

November 9, 2022

Via E-File

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105

**Re: Application of Aqua Pennsylvania, Inc. pursuant to Sections 1102, 1329, and 507 of the Public Utility Code for Approval of its Acquisition of the Water System Assets of Shenandoah Borough and MABS
Docket No. A-2022-3034143
Responses to TUS Information Requests**

Dear Secretary Chiavetta:

On behalf of Aqua Pennsylvania, Inc. (“Aqua”), please accept this filing made in connection with the above-referenced Application, filed with the Commission on October 6, 2022 pursuant to Sections 1102, 1329, and 507 of the Public Utility Code, 66 Pa. C.S. §§ 1102, 1329, and 507, for approvals related to the acquisition by Aqua of the water system assets of the Borough of Shenandoah (the “Borough”)/Municipal Authority of the Borough of Shenandoah (“MABS”). The Bureau of Technical Utility Services is reviewing the Application and has asked that we address certain requests for additional information. Requests not addressed in this letter will be addressed in a later submission. Confidential information submitted with the responses to the below requests will be submitted via SharePoint.

Information Request No. 1:

Checklist Item No. 4 – The Application’s Excel workbook titled “Confidential Appendix A to Aqua Statement No. 1.xlsx” appears to be corrupt and cannot be opened. Please provide a working electronic copy of the workbook titled “Confidential Appendix A to Aqua Statement No. 1.xlsx.”

RESPONSE:

Included with this letter is an electronic copy of Confidential Appendix A to Aqua Statement No. 1 (filed via SharePoint only).

November 9, 2022

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Information Request No. 2:

Checklist Item No. 4 – In the Application’s confidential electronic working papers, the Excel workbook titled “EX 3.xlsx”, Worksheet “PA Muni Census” contains “#VALUE!” error messages in Cells H436, H906, H952, H1459 and H1498. Please provide a revised Excel workbook that corrects these error messages.

RESPONSE:

Included with this letter is an updated electronic copy of Confidential EX 3.xlsx (filed via SharePoint only).

Information Request No. 3:

Checklist Item No. 4 – The Application’s Exhibit BB included a response to Standard Data Request Number 20.e. that incorrectly referenced the Application’s Exhibit Q as including a copy of the ScottMadden appraisal. However, the ScottMadden appraisal was provided as the Application’s Exhibit R. Please provide a revised response to Standard Data Request No. 20.e. that notes the correct reference to the Application exhibit containing the ScottMadden’s appraisal.

RESPONSE:

Included with this letter is an updated response to Standard Data Request No. 20.e.

Information Request No. 7:

Checklist Item No. 19.a. – The Application’s Exhibit J1 and J2 consisted of audited financial statements for the Shenandoah Borough Municipal Authority (Seller) for the years ending September 30, 2019, and 2020. Checklist Item No. 19.a. requires copies of the Seller’s two most recent audited financial statements. Please provide copies of the Seller’s audited financial statement for the year ending in 2021.

RESPONSE:

Attached to this letter is a copy of MABS’ audited financial statements for the year ending September 30, 2021.

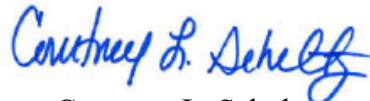
November 9, 2022

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We ask that the Public Utility Commission not allow any public disclosure of the Confidential and Proprietary Excel Files and that the Commission take appropriate steps to exclude the Confidential and Proprietary Information from any and all public folders.

Please do not hesitate to contact me if you have any questions.

Respectfully submitted,



Courtney L. Schultz

Enclosures

cc: All Parties per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Application of Aqua Pennsylvania, Inc. pursuant to Sections 1102, 1329, and 507 of
the Public Utility Code for Approval of its Acquisition of the Water System Assets of
Shenandoah Borough and MABS**

Docket No. A-2022-3034143

CERTIFICATE OF SERVICE

I, Courtney L. Schultz, hereby certify that a true and correct copy of the attached, in connection with the above-referenced docket was served on the following individuals on this 9th day of November, 2022, as indicated below.

PA PUC – VIA E-FILE

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105
rchiavetta@pa.gov

Honorable Charles E. Rainey Jr.
Chief Administrative Law Judge
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
crainey@pa.gov

TUS

Paul Diskin, Director
pdiskin@pa.gov

Darren Gill, Deputy Director
dgill@pa.gov

Daniel Searfoorce, Manager
dsearfoorc@pa.gov

Sean Donnelly
sdonnelly@pa.gov

Clinton McKinley
cmckinley@pa.gov

Matt Lamb
mlamb@pa.gov

Manasi Deshpande
mdesphande@pa.gov

James Kennedy
jameskenne@pa.gov

Paul Zander
pzander@pa.gov

OSBA

Sharon E. Webb
Assistant Small Business Advocate
swebb@pa.gov

I&E

Allison Kaster, Esq.
Deputy Chief Prosecutor
akaster@pa.gov

Carrie Wright, Esq.
Prosecutor
carwright@pa.gov

OCA

PA Office of Consumer Advocate
555 Walnut Street, 5th Floor, Forum Place
Harrisburg, PA 17101-1923

Christine Hoover
choover@pa.gov

Lauren Myers
lmyers@paoca.org

/s/ Courtney L. Schultz
Saul Ewing Arnstein & Lehr LLP
1500 Market Street
Centre Square West, 38th Floor
Philadelphia, PA 19102
(215) 972-7717
Courtney.schultz@saul.com
Counsel for Aqua Pennsylvania, Inc.

Information Request No. 3

Updated Response to SDR 20.e

AQUA PENNSYLVANIA, INC.
SHENANDOAH BOROUGH / MABS
Section 1329 Application Standard Data Requests

Miscellaneous

20. Are there any outstanding compliance issues that the Seller's system has pending with the PA Department of Environmental Protection. If yes, provide the following information:
- a. Identify the compliance issue(s);
 - b. Provide an estimated date of compliance;
 - c. Explain Buyer's anticipated or actual plan for remediation;
 - d. Provide Buyer's estimated costs for remediation; and,
 - e. Indicate whether the cost of remediation was or is anticipated to be factored into either or both fair market valuation appraisals offered in this proceeding.

Response:

- a.-d. Please see the response of Stephen Clark and Matthew J. Marchisello.
- e. As stated in ScottMadden's appraisal on p. 8 of Exhibit R to the Application, the Borough estimated it would need to spend \$30 million over the next 25 years. ScottMadden assumes that those capital expenditures would be used to address any remediation orders of DEP, and is included in the ScottMadden Income Approach.

Information Request No. 7

**MABS Audited Financial Statements
for the Year Ending September 30, 2021**

**MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED
SEPTEMBER 30, 2021
&
INDEPENDENT AUDITORS' REPORT
&
REQUIRED SUPPLEMENTARY INFORMATION**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Municipal Authority of the
Borough of Shenandoah:

We have audited the accompanying financial statements of the Municipal Authority of the Borough of Shenandoah as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the Borough of Shenandoah's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Municipal Authority of the Borough of Shenandoah as of September 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Employer Contributions, Schedule of Changes in the Employer's Net Pension Liability, and Schedule of Funding Progress 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 statement 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.

Management has omitted budgetary comparison information and the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Municipal Authority of the Borough of Shenandoah's basic financial statements. The Schedule of Purification System, Pumping System, Distribution System, General Operating, and Administrative Expenses on page 32 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Purification System, Pumping System, Distribution System, General Operating, and Administrative expenses on page 32 is the responsibility of management and was 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 audit 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Purification System, Pumping System, Distribution System, General Operating, and Administrative Expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2022, on our consideration of the Municipal Authority of the Borough of Shenandoah'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 Municipal Authority of the Borough of Shenandoah's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Moore & Associates, PC". The signature is written in a cursive, flowing style.

Hazleton, PA
January 31, 2022

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2021

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS:	
Cash	\$ 2,110,372
Accounts receivable, trade	271,291
Accounts receivable, other	7,790
Unbilled revenue	316,738
Materials and supplies inventory	68,909
Prepaid expenses	<u>16,051</u>
Total current assets	2,791,151
CAPITAL ASSETS, NET (Note 3)	<u>11,252,247</u>
DEFERRED FINANCING COSTS, NET (Note 4)	<u>45,888</u>
Total assets	<u>14,089,286</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension Activity (Note 6)	<u>193,116</u>
TOTAL	<u>\$ 14,282,402</u>

LIABILITIES AND DEFERRED INFLOWS

CURRENT LIABILITIES:	
Current maturities of long-term debt (Note 5)	\$ 244,348
Accounts payable	40,496
Customer deposits	311,352
Accrued expenses	<u>11,165</u>
Total current liabilities	607,361
LONG-TERM LIABILITIES:	
Loans payable (Note 5)	5,609,183
Net pension liability (Note 6)	<u>799,684</u>
Total long-term liabilities	<u>6,408,867</u>
Total liabilities	7,016,228
DEFERRED INFLOWS OF RESOURCES	
Pension activity (Note 6)	<u>-</u>
Total liabilities and deferred inflows	<u>7,016,228</u>

NET ASSETS

Net investment in capital assets	5,398,716
Unrestricted	<u>1,867,458</u>
Total net assets	<u>7,266,174</u>
TOTAL	<u>\$ 14,282,402</u>

See Notes to Financial Statements

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

OPERATING REVENUES:

Water usage fees	\$ 2,068,071
Other operating revenues	<u>1,428</u>

Total operating revenues 2,069,499

OPERATING EXPENSES:

Purification system expenses	451,609
Pumping system expenses	127,495
Distribution system expenses	528,510
General operating expenses	382,897
Administrative expenses	101,959
Depreciation and amortization	<u>354,162</u>

Total operating expenses 1,946,632

OPERATING INCOME 122,867

NONOPERATING REVENUE (EXPENSES):

Interest income	3,464
Lease revenues	12,577
Miscellaneous income	19,276
Wind farm income	108,802
Bad debt recovery	16,886
Bad debt expense	(20,191)
Interest expense	<u>(242,263)</u>

Nonoperating Expense, net (101,449)

CHANGE IN NET ASSETS 21,418

NET ASSETS-BEGINNING OF YEAR 7,244,756

NET ASSETS-END OF YEAR \$ 7,266,174

See Notes to Financial Statements

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	\$ 2,103,023
Other operating cash receipts	1,428
Cash payments to suppliers and employees	<u>(1,677,328)</u>
Net cash provided by operating activities	<u>427,123</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Lease revenues	12,577
Miscellaneous income	19,276
Wind farm income	108,802
Bad debt recovery	16,886
Bad debt expense	<u>(20,191)</u>
Net cash provided by noncapital financing activities	<u>137,350</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of capital assets	(550,561)
Principal paid on capital debt	(234,666)
Interest paid on long-term debt	<u>(242,263)</u>
Net cash used in capital and related financing activities	<u>(1,027,490)</u>
CASH FLOWS FROM INVESTING ACTIVITIES,	
Interest income	<u>3,464</u>
NET DECREASE IN CASH	(459,553)
CASH, BEGINNING OF YEAR	<u>2,569,925</u>
CASH, END OF YEAR	<u>\$ 2,110,372</u>

See Notes to Financial Statements

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2021

**RECONCILIATION OF OPERATING INCOME TO NET
CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	<u>\$ 122,867</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	354,162
Net change in net pension liability	5,798
Net change in deferred outflows of resources	(7,620)
Net change in deferred inflows of resources	(44,465)
Changes in assets and liabilities:	
Accounts receivable, trade	1,959
Accounts receivable, other	(7,790)
Unbilled revenue	(5,117)
Materials and supplies inventory	4,314
Prepaid expenses	1,123
Accounts payable	(43,767)
Accrued expenses	(241)
Customer deposits	<u>45,900</u>
 Total adjustments	 <u>304,256</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 427,123</u>

See Notes to Financial Statements

**MUNICIPAL AUTHORITY
OF THE BOROUGH OF SHENANDOAH**

NOTES TO FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND SUMMARY
OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF OPERATIONS AND
REPORTING ENTITY**

The Municipal Authority of the Borough of Shenandoah is an operating authority, which was organized on June 28, 1935. The purpose of the Authority is to provide water service for areas served by the Authority.

The Government Accounting Standards Board ("GASB") has developed criteria to determine what constitutes state and local governmental entities for financial reporting purposes. The GASB concluded in Statement 39 that the basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization as a component unit in the governmental unit's reporting entity for combined financial statements is the financial accountability over such agencies by the governmental unit's elected officials. Financially accountable embraces such factors as selection of governing authority, ability to significantly influence operations, and financial dependency.

Based upon the above, the Authority is the reporting entity.

**BASIS OF PRESENTATION, BASIS OF ACCOUNTING
AND MEASUREMENT FOCUS**

The Authority's financial statements are presented using the economic measurement focus and the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America, as prescribed by GASB. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the related cash flows. The Authority has elected under GASB Statement no. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable private sector standards issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Authority charges a penalty of 10% after 30 days on delinquent accounts. They also use a collection agency to pursue delinquent accounts. The Authority's policy is to write off bad debts as incurred. Therefore, no allowance for bad debts has been provided.

INVENTORY

The Authority's inventory is valued at cost using the first in first out (FIFO) method and consists of materials and supplies to be used for construction and restoration.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and the water system, are defined by the Authority as assets with an initial, individual cost in excess of \$1,000 and an estimated useful life in excess of one year.

All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>YEARS</u>
Water Plant	10-50
Water Collection and Purification	20-50
Pumping and Distribution	10-50
Office Furniture and Fixtures	5-10
Transportation Equipment	10
Capitalized Interest	25
Communication Equipment	10

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted 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.

NET ASSETS

The Authority maintains the following net asset classifications:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, repair or improvement of those assets.

Restricted: Net assets whose use is subject to externally imposed conditions that can be fulfilled by the actions of the Authority or by the passage of time.

Unrestricted: All other categories of net assets. Unrestricted net assets may be designated for specific purposes by the Authority's Board of Directors.

When an expense is incurred for which both restricted and unrestricted positions are available, the Authority's policy is to apply restricted positions first.

OPERATING AND NONOPERATING REVENUES AND EXPENSES

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations, which is the sale of water to its customers. The Authority also recognizes as operating revenue the sale of merchandise and job work performed for customers and other cash receipts not arising from investing or financing activities. Operating expenses for the Authority include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

BUDGET AND BUDGETARY ACCOUNTING

The Authority Board adopts an operating budget on an annual basis. The budget is prepared on the cash basis of accounting.

UNBILLED REVENUE

Unbilled revenue represents estimated revenue at the end of the year. It is based upon the number of days since the last meter reading for each billing route.

COMPENSATED ABSENCES

Employees of the Authority are entitled to paid vacation and paid sick days, depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Authority's policy is to recognize the costs of compensated absences when actually paid to employees.

DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

In addition to assets, the statement of net assets will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

The Authority reports the differences between the expectation of the actuarial valuation of the net pension liability and the actual result in the prior pension plan fiscal year as a deferred outflow of resources. The impact of these differences is amortized over a period of five years. As of September 30, 2021, the Authority reported \$20,601 related to this type of deferred outflow. Additionally, the net changes in assumptions are reported as deferred outflows. As of September 30, 2021, the Authority reported \$9,560 related to this type of deferred outflow.

In addition to liabilities, the statement of net assets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include the net difference between projected and actual earnings on pension plan investments. As of September 30, 2021, the authority reported \$162,954 related to this type of deferred outflow.

IMPAIRMENT OF LONG-LIVED ASSETS

FASB Codification regarding, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that long-lived assets, including property and equipment, be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Authority continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful lives of long-lived assets may warrant revision or that the remaining carrying amount may not be recoverable. When factors indicate that such assets should be evaluated, the estimate future undiscounted cash flows associated with the assets are compared to the assets' carrying amount to determine if a write-down to fair value is necessary. A charge for impairment was not considered necessary at September 30, 2021.

SUBSEQUENT EVENTS

The Company has evaluated events and transactions subsequent to September 30, 2021 through the time that these financial statements were available to be issued on January 31, 2022. Based on this evaluation, the Company noted the following:

In 2015, the Pennsylvania Economy League produced a report on the Borough of Shenandoah and its infrastructure via their Early Intervention Program. Based on options outlined in the report, the Borough authorized the issuance of an RFP in June of 2019. Bids were received and approved, and the Aqua America (Aqua Pennsylvania's parent company) bid was selected in late 2019 to begin negotiations on the asset purchase agreement. The Authority has taken legal action against the Borough from involuntarily dissolving The Authority. The Borough has not passed a resolution to dissolve The Authority at this time. The Authority will vigorously pursue this matter if the Borough decides to pursue the sale.

MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
NOTES TO FINANCIAL STATEMENTS

In December 2019, a novel strain of coronavirus (“COVID-19”) was reported to have surfaced in China. The World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Authority beginning in March 2020, due to state government-imposed shutdowns of businesses and other results of the illness. While the Authority expects this matter may negatively impact its results, the extent of the impact of the COVID-19 on the Authority’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for the Authority’s services, all of which are highly uncertain and cannot be predicted.

The Authority is not aware of any other events or transactions that occurred subsequent to September 30, 2021 but prior to January 31, 2022 that would require recognition or disclosure in its financial statements.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS

Pennsylvania statutes provide for investment of governmental funds into certain authorized investment types including U.S. Treasury bills, other short-term U.S. and Pennsylvania government obligations, insured or collateralized time deposits, and certificates of deposit. The statutes do not prescribe regulations related to demand deposits; however, they do allow the pooling of governmental funds for investment purposes.

The deposit and investment policy of the Authority adheres to state statutes and prudent business practices. Deposits of the Authority are maintained in interest-bearing demand deposits or savings accounts. There were no deposit or investment transactions during the year that were in violation of either the state statutes or the policy of the Authority.

A summary of cash at September 30, 2021 is as follows:

Petty cash	\$ 500
Demand accounts	<u>2,109,872</u>
Total cash	<u>\$2,110,372</u>

CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk on deposits. At September 30, 2021, \$250,000 of the Authority's bank balance of \$2,092,622 was covered by federal depository insurance and \$1,842,622 was exposed to custodial credit risk which is collateralized under act 72 of the Pennsylvania state legislature, which requires the institution to pool collateral for all governmental deposits and have the collateral held by an approved custodian in the institution's name.

MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Capital asset activity consists of the following for the year ended September 30, 2021:

	BALANCE OCTOBER 1, 2020	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2021
CAPITAL ASSETS; not being depreciated:				
Land	\$ 144,751	\$ -	\$ -	\$ 144,751
Construction-in-Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets, not being depreciated	<u>144,751</u>	<u>-</u>	<u>-</u>	<u>144,751</u>
CAPITAL ASSETS, being depreciated:				
Water Plant	870,333	466,611	-	1,336,944
Water Collection and Purification	13,102,185	-	-	13,102,185
Pumping and Distribution	5,351,296	83,950	-	5,435,246
Office Furniture and Fixtures	102,946	-	-	102,946
Transportation Equipment	444,253	-	-	444,253
Capitalized Interest	556,648	-	-	556,648
Communications Equipment	<u>33,959</u>	<u>-</u>	<u>-</u>	<u>33,959</u>
Total capital assets, being depreciated	20,461,620	550,561	-	21,012,181
LESS ACCUMULATED DEPRECIATION:				
Water Plant	(383,498)	(44,851)	-	(428,349)
Water Collection and Purification	(5,521,158)	(201,617)	-	(5,722,775)
Pumping and Distribution	(2,581,526)	(93,308)	-	(2,674,834)
Office Furniture and Fixtures	(91,780)	(3,529)	-	(95,309)
Transportation Equipment	(384,667)	(8,144)	-	(392,811)
Capitalized Interest	(556,648)	-	-	(556,648)
Communications Equipment	<u>(33,959)</u>	<u>-</u>	<u>-</u>	<u>(33,959)</u>
Total accumulated depreciation	<u>(9,553,236)</u>	<u>(351,449)</u>	<u>-</u>	<u>(9,904,685)</u>
Total Capital Assets, Being Depreciated, Net	<u>10,908,384</u>	<u>199,112</u>	<u>-</u>	<u>11,107,496</u>
Total Capital Assets, Net	<u>\$11,053,135</u>	<u>\$ 199,112</u>	<u>\$ -</u>	<u>\$11,252,247</u>

Construction-in-progress is an accumulation of work orders for projects that have not been placed in service as of the date of the financial statements. At the completion of a project the total amount of the work orders is transferred to a property and equipment category and depreciated over its estimated useful life.

4. DEFERRED FINANCING COSTS

Certain costs associated with the issuance of debt are being amortized using the straight-line method over the life of the respective financing which is 240 months.

Cost	\$54,253
Accumulated amortization	<u>(8,365)</u>
Deferred financing costs, net	<u>\$45,888</u>

Amortization expense was \$2,713 for the year ended September 30, 2021.

5. LONG-TERM DEBT

PNC LOAN

The Authority has a loan in the amount of \$6,530,000 from PNC Bank, N.A. This loan was used to refinance the former PennVest loans, USDA loans and finance various capital improvements. The loan is for a period of 240 months at an interest rate of 4.05% per annum until September 1, 2025. After September 1, 2025, the interest rate may reset but shall never exceed 8.00%. Principal and interest of \$39,743 are payable on the first day of each month. The loan is collateralized by a lien on an irrevocable pledge of all revenues of the Authority received as a result of the operation of the sewer system. Loan matures September 1, 2038.

MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
NOTES TO FINANCIAL STATEMENTS

TOTAL ANNUAL DEBT SERVICE REQUIREMENTS

A schedule of estimated maturities of principal and interest on all of the long-term debt is as follows:

<u>YEAR ENED SEPTEMBER 30</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2022	\$ 244,348	\$ 232,565	\$ 476,913
2023	254,430	222,483	476,913
2024	264,927	211,986	476,913
2025	275,859	201,054	476,913
2026	287,240	189,673	476,913
2027-2031	1,624,065	760,500	2,384,565
2032-2036	1,987,924	396,641	2,384,565
2037-2038	<u>914,738</u>	<u>39,089</u>	<u>953,827</u>
Total	<u>\$5,853,531</u>	<u>\$2,253,991</u>	<u>\$8,107,522</u>

CHANGES IN LONG-TERM LIABILITIES

During the fiscal year, the following changes occurred in long-term liabilities:

<u>TYPE OF DEBT</u>	<u>BALANCE SEPTEMBER 30, 2020</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE SEPTEMBER 30, 2021</u>	<u>CURRENT PORTION</u>
PNC Loan	\$6,088,197	\$ -	\$(234,666)	\$5,853,531	\$244,348
Net Pension Liability	<u>793,886</u>	<u>5,798</u>	<u>-</u>	<u>799,684</u>	<u>-</u>
Total	<u>\$6,882,083</u>	<u>\$5,798</u>	<u>\$(234,666)</u>	<u>\$6,653,215</u>	<u>\$244,348</u>

6. PENSION PLAN

Summary of Significant Accounting Policies

Pensions- For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Municipal Authority of the Borough of Shenandoah Employees' Pension Plan (MABSPP) and additions to/deductions from MABSPP's fiduciary net position have been determined on the same basis as they are reported by MABSPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description- The Municipal Authority of the Borough of Shenandoah Employees' Pension Plan (the "Plan") is a single-employer defined benefit pension plan which is governed by the Authority's Board of Directors. The Plan was established on March 1, 1974 by the Board of Directors. The Plan provides retirement and death benefits to plan members and beneficiaries. The Board of Directors has delegated the administration of the Plan to Brown & Brown Consulting and has delegated the management of Plan assets to an investment advisor, FNB Wealth Management Trust Group. The Plan does not issue a separate financial statement.

BENEFITS PROVIDED

ELIGIBILITY FOR PARTICIPATION

Each employee enters the Plan on the March 1st closest to the date he completes three years of Eligibility Services.

EARNINGS

W-2 earnings plus pre-tax deferrals excluding bonuses, overtime and commissions.

AVERAGE ANNUAL EARNINGS

Participant's highest average annual earnings received for any 60 consecutive months during the period of employment.

PLAN YEAR

March 1 through February 28.

CREDITED SERVICE

Plan Years with 1,000 or more hours.

ACCRUED BENEFIT

1/12th of the sum of (a) 20% of the participant's average annual earnings not exceeding \$6,600; plus (b) 50% of the participant's average annual earnings in excess of \$6,600 reduced by 1/30th for each year of credited service at normal retirement less than 30. Minimum monthly pension is \$100. The amount determined under (a) and (b) above will then be multiplied by a fraction, not to exceed one, the numerator of which is the number of the participant's years of credited service at retirement and the denominator of which is the number of years of credited service which the participant would have accumulated at normal retirement age.

NORMAL RETIREMENT BENEFIT

- a. Eligibility: First day of the month coinciding with or next following the earlier of (i) age 65 or (ii) age 62 with 30 years of service.
- b. Benefit: accrued benefit.

EARLY RETIREMENT BENEFIT

- a. Eligibility: First day of the month coincident or next following attainment of age 60 and 5 years of service.
- b. Benefit: Actuarial equivalent of accrued benefit payable at normal retirement date.

POSTPONED RETIREMENT BENEFIT

- a. Eligibility: After normal retirement date.
- b. Benefit: The greater of (i) the accrued benefit or (ii) the actuarially increased benefit from prior year determination date to the postponed retirement date.

TERMINATION BENEFIT

- a. Eligibility: 10 years of service
- b. Benefit: Accrued benefit determined at termination, payable at normal retirement date, or as early as age 60 with 5 years of service at termination of employment, reduced as in Early Retirement Benefit (b) above.

PRERETIREMENT SPOUSE'S DEATH BENEFIT

- a. Eligibility: Beneficiary of vested participants who die prior to retirement.
- b. Benefit: (i) For participants who die while an employee, an amount equal to the proceeds of any insurance policies purchased and maintained on the life of the participant, with a face amount of the policy targeted to equal to 100 times the participant's projected monthly benefit at normal retirement. (ii) For deferred vested participants who die before their annuity starting date, an amount equal to the actuarially equivalent present value of the participant's vested accrued benefit determined as of the date payment is to be made to the beneficiary.

DISABILITY BENEFIT

None.

FORMS OF PAYMENT

- a. Normal Form: 10-year certain and life annuity if single; actuarially-reduced 50% joint and survivor if married.
- b. Optional Forms: Single life annuity, life annuity with 5, 10, 15 or 20 years period certain, or 50%, 66 2/3% or 100% joint and survivor annuity, which are the actuarial equivalent to the normal form of payment for a single participant.
- c. Actuarial equivalence: 6.5% interest and the UP-1984 mortality table for annuity conversions and early retirement reductions.

PLAN MEMBERSHIP

At September 30, 2021, the following employees were covered by the Plan:

Active employees	5
Inactive employees or beneficiaries currently receiving benefits	9
Inactive employees entitled to but not yet receiving benefits	<u>3</u>
Total participant count	<u>17</u>

CONTRIBUTIONS

Act 205 requires that annual contributions to the Plan be based upon the Plan's Minimum Municipal Obligation (MMO) which is based on the Plan's biennial actuarial valuation. Plan members are not required to contribute. Administrative costs, including actuarial and consultant services, are paid directly by the Authority. Investment expenses, including investment manager and custodial services, are paid directly by the Authority

NET PENSION LIABILITY

The Authority's net pension liability was measured as of September 30, 2021, and the total pension liability was determined by rolling forward the liabilities from an actuarial valuation as of September 1, 2020. No significant events or changes in assumptions occurred between the valuation date and the fiscal year end.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used in the September 30, 2021 valuation were based on actual actuarial experience of the covered group, to the extent that credible experience data was available, with an emphasis on expected long-term future trends rather than giving undue weight to recent past experience.

MUNICIPAL AUTHORITY OF THE
 BOROUGH OF SHENANDOAH
 NOTES TO FINANCIAL STATEMENTS

Actuarial valuation date	September 30, 2021
Actuarial cost method	Entry-age normal actuarial cost method
Assumptions:	
Inflation	3.00%
Salary scale	3.50%
Investment return	6.50%
Cost of living adjustments	0.00%
Asset valuation method	Market value of assets
Healthy life mortality:	
Rates of pre-retirement mortality	
Males and Females:	PubG-2010 Male and Female Healthy Employee Mortality Tables
Rate of post-retirement mortality	
Males and Females:	PubG-2010 Male and Female Annuitant Mortality Tables
Disabled life mortality rates:	
Males and Females:	N/A

DISCOUNT RATE

The discount rate should be the single rate that reflects (a) the long-term expected rate of return on plan investments that are expected to be used to finance the benefit payments, to the extent that the plan's fiduciary net position is projected to be sufficient to make projected benefit payments and the assets are expected to be invested using a strategy to achieve that return and (b) a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/AAA or higher (or an equivalent quality on another scale) to the extent that the conditions in (a) are not met. Assuming that the employer will continue the historical and legally required practice of contributing to the plan, the actuary projects that the plan's fiduciary position will always be sufficient to make projected benefit payments; thus, the discount rate used for determining the total pension liability is the long-term expected rate of return on plan investments of 6.5%.

MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
NOTES TO FINANCIAL STATEMENTS

CHANGES IN NET PENSION LIABILITY

	INCREASE (DECREASE)		
	TOTAL	PLAN	NET PENSION
	PENSION LIABILITY (a)	FIDUCIARY NET POSITION (b)	LIABILITY (a)-(b)
Balance, September 30, 2020	\$1,821,377	\$1,027,491	\$ 793,886
Changes for the year:			
Service cost	32,736	-	32,736
Interest, includes interest on service cost	116,834	-	116,834
Changes of benefit terms	-	-	-
Change of assumptions	-	-	-
Difference between expected and actual experience	-	-	-
Contributions-employer	-	171,463	(171,463)
Contributions-employee	-	-	-
Net, investment income	-	(27,691)	27,691
Benefit payments, including refunds of member contributions	(113,331)	(113,331)	-
Administrative expenses	-	-	-
Other changes	-	-	-
Net changes	<u>36,239</u>	<u>30,441</u>	<u>5,798</u>
Balance, September 30, 2021	<u>\$1,857,616</u>	<u>\$1,057,932</u>	<u>\$ 799,684</u>

DISCOUNT RATE SENSITIVITY

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be significant for a relatively small change in the discount rate. The table below shows the sensitivity of the NPL to the discount rate with two additional measures, plus and minus one percent from the rate used for disclosure.

Sensitivity of Net Pension Liability to Change in Discount Rate

	1% DECREASE <u>5.50%</u>	DISCOUNT RATE <u>6.50%</u>	1% INCREASE <u>7.50%</u>
Plan's Net Pension Liability	<u>\$988,221</u>	<u>\$799,684</u>	<u>\$599,507</u>

**PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES,
AND DEFERRED INFLOWS OF RESOURCES**

The impact of investment gains or losses for expensing is recognized over a period of five years. The impact of experience gains or losses and assumption changes on the TPL are recognized in the collective pension expense over the average expected remaining service life of all active and inactive members of the Plan, as provided below.

There were experience gains or losses between the beginning of year and end of year liabilities because the liabilities are based upon two different actuarial valuation dates. However, there were no assumption changes as of the Measurement Date.

Schedule of Collective Deferred Inflows and Outflows

	<u>DEFERRED OUTFLOWS OF RESOURCES</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>
Differences between expected and actual experience	\$ 20,601	\$ -
Changes of assumptions	9,560	-
Net difference between projected and actual earnings on pension plan investments	<u>162,954</u>	<u>-</u>
Total	<u>\$193,115</u>	<u>\$ -</u>

MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
NOTES TO FINANCIAL STATEMENTS

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

YEAR ENDED
SEPTEMBER 30

2022	\$88,748
2023	52,185
2024	32,907
2025	19,275

Calculation of Collective Pension Expense

Change in net pension liability	\$ 5,798
Change in deferred outflows of resources	(7,620)
Change in deferred inflows of resources	(44,465)
Employer Contributions	<u>171,463</u>
 Pension Expense	 <u>\$125,176</u>
 Pension Expense as % of Payroll	 <u>55.27%</u>
 Service cost	 \$ 32,736
Interest, includes interest on service cost	116,834
Differences between expected and actual experience	1,160
Projected earnings on pension plan investments	(68,676)
Changes of assumptions	6,795
Differences between projected and actual earnings on plan investments	<u>36,327</u>
 Pension Expense	 <u>\$125,176</u>

7. LEASE

The Authority leases the right to run water lines under the streets of the Borough of Shenandoah. The lease originated in 1941 and will continue as long as the Authority exists. Semiannual payments of \$3,750 are paid to the Borough. Annual rent expense of \$7,500 is included as an administrative expense.

8. RISK MANAGEMENT

The Authority is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; illnesses of employees; and natural disasters. In response to these risks, the Authority has purchased commercial insurance for all property and liability coverage. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage in the last three years.

SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The Authority's operations are located in Borough of Shenandoah, Pennsylvania. The Authority assesses residents within its service area, based upon usage, connection and assessment charges. The ability of each of the Authority's customers to honor their obligations to the Authority is dependent upon economic and other factors affecting the customers.

COMMITMENT

The Authority is undergoing a new construction project. The Authority anticipates approximately \$2,000,000 of costs to be incurred on this project, which is being financed primarily through new debt.

9. COMMITMENTS AND CONTINGENCIES

UNION AGREEMENT

On December 14, 2018, the Authority entered into a new agreement with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial, and Service Workers International Union, which is effective from September 16, 2019 to September 15, 2023. The agreement provides for certain salaries and wages, employment benefits, and the rights and obligations of both the Authority and the Union employees.

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, damage to and destruction of assets, errors and omission, employee injuries and natural disasters. The Authority has purchased commercial insurance for all these risks. There have not been significant reductions in insurance coverage for any major categories of risk compared to coverage in the prior year.

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

PENSION PLAN
SCHEDULE OF AUTHORITY'S CONTRIBUTIONS
LAST 10 MEASUREMENT YEARS (IF AVAILABLE)

An Actuarially Determined Contribution is a contribution amount determined in accordance with Actuarial Standards of Practice. The Actuarially Determined Contribution provided is based upon the Minimum Municipal Obligation as defined in ACT 205 which conforms to these standards.

	SEPTEMBER 30, 2021	SEPTEMBER 30, 2020	SEPTEMBER 30, 2019	SEPTEMBER 30, 2018	SEPTEMBER 30, 2017	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015	SEPTEMBER 30, 2014
Actuarially determined contribution	\$ 171,463	\$ 100,216	\$ 95,024	\$ 95,024	\$ 35,146	\$ 34,994	\$ 31,475	\$ 36,585
Contributions from Employer	171,463	100,814	166,417	7,260	32,257	79,441	31,475	36,585
CONTRIBUTION DEFICIENCY (EXCESS)	\$ -	\$ (598)	\$ (71,393)	\$ 87,764	\$ 2,889	\$ (44,447)	\$ -	\$ -
Covered-Employee Payroll	\$ 226,467	\$ 274,721	\$ 266,494	\$ 271,427	\$ 286,990	\$ 285,330	\$ 246,918	\$ 310,253
Contributions as a Percentage of Covered-Employee Payroll	75.71%	36.70%	62.45%	2.67%	11.23%	27.84%	12.75%	11.79%

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as are available.

*See Notes to Schedule on next page.

See Independent Auditor's Report

**MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST 10 MEASUREMENT YEARS (IF AVAILABLE)**

NOTES TO SCHEDULE:

Actuarially determined contribution rates are calculated as of January 1 for the odd valuation years; therefore, the actuarially determined contribution for the 2021 fiscal year is based upon the January 1, 2019 actuarial valuation.

A summary of the key assumptions and methods used to determine the contribution rates are as follows:

- Actuarial Cost Method: Entry Age Normal
- Amortization Period: Level dollar closed
- Asset Valuation Method: Market value of assets
- Discount Rate: 6.50%
- Inflation: 3.00%
- Salary Increases: 3.50%
- COLA Increases: N/A
- Pre-Retirement Mortality: PubG-2010 Male and Female Healthy Employee Mortality Table
- Post-Retirement Mortality: PubG-2010 Male and Female Annuitant Mortality Table

See Independent Auditor's Report

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

	SEPTEMBER 30, 2021	SEPTEMBER 30, 2020	SEPTEMBER 30, 2019	SEPTEMBER 30, 2018	SEPTEMBER 30, 2017	SEPTEMBER 30, 2016	SEPTEMBER 30, 2015
Change in total pension liability during year:							
Service cost	\$ 32,736	\$ 31,629	\$ 31,458	\$ 29,780	\$ 22,703	\$ 26,222	\$ 22,703
Interest cost	116,834	112,576	104,820	109,076	73,066	74,116	68,605
Difference in expected and actual experience	-	16,898	56,401	(72,559)	182,651	12,640	77,875
Changes in assumptions	-	-	38,242	(11,066)	374,275	-	-
Benefit payments	(113,331)	(111,692)	(111,692)	(110,855)	(99,753)	(97,800)	(84,401)
Net change	36,239	49,411	119,229	(55,624)	552,942	15,178	84,782
Total pension liability at beginning of year	1,821,377	1,771,966	1,652,737	1,708,361	1,155,419	1,140,241	1,055,459
Total pension liability at end of year	\$ 1,857,616	\$ 1,821,377	\$ 1,771,966	\$ 1,652,737	\$ 1,708,361	\$ 1,155,419	\$ 1,140,241
Change in plan fiduciary net position during year:							
Employer contributions	\$ 171,463	\$ 100,814	\$ 166,417	\$ 7,260	\$ 32,257	\$ 69,441	\$ 59,247
Projected investment returns over the year	(27,691)	(967)	(20,194)	67,107	61,224	62,087	60,935
Plan asset investment return gain (loss)	-	-	-	(45,033)	117,805	(25,788)	(16,449)
Benefit payment	(113,331)	(111,692)	(111,692)	(110,855)	(99,753)	(97,800)	(84,401)
Other	-	-	(2,512)	-	-	-	-
Net change	30,441	(11,845)	32,019	(81,521)	111,533	7,940	19,332
Fair value of plan assets at beginning of year	1,027,491	1,039,336	1,007,317	1,088,838	982,305	974,365	955,033
Fair value plan assets at end of year	1,057,932	1,027,491	1,039,336	1,007,317	1,093,838	982,305	974,365
Net pension liability at end of year	\$ 799,684	\$ 793,886	\$ 732,630	\$ 645,420	\$ 614,523	\$ 173,114	\$ 165,876

Ultimately, this schedule should present information for the last ten years. However, until ten years of information can be compiled, information is presented for as many years as are available.

See Independent Auditor's Report

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

PENSION PLAN
SCHEDULE OF FUNDING PROGRESS
LAST 4 BIENNIAL PERIODS (IF AVAILABLE)

Actuarial Valuation Date	JANUARY 1, <u>2019</u>	MARCH 1, <u>2017</u>	MARCH 1, <u>2015</u>	MARCH 1, <u>2013</u>
Actuarial Value of Assets (a)	\$ 1,026,557	\$ 1,108,806	\$ 1,149,732	\$ 882,504
Entry-Age Actuarial Accrued Liability (AAL) (b)	\$ 1,918,097	\$ 1,687,293	\$ 1,232,222	\$ 921,515
Percentage Funded (a/b)	53.52%	65.71%	93.31%	95.77%
Unfunded AAL (UAAL) (b-a)	\$ 891,540	\$ 578,487	\$ 82,490	\$ 39,011
Annual Covered Payroll (c)	\$ 328,747	\$ 286,990	\$ 246,918	\$ 344,323
UAAL as a % of Covered Payroll ((b-a)/(c))	271.19%	201.57%	33.41%	11.33%

See Independent Auditor's Report

MUNICIPAL AUTHORITY OF THE BOROUGH OF SHENANDOAH

**SCHEDULE OF PURIFICATION SYSTEM, PUMPING SYSTEM,
DISTRIBUTION SYSTEM, GENERAL OPERATING, AND ADMINISTRATIVE EXPENSES
FOR YEAR ENDED SEPTEMBER 30, 2021**

PURIFICATION SYSTEM EXPENSES:

Wages	\$	214,558
Employee Benefits (Including Pension Expense)		99,553
Chemicals		49,468
Supplies and Expenses		44,095
Power		<u>43,935</u>
Total Purification System Expenses	\$	<u>451,609</u>

PUMPING SYSTEM EXPENSES:

Power	\$	124,391
Heat		<u>3,104</u>
Total Pumping System Expenses	\$	<u>127,495</u>

DISTRIBUTION SYSTEM EXPENSES:

Wages	\$	225,790
Employee Benefits (Including Pension Expense)		153,989
Materials		134,509
Supplies and Expenses		14,212
Rental Expense		<u>10</u>
Total Distribution system Expenses	\$	<u>528,510</u>

GENERAL OPERATING EXPENSES:

Wages	\$	146,836
Employee Benefits (Including Pension Expense)		100,163
General Insurance expense		68,650
Office Supplies and Expense		33,555
Automobile and Truck Expense		17,948
Telephone expense		11,919
Heat		2,267
Power		<u>1,559</u>
Total General Operating Expenses	\$	<u>382,897</u>

ADMINISTRATIVE EXPENSES:

Engineering	\$	55,375
Professional fees		34,145
Lease rental		7,500
Dues and Subscriptions		3,562
Training		<u>1,377</u>
Total Administrative Expenses	\$	<u>101,959</u>

See Independent Auditor's Report

**MUNICIPAL AUTHORITY OF THE
BOROUGH OF SHENANDOAH
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
SEPTEMBER 30, 2021**

SUMMARY OF AUDIT RESULTS

1. Auditor's report expresses an unqualified opinion on the financial statements of the Municipal Authority of the Borough of Shenandoah.
2. One significant deficiency disclosed during the audit of the financial statements is reported in the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the Municipal Authority of the Borough of Shenandoah were disclosed during the audit.

FINDINGS-FINANCIAL STATEMENTS AUDIT

2021-1-PREPARATION OF THE FINANCIAL STATEMENTS

Condition: Employees or management lack the qualifications and training to apply generally accepted accounting principles (GAAP) in recording transactions or preparing financial statements.

Criteria: Internal controls should be in place that provide assurance that financial statements are prepared in accordance with GAAP.

Effect: Existing internal controls may not prevent, detect, or correct material misstatements of the financial statements.

Recommendation: This could be resolved by employing an individual with the qualifications to apply GAAP in recording transactions and preparing financial statements, however, this may be impractical based on the size and structure of the Authority. Statement on Auditing Standards No. 115 requires material weaknesses in internal control reported in prior years that still exist to be reported in subsequent years.

Management Response: The Authority recognizes the recommendation but believes that currently it is not cost effective to address this control deficiency.

**INDEPENDENT AUDITORS' 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
Municipal Authority of the
Borough of Shenandoah:

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 Municipal Authority of the Borough of Shenandoah, as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the Municipal Authority of the Borough of Shenandoah's basic financial statements and have issued our report thereon dated January 31, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipal Authority of the Borough of Shenandoah'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 Municipal Authority of the Borough of Shenandoah's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipal Authority of the Borough of Shenandoah'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Summary Schedule of Prior Audit Findings that we consider to be a significant deficiency. (2021-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipal Authority of the Borough of Shenandoah'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*.

Municipal Authority of the Borough of Shenandoah's Response to Finding

The Municipal Authority of the Borough of Shenandoah's response to the finding identified in our audit is described in the accompanying Summary Schedule of Prior Audit Findings. The Municipal Authority of the Borough of Shenandoah's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

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.



Hazleton, PA
January 31, 2022