

**DELAWARE COUNTY REGIONAL
WATER QUALITY CONTROL AUTHORITY**

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2020



CYNTHIA FELZER 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
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Management's Discussion and Analysis (Unaudited)
December 31, 2020

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, 2020 includes the following key highlights:

- In spite of the COVID-19 pandemic, DELCORA has maintained a steady level of service throughout the Authority. We continue to treat wastewater, service the conveyance and collection systems, pay our employees and vendors, proceed with our capital projects and perform other functions that were in place pre-pandemic. However, the pandemic had affected DELCORA in 2020 through delays in payment or the inability of some of our customers to pay for our services. We have been unable to disconnect service for non-payment during the pandemic. Disconnection acts as a major incentive for bill payment. DELCORA has increased its allowance for doubtful accounts accordingly.
- 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 (APA) with Aqua. Pursuant to the APA, DELCORA agreed to sell all of its assets to Aqua. Following the execution of the APA, Aqua filed an application with the Pennsylvania Public Utility Commission (PUC) seeking approval of the purchase of DELCORA's assets and for a certificate to serve DELCORA's customers.
- In January 2021, the Administrative Law Judges for the Pennsylvania PUC recommended that AQUA's application be denied. AQUA provided exceptions to the recommended decision to the Pennsylvania Public Utility Commission (PA PUC). On March 25, 2021, the PA PUC reopened the record and remanded the application back to the Administrative Law Judges for such further proceedings that may be appropriate.
- In May 2020, Delaware County, Pennsylvania filed a lawsuit alleging that DELCORA does not have the legal authority to establish and fund a customer trust with the proceeds of the sale of assets by DELCORA to Aqua. In December 2020, the judge in the Delaware County court lawsuit issued an order that (1) The County cannot interfere with the Asset Purchase Agreement between DELCORA and AQUA, (2) the County cannot terminate DELCORA prior to the closing of the transaction, and (3) that the establishment of the Customer Trust was valid. In 2021, the County appealed the decision to the Pennsylvania Commonwealth Court. A decision is pending.
- The Combined Sewer Overflow Long-Term Control Plan (CSO LTCP) Update Report and the Nine Minimum Controls Plan were submitted on February 17, 2019. On January 25, 2021 and February 5, 2021, an updated version of the LTCP Update and Nine Minimum Controls was submitted. 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.

DELAWARE COUNTY REGIONAL WATER
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Management's Discussion and Analysis (Unaudited)
December 31, 2020

- 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 in the Eastern Service Area (ESA) away from Philadelphia and send it to DELCORA's Western Regional Treatment Plant (WRTP). The Eastern Service Area (ESA) Pipeline and Western Regional Treatment Plant (WRTP) Expansion Upgrades Program included a design validation and value engineering. The purpose of the design validation and value engineering was to verify that the ESA Pipeline and WRTP Expansion Upgrades were the best methods to disconnect from PWD's Southwest WPCP. Overall, the ESA Tunnel would be easier to operate, more flexible to handle future flows, and at about the same cost on a life-cycle basis. After further consideration, it was determined the costs of the ESA tunnel would be comparable to a pipeline, and additional benefits would be achieved during both construction and operation. Design on the ESA tunnel commenced on September 8, 2020 and is anticipated to be bid for construction in Q4 2023. Construction will occur between January 2024 through December 2027 for a total of 4 years of construction duration. Please see Footnote #10 for more details.
- DELCORA sent an average of 23.27 million gallons per day (MGD) in 2020 to the Philadelphia Water Department's (PWD) Treatment Plant vs. 26.04 MGD in 2019. Flow in 2020 at DELCORA's Western Regional Treatment Plant (WRTP) was 39.28 MGD vs. 40.23 MGD in 2019. Total flow in 2020 was down from 2019 in both East and West despite rainfall increasing slightly from 47.33 inches in 2019 to 49.74 inches in 2020. This was due to high rainfall in late 2018 which led to high flows in the first half of 2019. In addition, much of the 2020 rainfall occurred in summer months when the rainfall is absorbed much more quickly than in winter months, resulting in less I&I.
- In 2020, revenue from the trucked waste receiving business reached \$6,621,620 an increase of \$1,621,620 (32.4%) over the 2020 budget and an increase of \$206,759 (3.2%) over the prior year. The increased revenue was the result of a pricing increase that became effective 1/1/2020. Revenue has consistently increased annually from a level of approximately \$300,000 in 2004 to the present level.

Major Capital Projects Completed in 2020 Include:

Solids Handling Upgrades	\$11,000,000
Central Pump Station Upgrades	\$3,783,000
Chester Creek Interceptor Pipe Grouting	\$440,000
Marcus Hook Pump Station Upgrades	\$325,000

Major Projects in Progress in 2021:

2018 WRTP Upgrades	\$22,220,000
2020 WRTP Upgrades	\$9,510,000
HVAC Energy Upgrades	\$6,435,000
Spring Hill Farms Pump Station (Completed 2/21)	\$2,350,000
Eastern Service Area Program	In Progress
CSO #5 Partial Separation	In Progress

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

Management's Discussion and Analysis (Unaudited)
December 31, 2020

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, 2020

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, 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 assets; a statement of revenues, expenses, and changes in net assets; 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 assets provides information about the nature and amount of resources and obligations at year-end, the statement of revenues, expenses, and changes in net assets 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
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Management's Discussion and Analysis (Unaudited)
December 31, 2020

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.

	2019	2020	Difference	%
<i>Revenues per thousand gallons billed:</i>				
Residential	\$2.82	\$3.17	.35	12.4
Commercial	\$2.81	\$2.99	.18	6.4
<i>Ratio of Operating Revenue to:</i>				
-Operating Expenses	1.31	1.29	(.02)	(1.5)
-Operating Expenses, net of depreciation	1.54	1.54	.00	0.0
-Total assets (asset turnover)	0.17	0.17	.00	0.0
<i>Ratio of Operating Income to:</i>				
-Operating Revenue	0.24	0.22	(.02)	(8.3)
<i>Debt-related ratios:</i>				
Total debt to total assets	0.42	.39	(.03)	(7.1)

Financial Results of System-wide Operations

- Total Liabilities	\$ 178,972,576
Long Term	\$ 161,122,385
Other	\$ 17,850,191
- Total Net Assets	\$ 220,226,284
Invested in capital assets (net of related debt)	\$ 118,436,483
Restricted for Debt Service	\$ 12,997,009
Unrestricted	\$ 88,792,792
- Revenues (By source)	
Commercial Industries	\$ 16,734,770
Residential	52,139,164
Total Operating Revenue	<u>\$ 68,873,934</u>

DELAWARE COUNTY REGIONAL WATER
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Management's Discussion and Analysis (Unaudited)
December 31, 2020

2020 Actual Compared to 2020 Budget Results:

	<u>Actual</u>	<u>Budget</u>	<u>Difference</u>	
Total Revenues	\$ 80,469,368	\$ 72,278,127	\$ 8,191,241	Favorable
Operating Expenses (Net of Depreciation and Debt Service)	\$ 44,801,423	\$ 47,928,619	\$ 3,127,196	Favorable

Total revenue is \$80,469,368, 11.3% higher than the budget of \$72,278,127. This was caused by \$10,581,298 of other income that was recognized in 2020 as a result of management determining that reserves in this amount that were set up for future LTCP expenses were not needed, primarily as a result of the future asset purchase by Aqua. Without the other income, total revenue would have been \$69,888,070, which is \$2,390,057 or 3.3%, under budget. This shortfall in revenue was due to lower flows, particularly in the East Region. This was partially offset by a favorable variance of \$1,621,620 in sludge revenue. Shortfall in revenue was offset by the favorable variance of \$3,127,196 in operating expenses so that net operating income exceeded budget by \$737,139.

Significant variances to budget in operating expenses are as follows:

PWD Treatment Costs – actual treatment costs were less than budget by \$3,955,348. This was due to lower than budgeted flow, along with lower than budgeted BOD and TSS readings. In addition, DELCORA's share of the PWD Long Term Control Plan for 2020 was lower than anticipated.

Salaries and Wages – Salaries wages, including overtime, was \$769,704, or 5.7% over budget due to the scheduling of operations and sewer maintenance workers that required the safe separation of the workforce for several months during the height of the pandemic.

Pension Plan - An additional \$1,000,000 above the budgeted amount was contributed to the Pension Plan in 2020.

Solicitor and Consulting – These expenses were a combined \$1,370,825 or 124% over budget due to expenses associated with the Aqua asset purchase agreement litigation and the PA Public Utility Commission (PUC) application. Also, consulting costs were incurred associated with the Eastern Service Area alternatives.

Other – The unfavorable variances in Salaries and Wages, Pension Plan and Solicitor and Consulting were partially offset by favorable variances in other expense categories. These included Repairs and Maintenance (\$655,867, 18.8%), Information Technology Services and Maintenance (\$587,968, 50.7%) and Contracted Services (\$317,024, 17.1%). This was due to the cyclical nature of these expenses and lower spending in these areas in 2020.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY

Management's Discussion and Analysis (Unaudited)
December 31, 2020

2020 Actual Compared to 2019 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 \$5.32 to \$5.75 per 1,000 gallons (an 8.0% increase) from calendar year 2019 to 2020. Retail Residential customers are Chester City, Chester and Edgmont Townships, and the Boroughs of Parkside, Upland, Marcus Hook, Trainer and Rose Valley. Total operating revenues increased \$2,809,612 in 2020 from 2019. This was primarily the result of increased Residential billing of \$265,000, an increase in Western Municipal Authorities of \$535,000, an increase in Eastern Authorities of \$900,000, an increase in Industrial Billing of \$900,000 and an increase of \$210,000 in outside hauling.

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

	2020	% of Total	2019	% of Total	Variance	% Change
PWD Plant Treatment	\$ 9,047,218	16.9%	\$ 9,890,358	19.6%	\$ (843,140)	-8.5%
Salary & Wages	14,179,484	26.6%	13,039,649	25.9%	1,139,835	8.7%
Depreciation & Amortization	8,590,205	16.1%	7,526,695	14.9%	1,063,510	14.1%
Utilities	2,687,356	5.0%	2,719,105	5.4%	(31,749)	-1.2%
Pension	2,461,989	4.6%	2,128,575	4.2%	333,414	15.7%
Employee Benefits	4,758,686	8.9%	4,664,693	9.3%	93,993	2.0%
Solids Disposal	1,274,906	2.4%	1,240,682	2.5%	34,224	2.8%
Repairs & Maintenance	2,663,036	5.0%	2,829,079	5.6%	(166,043)	-5.9%
Engineering & Tech Services	347,164	0.7%	375,692	0.7%	(28,528)	-7.6%
Legal Fees	1,795,967	3.4%	682,624	1.4%	1,113,343	163.1%
Minor Equipment and Supplies	2,820,957	5.3%	2,882,190	5.7%	(61,233)	-2.1%
Other Operating Expenses	2,764,660	5.2%	2,417,039	4.8%	347,621	14.4%
Total Operating Expenses	<u>\$ 53,391,628</u>	100.0%	<u>\$ 50,396,381</u>	100.0%	<u>\$ 2,995,247</u>	5.9%

PWD Treatment Costs – 2020 treatment costs were lower than 2019 by 8.5% (\$843,140) due to lower flow and lower BOD and TSS readings.

Salaries and Wages – Increased by 8.7% due to normal salary and wage increases of approximately 3.25% along with several positions added in 2020. In addition, scheduling issues for operations and sewer maintenance workers during the height of the pandemic caused higher wages, as efforts were made to physically separate workers.

Legal Fees – Increased by \$1,113,000 or 163.1% due to legal fees associated with litigation with Delaware County and the PUC application.

DELAWARE COUNTY REGIONAL WATER
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Depreciation – Increased by \$1,063,00 or 14.1% from 2019 to 2020 due to a number of significant projects that have been completed and placed in service in late 2019 and 2020.

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 \$2,363,853 to \$21,128,721 in 2020 from 2019.

	<u>2019</u>	<u>2020</u>	<u>Difference</u>	<u>% Change</u>
Total operating revenues	\$66,064,322	\$68,873,934	\$2,809,612	4.3%
Net cash provided by operations	\$18,764,868	\$21,128,721	\$2,363,853	12.6%
Net operating cash as a % of operating revenue	28.4%	30.7%		

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.

2020 Operations

WRTP—Water Quality Performance

- Average Suspended Solids - 13 mg/L for the year
- Average cBOD5 - 10 mg/L for the year
- Average cBOD20 % Removal – 97.07% for the year

WRTP—Solids Handling Performance

- Average Dry Tons/Day - 69.69 tons for the year
- Average Cake Solids - 21.67 % 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 9.11 MGD from CDCA — ~ 39.28 MGD
- Eastern Delaware County To Philadelphia Southwest Treatment Plant— ~23.27 MGD

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.



CYNTHIA FELZER LEITZELL, CPA
STELLA C. ECONOMIDIS, CPA

LEITZELL & ECONOMIDIS, PC
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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, 2020 and 2019, 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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STELLA C. ECONOMIDIS, CPA

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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, 2020 and 2019 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 1-8 and 34 and 36 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 cash and 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 funds established under an indenture dated July 15, 2001 and total cash and investments 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 funds established under an indenture dated July 15, 2001 and total cash and investments 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 6, 2021, 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 6, 2021

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

	2020	2019
ASSETS		
Current:		
Cash and cash equivalents	\$ 89,049,989	\$ 49,554,394
Investments	2,162,546	50,496,995
Receivables:		
Western Region		
Residential, net of allowance for doubtful accounts of \$544,202 and \$110,333 in 2020 and 2019, respectively	1,095,888	815,092
Municipal	2,148,298	2,219,787
Major industries	135,440	370,023
Permit industries	397,439	114,730
Notes receivable, current portion	80,460	77,814
Other receivables	1,448,595	1,852,846
Prepaid expenses	335,511	450,012
Total current assets	96,854,166	105,951,693
Non current:		
Capital assets, net of accumulated depreciation	276,768,326	260,506,518
Notes receivable, net of current portion	1,593,511	1,673,971
Restricted cash and cash equivalents	11,648,746	4,757,706
Restricted investments	-	6,744,000
Total non current assets	290,010,583	273,682,195
DEFERRED OUTFLOWS OF RESOURCES		
Deferred expense on refunding	3,521,742	3,793,516
Pension plan related deferred outflows	11,682,586	4,598,710
Total assets and deferred outflows of resources	<u>\$ 402,069,077</u>	<u>\$ 388,026,114</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 5,323,543	\$ 5,500,399
Payable to the City of Philadelphia	1,589,057	1,462,680
Current portion of long-term debt	6,142,851	6,383,067
Accrued bond interest payable	1,075,979	1,116,400
Advances on services		
Residential	126,993	-
Central Delaware County Authority	793,146	-
Muckinipates Authority	464,278	259,375
Darby Creek Joint Authority	1,374,210	652,075
Municipal	447,261	260,684
Major industries	512,873	514,777
Permit industries	-	120,831
Total current liabilities	17,850,191	16,270,288
Noncurrent		
Long term debt, net of current portion	152,189,228	158,332,081
Deferred revenue - Philadelphia rate stabilization	-	9,021,335
Net pension liability	8,473,571	3,068,684
Deferred compensation plan	459,586	350,649
Deferred revenue - long term control plan	-	1,479,706
Total non current liabilities	161,122,385	172,252,455
Total liabilities	<u>178,972,576</u>	<u>188,522,743</u>
DEFERRED INFLOWS OF RESOURCES		
Pension plan related deferred inflows	2,870,217	1,598,956
Total liabilities and deferred inflows of resources	<u>181,842,793</u>	<u>190,121,699</u>
NET POSITION		
Invested in capital assets, net of related debt	118,436,483	100,754,217
Restricted for debt service	12,997,009	11,116,069
Unrestricted	88,792,792	86,034,129
Total net position	220,226,284	197,904,415
TOTAL LIABILITIES AND NET POSITION	<u>\$ 402,069,077</u>	<u>\$ 388,026,114</u>

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

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

	<u>2020</u>	<u>2019</u>
Operating revenues		
Western Region:		
Major Industries	\$ 7,988,950	\$ 7,056,587
Residential	8,797,981	8,532,868
Municipal	10,509,730	9,974,845
Contract operation fees	634,364	638,548
Permit Industries	1,489,836	1,517,774
Total Western Region	<u>29,420,861</u>	<u>27,720,622</u>
Eastern Region:		
Darby Creek Joint Authority	18,967,409	18,173,876
Central Delaware County Authority	9,591,402	9,638,024
Muckinipates Authority	4,272,642	4,116,939
Total Eastern Region	<u>32,831,453</u>	<u>31,928,839</u>
Sludge disposal and processing	<u>6,621,620</u>	<u>6,414,861</u>
Total operating revenues	<u>68,873,934</u>	<u>66,064,322</u>
Operating expenses, including depreciation of \$8,590,205 in 2020 and \$7,526,695 in 2019	<u>53,391,628</u>	<u>50,396,381</u>
Operating income	<u>15,482,306</u>	<u>15,667,941</u>
Non-operating revenues (expense)		
Interest income	900,936	2,453,200
Interest expense	(6,568,009)	(6,808,997)
Bond premium amortization	1,322,852	1,322,852
Deferred cost on refunding amortization	(271,774)	(271,774)
Other income (see Note 9)	10,694,498	153,009
Total non-operating revenues (expense)	<u>6,078,503</u>	<u>(3,151,710)</u>
Net income before capital contributions	21,560,809	12,516,231
Capital contributions:	<u>761,060</u>	<u>352,848</u>
Net income	<u>22,321,869</u>	<u>12,869,079</u>
Net position - beginning	197,904,415	185,035,336
Net position - ending	<u>\$ 220,226,284</u>	<u>\$ 197,904,415</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,

	2020	2019
Cash flows from operating activities:		
Receipts from customers	\$ 70,385,614	\$ 65,707,551
Payments to suppliers	(33,300,777)	(26,869,325)
Payments to employees	(15,956,116)	(20,073,358)
Net cash provided by operating activities	<u>21,128,721</u>	<u>18,764,868</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(24,852,013)	(27,263,712)
Collection of notes receivable	77,814	75,255
Other income	193,458	153,009
Interest paid	(6,849,678)	(6,847,097)
Repayment of long-term debt	(6,383,068)	(4,820,044)
Net cash used by capital and related financing activities	<u>(37,813,487)</u>	<u>(38,702,589)</u>
Cash flows from investing activities:		
Investments redeemed / (purchased) net	54,834,050	7,525,023
Investment interest received	1,346,311	2,863,222
Net cash provided by investing activities	<u>56,180,361</u>	<u>10,388,245</u>
Net increase (decrease) in cash and cash equivalents	39,495,595	(9,549,476)
Cash and cash equivalents - beginning	49,554,394	59,103,870
Cash and cash equivalents - ending	<u>\$ 89,049,989</u>	<u>\$ 49,554,394</u>
Reconciliation of operating income to net cash provided by operating activities:		
Net income	\$ 22,321,869	\$ 12,869,079
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	8,590,205	7,526,695
Amortization	(1,051,078)	(1,051,078)
Provision for doubtful accounts	451,111	102,494
Decrease (increase) in:		
Receivables:		
Residential	(714,665)	(4,430)
Municipal	71,489	(335,765)
Major industries	234,583	141,762
Permit industries	(282,709)	(19,225)
Note receivables	77,814	75,255
Other receivables	404,251	(295,903)
Prepaid expenses	114,501	80,449
Deferred outflows/inflows - pension plan	(5,812,615)	688,019
Increase (decrease) in:		
Accounts payable and accrued expenses	(217,277)	(410,337)
Net pension liabilities	5,404,887	(339,303)
Payable to the City of Philadelphia	126,377	(321,991)
Deferred revenue - long term control plan	(10,501,041)	39,405
Advances on services	1,911,019	19,742
Net cash provided by operating activities	<u>\$ 21,128,721</u>	<u>\$ 18,764,868</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, 2020 AND 2019**

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, 2020 AND 2019

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2020 AND 2019

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.

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 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, 2020 and 2019, the carrying amount of the entity's deposits was \$7,517,379 and \$9,496,028, 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 prorate 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, 2020 and 2019 was \$9,495 and \$48,695, respectively, included in the deposits noted above.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 2 - Deposits and Investments (continued)

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, \$834,407 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. Should the entity hold certificates of deposit that were to be in excess of three months maturity they would be held in a Certificate of Deposit Account Registry program and would be covered in their entirety by federal depository insurance. This period none of the entity's certificates of deposit were in excess of three months maturity.

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.

The funds held in accordance with the Trust Indenture for the Sewer Revenue Bonds (see page 43) 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, 2020 and 2019 was \$94,883,765 (including cash and money market \$978,548; PLGIT Class of \$105,548; PLGIT Prime of \$92,096,709 and repurchase agreements of \$1,702,960) and \$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) 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 20.

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.

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 2 - Deposits and Investments (continued)

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, 2020 AND 2019**

NOTE 2 - Deposits and Investments (continued)

	2020	2019
Unrestricted cash and investments:		
Cash and cash equivalents		
Cash and money market	\$ 8,495,974	\$ 9,496,028
PLGIT CLASS	105,548	-
PLGIT PRIME	80,448,467	-
PLGIT ARM	-	11,597,070
PLGIT CD	-	9,880,330
PLGIT TERM	-	18,575,000
TD Ameritrade	-	5,966
Cash and cash equivalents	<u>\$ 89,049,989</u>	<u>\$ 49,554,394</u>
Investments		
Certificates of deposit originally maturing beyond three months	\$ -	\$ 4,752,312
PLGIT Term	-	42,760,000
Repurchase agreements	1,702,960	2,639,999
TD Ameritrade	459,586	344,684
Total investments	<u>\$ 2,162,546</u>	<u>\$ 50,496,995</u>
Restricted cash and investments:		
Cash and cash equivalents		
PLGIT CLASS	\$ 504	\$ -
PLGIT PRIME	11,648,242	-
PLGIT ARM	-	2,317
PLGIT Term	-	4,240,000
Certificates of deposit originally maturing less than three months	-	515,389
Cash and cash equivalents	<u>\$ 11,648,746</u>	<u>\$ 4,757,706</u>
Investments		
Certificates of deposit originally maturing beyond three months	\$ -	\$ 244,000
PLGIT Term	-	6,500,000
Total investments	<u>\$ -</u>	<u>\$ 6,744,000</u>

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 3 - Capital Assets

DELCORA in 2018 adopted GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Capital assets at December 31, 2020 and 2019 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 December 31, 2020, interest expense totaled \$6,568,009.

Capital assets activity for the year ended December 31, 2020, is as follows:

	Balance 01/01/20	Additions	Deletions	Balance 12/31/20
Capital assets not being depreciated:				
Land and right of way	\$ 5,829,304	\$ -	\$ -	\$ 5,829,304
Construction in progress	45,962,119	23,700,793	(22,131,269)	47,531,643
Total capital assets not being depreciated	51,791,423	23,700,793	(22,131,269)	53,360,947
Capital assets being depreciated:				
Western Region Treatment Plant	168,353,427	10,713,183	-	179,066,610
Service lines and force mains	114,952,065	-	-	114,952,065
Pumping stations	40,422,275	5,835,761	-	46,258,036
Building and improvements	6,511,556	214,400	-	6,725,956
Machinery and equipment	5,771,442	788,279	-	6,559,721
ESA Improvements	-	712,344	-	712,344
Western Region Treatment Plant Long Term Control Plan	-	5,018,522	-	5,018,522
Total capital assets being depreciated	336,010,765	23,282,489	-	359,293,254
Total capital assets	387,802,188	46,983,282	(22,131,269)	412,654,201
Accumulated depreciation				
Western Region Treatment Plant	72,604,110	4,072,396	-	76,676,506
Service lines and force mains	29,663,685	2,591,061	-	32,254,746
Pumping stations	19,613,438	1,104,054	-	20,717,492
Building and improvements	3,318,121	179,323	-	3,497,444
Machinery and equipment	2,096,316	643,371	-	2,739,687
Total accumulated depreciation	127,295,670	8,590,205	-	135,885,875
Capital assets, net of depreciation	\$ 260,506,518	\$ 38,393,077	\$ (22,131,269)	\$ 276,768,326

NOTE 4 - Notes Receivable

DELCORA has a 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.

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 \$77,814 was paid leaving a balance of \$1,673,971.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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.

However, pursuant to the Asset Purchase Agreement with Aqua Pennsylvania Wastewater, Inc. as indicated in Note 12, such service agreements were amended to accept and reflect certain changes in rates and other matters that are applicable to a regulated utility, but not to DELCORA. The amendments do not become effective until the closing of the Asset Purchase Agreement.

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	1/1/2020	New indebtedness	Principal/ Amortization	12/31/2020	Due in one year
Revenue Bond 2007	\$ 36,235,000	5.25%	05/01/25	\$ 15,575,000	\$ -	\$ 4,570,000	\$ 11,005,000	\$ 4,820,000
Revenue Bond 2015	36,205,000	.50-5.50%	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	6,101,834	-	490,216	5,611,618	-
Revenue Bond 2017	32,275,000	5.00%	5/1/2033	32,275,000	-	-	32,275,000	-
	<u>\$ 167,608,785</u>			143,011,834	-	5,060,216	137,951,618	4,820,000
Deferred Issuance								
Premiums				21,703,313	-	1,322,852	20,380,461	1,322,851
				<u>\$ 164,715,147</u>	<u>\$ -</u>	<u>\$ 6,383,068</u>	<u>\$ 158,332,079</u>	<u>\$ 6,142,851</u>

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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, 2020 are as follows:

Year ending December 31,	Principal	Interest	Principal and Interest	Deferred Issuance premiums	Total
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	5,930,002	11,061,065	1,322,851	12,383,916
2024	5,381,459	5,684,868	11,066,327	1,322,851	12,389,178
2025	5,646,912	5,426,972	11,073,884	1,197,976	12,271,860
2026-2030	32,448,411	22,861,105	55,309,516	5,543,900	60,853,416
2031-2035	29,397,606	15,020,548	44,418,154	3,793,825	48,211,979
2036-2040	20,605,000	9,639,250	30,244,250	2,164,725	32,408,975
2041-2045	25,745,000	4,253,500	29,998,500	2,073,555	32,072,055
2046	3,370,000	168,500	3,538,500	315,076	3,853,576
	<u>\$ 137,951,618</u>	<u>\$81,496,400</u>	<u>\$ 219,448,018</u>	<u>\$20,380,461</u>	<u>\$239,828,479</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, 2020 AND 2019

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 \$30,988,475 and \$14,100,877 at December 31, 2020 and December 31, 2019, 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 that our GPS equipment is placed onto at various locations for periods ending from December 31, 2020 through February 3, 2025.

Future operating lease payments as of December 31, 2020 are as follows:

2021	\$	44,182
2022		30,664
2023		16,590
2024		17,087
2025		1,427
	\$	<u>109,950</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, 2020 AND 2019

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.

As indicated in Footnote 12, with the Asset Purchase Agreement with Aqua Pennsylvania Wastewater, Inc., the Plan is expected to freeze at completion of the transaction and commence a timely termination. The valuation of the total pension liability as presented herein was determined by the actuaries using census data as of the measurement date and is based upon plan termination assumption rather than long-term assumptions. 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. However, these assumptions no longer apply due to the anticipated plan termination.

For a plan expected to remain ongoing, the entry age actuarial cost method is used to determine Plan liabilities. Due to the expected termination, the cost method was adjusted to value accrued benefits of each participant under estimated assumption utilized to settle obligations.

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.

DELAWARE COUNTY REGIONAL WATER
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 - Employee Retirement Plans (continued)

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;

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, 2019 actuarial valuation. Funding requirements for the plan year 2020 was established as part of the January 1, 2019 actuarial valuation. Funding requirements for plan year 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 (due to plan termination intentions, the discount rate was reduced from 7%), (b) lump sum payments are valued based on IRS section 417e segment rates as of December 2020 (.51%, 2.26% and 3.01%), (c) mortality rates are based on Pub-2010 General Amount Weighted Mortality Tables projected from 2010 with Mortality Improvement Scale MP-2020; for Lump Sum payments, the IRS section 417e applicable mortality table is used, (d) salary increases of 4.00% per annum (e) the Level Dollar Open Method over an open period of 30 years is used to amortize the unfunded actuarial liability with a remaining

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8 - Employee Retirement Plans (continued)

amortization period of 7 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 2.45%.

Assets are valued at adjusted 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, 2020 was as follows:

Inactive employees or beneficiaries receiving benefits	15
Inactive employees entitled to but not yet receiving benefits	27
Active employees	138
Total employees covered	<u>180</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, 2020, the carrying amount and the balance of the Plan's deposits in cash and cash alternatives totaled \$731,774 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.

DELAWARE COUNTY REGIONAL WATER
 QUALITY CONTROL AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2020 AND 2019

NOTE 8 - Employee Retirement Plans (continued)

Plan investments at year end are as follows:

Ishares TIPS Bond ETF	\$ 869,807
Ishares IBOXX Hi Yd	870,206
Vanguard Total Bond Market Index Fund	2,880,903
Vanguard AllWRLD Ex US	5,324,008
Vanguard Intermediate Term Corp Bond	1,156,063
Vanguard Mid Cap Index Fund	1,291,692
Vanguard Growth ETF	3,707,378
Vanguard Value ETF	3,697,991
Vanguard Small Cap Index Fund	1,273,012
	<hr/>
	21,071,060
Cash and cash equivalents/mutual funds	731,774
	<hr/>
	<u>\$21,802,834</u>

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, 2020. 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.

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 8 - Employee Retirement Plans (continued)

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, 2020:

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

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 5.92 percent per year before inflation factor of 2.18%. The net blended rate representing the real rate of return, inclusive of inflation and net of plan expenses was 3.74%. Long term expected real rate of return was as follows:

	<u>Long-Term Expected</u>
Equities	10.64%
Fixed Income	0.68%
Cash	-0.38%
Total Gross Blended Return	3.74%
Less: Plan Expenses	0.30%
Total Net Blended Return	<u>3.44%</u>

For the year ended December 31, 2020, the annual rate of return on the pension plan investments, net of pension investment expense was 16.11%. The rate of return is calculated net of investment expense, adjusted for the changing amounts actually invested.

DELCORA recognized defined benefit pension expense in the amount of \$2,317,272 and \$1,988,715 for the years ended December 31, 2020 and 2019, respectively. Contributions for the year totaled \$2,725,000. At December 31, 2020, DELCORA reported deferred outflows of resources and deferred inflows of resources related to the pension as follows:

DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

NOTE 8- Employee Retirement Plans (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,090,219	\$ 369,007
Changes in assumptions	10,592,367	316,809.00
Net differences between projected and actual earnings on pension plan investments	-	2,184,401
	<u>\$ 11,682,586</u>	<u>\$ 2,870,217</u>
Future recognition of deferred outflows and inflows in pension expense	Fiscal Year	Amount Recognized
	2021	\$ 1,193,411
	2022	\$ 1,483,145
	2023	\$ 580,702
	2024	\$ 956,314
	2025	\$ 1,300,064
	Thereafter	\$ 3,298,733

Sensitivity of Net Pension Liability to Changes in Discount Rate:

	1% Decrease 1.45%	Current Rate 2.45%	1% Increase 3.45%
Net pension liability	<u>\$14,278,877</u>	<u>\$8,473,571</u>	<u>\$3,855,859</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 \$144,717 and \$139,860 for the years ended December 31, 2020 and 2019, 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, 2020 AND 2019**

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 \$459,586 and \$350,649 for 2020 and 2019, 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 had been previously shown on these statements as deferred revenue - long term control plan. During this period as a result of the impending asset acquisition agreement, the remaining deferred revenue-long term control plan was recognized as income on these statements as miscellaneous revenue. Additional deferred revenue relative to Philadelphia had been represented by the deferred revenue - rate stabilization for which a portion of revenues had been deferred to protect from unanticipated or precipitous charges from Philadelphia. This too was recognized as revenue during the current period.

NOTE 10 – Eastern Service Area (ESA) Alternative to Treatment by the Philadelphia Water Department (PWD)

DELCORA's service area is divided into two regions; the Western Service Area (WSA) and the Eastern Service Area (ESA). Both dry and wet weather flows collected in the WSA are conveyed and treated at DELCORA's existing Western Regional Treatment Plant (WRTP). In the western portion of the ESA, dry weather and a portion of wet weather flows (less than 20 million of gallons per day (mgd)) are also conveyed and treated at DELCORA's WRTP. However, wet weather flow above 20 mgd in the western portion of the ESA as well as both dry and wet weather flows

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 10 – Eastern Service Area (ESA) Alternative to Treatment by the Philadelphia Water Department (PWD)

collected in the eastern portion of the ESA are conveyed to and treated at the Southwest Water Pollution Control Plant owned and operated by the Philadelphia Water Department (PWD). The current contract to send ESA flow to Philadelphia ends in April 2028, which includes a requirement to cost share in the Philadelphia Water Department (PWD) Long Term Control Plan (LTCP). DELCORA's contribution to the PWD LTCP is estimated to cost over \$600 million through 2042 with another \$600 million expected after 2042 for a total of \$1.2 billion.

DELCORA has evaluated how to utilize its existing facilities to treat the flows from the ESA which are currently sent to PWD's Southwest Waste Water Pollution Control Plant (SWWPCP). DELCORA determined a pipeline and plant expansion of the WRTP would cost significantly less than the current estimate for DELCORA contribution to the PWD LTCP. As a result, DELCORA chose to move forward with the ESA design to prepare for potential April 2028 disconnection from the PWD system.

The ESA Pipeline and WRTP Expansion Upgrades Program included a design validation and value engineering at the 10% design level. The purpose of the design validation and value engineering was to verify that the ESA Pipeline and WRTP Expansion Upgrades were the best methods to disconnect from PWD's Southwest WPCP. The value engineering three (3) day session was conducted in February 2020 and included experts specializing in pumping station design, wastewater treatment plant design, high-rate treatment design, and wet weather flow management. The design validation also identified a need to increase the capacity of the WRTP to 120 mgd to minimize the number and duration of activations of the proposed Wet Weather Biological Treatment Facility. Multiple alternatives were developed, evaluated, compared, and costed and resulted in a determination of a deep rock storage/conveyance tunnel (ESA tunnel). Design of the ESA tunnel commenced in 2020 and is expected to be constructed between January 2024 through December 2027.

NOTE 11 – 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. Comments on the February 17, 2019 Long Term Control Plan Update (LTCPU) and NMC were received on January 30, 2020 and a revised LTCPU was submitted on July 15, 2020 and a revised NMC was submitted on August 28, 2020. Comments on the July 2020 LTUP and the August 2020 NMC were received on December 7, 2020. On January 25, 2021, an updated version of the LTCP Update and Nine Minimum Controls was submitted. Currently, the LTCP Team is awaiting comments or approval from the USEPA / Pennsylvania Department of Environmental Protection (PADEP) on the submittal of the LTCP Updated Report and the Updated Nine Minimum Controls.

This LTCPU has evaluated the Delaware County Regional Water Quality Control Authority's (DELCORA's) sewer systems according to United States Environmental Protection Agency

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

NOTE 11 – Delaware County Long-Term Control Plan Update

(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 12 - Asset Purchase Agreement

On September 17, 2019, DELCORA entered into an asset purchase agreement with Aqua Pennsylvania Wastewater, Inc. through which it 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 trust. The net proceeds in the trust will be utilized to offset future customer bill increases. The sale requires approval by the Pennsylvania Public Utility Commission. Aqua Pennsylvania Wastewater, Inc.'s application for approval is pending. There is pending various litigation regarding the asset sale to Aqua Pennsylvania Wastewater, Inc., that are still pending at the date of these financial statements.

NOTE 13 – Subsequent Events

DELCORA has evaluated subsequent events through April 6, 2021, 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	2020
Total Pension Liability							
Service cost	\$ 433,832	\$ 451,185	\$ 647,770	\$ 743,624	\$ 833,107	\$ 928,895	\$ 966,051
Interest	962,400	982,877	1,321,748	1,345,004	1,236,708	1,350,242	1,407,937
Changes in benefit terms	-	-	-	-	(4,914)	181	-
Differences between expected and actual experience	183,182	465,714	-	384,396	(59,417)	962,659	(372,728)
Changes in assumptions	-	4,170,435	-	1,012,254	(490,245)	1,158,057	9,063,948
Benefit payments	(664,651)	(1,260,137)	(1,994,115)	(2,079,637)	(3,272,141)	(1,806,164)	(1,804,382)
Net change in total pension liability	914,763	4,810,074	(24,597)	1,405,641	(1,756,902)	2,593,870	9,260,826
Total pension liability - beginning	13,072,730	13,987,493	18,797,567	18,772,970	20,178,611	18,421,709	21,015,579
Total pension liability - ending	\$ 13,987,493	\$ 18,797,567	\$ 18,772,970	\$ 20,178,611	\$ 18,421,709	\$ 21,015,579	\$ 30,276,405
Plan Fiduciary Net Position							
Contributions - Authority	\$ 1,150,000	\$ 4,450,000	\$ 2,168,616	\$ 1,711,040	\$ 2,600,000	\$ 1,640,000	\$ 2,725,000
Contributions - employee	-	-	-	-	-	-	-
Net investment income	678,120	33,319	1,146,717	2,466,801	(867,963)	3,147,159	2,987,688
Benefit payments	(664,651)	(1,260,137)	(1,994,115)	(2,079,637)	(3,272,141)	(1,806,164)	(1,804,382)
Other	-	-	-	-	-	-	-
Administrative expense	(27,963)	(31,155)	(40,406)	(46,438)	(46,154)	(47,822)	(52,367)
Net change in fiduciary net position	1,135,506	3,192,027	1,280,812	2,051,766	(1,586,258)	2,933,173	3,855,939
Plan fiduciary net position - beginning	8,939,869	10,075,375	13,267,402	14,548,214	16,599,980	15,013,722	17,946,895
Plan fiduciary net position - ending	\$ 10,075,375	\$ 13,267,402	\$ 14,548,214	\$ 16,599,980	\$ 15,013,722	\$ 17,946,895	\$ 21,802,834
Net pension liability - ending	\$ 3,912,118	\$ 5,530,165	\$ 4,224,756	\$ 3,578,631	\$ 3,407,987	\$ 3,068,684	\$ 8,473,571

**DELAWARE COUNTY REGIONAL WATER
QUALITY CONTROL AUTHORITY**

REQUIRED SUPPLEMENTARY INFORMATION

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

Plan fiduciary net position as a percentage of total pension liability	72.03%	70.58%	77.50%	82.27%	81.50%	85.40%	72.01%
Covered employee payroll	\$ 7,435,831	\$ 7,470,137	\$ 8,516,891	\$ 8,900,803	\$ 9,160,776	\$ 9,686,532	\$ 10,410,878
Authority's net pension liability as a percentage of covered payroll	52.61%	74.03%	49.60%	40.21%	37.20%	31.68%	81.39%
Annual money-weighted rate of return net of investment expense	7.25%	0.79%	8.54%	16.59%	-5.69%	21.41%	16.11%

SCHEDULE OF INVESTMENT RETURNS

	2014	2015	2016	2017	2018	2019	2020
Annual money-weighted rate of return net of investment expense	7.25%	0.79%	8.54%	16.59%	-5.69%	21.41%	16.11%

SCHEDULE OF CONTRIBUTIONS

	2013	2014	2015	2016	2017	2018	2019	2020
Actuarial determined contribution	\$ 542,957	\$ 699,671	\$ 830,001	\$ 1,693,616	\$ 1,711,041	\$ 1,593,018	\$ 1,638,414	\$ 1,717,319
Contributions in relation to the actuarially determined contribution	1,100,000	1,150,000	4,450,000	2,168,616	1,711,040	2,600,000	1,640,000	2,725,000
Contributions deficiency (excess)	\$ (557,043)	\$ (450,329)	\$ (3,619,999)	\$ (475,000)	\$ 1	\$ (1,006,982)	\$ (1,586)	\$ (1,007,681)
Covered employee payroll	\$ 7,188,949	\$ 7,435,831	\$ 7,470,137	\$ 8,516,891	\$ 8,900,803	\$ 9,160,776	\$ 9,686,532	\$ 10,410,878
Contributions as a percentage of covered payroll	15.30%	15.47%	59.57%	25.46%	19.22%	28.38%	16.93%	26.17%

**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, 2019	\$ 21,015,579	\$ 17,946,895	\$ 3,068,684
Changes for the year:			
Service cost	966,051	-	966,051
Interest	1,407,937	-	1,407,937
Change in benefit terms	-	-	-
Changes of assumptions	9,063,948	-	9,063,948
Differences between expected and actual	(372,728)	-	(372,728)
Contributions - employer	-	2,725,000	(2,725,000)
Net investment income	-	2,987,688	(2,987,688)
Benefit payments	(1,804,382)	(1,804,382)	-
Administrative expense	-	(52,367)	52,367
Net changes	9,260,826	3,855,939	5,404,887
Balances at December 31, 2020	\$ 30,276,405	\$ 21,802,834	\$ 8,473,571

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF REVENUES
ACTUAL VS BUDGET**

	ACTUAL 2020	BUDGET 2020	FAVORABLE (UNFAVORABLE) VARIANCE
WESTERN REGION			
Residential	\$ 8,797,981	\$ 9,054,343	\$ (256,362)
Major industry:			
Kinberly-Clark	4,262,271	4,352,625	(90,354)
Monroe Energy	370,563	238,899	131,664
Sun Refining and Marketing Co.	3,356,116	3,778,635	(422,519)
Total major industry	7,988,950	8,370,159	(381,209)
Municipal:			
Brookhaven	761,217	783,135	(21,918)
Eddystone	408,150	419,020	(10,870)
Lower Chichester	546,608	523,775	22,833
Middletown Authority	2,114,547	2,107,875	6,672
Nether Providence	1,052,356	1,074,274	(21,918)
South West Delaware County Authority	3,541,246	3,385,375	155,871
Southern Delaware County Authority	2,085,606	2,304,610	(219,004)
Total Municipal	10,509,730	10,598,064	(88,334)
Permit industries:			
Ace Linen	67,962	138,600	(70,638)
Boeing	129,177	134,890	(5,713)
Braskem	215,874	267,120	(51,246)
Congoleum	24,830	33,957	(9,127)
Delaware County Linen	32,497	50,381	(17,884)
Florida Power & Light	475,662	270,300	205,362
Harrah's Casino	57,540	60,270	(2,730)
Dynegy	247,052	295,740	(48,688)
Exelon	6,116	11,386	(5,270)
The P.Q. Corporation	134,491	138,600	(4,109)
Other	98,635	27,206	71,429
Total permit industries	1,489,836	1,428,450	61,386
Contract operation fees	634,364	865,000	(230,636)
Total Western Region	29,420,861	30,316,016	(895,155)
EASTERN REGION			
Authority:			
Central Delaware County Authority	9,591,402	10,386,075	(794,673)
Darby Creek Joint Authority	18,967,409	20,277,575	(1,310,166)
Muckinipates Authority	4,272,642	4,698,463	(425,821)
Total Eastern Region	32,831,453	35,362,113	(2,530,660)
OTHER REVENUES			
Interest income	900,936	1,300,000	(399,064)
Other income	10,694,498	300,000	10,394,498
Sludge disposal and processing	6,621,620	5,000,000	1,621,620
Total other revenues	18,217,054	6,600,000	11,617,054
Total revenues	\$ 80,469,368	\$ 72,278,129	\$ 8,191,239

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF TOTAL EXPENSES
ACTUAL VS BUDGET**

	ACTUAL 2020	BUDGET 2020	FAVORABLE (UNFAVORABLE) VARIANCE
Operating expenses			
Advertising	\$ 24,375	\$ 245,400	\$ 221,025
Consulting	676,273	350,000	(326,273)
Dues and conferences	26,339	94,000	67,661
Employee benefits	4,758,686	4,932,213	173,527
Engineering and tech services	347,164	1,485,000	1,137,836
Insurance	835,844	956,196	120,352
Minor equipment and supplies	2,820,957	2,450,901	(370,056)
Office	154,466	-	(154,466)
Other contracted services	596,252	1,172,500	576,248
Pension	2,461,989	1,725,000	(736,989)
Philadelphia Plant Treatment costs	9,047,218	13,002,566	3,955,348
Provision for doubtful accounts	451,111	-	(451,111)
Repairs and maintenance	2,663,036	3,493,912	830,876
Salaries and wages	14,179,484	13,409,781	(769,703)
Solicitor	1,795,967	750,000	(1,045,967)
Solids disposal	1,274,906	1,252,500	(22,406)
Utilities	2,687,356	2,608,650	(78,706)
Subtotal operating expenses (net of depreciation)	<u>44,801,423</u>	<u>47,928,619</u>	<u>3,127,196</u>
Depreciation	<u>8,590,205</u>	<u>-</u>	<u>(8,590,205)</u>
Total operating expenses	<u>53,391,628</u>	<u>47,928,619</u>	<u>(5,463,009)</u>
Non-operating expenses			
Interest expense	<u>6,568,009</u>	<u>7,740,000</u>	<u>1,171,991</u>
Total non-operating expenses	<u>6,568,009</u>	<u>7,740,000</u>	<u>1,171,991</u>
Total expenses	<u><u>\$ 59,959,637</u></u>	<u><u>\$ 55,668,619</u></u>	<u><u>\$ (4,291,018)</u></u>

SUPPLEMENTAL INFORMATION

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

FOR THE YEARS ENDED DECEMBER 31,

	2020	2019
Advertising	\$ 24,375	\$ 11,204
Consulting	676,273	620,166
Depreciation	8,590,205	7,526,695
Dues and conferences	26,339	90,904
Employee benefits	4,758,686	4,664,693
Engineering and tech services	347,164	375,692
Insurance	835,844	872,874
Minor equipment and supplies	2,820,957	2,882,190
Office	154,466	124,791
Other contracted services	596,252	594,606
Pension	2,461,989	2,128,575
Philadelphia Plant Treatment costs	9,047,218	9,890,358
Provision for doubtful accounts	451,111	102,494
Repairs and maintenance	2,663,036	2,829,079
Salaries and wages	14,179,484	13,039,649
Solicitor	1,795,967	682,624
Solids disposal	1,274,906	1,240,682
Utilities	2,687,356	2,719,105
Total operating expenses	<u>\$ 53,391,628</u>	<u>\$ 50,396,381</u>

SUPPLEMENTAL INFORMATION

DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY

SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2007 SERIES

Year Ending December 31,	Coupon	Principal Maturity	Interest	Total Debt Service
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>\$ 11,005,000</u>	<u>\$ 1,122,056</u>	<u>\$ 12,127,056</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
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>\$ 24,541,886</u>	<u>\$ 60,746,886</u>

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

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

<u>Year Ending December 31,</u>	<u>Coupon</u>	<u>Principal Maturity</u>	<u>Interest</u>	<u>Total Debt Service</u>
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	5.00%	2,230,000	1,547,950	3,777,950
2036	5.00%	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>\$ 41,842,750</u>	<u>\$ 94,697,750</u>

SUPPLEMENTAL INFORMATION

**DELAWARE COUNTY REGIONAL WATER QUALITY
CONTROL AUTHORITY**

**SCHEDULE OF DEBT SERVICE
SEWER REVENUE BONDS, 2017 SERIES**

<u>Year Ending December 31</u>	<u>Coupon</u>	<u>Principal Maturity</u>	<u>Interest</u>	<u>Total Debt Service</u>
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>\$ 13,659,625</u>	<u>\$ 45,934,625</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, 2020

	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	2016 Construction Fund	Total
Balances - January 1, 2020	\$ 32,114,700	\$ 9,021,335	\$ 1,479,706	\$ 34,351,808	\$ 3,080,462	\$ 2,639,999	\$ 4,033,571	\$ 11,501,706	\$ 4,962,847	\$ 103,186,134
Receipts:										
Customer revenue	-	-	-	71,344,336	-	-	-	-	-	71,344,336
Edgmont escrow reimbursement	-	-	-	-	-	-	-	-	-	-
SWCA & MTSA payoff decommissioning	-	-	-	-	-	-	-	-	-	-
Transfers from Operating account	-	-	-	-	-	-	-	-	-	-
Transfers from other trust funds	-	-	-	10,586,854	-	11,110,834	-	-	-	21,697,688
Loan proceeds	-	-	-	-	-	-	-	-	-	-
Investment income	535,860	68,286	17,376	426,861	34,254	46,746	59,606	147,040	16,738	1,352,747
Total receipts	535,860	68,286	17,376	82,358,051	34,254	11,157,580	59,606	147,040	16,738	94,394,771
Disbursements:										
Requisitions	-	-	-	46,999,195	-	-	-	-	-	46,999,195
Capital requisitions	17,352,433	-	-	-	-	-	-	-	4,979,178	22,331,611
Transfers to other trust funds	-	9,089,601	1,497,082	11,110,834	-	-	-	-	171	21,697,688
Bond refunding	-	-	-	-	-	-	-	-	-	-
Bond refunding expense	-	-	-	-	-	-	-	-	-	-
Debt service payments:	-	-	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	490,216	-	4,570,000	-	-	-	5,060,216
Total disbursements	17,352,433	9,089,601	1,497,082	58,662,605	-	11,115,069	-	-	4,979,349	102,697,140
Balances - December 31, 2020	\$ 15,298,127	\$ -	\$ -	\$ 58,047,253	\$ 3,114,716	\$ 2,681,510	\$ 4,053,177	\$ 11,648,746	\$ 236	\$ 94,883,765



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, 2020, 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 6, 2021.

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.

Leitzell & Economidis, PC

Leitzell & Economidis, PC
Media, Pennsylvania

April 6, 2021