposit originally maturing beyond three months	\$ 4,752,312	\$ 15,262,119
PLGIT Term	42,760,000	37,033,156
Repurchase agreements	2,639,999	1,619,213
TD Ameritrade	344,684	206,180
Total investments	<u>\$50,496,995</u>	<u>\$54,120,668</u>
	2019	2018
Restricted cash and investments:		
Cash and cash equivalents		
PLGIT ARM	\$ 2,317	\$ 7,419
PLGIT Term	4,240,000	1,734,000
Certificates of deposit originally maturing less than three months	515,389	-
Cash and cash equivalents	<u>\$ 4,757,706</u>	<u>\$ 1,741,419</u>
Investments		
Certificates of deposit originally maturing beyond three months	\$ 244,000	\$ 1,713,760
PLGIT Term	6,500,000	7,725,000
Total investments	<u>\$ 6,744,000</u>	<u>\$ 9,438,760</u>

NOTE 3 - Capital Assets

As noted above, DELCORA in 2018 adopted GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Capital assets at December 31, 2019 and 2018 included previously capitalized interest of \$2,595,820 included in the historical costs of the assets. These costs are depreciated over the lives of the projects. Interest incurred is expensed accordingly. During this period, interest expense totaled \$6,808,997.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3 - Capital Assets (continued)

Capital assets activity for the year ended December 31, 2019, is as follows:

	Balance 01/01/19	Additions	Deletions	Balance 12/31/19
Capital assets not being depreciated:				
Land and right of way	\$ 5,829,304	\$ -	\$ -	\$ 5,829,304
Construction in progress	57,541,531	25,430,498	(37,009,910)	45,962,119
Total capital assets not being depreciated	63,370,835	25,430,498	(37,009,910)	51,791,423
Capital assets being depreciated:				
Western Region Treatment Plant	138,331,549	30,021,878	-	168,353,427
Service lines and force mains	106,915,341	8,109,174	(72,450)	114,952,065
Pumping stations	40,303,863	118,412	-	40,422,275
Building and improvements	6,511,556	-	-	6,511,556
Machinery and equipment	5,296,974	593,660	(119,192)	5,771,442
Total capital assets being depreciated	297,359,283	38,843,124	(191,642)	336,010,765
Total capital assets	360,730,118	64,273,622	(37,201,552)	387,802,188
Accumulated depreciation				
Western Region Treatment Plant	69,237,711	3,366,399	-	72,604,110
Service lines and force mains	27,327,923	2,335,762	-	29,663,685
Pumping stations	18,588,881	1,024,557	-	19,613,438
Building and improvements	3,147,395	170,726	-	3,318,121
Machinery and equipment	1,586,257	629,251	(119,192)	2,096,316
Total accumulated depreciation	119,888,167	7,526,695	(119,192)	127,295,670
Capital assets, net of depreciation	\$ 240,841,951	\$ 56,746,927	\$ (37,082,360)	\$ 260,506,518

NOTE 4 - Notes Receivable

DELCORA had a note receivable from Folcroft Borough for renovations to a pump station. The note is being repaid over 20 years with installments of \$2,619 per month including interest at 5.25%. The balance of the note receivable was repaid in 2018 in the amount of \$18,018 (the amount remaining at December 31, 2017).

DELCORA has an additional note receivable from Edgmont Township established in 2016 in the amount of \$1,775,838 for payment of debt on its behalf to the Central Delaware County Authority. In 2017, additional debt was incurred bringing the balance of the note receivable to \$1,970,208.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 4 - Notes Receivable (continued)

The note is being repaid over 20 years at the rate of 3.40% per annum, with anticipated payments of principal and interest of \$137,375 annually. Principal in the amount of \$75,255 was paid leaving a balance of \$1,751,785.

NOTE 5 - User Agreements

In accordance with a County-Wide Sewerage Facilities Plan (the "Plan") developed in 1972 and by orders of the Commonwealth of Pennsylvania Department of Environmental Protection, various municipal authorities and industries in Delaware County were ordered to negotiate with DELCORA for future treatment of sewage in its regional facilities.

The Plan divided the County into two sections: Eastern Service Region and Western Service Region. Eastern Service Region wastewater is treated in the upgraded and expanded Philadelphia Southwest Water Pollution Control Plant ("City Plant"). Western Service Region wastewater is treated at a regional plant constructed on the site of the former City of Chester Plant. The Central Delaware County Authority has the ability to flow to either plant.

In order to execute the Plan, DELCORA entered into service agreements with municipalities and major industries in DELCORA's service area. The agreements are for various terms up to 50 years.

NOTE 6 - Long-Term Debt

DELCORA's long-term debt consists of sewer revenue bonds, a note payable consisting of a Pennsylvania Infrastructure Investment Authority "Pennvest" note payable and deferred issuance premiums.

The long-term indebtedness is as follows:

	Original Indebtedness	Interest rate	Maturity Date	1/1/2019	New indebtedness	Principal/ Amortization	12/31/2019	Due in one year
Revenue Bond 2007	\$ 36,235,000	5.25%	05/01/25	\$ 19,910,000	\$ -	\$ 4,335,000	\$ 15,575,000	\$ 4,570,000
Revenue Bond 2015	36,205,000	5.00%	5/1/2045	36,205,000	-	-	36,205,000	-
Revenue Bond 2016	52,855,000	5.00%	5/1/2046	52,855,000	-	-	52,855,000	-
Pennvest Note	10,038,785	1.06%	9/1/2031	6,586,878	-	485,044	6,101,834	490,216
Revenue Bond 2017	32,275,000	5.00%	5/1/2033	32,275,000	-	-	32,275,000	-
	<u>\$ 167,608,785</u>			<u>147,831,878</u>	<u>-</u>	<u>4,820,044</u>	<u>143,011,834</u>	<u>5,060,216</u>
Deferred issuance Premiums				23,026,165	-	1,322,852	21,703,313	1,322,851
				<u>\$ 170,858,043</u>	<u>\$ -</u>	<u>\$ 6,142,896</u>	<u>\$ 164,715,147</u>	<u>\$ 6,383,067</u>

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - Long-Term Debt (continued)

Sewer Revenue Bond interest is payable on May 1st and November 1st.

Aggregate maturities and required sinking fund payments of long-term debt subsequent to December 31, 2019 are as follows:

Year ending December 31,	Principal	Interest	Principal and Interest	Issuance premiums	Total
2020	\$ 5,060,216	\$ 6,608,430	\$ 11,668,646	\$ 1,322,851	\$ 12,991,497
2021	5,315,442	6,358,716	11,674,158	1,322,851	12,997,009
2022	4,910,725	6,152,939	11,063,664	1,322,851	12,386,515
2023	5,131,063	5,930,001	11,061,064	1,322,851	12,383,915
2024	5,381,459	5,684,868	11,066,327	1,322,851	12,389,178
2025-2029	30,995,261	24,325,181	55,320,442	5,633,096	60,953,538
2030-2034	32,737,668	16,504,844	49,242,512	4,430,540	53,673,052
2035-2039	19,885,000	10,599,325	30,484,325	2,164,725	32,649,050
2040-2044	24,600,000	5,395,225	29,995,225	2,164,726	32,159,951
2045-2046	8,995,000	545,800	9,540,800	695,971	10,236,771
	<u>\$ 143,011,834</u>	<u>\$ 88,105,329</u>	<u>\$ 231,117,163</u>	<u>\$ 21,703,313</u>	<u>\$ 252,820,476</u>

The Sewer Revenue Bonds were issued pursuant to the Trust Indenture Agreement between DELCORA and TD Bank, NA, ("Trustee") dated July 15, 2001. TD Bank replaced Chase Manhattan Trust Company, NA., now known as JP Morgan Chase, who was the trustee under the previous indenture. Under the July 15, 2001 Indenture, DELCORA has pledged certain assets and agreed to covenants and conditions, the most significant of which are:

- Fix rates and rentals sufficient to cover the costs of operating the system;
- Pledge revenues to secure the outstanding bonds;
- Net Revenues at least equal to 100% of annual debt service requirements of all outstanding bonds exclusive of funds deposited into the revenue fund from the renewal and replacement fund;
- Net Revenues at least equal to 1.1 times the annual debt service requirements of all outstanding bonds;
- Establish certain funds to account for DELCORA activity; and,
- Maintain and operate the system in a sound and economical manner.

Management believes it has complied, in all material respects, with all covenants and requirements of the Indenture.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 6 - Long-Term Debt (continued)

BOND REFUNDING

During 2007, DELCORA issued the Sewer Revenue Bonds, 2007 Series. The 2007 Series bonds were issued to provide funds to advance refund certain maturities of DELCORA's Series 2001 and Series 2004 bonds. Proceeds from the issuance of the 2007 Series bonds were deposited in an irrevocable trust with an escrow agent to provide for the debt service required for advance refunding of the bonds.

During 2017, DELCORA issued the Sewer Revenue Bonds, 2017 series. The proceeds of the 2017 Bonds, along with other available funds, were utilized to advance refund all of the outstanding 2013 Bonds as well as to pay for the costs and expenses of issuing the 2017 Bonds. The proceeds were deposited in an irrevocable trust with an escrow agent to provide for the debt service required for the advance refunding of the bonds.

NOTE 7 - Commitments and Contingencies

Commitments - DELCORA had construction commitments outstanding of \$14,100,877 and \$32,382,192 at December 31, 2019 and December 31, 2018, respectively.

DELCORA also has the following leases:

- A 60-month lease agreement for copiers in the amount of \$1,750 per month expiring May 31, 2022.
- Several cell tower leases at various locations for periods ending from December 31, 2019 through May 31, 2022.

Future operating lease payments as of December 31, 2019 are as follows:

2020	\$	44,145
2021		42,914
2022		30,664
	\$	<u>117,722</u>

Contingencies - DELCORA is involved in various claims and lawsuits, both for and against DELCORA, arising in the normal course of business. Management believes that any financial responsibility that may be incurred in settlement of such claims and lawsuits would not be material to DELCORA's financial position.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans

DEFINED BENEFIT PLAN

Plan Policies - For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about the Plan fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The change in liability resulting from a change of Plan provisions is recognized immediately in pension expense. The change in liability resulting from a change of assumptions is recognized in pension expense over a closed period equal to the average of the expected remaining service lives of all Plan participants (active and inactive). The change in liability resulting from differences between expected and actual experience is recognized in pension expense over a closed period equal to the average of the expected remaining services lives of all Plan participants (active and inactive). The change in net pension liability resulting from differences between projected and actual earnings on Plan assets is recognized in pension expense over a closed period of five years.

Certain assumption changes were made as of December 31, 2018 as a result of an experience study conducted in 2019 for calendar years 2014 through 2018.

Plan Description - Delaware County Regional Water Quality Control Authority Retirement Plan (the "Plan") is a single-employer defined benefit pension plan administered by DELCORA. The Plan provides early retirement, normal retirement, and disability benefits to plan members. Plan benefits were established under the terms of the plan document. The Plan allows amendments by DELCORA. The operation of the Plan is governed by the provisions of certain public employee laws under the Commonwealth of Pennsylvania Code which are administered by the Public Employee Retirement Commission of the Commonwealth of Pennsylvania.

Pension Benefits - Pension benefits are as follows:

Normal Retirement: A member is eligible upon attainment of age 65.

For salaried employees, the accrued benefit equals the sum of:

- (a) 1.50% of average applicable compensation multiplied by years of service completed on or after January 2, 2006;
- (b) 1.45% of average applicable compensation multiplied by years of service completed on or after January 2, 2004 and before January 2, 2006;
- (c) 1.35% of average applicable compensation multiplied by years of service completed on or after January 2, 2000 and before January 2, 2004; and
- (d) 1.50% of average applicable compensation multiplied by years of service completed prior to January 2, 2000;

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans (continued)

For non-salaried employees, the accrued benefit equals the sum of:

- (a) 1.65% of average applicable compensation multiplied by years of service completed on or after January 2, 2006;
- (b) 1.60% of average applicable compensation multiplied by years of service completed on or after January 2, 2004 and before January 2, 2006; and
- (c) 1.50% of average applicable compensation multiplied by years of service completed prior to January 2, 2004;

Early Retirement: A member is eligible for a retirement benefit upon attainment of age 55 and the completion of ten years of service equal to the portion of the normal retirement benefit that has been accrued as of the participant's early retirement date, reduced by 5/16% for each month that the benefit commencement date precedes the normal retirement date.

Funding Policy - Pursuant to the plan document, DELCORA is required to contribute to the Plan from time to time amounts necessary to satisfy the applicable requirements of every relevant statute and expected to be sufficient on the basis of actuarial estimates to provide the benefits specified in the Plan. There is no required contribution rate of the employer in dollars or as a percentage of covered payroll. Active plan members are not required to contribute to the Plan. The Plan was amended in 2011 for technical compliance updates.

The annual contribution calculation was determined as part of the January 1, 2017 actuarial valuation. Funding requirements for the plan years 2018 and 2019 was established as part of the January 1, 2017 actuarial valuation. Entry Age Normal Actuarial Cost Method is used as the actuarial valuation method. The actuarial assumptions pursuant to the January 1, 2019 valuation included (a) interest rate of 7.0% compounded annually, (b) lump sum payments are valued based on the 15 year average of IRS section 417e segment rates of 3.0% for the first five years, 4.9% for the next fifteen years, and 5.70% for all years thereafter, (c) mortality rates are based on Pub-2010 General Amount Weighted Mortality Tables projected from 2010 with Mortality Improvement Scale MP-2019; for Lump Sum payments, the IRS section 417e applicable mortality table is used, (d) turnover (withdrawal) are based on Turnover Table T3, (e) salary increases of 4.00% per annum (f) the Level Dollar Open Method over an open period of 30 years is used to amortize the unfunded actuarial liability with a remaining amortization period of 10 years. The Plan amendment and restatement adopted in 2011 was considered in the valuation.

Act 205 requires full funding of the entry age normal cost plus Plan expenses, in addition to amortization of the unfunded liability to ultimately achieve a 100% funded status. The Plan's fiduciary net position is projected to be sufficient to make projected benefit payments for all future years. Hence, there is no "depletion date" and therefore the discount rate is equal to the assumed long-term rate of return of 7.0%.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans (continued)

Assets are valued at fair market value.

Pension Liabilities, Pension Expense, Pension Contributions, Plan Assets, Employees
Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Plan membership as of December 31, 2019 was as follows:

Inactive employees or beneficiaries receiving benefits	16
Inactive employees entitled to but not yet receiving benefits	25
Active employees	133
Total employees covered	<u>174</u>

Custodial credit risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned. At December 31, 2019, the carrying amount and the balance of the Plan's deposits in cash and cash alternatives totaled \$281,305 and was held with Ameritrade, of which \$250,000 was covered by FDIC insurance.

In accordance with Government Accounting Standards Board (GASB) No. 67, investments are reported at fair value. Unrealized gains and/or losses due to fluctuations in market value are recorded in the financial statements. Securities traded on national exchanges are valued at the last reported sales price. Realized gains or losses are recorded at the time of sale. Net appreciation or depreciation in the fair value of plan investments include both realized and unrealized gains and losses and related fees as well as investment. Plan investments at year end are as follows:

Ishares TIPS Bond ETF	\$ 927,431
Vanguard Total Bond Market Index Fund	2,400,996
Vanguard International Bond Index Fund	938,888
Vanguard AllWRLD Ex US	4,464,152
Vanguard Intermediate Term Corp Bond	463,226
Vanguard Mid Cap Index Fund	1,060,884
Vanguard Growth ETF	3,043,150
Vanguard Value ETF	2,996,370
Vanguard Small Cap Index Fund	1,028,624
	<u>17,323,721</u>
Cash and cash equivalents/mutual funds	623,174
	<u>\$ 17,946,895</u>

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans (continued)

Pension fund investments, pursuant to Government Accounting Standards Board Statement Nos. 3 and 40, are categorized to give an indication of the level of risk assumed by the Plan at December 31, 2019. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan and are held by either counterparty or the counterparty's trust department or agent but not in the Plan's name. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

The securities are registered in the name of the Plan; thus, they are not subject to credit risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Generally, the longer the maturity of an investment, the greater sensitivity of its fair value to changes in market interest rates. The Board has no formal policy that limits investment maturities as a means of managing its exposure to interest rate risk. The Board has, however, adopted a long-term investment policy to weigh the chances and duration of investment losses against the long-term potential for appreciation of assets. Investments in mutual funds and certain investment pools are excluded from this requirement.

The Plan's investment policy regarding the allocation of invested assets is established and may be amended by the Plan's Board by a majority vote of its members. The policy of the Board is to pursue an investment strategy that reduces risk through prudent diversification among its asset classes given the Plan's liability structure. Following is the Board's adopted asset allocation policy as of December 31, 2019:

<u>Asset Class</u>	<u>Target Allocation</u>
Equities	70.00%
Fixed Income	27.00%
Cash	3.00%

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.. The long-term rate of return on assets is expected to be approximately 6.65 percent per year before inflation factor of 2.25%. The net blended rate representing the real rate of return, inclusive of inflation and net of plan expenses was 4.10%. Long term expected real rate of return was as follows:

Asset Class	Long-Term Expected Real Rate of Return
Equities	5.78%
Fixed Income	1.35%
Cash	-0.31%
Total Gross Blended Return	4.40%
Less: Plan Expenses	0.30%
Total Net Blended Return	4.10%

For the year ended December 31, 2019, the annual rate of return on the pension plan investments, net of pension investment expense was 21.41%. The rate of return is calculated net of investment expense, adjusted for the changing amounts actually invested.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans (continued)

DELCORA recognized defined benefit pension expense in the amount of \$1,988,715 and \$1,944,894 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019, DELCORA reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,294,165	\$ 45,403
Changes in assumptions	3,304,545	374,621.00
Net differences between projected and actual earnings on pension plan investments	<u>-</u>	<u>1,178,932</u>
	<u>\$ 4,598,710</u>	<u>\$ 1,598,956</u>

Future recognition of deferred outflows and inflows in pension expense	<u>Fiscal Year</u>	<u>Amount Recognized</u>
	2020	\$ 521,538
	2021	\$ 555,106
	2022	\$ 844,840
	2023	\$ (57,603)
	2024	\$ 318,006
	Thereafter	\$ 817,867

Sensitivity of Net Pension Liability to Changes in Discount Rate:

	1% Decrease 6.00%	Current Rate 7.00%	1% Increase 8.00%
Net pension liability	<u>\$4,531,804</u>	<u>\$3,068,684</u>	<u>\$1,753,126</u>

Defined Contribution Plan

DELCORA established the Delaware County Regional Water Quality Control Authority Defined Contribution Plan (401a Plan) in 2000 covering all salaried employees. Employer contributions were \$139,860 and \$127,224 for the years ended December 31, 2019 and 2018, respectively. DELCORA matches employee contributions up to 1.5% with an additional year end match of 1.5% of employee's payroll.

Additionally, all employees are eligible to contribute into a 457 Plan.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 8 - Employee Retirement Plans (continued)

DELCORA also provides a deferred compensation Section 409(a) Plan for certain employees. Compensation for the participants in the Plan is earned in one year, but is paid in a future year. This is considered a nonqualified deferred compensation plan. The funds remain within DELCORA and represents a liability on DELCORA's balance sheet shown on these financial statements as \$350,649 and \$214,870 for 2019 and 2018, respectively.

NOTE 9 - Wastewater Treatment Agreement

In 1974, DELCORA entered into a thirty-year agreement with the Philadelphia Water Department (the City") to pay the City for treatment of wastewater sent to the Southwest Philadelphia plant based on its proportionate share of the City's operating costs. The agreement with the City was extended until 2011.

In July 2011, DELCORA signed an agreement with the City for treatment of the flows. The term was for the longer of either two years or one year after DELCORA received information about the City's Long-Term Control Plan (LTCP). The agreement was considered a bridge toward a long-term agreement.

There remained a need for the determination by the City of DELCORA's proportionate share of the \$4 billion in estimated costs over twenty-five years for the implementation of the City's LTCP. The flow capacity thresholds in the contract had remained the same as the 1974 agreement. The management fee had been increased from 10% to 12%. The contract also included a different method for accounting for DELCORA's share of the City's capital costs, i.e., the depreciation and return on investment method.

On April 1, 2013, a fifteen-year agreement between the City and DELCORA became effective. Many of the terms of the July 2011 agreement remain in effect. DELCORA has received an estimate of its proportionate share of LTCP costs for which in 2015 municipal revenue was deferred and is shown on these statements as deferred revenue - long term control plan. Additional deferred revenue relative to Philadelphia is represented by the deferred revenue - rate stabilization for which a portion of revenues are deferred to protect from unanticipated or precipitous charges from Philadelphia.

NOTE 10 – Delaware County Long-Term Control Plan Update

The Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) Update Report and the Nine Minimum Controls Plan was submitted on February 17, 2019 to meet a Consent Decree and regulatory requirements requiring the implementation of "early action combined sewer overflow" (CSO) measures designed to achieve a reduction in CSO volume. Currently the LTCP Team is awaiting comments from the USEPA / PADEP on the submittal of the LTCP Updated Report and the Updated Nine Minimum Controls.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 10 – Delaware County Long-Term Control Plan (continued)

This Update (LTCPU) has evaluated the Delaware County Regional Water Quality Control Authority's (DELCORA's) sewer systems according to United States Environmental Protection Agency (USEPA) requirements and guidance. The final plan addresses all aspects of the Consent Decree issued to DELCORA by USEPA. Although monitoring and modeling studies show DELCORA is not causing Water Quality Standards to be exceeded, the plan includes further investment to reduce Combined Sewer Overflow (CSO) discharges and improve water quality. The investments include improvements to the collection system, the treatment plant and the implementation of green infrastructure that will provide multiple benefits to DELCORA customers. These improvements increase the level of system wide annual average wet weather flow capture to over 90% of the total wet weather flow. This level of capture exceeds Federal Clean Water Act requirements under USEPA's "Presumption" approach.

Prior to this LTCPU, DELCORA has expended approximately \$150 million in capital improvements to address CSOs as planned in the original 1999 Long Term Control Plan. This update adds over \$120 million in life cycle costs to the prior and ongoing investment within an accelerated 10-year schedule. This additional investment is affordable if other program costs do not increase significantly.

DELCORA Monitoring and Modeling required by the DELCORA/USEPA/Pennsylvania Department of Environmental Protection Consent Decree has shown that high wet weather flows in the separate serviced areas result in Sanitary Sewer Overflows (SSOs) and contribute to increased CSO discharges. Projects planned under the LTCPU address the impact of CSO discharges as required by the Clean Water Act. However, while SSOs are reduced under the plan, the DELCORA/USEPA consent decree requires the elimination of SSOs. To address the Consent Decree, DELCORA will continue to monitor and model the hydraulically connected system to evaluate SSOs and identify additional areas where remediation is needed. While some of these areas in need of remediation are likely to be in a DELCORA owned system, it is known that there are significant areas in non-DELCORA owned satellite systems that will require investment to address SSOs and remain cost effective.

NOTE 11 - Asset Purchase Agreement

On September 17, 2019, DELCORA entered into an asset purchase agreement with Aqua Pennsylvania Wastewater, Inc ("Aqua"). through which Aqua will acquire all assets and assume all liabilities as specified in the agreements. The purchase price shall be \$276,500,000. The sale proceeds are to be used to pay outstanding debt with the balance to be reinvested by DELCORA in a rate stabilization plan. Such plan intends that the proceeds of the sale will be utilized to offset future customer bill increases. The sale requires and is pending approval by the Pennsylvania Public Utility Commission.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 – Subsequent Events

DELCORA has evaluated subsequent events through April 15, 2020, which represents the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF CHANGES OF NET PENSION LIABILITY AND RELATED RATIOS

	2014	2015	2016	2017	2018	2019
<i>Total Pension Liability</i>						
Service cost	\$ 433,832	\$ 451,185	\$ 647,770	\$ 743,624	\$ 833,107	\$ 928,895
Interest	962,400	982,877	1,321,748	1,345,004	1,236,708	1,350,242
Changes in benefit terms	-	-	-	-	(4,914)	181
Differences between expected and actual experience	183,182	465,714	-	384,396	(59,417)	962,659
Changes in assumptions	-	4,170,435	-	1,012,254	(490,245)	1,158,057
Benefit payments	(664,651)	(1,260,137)	(1,994,115)	(2,079,637)	(3,272,141)	(1,806,164)
Net change in total pension liability	914,763	4,810,074	(24,597)	1,405,641	(1,756,902)	2,593,870
Total pension liability - beginning	13,072,730	13,987,493	18,797,567	18,772,970	20,178,611	18,421,709
Total pension liability - ending	\$ 13,987,493	\$ 18,797,567	\$ 18,772,970	\$ 20,178,611	\$ 18,421,709	\$ 21,015,579
<i>Plan Fiduciary Net Position</i>						
Contributions - Authority	\$ 1,150,000	\$ 4,450,000	\$ 2,168,616	\$ 1,711,040	\$ 2,600,000	\$ 1,640,000
Contributions - Employee	-	-	-	-	-	-
Net investment income	678,120	33,319	1,146,717	2,466,801	(867,963)	3,147,159
Benefit payments	(664,651)	(1,260,137)	(1,994,115)	(2,079,637)	(3,272,141)	(1,806,164)
Other	-	-	-	-	-	-
Administrative expense	(27,963)	(31,155)	(40,406)	(46,438)	(46,154)	(47,822)
Net change in fiduciary net position	1,136,506	3,192,027	1,280,812	2,051,766	(1,586,258)	2,933,173
Plan fiduciary net position - beginning	8,939,869	10,075,375	13,267,402	14,548,214	16,599,980	15,013,722
Plan fiduciary net position - ending	\$ 10,075,375	\$ 13,267,402	\$ 14,548,214	\$ 16,599,980	\$ 15,013,722	\$ 17,946,895
Net pension liability - ending	\$ 3,912,118	\$ 5,530,165	\$ 4,224,756	\$ 3,578,631	\$ 3,407,987	\$ 3,068,684

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES OF NET PENSION LIABILITY AND RELATED RATIOS (continued)

	2014	2015	2016	2017	2018	2019
Plan fiduciary net position as a percentage of total pension liability	72.03%	70.58%	77.50%	82.27%	81.50%	85.40%
Covered employee payroll	\$ 7,435,831	\$ 7,470,137	\$ 8,516,891	\$ 8,900,803	\$ 9,160,776	\$ 9,686,532
Authority's net pension liability as a percentage of covered payroll	52.61%	74.03%	49.60%	40.21%	37.20%	31.68%

SCHEDULE OF INVESTMENT RETURNS

	2014	2015	2016	2017	2018	2019
Annual money-weighted rate of return net of investment expense	7.25%	0.79%	8.54%	16.59%	-5.69%	21.41%

SCHEDULE OF CONTRIBUTIONS

	2013	2014	2015	2016	2017	2018	2019
Actuarial determined contribution	\$ 542,957	\$ 699,671	\$ 830,001	\$ 1,693,616	\$ 1,711,041	\$ 1,593,018	\$ 1,640,000
Actual employer contribution	1,100,000	1,150,000	4,450,000	2,168,616	1,711,040	2,600,000	1,640,000
Contributions deficiency (excess)	\$ (557,043)	\$ (450,329)	\$ (3,619,999)	\$ (475,000)	\$ 1	\$ (1,006,982)	\$ -

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension
Balances at December 31, 2018	\$ 18,421,709	\$ 15,013,722	\$ 3,407,987
Changes for the year:			
Service cost	928,895	-	928,895
Interest	1,350,242	-	1,350,242
Change in benefit terms	181	-	181
Changes of assumptions	1,158,057	-	1,158,057
Differences between expected and actual	962,659	-	962,659
Contributions - employer	-	1,640,000	(1,640,000)
Net investment income	-	3,147,159	(3,147,159)
Benefit payments	(1,806,164)	(1,806,164)	-
Administrative expense	-	(47,822)	47,822
Net changes	2,593,870	2,933,173	(339,303)
Balances at December 31, 2019	\$ 21,015,579	\$ 17,946,895	\$ 3,068,684

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF OPERATING REVENUES
BUDGET COMPARISON**

	ACTUAL 2019	BUDGET 2019	FAVORABLE (UNFAVORABLE) VARIANCE
WESTERN REGION			
Residential	\$ 8,532,868	\$ 8,691,163	\$ (158,295)
Major industry:			
Kinberly-Clark	3,793,405	4,024,125	(230,720)
Monroe Energy	435,249	188,754	246,495
Sun Refining and Marketing Co.	2,827,933	3,111,990	(284,057)
Total major industry	7,056,587	7,324,869	(268,282)
Municipal:			
Brookhaven	702,565	723,991	(21,426)
Eddystone	386,209	388,360	(2,151)
Lower Chichester	506,908	485,450	21,458
Middletown Authority	1,976,711	1,939,464	37,247
Nether Providence	1,003,261	1,024,687	(21,426)
South West Delaware County Authority	3,316,047	2,909,196	406,851
Southern Delaware County Authority	2,083,144	2,135,980	(52,836)
Total Municipal	9,974,845	9,607,128	367,717
Permit industries:			
Ace Linen	162,426	102,720	59,706
Boeing	113,621	121,363	(7,742)
Braskem	200,500	223,440	(22,940)
Congoleum	23,141	28,248	(5,107)
Delaware County Linen	26,896	53,607	(26,711)
Florida Power & Light	421,291	342,216	79,075
Harrah's Casino	53,105	55,860	(2,755)
Liberty Electric	238,772	357,210	(118,438)
Exelon	5,702	10,548	(4,846)
The P.Q. Corporation	106,396	128,400	(22,004)
Other	165,924	18,962	146,962
Total permit industries	1,517,774	1,442,574	75,200
Contract operation fees	638,548	410,000	228,548
Total Western Region	27,720,622	27,475,734	244,888
EASTERN REGION			
Authority:			
Central Delaware County Authority	9,638,024	9,619,575	18,449
Darby Creek Joint Authority	18,173,876	18,781,075	(607,199)
Muckinipates Authority	4,116,939	4,351,713	(234,774)
Total Eastern Region	31,928,839	32,752,363	(823,524)
Sludge disposal and processing	6,414,861	4,750,000	1,664,861
Total operating revenues	\$ 66,064,322	\$ 64,978,097	\$ 1,086,225

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY
SCHEDULES OF OPERATING EXPENSES**

FOR THE YEARS ENDED DECEMBER 31,

	2019	2018
Advertising	\$ 11,204	\$ 25,799
Consulting	620,166	270,054
Depreciation	7,526,695	6,588,896
Dues and conferences	90,904	73,574
Employee benefits	4,664,693	4,648,744
Engineering and tech services	375,692	198,361
Insurance	872,874	797,348
Minor equipment and supplies	2,882,190	2,915,007
Office	124,791	130,418
Other contracted services	594,606	477,313
Pension	2,128,575	1,944,894
Philadelphia Plant Treatment costs	9,890,358	9,625,120
Provision for doubtful accounts	102,494	61,782
Repairs and maintenance	2,829,079	2,778,617
Salaries and wages	13,039,649	12,396,648
Solicitor	682,624	172,119
Solids disposal	1,240,682	1,329,837
Utilities	2,719,105	2,529,871
Total operating expenses	<u>\$ 50,396,381</u>	<u>\$ 46,964,402</u>

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2007 SERIES**

<u>Year Ending December 31,</u>	<u>Coupon</u>	<u>Principal Maturity</u>	<u>Interest</u>	<u>Total Debt Service</u>
2020	5.25%	\$ 4,570,000	\$ 697,725	\$ 5,267,725
2021	5.25%	4,820,000	451,237	5,271,237
2022	5.25%	1,425,000	287,306	1,712,306
2023	5.25%	1,505,000	210,394	1,715,394
2024	5.25%	1,585,000	129,281	1,714,281
2025	5.25%	1,670,000	43,838	1,713,838
Total		<u>\$ 15,575,000</u>	<u>\$ 1,819,781</u>	<u>\$ 17,394,781</u>

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2015 SERIES**

Year Ending December 31,	Coupon	Principal Maturity	Interest	Total Debt Service
2020	2.500%	\$ -	\$ 1,637,394	\$ 1,637,394
2021	2.500%	-	1,637,394	1,637,394
2022	2.500%	835,000	1,626,956	2,461,956
2023	5.000%	870,000	1,594,769	2,464,769
2024	5.000%	915,000	1,550,144	2,465,144
2025	5.000%	975,000	1,502,894	2,477,894
2026	5.000%	1,010,000	1,453,269	2,463,269
2027	5.000%	1,060,000	1,401,519	2,461,519
2028	5.000%	1,115,000	1,347,144	2,462,144
2029	5.000%	1,170,000	1,290,019	2,460,019
2030	3.375%	1,220,000	1,240,181	2,460,181
2031	3.375%	1,265,000	1,198,247	2,463,247
2032	5.000%	1,320,000	1,143,900	2,463,900
2033	5.000%	1,385,000	1,076,275	2,461,275
2034	5.000%	1,455,000	1,005,275	2,460,275
2035	5.000%	1,530,000	930,650	2,460,650
2036	5.000%	1,610,000	852,150	2,462,150
2037	5.000%	1,695,000	769,525	2,464,525
2038	5.000%	1,780,000	682,650	2,462,650
2039	5.000%	1,870,000	591,400	2,461,400
2040	5.000%	1,965,000	495,525	2,460,525
2041	4.000%	2,055,000	405,300	2,460,300
2042	4.000%	2,140,000	321,400	2,461,400
2043	4.000%	2,230,000	234,000	2,464,000
2044	4.000%	2,320,000	143,000	2,463,000
2045	4.000%	2,415,000	48,300	2,463,300
Total		<u>\$ 36,205,000</u>	<u>\$ 26,179,280</u>	<u>\$ 62,384,280</u>

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2016 SERIES**

Year Ending December 31,	Coupon	Principal Maturity	Interest	Total Debt Service
2020		\$ -	\$ 2,597,200	\$ 2,597,200
2021		-	2,597,200	2,597,200
2022	5.00%	1,185,000	2,597,200	3,782,200
2023	5.00%	1,245,000	2,537,950	3,782,950
2024	5.00%	1,305,000	2,475,700	3,780,700
2025	5.00%	1,370,000	2,410,450	3,780,450
2026	5.00%	1,440,000	2,341,950	3,781,950
2027	5.00%	1,515,000	2,269,950	3,784,950
2028	5.00%	1,585,000	2,194,200	3,779,200
2029	5.00%	1,670,000	2,114,950	3,784,950
2030	5.00%	1,755,000	2,031,450	3,786,450
2031	5.00%	1,835,000	1,943,700	3,778,700
2032	5.00%	1,930,000	1,851,950	3,781,950
2033	5.00%	2,025,000	1,755,450	3,780,450
2034	5.00%	2,125,000	1,654,200	3,779,200
2035	4.00%	2,230,000	1,547,950	3,777,950
2036	4.00%	2,325,000	1,458,750	3,783,750
2037	5.00%	2,170,000	1,365,750	3,535,750
2038	5.00%	2,280,000	1,257,250	3,537,250
2039	5.00%	2,395,000	1,143,250	3,538,250
2040	5.00%	2,515,000	1,023,500	3,538,500
2041	5.00%	2,640,000	897,750	3,537,750
2042	5.00%	2,770,000	765,750	3,535,750
2043	5.00%	2,910,000	627,250	3,537,250
2044	5.00%	3,055,000	481,750	3,536,750
2045	5.00%	3,210,000	329,000	3,539,000
2046	5.00%	3,370,000	168,500	3,538,500
Total		<u>\$ 52,855,000</u>	<u>\$ 44,439,950</u>	<u>\$ 97,294,950</u>

SUPPLEMENTAL INFORMATION

DELAWARE COUNTY REGIONAL WATER QUALITY CONTROL AUTHORITY

SCHEDULE OF DEBT SERVICE SEWER REVENUE BONDS, 2017 SERIES

Year Ending December 31	Coupon	Principal Maturity	Interest	Total Debt Service
2020	5.00%	\$ -	\$ 1,613,750	\$ 1,613,750
2021	5.00%	-	1,613,750	1,613,750
2022	5.00%	965,000	1,589,625	2,554,625
2023	5.00%	1,005,000	1,540,375	2,545,375
2024	5.00%	1,065,000	1,488,625	2,553,625
2025	5.00%	1,115,000	1,434,125	2,549,125
2026	5.00%	2,935,000	1,332,875	4,267,875
2027	5.00%	3,080,000	1,182,500	4,262,500
2028	5.00%	3,240,000	1,024,500	4,264,500
2029	5.00%	3,405,000	858,375	4,263,375
2030	5.00%	3,580,000	683,750	4,263,750
2031	5.00%	3,765,000	500,125	4,265,125
2032	5.00%	3,960,000	307,000	4,267,000
2033	5.00%	4,160,000	104,000	4,264,000
Total		<u>\$ 32,275,000</u>	<u>\$ 15,273,375</u>	<u>\$ 47,548,375</u>

SUPPLEMENTAL INFORMATION

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FUNDS ESTABLISHED UNDER AN INDENTURE DATED JULY 15, 2001
AND TOTAL CASH AND INVESTMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Renewal and Replacement Fund	Rate Stabilization Fund	LTCP East Escrow	Revenue Fund	Sewer Reserve Fund	Debt Service Fund	Sewer Repair and Replacement Fund	Debt Service Reserve Fund	2015 Construction Fund	2016 Construction Fund	Total
Balances - January 1, 2019	\$ 36,772,993	\$ 8,825,277	\$ 1,440,301	\$ 26,495,806	\$ 3,000,558	\$ 2,610,760	\$ 3,681,961	\$ 11,180,180	\$ 3,862,617	\$ 20,339,953	\$ 118,210,408
Receipts:											
Customer revenue	-	-	-	65,071,667	-	-	-	-	-	-	65,071,667
Edgmont escrow reimbursement	-	-	-	-	-	-	-	-	-	-	-
SWCA & MTSA payoff decommissioning	-	-	-	-	-	-	-	-	-	-	-
Transfers from Operating account	-	-	-	-	-	-	-	-	-	-	-
Transfers from other trust funds	1,500,000	-	-	-	-	11,079,922	240,000	-	-	-	12,819,922
Loan proceeds	-	-	-	-	-	-	-	-	-	-	-
Investment income	939,565	196,058	39,405	820,426	79,904	84,142	111,609	321,527	16,165	399,524	2,988,325
Total receipts	2,439,565	196,058	39,405	65,892,093	79,904	11,144,064	351,609	321,527	16,165	399,524	80,879,914
Disbursements:											
Requisitions	7,097,857	-	-	44,663,593	-	-	-	-	3,878,782	15,776,631	71,416,863
Transfers to other trust funds	-	-	-	12,819,922	-	-	-	-	-	-	12,819,922
Bond refunding	-	-	-	-	-	-	-	-	-	-	-
Bond refunding expense	-	-	-	-	-	-	-	-	-	-	-
Debt service payments:	-	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	485,044	-	4,335,000	-	-	-	-	4,820,044
Interest	-	-	-	67,532	-	11,114,825	-	-	-	-	6,847,357
Total disbursements	7,097,857	-	-	58,036,061	-	15,449,825	-	-	3,878,782	15,776,631	95,904,186
Balances - December 31, 2019	\$ 32,114,701	\$ 9,021,335	\$ 1,479,706	\$ 34,351,508	\$ 3,080,462	\$ 2,639,999	\$ 4,033,570	\$ 11,501,707	\$ -	\$ 4,962,846	\$ 103,186,134



CYNTHIA FELZER LEITZELL, CPA
STELLA C. ECONOMIDIS, CPA

LEITZELL & ECONOMIDIS, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors
Delaware County Regional Water Quality Control Authority
Chester, Pennsylvania

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Delaware County Regional Water Quality Control Authority ("DELCORA"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Delaware County Regional Water Quality Control Authority's basic financial statements, and have issued our report thereon dated April 15, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Delaware County Regional Water Quality Control Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Delaware County Regional Water Quality Control Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Delaware County Regional Water Quality Control Authority's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware County Regional Water Quality Control Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Leitzell & Economidis, PC". The signature is written in a cursive, flowing style.

Leitzell & Economidis, PC
Media, Pennsylvania

April 15, 2020