

**Application of Pennsylvania-American Water Company for the Acquisition of
the Wastewater Treatment Plant and Collection System Owned and Operated by
Elizabeth Borough Municipal Authority (“EBMA”)**

Docket No. A-2023-3038717

66 Pa. C.S. § 1329

Application Filing Checklist – Water/Wastewater

19. Cost of Service.
- a. Provide a copy of the seller’s two most recent audited financial statements.

RESPONSE: a. See attached the seller’s two most recent audited financial statements (2022 and 2023). Both financial statements are attached as **Appendix A-19-a**.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

**ELIZABETH BOROUGH MUNICIPAL  
AUTHORITY**

ALLEGHENY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

WITH REPORT BY

CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED  
DECEMBER 31, 2022**

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**ALLEGHENY COUNTY, PENNSYLVANIA**

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## **Mark C. Turnley**

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**Board of Directors  
Elizabeth Borough Municipal Authority  
Allegheny County, Pennsylvania**

### **Independent Auditor's Report**

#### **Opinion**

I have audited the accompanying financial statements of the Elizabeth Borough Municipal Authority, Allegheny County, Pennsylvania as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Elizabeth Borough Municipal Authority's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elizabeth Borough Municipal Authority as of December 31, 2022, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Elizabeth Borough Municipal Authority, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

#### **Emphasis of Matter**

As discussed in Note 10 to the financial statements, the Elizabeth Borough Municipal Authority entered into an Asset Purchase Agreement on January 24, 2023 with the Pennsylvania-American Water Company. The closing of the sale and purchase of the assets shall commence within thirty (30) days following the date on which all of the conditions set forth in Article 10 of the Agreement have been met or waived. My opinion is not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Mark C. Turnley, CPA

### **Responsibilities of Management for the Financial Statements (Continued)**

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Elizabeth Borough Municipal Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

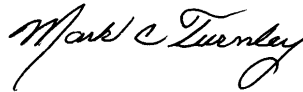
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Elizabeth Borough Municipal Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Elizabeth Borough Municipal Authority's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Mark C. Turnley, CPA

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv-viii, and the defined benefit pension information on pages 24-26, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.



Mark C. Turnley, CPA

December 18, 2023  
New Brighton, Pennsylvania

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2022

The discussion and analysis of the Elizabeth Borough Municipal Authority's financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2022. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Authority's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

### FINANCIAL HIGHLIGHTS

Key financial highlights for 2022 are as follows:

- The Authority's total net position increased by \$491,586 in calendar year 2022, as compared to an increase of \$554,956 for calendar year 2021.
- Operating revenues increased \$8,952 in 2022 or .5% from the prior year.
- Operating expenses increased \$48,168 in 2022 or 4.7% from the prior year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's basic financial statements consist of the following:

- **Exhibit A – Statement of Net Position** – The statement of net position presents information that includes all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Authority as a whole is improving or deteriorating.
- **Exhibit B – The Statement of Revenues, Expenses and Changes in Net Position** – This statement reports how the Authority's net position changed during the current fiscal year. All current year revenues and expenses are included, regardless of when cash is received or paid. This statement distinctly separates operating from non-operating revenues and expenses. The change in net position at the end of the statement reconciles the beginning and ending total net position as shown on the statement of net position.
- **Exhibit C – Statement of Cash Flows** – The statement of cash flows provides information regarding the increase or decrease in cash resulting from operating activities, capital, and noncapital financing activities, and investing activities.

### Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the Authority's financial statements. The notes to the financial statements begin immediately following the basic financial statements indicated above.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2022

FINANCIAL ANALYSIS OF THE AUTHORITY

A breakdown of the assets, liabilities, and net position of the Authority for the years 2022 and 2021 is as follows:

|                                                                | <u>2022</u>                 | <u>2021</u>                 | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|----------------------------------------------------------------|-----------------------------|-----------------------------|--------------------------------------|
| Current Assets                                                 | \$ 931,696                  | \$ 1,053,636                | \$ (121,940)                         |
| Restricted Assets                                              | 1,217,706                   | 1,257,337                   | (39,631)                             |
| Property, Plant and Equipment - Net                            | 16,740,424                  | 16,659,269                  | 81,155                               |
| Other Assets                                                   | 259,736                     | 181,637                     | 78,099                               |
| Deferred Outflows of Resources                                 | 47,174                      | 56,137                      | (8,963)                              |
| <b>TOTAL ASSETS AND DEFERRED<br/>OUTFLOWS OF RESOURCES</b>     | <b><u>\$ 19,196,736</u></b> | <b><u>\$ 19,208,016</u></b> | <b><u>\$ (11,280)</u></b>            |
| Current Liabilities                                            | \$ 305,422                  | \$ 625,633                  | \$ (320,211)                         |
| Long-Term Liabilities                                          | 13,196,112                  | 13,390,087                  | (193,975)                            |
| Deferred Inflows of Resources                                  | 175,994                     | 164,674                     | 11,320                               |
| <b>TOTAL LIABILITIES AND DEFERRED<br/>INFLOWS OF RESOURCES</b> | <b><u>\$ 13,677,528</u></b> | <b><u>\$ 14,180,394</u></b> | <b><u>\$ (502,866)</u></b>           |
| Net Investment in Capital Assets                               | \$ 3,294,312                | \$ 3,024,182                | \$ 270,130                           |
| Restricted                                                     | 1,217,706                   | 1,257,337                   | (39,631)                             |
| Unrestricted (Deficit)                                         | 1,007,190                   | 746,103                     | 261,087                              |
| <b>TOTAL NET POSITION</b>                                      | <b><u>\$ 5,519,208</u></b>  | <b><u>\$ 5,027,622</u></b>  | <b><u>\$ 491,586</u></b>             |

Restricted assets decreased as the monies in the 2019 Construction Fund were used for capital projects totaling approximately \$39,708. Property, plant, and equipment increased, along with long-term liabilities as the Authority drew down an additional \$462,348 on its' Pennsylvania Infrastructure Investment Authority (PENNVEST) loan during calendar year 2022 which were used to finance the new pump station project. Current liabilities decreased mainly due to a decrease in accounts payable totaling \$323,404.

A comparison of the Authority's revenues, expenses, and changes in net position for the years 2022 and 2021 is as follows:

|                                 | <u>2022</u>                | <u>2021</u>                | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|---------------------------------|----------------------------|----------------------------|--------------------------------------|
| Operating Revenues              | \$ 1,821,890               | \$ 1,812,938               | \$ 8,952                             |
| Operating Expenses              | 1,076,794                  | 1,028,626                  | 48,168                               |
| <b>NET OPERATING INCOME</b>     | <b><u>\$ 745,096</u></b>   | <b><u>\$ 784,312</u></b>   | <b><u>\$ (39,216)</u></b>            |
| NonOperating Revenues           | \$ 98                      | \$ 23,589                  | \$ (23,491)                          |
| NonOperating Expenses           | 253,608                    | 252,945                    | 663                                  |
| <b>NET NONOPERATING REVENUE</b> | <b><u>\$ (253,510)</u></b> | <b><u>\$ (229,356)</u></b> | <b><u>\$ (24,154)</u></b>            |
| <b>CHANGE IN NET POSITION</b>   | <b><u>\$ 491,586</u></b>   | <b><u>\$ 554,956</u></b>   | <b><u>\$ (63,370)</u></b>            |

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2022

**CHANGE IN COMPONENTS OF OPERATING REVENUES AND EXPENSES**

Operating revenues for the year ended December 31, 2022, increased \$8,952 (.5%) from calendar year 2021. Operating expenses increased approximately \$48,168 (4.7%) in calendar year 2022 as compared to the prior calendar year 2021. The decrease in nonoperating revenues is due to refund of prior year expense for the 2021 calendar year totaling \$23,400.

**BUDGETARY INFORMATION**

A comparison of the Authority's budget for 2022 versus actual results is as follows:

|                                 | <u>Budget</u>       | <u>Actual</u>       | <u>Over (Under)<br/>Budget</u> |
|---------------------------------|---------------------|---------------------|--------------------------------|
| Operating Revenues              | \$ 1,652,400        | \$ 1,821,890        | \$ 169,490                     |
| Operating Expenses              | 840,400             | 1,076,794           | 236,394                        |
| <b>NET OPERATING INCOME</b>     | <b>\$ 812,000</b>   | <b>\$ 745,096</b>   | <b>\$ (66,904)</b>             |
| NonOperating Revenues           | \$ 3,000            | \$ 98               | \$ (2,902)                     |
| NonOperating Expenses           | 902,332             | 253,608             | (648,724)                      |
| <b>NET NONOPERATING REVENUE</b> | <b>\$ (899,332)</b> | <b>\$ (253,510)</b> | <b>\$ 645,822</b>              |

Included in the nonoperating expense budget is the principal portion of the Authority's Series of 2019 Sewer Revenue Bonds debt obligation.

**CAPITAL ASSETS**

On December 31, 2022, the Authority had \$16,740,424 in net plant assets, including land, plant and system, vehicles and equipment, office equipment, and construction in progress. During the year ended December 31, 2022, the Authority had capital additions of \$224,580 mainly from the continued construction of the Authority's pump station replacement project funded through a loan received from the Pennsylvania Infrastructure Investment Authority (PENNVEST). A summary of the Authority's capital assets net of accumulated depreciation for the past two years is as follows:

|                          | <u>2022</u>          | <u>2021</u>          | <u>INCREASE<br/>&lt;DECREASE&gt;</u> |
|--------------------------|----------------------|----------------------|--------------------------------------|
| Land                     | \$ 261,000           | \$ 261,000           | \$ -                                 |
| Plant and System         | 7,654,323            | 7,654,323            | -                                    |
| Vehicles and Equipment   | 374,812              | 364,238              | 10,574                               |
| Office Equipment         | 26,067               | 26,067               | -                                    |
| Construction in Progress | 8,943,726            | 8,729,450            | 214,276                              |
|                          | \$ 17,259,928        | \$ 17,035,078        | \$ 224,850                           |
| Accumulated Depreciation | (519,504)            | (375,809)            | (143,695)                            |
|                          | <b>\$ 16,740,424</b> | <b>\$ 16,659,269</b> | <b>\$ 81,155</b>                     |

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
Required Supplementary Information (RSI)  
December 31, 2022**

**LONG-TERM DEBT**

On December 31, 2022, the Elizabeth Borough Municipal Authority had **1)** a Sewer Revenue Bond, Series of 2019 and **2)** a promissory note outstanding with the Pennsylvania Infrastructure Investment Authority (PENNVEST) as follows:

The Elizabeth Borough Municipal Authority issued Sewer Revenue Bonds - Series of 2019 totaling \$6,740,000 dated August 20, 2019. The bonds were issued under the terms of the First Supplemental Trust Indenture Agreement by and between the Authority and The Bank of New York Mellon (Trustee). The proceeds from the bonds were used to 1) currently refund the outstanding principal balance due on the Authority's Series of 2012A bond issue, 2) currently refund the outstanding principal balance due on the Authority's Series of 2012B bond issue, 3) finance certain improvements to the sewer system, and 4) to pay for costs related to the issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 of each year through maturity. Interest rates on the bonds range between 2.0% and 3.0%. These bonds are scheduled to mature on November 15, 2041. The bonds are subject to optional redemption prior to maturity. The bonds are limited obligations of the Authority payable solely from the pledged revenues as provided in the Trust Indenture.

On June 5, 2019, the Pennsylvania Infrastructure Investment Authority (PENNVEST) issued a promissory note (loan) in the amount of \$8,800,000 to the Elizabeth Borough Municipal Authority for the purpose of providing financing for the installation of a new pump station with additional wet well and channel capacity to accommodate wet weather flows; grit screening equipment is also included in the new pump station construction. The terms of the note agreement call for monthly payments of interest only for a maximum of 36 months. The note term is for a period of 265 months with interest at the rate of 1.085% for years 1 through 5, and at the rate of 1.850% for each succeeding month until the scheduled maturity date of August 1, 2041. As of December 31, 2022, the Authority has drawn down \$8,006,326 on this note obligation.

**ECONOMIC OUTLOOK**

The treatment plant and collection system were originally built in the 1950's and underwent upgrades in 1970 and in 1990 but still need constant attention to keep them operating efficiently and cost effectively. In response to the pump station needing major rehabilitation, it was decided that it was more cost effective to replace than repair due to age. The new pump station was put in service on June 21<sup>st</sup>, 2021, and the existing pump station was decommissioned and demolished. The existing treatment needs to be expanded to meet flow capacities as part of the Long-Term Control Plan. In response to the need for implementing the Long-Term Control Plan, as well as, maintenance of the existing plant and collection system, the Board decided to look at the possibility of selling or leasing the treatment plant due to the costs associated with the expansion. The Board requested Proposals and received one from Pennsylvania American Water and one from Aqua America. The proposals were evaluated, and the Board decided to sell the treatment plant, pump station, and collection system to Pennsylvania American Water. The sale should be completed by the 3<sup>rd</sup> quarter of 2024. The Authority has not been immune to the effects of the COVID pandemic, as the cost of goods and services, especially utilities such as electricity, natural gas, and water have increased and availability of items due to supply chain issues provided challenges to the financial health of the Authority. The Authority voted to use reserves to balance the short fall in the 2024 budget instead of raising rates.

The Authority Board continues to invest in capital improvement projects to help improve treatment plant and collection system reliability, reduce maintenance, operation, and electrical costs while trying to keep the rate structure affordable to its customers.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)**  
**Required Supplementary Information (RSI)**  
**December 31, 2022**

**CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT**

Our financial report is designed to provide our customers, investors, and creditors with a general overview of the Authority's finances and to show the Board of Directors' accountability for the money they administer on behalf of the communities served by the Elizabeth Borough Municipal Authority. If you have questions about this report or wish to request additional financial information, please contact Operations Manager Michael J. Zrenchak at the Elizabeth Borough Municipal Authority, 1 Locust Street, Elizabeth, Pa. 15037 or at [mzrenchak@ebmastp.com](mailto:mzrenchak@ebmastp.com).

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2022**

**ASSETS:**

**CURRENT ASSETS:**

|                             |                          |
|-----------------------------|--------------------------|
| Cash and Cash Equivalents   | \$ 271,534               |
| Accounts Receivable         | 656,190                  |
| Prepaid Expenses            | 3,972                    |
| <b>TOTAL CURRENT ASSETS</b> | <b><u>\$ 931,696</u></b> |

**RESTRICTED ASSETS:**

|                                |                            |
|--------------------------------|----------------------------|
| Cash and Cash Equivalents      | \$ 1,217,706               |
| <b>TOTAL RESTRICTED ASSETS</b> | <b><u>\$ 1,217,706</u></b> |

**PROPERTY, PLANT AND EQUIPMENT:**

|                                          |                             |
|------------------------------------------|-----------------------------|
| Land                                     | \$ 261,000                  |
| Plant and System                         | 7,654,323                   |
| Vehicles and Equipment                   | 374,812                     |
| Office Equipment                         | 26,067                      |
| Construction in Progress                 | 8,943,726                   |
|                                          | <u>\$ 17,259,928</u>        |
| Less Accumulated Depreciation            | (519,504)                   |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b> | <b><u>\$ 16,740,424</u></b> |

**OTHER ASSETS:**

|                           |                             |
|---------------------------|-----------------------------|
| Net Pension Asset         | \$ 259,736                  |
| <b>TOTAL OTHER ASSETS</b> | <b><u>\$ 259,736</u></b>    |
| <b>TOTAL ASSETS</b>       | <b><u>\$ 19,149,562</u></b> |

**DEFERRED OUTFLOWS OF RESOURCES:**

|                                                        |                             |
|--------------------------------------------------------|-----------------------------|
| Deferred Outflows of Resources - Bond Insurance        | \$ 24,068                   |
| Deferred Outflows of Resources - Pensions              | 23,106                      |
| <b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>            | <b><u>\$ 47,174</u></b>     |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b> | <b><u>\$ 19,196,736</u></b> |

**LIABILITIES:**

**CURRENT LIABILITIES:**

|                                  |                          |
|----------------------------------|--------------------------|
| Accounts Payable                 | \$ 47,345                |
| Accrued Payroll and Taxes        | 8,077                    |
| Bonds Payable - Current Portion  | 250,000                  |
| <b>TOTAL CURRENT LIABILITIES</b> | <b><u>\$ 305,422</u></b> |

**LONG-TERM LIABILITIES:**

|                                         |                             |
|-----------------------------------------|-----------------------------|
| Bonds Payable - Long-Term Portion (Net) | \$ 5,734,267                |
| Note Payable - PENNVEST                 | 7,461,845                   |
| <b>TOTAL LONG-TERM LIABILITIES</b>      | <b><u>\$ 13,196,112</u></b> |
| <b>TOTAL LIABILITIES</b>                | <b><u>\$ 13,501,534</u></b> |

**DEFERRED INFLOWS OF RESOURCES:**

|                                            |                          |
|--------------------------------------------|--------------------------|
| Deferred Inflows of Resources - Pensions   | \$ 175,994               |
| <b>TOTAL DEFERRED INFLOWS OF RESOURCES</b> | <b><u>\$ 175,994</u></b> |

**NET POSITION:**

|                                                                          |                             |
|--------------------------------------------------------------------------|-----------------------------|
| Net Investment in Capital Assets                                         | \$ 3,294,312                |
| Restricted                                                               | 1,217,706                   |
| Unrestricted                                                             | 1,007,190                   |
| <b>TOTAL NET POSITION</b>                                                | <b><u>\$ 5,519,208</u></b>  |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b> | <b><u>\$ 19,196,736</u></b> |

The accompanying notes are an integral part of these financial statements

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**OPERATING REVENUES:**

|                                 |                            |
|---------------------------------|----------------------------|
| Sewer Revenues                  | \$ 1,820,534               |
| Lien Letter Fees                | 1,050                      |
| Miscellaneous Income            | 306                        |
| <b>TOTAL OPERATING REVENUES</b> | <b><u>\$ 1,821,890</u></b> |

**OPERATING EXPENSES:**

|                                 |                            |
|---------------------------------|----------------------------|
| Salaries and Wages              | \$ 215,411                 |
| Payroll Taxes                   | 16,433                     |
| Employee Benefits               | (29,265)                   |
| Professional Services           | 281,954                    |
| Insurance                       | 48,164                     |
| Utilities                       | 84,303                     |
| Sludge Removal                  | 103,360                    |
| Sewer Vacuuming                 | 11,183                     |
| Repairs and Maintenance         | 65,739                     |
| System Supplies                 | 50,157                     |
| Administrative                  | 28,084                     |
| Office Expenses                 | 19,144                     |
| Licenses and Permits            | 7,650                      |
| Lab and Testing                 | 11,478                     |
| Telephone                       | 7,361                      |
| Vehicle and Travel              | 5,210                      |
| Uniforms                        | 6,733                      |
| Depreciation                    | 143,695                    |
| <b>TOTAL OPERATING EXPENSES</b> | <b><u>\$ 1,076,794</u></b> |

**NET OPERATING INCOME** **\$ 745,096**

**NON-OPERATING REVENUES AND (EXPENSES)**

|                                               |                            |
|-----------------------------------------------|----------------------------|
| Interest Income                               | \$ 98                      |
| Interest Expense                              | (253,608)                  |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> | <b><u>\$ (253,510)</u></b> |

**CHANGE IN NET POSITION** **\$ 491,586**

NET POSITION - JANUARY 1, 2022 5,027,622

**NET POSITION - DECEMBER 31, 2022** **\$ 5,519,208**

The accompanying notes are an integral part of these financial statements

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

**CASH FLOWS FROM OPERATING ACTIVITIES**

|                                                  |                          |
|--------------------------------------------------|--------------------------|
| Cash Received from Customers                     | \$ 1,700,030             |
| Cash Paid for Employee Salaries and Benefits     | (204,387)                |
| Cash Paid for Vendor Supplies and Services       | (1,096,027)              |
| <b>Net Cash Provided by Operating Activities</b> | <b><u>\$ 399,616</u></b> |

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

|                                                                    |                            |
|--------------------------------------------------------------------|----------------------------|
| Acquisition of Property and Equipment                              | \$ (224,850)               |
| Proceeds from PENNVEST Note                                        | 462,348                    |
| Principal Payments on Bonds/Notes                                  | (653,203)                  |
| Interest Paid on Debt                                              | (253,023)                  |
| <b>Net Cash (Used In) Capital and Related Financing Activities</b> | <b><u>\$ (668,728)</u></b> |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                                                  |                     |
|--------------------------------------------------|---------------------|
| Interest Income                                  | \$ 98               |
| <b>Net Cash Provided by Investing Activities</b> | <b><u>\$ 98</u></b> |

**Net Increase <Decrease> in Cash and Cash Equivalents** **\$ (269,014)**

CASH AND CASH EQUIVALENTS - JANUARY 1, 2022 1,758,254

**CASH AND CASH EQUIVALENTS - DECEMBER 31, 2022** **\$ 1,489,240**

**RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:**

Net Operating Income (Loss) \$ 745,096

**Adjustments to Reconcile Net Operating Income to Net Cash Provided by (Used In) Operating Activities:**

|                                        |         |
|----------------------------------------|---------|
| Depreciation                           | 143,695 |
| Amortization of Bond Insurance Expense | 1,295   |

**Change in Current Assets and Liabilities:**

|                                                                |           |
|----------------------------------------------------------------|-----------|
| (Increase) Decrease in Accounts Receivable                     | (121,859) |
| (Increase) Decrease in Deferred Outflows of Resources          | 8,963     |
| (Increase) Decrease in Prepaid Expenses                        | 14,417    |
| (Increase) Decrease in Net Pension Asset                       | (78,099)  |
| Increase (Decrease) in Accounts Payable                        | (323,404) |
| Increase (Decrease) in Accrued Payroll and Taxes               | (1,808)   |
| Increase (Decrease) in Deferred Inflows of Resources - Pension | 11,320    |

**Net Cash Provided by (Used In) Operating Activities** **\$ 399,616**

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

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**REPORTING ENTITY**

The Elizabeth Borough Municipal Authority (the Authority) was incorporated on December 29, 1949 as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945 (as amended). The Authority was established pursuant to an Ordinance of the Borough of Elizabeth and is governed by a Board of seven (7) members. The Board is composed of five (5) members appointed by members of Borough Council of the Borough of Elizabeth, and two (2) members appointed by the Commissioners from the Township of Elizabeth. The Authority is authorized by law to acquire, hold, construct, improve, maintain, and operate a sewer system, and to make and issue negotiable bonds. Revenue or other cash received must be disbursed for specific purposes in accordance with provisions of the Trust Indenture dated as of August 15, 2012, as amended, and supplemented by a First Supplemental Trust Indenture dated as of August 20, 2019, by and between the Authority and the Bank of New York Mellon Trust Company as Trustee.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Elizabeth Borough Municipal Authority consists of all funds, departments, boards, and agencies that are not legally separate from the Authority. As defined by generally accepted accounting standards, component units are legally separate entities that are included in the Authority's reporting entity because of the significance of their operating or financial relationships with the Authority. Based on the application of these criteria, the Elizabeth Borough Municipal Authority has no component units.

**FINANCIAL STATEMENT PRESENTATION**

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 'enterprise (proprietary) funds'. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

**BUDGETARY ACCOUNTING**

Management submits a proposed budget to the Authority Board of Directors annually prepared consistent with accounting principles generally accepted in the United States of America. The budget is used by management and the Board of Directors for internal reporting purposes to monitor and control the finances of the Authority. All unexpended and unencumbered appropriations in the operating budget lapse at year-end. No appropriation for a capital project in the capital budget lapses until the purpose for which the funds were appropriated have been accomplished or abandoned. Management is authorized to transfer budgeted amounts between line items within the Authority's expense categories.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**BASIS OF ACCOUNTING**

The Authority is considered a proprietary (enterprise) fund type. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public be financed or recovered primarily through user charges. Accordingly, the Authority utilizes the accrual method of accounting. Under this method, revenues are recognized when earned rather than when cash is received, and expenses are recognized when an obligation is incurred rather than when cash is actually paid.

**CASH AND CASH EQUIVALENTS**

For the purposes of the Statement of Cash Flows, cash and cash equivalents include amounts in demand deposit accounts, and any other short-term highly liquid assets with original maturity terms of less than three months.

**INVESTMENTS**

The Municipal Authorities Act authorizes the Authority to invest in the following:

- I. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- II. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.
- III. U.S. government obligations, short-term commercial paper issued by a public corporation, and banker's acceptances.

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. The Authority is in compliance with the Municipal Authorities Act investment restrictions as of December 31, 2022.

**RESTRICTED ASSETS**

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon and the Elizabeth Borough Municipal Authority, which secure the Authority's Sewer Revenue Bonds, Series of 2019, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. In addition, the Authority has restricted certain funds for specific operating purposes. The total of these funds is reflected in Exhibit A as 'restricted assets' and is comprised of the following on December 31, 2022:

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**RESTRICTED ASSETS (Continued)**

|                                    |                     |
|------------------------------------|---------------------|
| <b>Trust Indenture Restricted:</b> |                     |
| Debt Service Funds                 | \$ 417,746          |
| <br><b>Authority Restricted:</b>   |                     |
| Capacity Replacement               | \$ 752,988          |
| Pump Station Project               | 41,911              |
| Sludge Removal                     | 5,061               |
|                                    | \$ 799,960          |
| <b>TOTAL</b>                       | <b>\$ 1,217,706</b> |

**ACCOUNTS RECEIVABLE**

Accounts receivable are stated at net realizable value. The Authority uses the direct write-off method for charging uncollectible accounts receivable to operations. Management estimates that the result of this method materially approximates the allowance method.

**INVENTORY – MATERIALS AND SUPPLIES**

The Authority does not maintain a physical inventory. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed on December 31, 2022, would not materially affect the financial position of the Authority.

**UNAMORTIZED BOND DISCOUNT COSTS**

The Authority incurred bond discount costs of \$41,375 in connection with its Sewer Revenue Bond issue, Series of 2019. The bond discount costs are being amortized on a straight-line basis over the life of the bond issue. The unamortized bond discount costs totaling \$35,733 are reflected in the Statement of Net Position as a component of 'bonds payable – long term portion'. Amortization of these costs is charged to interest expense and totaled \$1,881 for the year ended December 31, 2022.

**LONG-TERM DEBT FINANCING COSTS**

Long-term debt issuance costs, other than discount costs, related to bonds and notes issued are recorded as expenses in the financial statements in the year paid. During the year ended December 31, 2022, the Authority incurred no bond or note issuance costs.

**PROPERTY, PLANT, AND EQUIPMENT**

The Authority records property, plant and equipment purchases at cost. Property, plant, and equipment include major betterments that extend the economic useful life of the assets affected. The Authority records depreciation on all fixed assets capitalized after calendar year 2015. Fixed assets capitalized prior to this date were not depreciated in accordance with accounting principles generally accepted in the United States. Routine repair and maintenance costs are charged to operations as incurred.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PROPERTY, PLANT, AND EQUIPMENT (Continued)**

Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

|                         |            |
|-------------------------|------------|
| Plant and System        | 7-40 Years |
| Machinery and Equipment | 7 Years    |
| Office Equipment        | 5 Years    |

Depreciation expense is not required for land and construction in progress. Depreciation expense for the year ended December 31, 2022, was \$143,695.

**NET POSITION**

Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified as follows:

- Net Investment in Capital Assets – This component of Net Position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets. Restricted net position consists of the following:

|                                    |                            |
|------------------------------------|----------------------------|
| <b>Trust Indenture Restricted:</b> |                            |
| Debt Service Funds                 | <u>\$ 417,746</u>          |
| <b>Authority Restricted:</b>       |                            |
| Capacity Replacement               | \$ 752,988                 |
| Pump Station Project               | 41,911                     |
| Sludge Removal                     | 5,061                      |
|                                    | <u>\$ 799,960</u>          |
| <b>TOTAL</b>                       | <b><u>\$ 1,217,706</u></b> |

- Unrestricted – Consists of all other Net Position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**UNEARNED REVENUE**

Unearned revenue arises when the Authority receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the unearned revenue liability is removed, and revenue is recognized.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

In addition to assets, the financial statements 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 position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority currently has two items that qualify for reporting in this category on the statement of net position:

- Deferred Outflows Related to Pensions (Note 8)
- Deferred Outflows Related to Bond Insurance Premiums (Note 5)

In addition to liabilities, the financial statements 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 position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority currently has one item that qualifies for reporting in this category on the statement of net position:

- Deferred Outflows Related to Pensions (Note 8)

**OPERATING REVENUES AND EXPENSES**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Elizabeth Borough Municipal Authority, these revenues are sewer user charges. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of interest income. Non-operating expenses consist of interest on long-term debt.

**ADOPTION OF GASB PRONOUNCEMENTS**

The requirements of the following GASB Statements were adopted for the Authority's 2022 financial statements. Except where noted, the adoption of these pronouncements did not have a significant impact on the Authority's financial statements.

**GASB issued Statement No. 87, 'Leases'.** The primary objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability (representational faithfulness), and consistency of information about the leasing activities of governments.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ADOPTION OF GASB PRONOUNCEMENTS (Continued)**

**GASB issued Statement No. 91, 'Conduit Debt Obligations'.** The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

**GASB issued Statement No. 97, 'Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans'.** The primary objectives of this Statement are to 1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; 2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and 3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensations plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

**PENDING GASB PRONOUNCEMENTS**

**GASB issued Statement No. 94, 'Public-Private and Public-Public Partnerships and Availability Payment Arrangements'.** The primary objectives of this Statement are to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs) and provide guidance for accounting and financial reporting for availability payment arrangements (APAs). The provisions of this Statement are effective for the Authority's December 31, 2023 financial statements.

**GASB issued Statement No. 96, 'Subscription-Based Information Technology Arrangements'.** The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The provisions of this Statement are effective for the Authority's December 31, 2023 financial statements.

**GASB issued Statement No 99, 'Omnibus 2022'.** The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Classification and reporting of derivative instruments within the scope of Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument.
- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PENDING GASB PRONOUNCEMENTS (Continued)**

**GASB issued Statement No 99 (Continued)**

- Clarification of provisions in Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public-public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP)
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- Terminology used in Statement 53 to refer to resource flows statements.

The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance.

The requirements related to leases, PPPs, and SBITAs are effective for the Authority’s December 31, 2023 financial statements.

The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for the Authority’s December 31, 2024 financial statements.

**GASB issued Statement No 100, ‘Accounting Changes and Error Correction’.** The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The provisions of this Statement are effective for the Authority’s December 31, 2024 financial statements.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PENDING GASB PRONOUNCEMENTS (Continued)**

**GASB issued Statement No 101, 'Compensated Absences'.** The primary objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The provisions of this Statement are effective for the Authority's December 31, 2024 financial statements.

The effects of implementing these Statements on the Authority's financial statements have not yet been determined.

**COMPENSATED ABSENCES**

It is the Authority's policy to account for the costs of compensated absences as incurred. Management does not consider the value of compensated absences as of December 31, 2022, if any, to be material to the financial statements.

**ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 - CASH DEPOSITS**

At December 31, 2022, the Authority had the following bank balance and carrying value on its cash and cash equivalent accounts:

|                         | <b>Bank<br/>Balance</b> | <b>Carrying<br/>Value</b> |
|-------------------------|-------------------------|---------------------------|
| PNC Bank                | \$ 1,075,602            | \$ 1,071,394              |
| Bank of New York Mellon | 417,746                 | 417,746                   |
| Petty Cash              | -                       | 100                       |
|                         | <b>\$ 1,493,348</b>     | <b>\$ 1,489,240</b>       |

The difference between the bank balance and the book balance represents year-end reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Coverage (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposit accounts, and certificates of deposit.

**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. As of December 31, 2022, \$825,602 of the Authority's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, deposits in interest bearing accounts in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable for sewer charges, as reflected in Exhibit A, is comprised of the following:

|                                         |           |                       |
|-----------------------------------------|-----------|-----------------------|
| Borough of Elizabeth                    | \$        | 412,693               |
| Elizabeth Township                      |           | 143,363               |
| Elizabeth Manor (Forward Township)      |           | 34,406                |
| Fallen Timber (Forward Township)        |           | 4,243                 |
| Kelly Run Sanitation (Forward Township) |           | 36,302                |
| Lincoln Borough                         |           | 1,783                 |
| PWSA Reimbursement Pipe Cleaning        |           | 23,400                |
|                                         | <b>\$</b> | <b><u>656,190</u></b> |

**NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT**

The following comprises the changes to the Authority's property, plant, and equipment account during 2022:

|                                              | <b><u>Balance</u></b><br><b><u>1/1/2022</u></b> | <b><u>Additions</u></b>    | <b><u>Dispositions</u></b> | <b><u>Balance</u></b><br><b><u>12/31/2022</u></b> |
|----------------------------------------------|-------------------------------------------------|----------------------------|----------------------------|---------------------------------------------------|
| <b>Capital Assets not being Depreciated:</b> |                                                 |                            |                            |                                                   |
| Land                                         | \$ 261,000                                      | \$ -                       | \$ -                       | \$ 261,000                                        |
| Construction in Progress                     | 8,729,450                                       | 214,276                    | -                          | 8,943,726                                         |
| Plant and System (Pre-2016)                  | 4,204,459                                       | -                          | -                          | 4,204,459                                         |
| Vehicles and Equipment (Pre-2016)            | 194,827                                         | -                          | -                          | 194,827                                           |
| Office Equipment (Pre-2016)                  | 7,198                                           | -                          | -                          | 7,198                                             |
|                                              | <b><u>\$ 13,396,934</u></b>                     | <b><u>\$ 214,276</u></b>   | <b><u>\$ -</u></b>         | <b><u>\$ 13,611,210</u></b>                       |
| <b>Capital Assets being Depreciated:</b>     |                                                 |                            |                            |                                                   |
| Plant and System                             | \$ 3,449,864                                    | \$ -                       | \$ -                       | \$ 3,449,864                                      |
| Vehicles and Equipment                       | 169,411                                         | 10,574                     | -                          | 179,985                                           |
| Office Equipment                             | 18,869                                          | -                          | -                          | 18,869                                            |
|                                              | <b><u>\$ 3,638,144</u></b>                      | <b><u>\$ 10,574</u></b>    | <b><u>\$ -</u></b>         | <b><u>\$ 3,648,718</u></b>                        |
| <b>TOTAL</b>                                 | <b><u>\$ 17,035,078</u></b>                     | <b><u>\$ 224,850</u></b>   | <b><u>\$ -</u></b>         | <b><u>\$ 17,259,928</u></b>                       |
| <b>Less Accumulated Depreciation:</b>        |                                                 |                            |                            |                                                   |
| Plant and System                             | \$ (321,548)                                    | \$ (113,265)               | \$ -                       | \$ (434,813)                                      |
| Vehicles and Equipment                       | (41,308)                                        | (27,874)                   | -                          | (69,182)                                          |
| Office Equipment                             | (12,953)                                        | (2,556)                    | -                          | (15,509)                                          |
|                                              | <b><u>\$ (375,809)</u></b>                      | <b><u>\$ (143,695)</u></b> | <b><u>\$ -</u></b>         | <b><u>\$ (519,504)</u></b>                        |
| <b>TOTAL</b>                                 | <b><u>\$ (375,809)</u></b>                      | <b><u>\$ (143,695)</u></b> | <b><u>\$ -</u></b>         | <b><u>\$ (519,504)</u></b>                        |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>     | <b><u>\$ 16,659,269</u></b>                     | <b><u>\$ 81,155</u></b>    | <b><u>\$ -</u></b>         | <b><u>\$ 16,740,424</u></b>                       |

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 5 - SEWER REVENUE BONDS – SERIES OF 2019**

The Elizabeth Borough Municipal Authority issued Sewer Revenue Bonds - Series of 2019 totaling \$6,740,000 dated August 20, 2019. The bonds were issued under the terms of the First Supplemental Trust Indenture Agreement by and between the Authority and The Bank of New York Mellon (Trustee). The proceeds from the bonds were used to 1) currently refund the outstanding principal balance due on the Authority's Series of 2012A bond issue, 2) currently refund the outstanding principal balance due on the Authority's Series of 2012B bond issue, 3) finance certain improvements to the sewer system, and 4) to pay for costs related to the issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 of each year through maturity. Interest rates on the bonds range between 2.0% and 3.0%. These bonds are scheduled to mature on November 15, 2041. The bonds are subject to optional redemption prior to maturity. The bonds are limited obligations of the Authority payable solely from the pledged revenues as provided in the Trust Indenture.

**DEFAULT PROVISIONS – SEWER REVENUE BONDS, SERIES OF 2019**

In the event of default, the Trustee's remedies are as described in the First Supplemental Trust Indenture Agreement between the Authority and the Trustee. The Bondholder Rights and Remedies, as provided in the Indenture, upon the happening and during continuance of any Event of Default, as defined in the Indenture, then and in every case the Trustee may declare, and upon written request of Holders of not less than 25% in aggregate principal amount of bonds outstanding under the Indenture, and the Bond Insurer, the Trustee shall declare, by notice in writing delivered to the Authority, the principal of all Bonds outstanding under the Indenture to be due and payable, and the interest accrued thereon to be due and payable immediately; and upon such declaration the same shall become and shall be due and payable immediately; and upon such declaration the same shall become and shall be due and payable immediately; provided, however, that the consent of the Insurer of the Bonds, may be required for any acceleration of Bonds outstanding under the Indenture.

The following summarizes the bond debt service obligations of the Authority as of December 31, 2022:

| <u>Dec 31</u> | <u>Principal</u>           | <u>Interest</u>            | <u>Total</u>               |
|---------------|----------------------------|----------------------------|----------------------------|
| 2023          | \$ 250,000                 | \$ 162,918                 | \$ 412,918                 |
| 2024          | 260,000                    | 155,418                    | 415,418                    |
| 2025          | 265,000                    | 147,618                    | 412,618                    |
| 2026          | 275,000                    | 142,318                    | 417,318                    |
| 2027          | 275,000                    | 136,818                    | 411,818                    |
| 2028-2032     | 1,490,000                  | 586,296                    | 2,076,296                  |
| 2033-2037     | 1,695,000                  | 377,819                    | 2,072,819                  |
| 2038-2041     | 1,510,000                  | 113,400                    | 1,623,400                  |
|               | <b><u>\$ 6,020,000</u></b> | <b><u>\$ 1,822,605</u></b> | <b><u>\$ 7,842,605</u></b> |

The Authority paid bond insurance premiums of \$28,486 in connection with the issuance of their Series of 2019 sewer revenue bond issue. This amount is being amortized on a straight-line basis over the life of the bond issue. Amortization of the premiums totaled \$1,295. The remaining unamortized amount of \$24,068 as of December 31, 2022, is reflected as part of 'deferred outflows of resources' in the statement of net position.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 6 – NOTES PAYABLE (DIRECT BORROWING)**

**PENNVEST NOTE – 2019**

On June 5, 2019, the Pennsylvania Infrastructure Investment Authority (PENNVEST) issued a promissory note (loan) in the amount of \$8,800,000 to the Elizabeth Borough Municipal Authority for the purpose of providing financing for the installation of a new pump station with additional wet well and channel capacity to accommodate wet weather flows; grit screening equipment is also included in the new pump station construction. The terms of the note agreement call for monthly payments of interest only for a maximum of 36 months. The note term is for a period of 265 months with interest at the rate of 1.085% for years 1 through 5, and at the rate of 1.850% for each succeeding month until the scheduled maturity date of August 1, 2041. As of December 31, 2022, the Authority has drawn down \$8,006,326 on this note obligation. The Authority made \$408,204 in principal payments during 2022 leaving a principal balance of \$7,461,845 on December 31, 2022.

**DEFAULT PROVISIONS – PENNVEST**

The Notes are secured by a pledge of all of the gross revenues and receipts generated from or by the Sewer System and all other gross revenues and receipts (security and collateral pledged) as more fully set forth in the Note Purchase Agreement between the Authority and PENNVEST subject to the prior liens of PENNVEST.

In the event of default, the entire unpaid principal sum, plus all interest accrued, plus all other sums due and payable to PENNVEST under the debt obligation documents shall become payable immediately at the option of PENNVEST. In addition, upon the occurrence of any event of default by the Authority, PENNVEST may exercise singly, concurrently, successively, or otherwise any and all rights and remedies available under any of the debt obligation documents or with respect to any collateral, or available to PENNVEST by law, equity, statute or otherwise.

**NOTE 7 – LONG-TERM DEBT CHANGES**

The following represents the changes in the Authority's debt obligations during 2022:

|                          | <u>1/1/2022</u>      | <u>Additions</u>  | <u>Reductions</u> | <u>Balance<br/>12/31/2022</u> | <u>Due Within<br/>One Year</u> |
|--------------------------|----------------------|-------------------|-------------------|-------------------------------|--------------------------------|
| Bonds                    | \$ 6,265,000         | \$ -              | \$ 245,000        | \$ 6,020,000                  | \$ 250,000                     |
| Direct Borrowing - Notes | 7,407,701            | 462,348           | 408,204           | 7,461,845                     | -                              |
|                          | <u>\$ 13,672,701</u> | <u>\$ 462,348</u> | <u>\$ 653,204</u> | <u>\$ 13,481,845</u>          | <u>\$ 250,000</u>              |

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
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**NOTE 8 - AUTHORITY PENSION PLAN**

**DESCRIPTION OF PLAN**

The Elizabeth Borough Municipal Authority pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution No. 09-03 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office or visiting their website at pmrs.state.pa.us.

**PLAN MEMBERSHIP**

Plan membership consisted of the following as of January 1, 2021:

|                                     |                 |
|-------------------------------------|-----------------|
| Active plan members                 | 3               |
| Retirees and beneficiaries          |                 |
| currently receiving benefits        | 4               |
| Terminated employees entitled to    |                 |
| benefits but not yet receiving them | -               |
| Total                               | <u><u>7</u></u> |

**PLAN BENEFITS**

The plan provides retirement, disability, and death benefits to eligible plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the plan. All participants are eligible for retirement benefits provided they have attained the normal retirement age of 60. Early retirement provisions are available after 20 years of service. Monthly pension benefits are equal to 1.5% times credited service times Final Average Salary (FAS). Effective January 1, 2020, the FAS changed from the high 5 year average to high 3 year average. Participants are fully vested upon completion of five (5) years of service.

**PLAN CONTRIBUTION REQUIREMENTS**

Employer contributions are actuarially determined reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. This contribution is based upon the Minimum Municipal Obligation (MMO) as defined in Act 205. For the calendar year 2022, the Authority contributed \$4,515 to the plan. This contribution to the pension plan, subsequent to the measurement date of the Authority's net pension liability (NPL), is recognized as a component of 'deferred outflows of resources – pension' on the statement of net position. Participants are required to contribute 3.5% of compensation to the plan, which for calendar year 2022 totaled \$6,766.

**ACTUARIAL ASSUMPTIONS:**

The Authority's total pension liability (TPL) was measured as of December 31, 2021, based on the actuarial valuation as of January 1, 2021. The TPL as of December 31, 2021, was based upon the following actuarial assumptions:

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
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**DECEMBER 31, 2022**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**ACTUARIAL ASSUMPTIONS: (Continued)**

- **Actuarial Cost Method** – Entry Age Normal.
- **Rates of Pre-Retirement Mortality** – Males and Females: PUB-2010 General Employees male and female tables.
- **Rates of Post-Retirement Mortality** – Males and Females: RP2006 annuitant male and female tables.
- **Disabled Life Mortality Rates** – Males and Females: RP2006 disabled annuitant male and female tables.
- **Mortality Improvement** – All base mortality tables described above are projected from the applicable table's base year to 2023 using Mortality Improvement Scale MP-2018.
- **Termination Rates Before Retirement** – Less than 25 active members – sliding scale 1 year 11% down to 10 plus years at 3%. More than 25 active members – sliding scale 1 year 12% down to 10 plus years at 3.5%.
- **Disability Incidence Rates** – 50% of 2017 CALPERS Public Miscellaneous Group disability rates for males. 20% of disablements are assumed to be service related for municipal plans, and 70% for uniform plans.
- **Workers Compensation** – Service-related disability benefits payable from municipal plans are offset by 25% of final average salary.
- **Salary Scale:** Sliding scale - age 25 (6.22%) down to age 65 (2.79%).
- **Rates of Retirement:** Municipal members - Under age 55 (33%), age 55 (30%), age 56-57 (12%), age 58-59 (14%), age 60 (18%), age 61 (10%), age 62 (20%), age 63 (18%), age 64 (15%), age 65-67 (25%), age 68-70 (20%), age 71-73 (22%), age 74 (20%), age 75 (100%). Uniform members - Under age 49 (0%), age 50 (25%), age 51-53 (10%), age 54-55 (15%), age 56-58 (17%), age 59-60 (15%), age 61 (20%), age 62 (28%), age 63 (22%), age 64 (25%), age 65 (35%), age 66 (30%), age 67+ (100%).
- **Deferred Retirement Option Plan (DROP)** – For plans with these options, at participant's normal retirement age, retirement rates multiplied by the following factors: uniform 130% nonuniformed 115%
- **Marital Status and Spouse's Age (if applicable):** For plans with the 50% J&S form of payment, 85%/65% of active male/female members are assumed to be married. Male spouses are assumed to be 3 years older than female spouses.
- **Social Security Projections (if applicable):** Social security wage base will increase 2.7% compounded annually; CPI will increase 2.2% compounded annually; average total wages will increase 2.7% compounded annually
- **Post-Retirement Cost of Living Increases:** 2.2% per year, subject to plan limitations.
- **Investment Return:** 5.25% compounded annually, net of investment and certain administrative expenses.
- **Administrative expenses:** The expense assumption is based upon the expected expenses for the current year. The administrative expense consists of two pieces: 1) the PMRS administrative expenses (i.e., the \$20 per participant charge paid directly by the municipality, and 2) the additional administrative expenses in excess of the PMRS administrative expenses that are paid through the Undistributed Earnings.

These assumptions are based on the PMRS Experience Study for the period covering January 1, 2014, through December 31, 2018, issued by the actuary in September 2020, covering the defined benefit plan participants and all retirees, as well as subsequent assumption changes approved by the Pension Board. The assumption changes from the Experience Study were first used for the December 31, 2020 measurement date. Effective with the December 31, 2016 measurement date, the Investment Return Assumption for municipal assets decreased from 5.5% to 5.25%.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**TOTAL PENSION LIABILITY, PLAN FIDUCIARY NET POSITION, AND NET PENSION LIABILITY**

The following shows the changes in the Total Pension Liability (TPL), the Plan Fiduciary Net Position (fair value of plan assets), and the Net Pension Liability (NPL) as of the Measurement date.

|                                                       | <b>Total Pension<br/>Liability<br/>( a )</b> | <b>Plan Fiduciary<br/>Net Position<br/>( b )</b> | <b>Net Pension<br/>Liability<br/>( c )</b> |
|-------------------------------------------------------|----------------------------------------------|--------------------------------------------------|--------------------------------------------|
| <b>Balances at 12/31/2020</b>                         | \$ 798,871                                   | \$ 980,508                                       | \$ (181,637)                               |
| Changes for the year:                                 |                                              |                                                  |                                            |
| Service cost                                          | 18,238                                       |                                                  | 18,238                                     |
| Interest                                              | 41,408                                       |                                                  | 41,408                                     |
| Changes of benefits                                   | -                                            |                                                  | -                                          |
| Changes of assumptions                                | -                                            |                                                  | -                                          |
| Differences between expected<br>and actual experience | -                                            |                                                  | -                                          |
| Contributions - employer                              | -                                            | 2,888                                            | (2,888)                                    |
| Contributions - PMRS assessment                       | -                                            | 20                                               | (20)                                       |
| Contributions - member                                | -                                            | 6,809                                            | (6,809)                                    |
| PMRS investment income                                | -                                            | 44,821                                           | (44,821)                                   |
| Market value investment income**                      | -                                            | 85,886                                           | (85,886)                                   |
| Transfers                                             |                                              | -                                                | -                                          |
| Benefit payments                                      | (57,506)                                     | (57,506)                                         | -                                          |
| PMRS administrative expense                           |                                              | (140)                                            | 140                                        |
| Additional administrative expense                     |                                              | (2,539)                                          | 2,539                                      |
| Net changes                                           | <u>2,140</u>                                 | <u>80,239</u>                                    | <u>(78,099)</u>                            |
| <b>Balances at 12/31/2021</b>                         | <b><u>\$ 801,011</u></b>                     | <b><u>\$ 1,060,747</u></b>                       | <b><u>\$ (259,736)</u></b>                 |

\*\* Reflects the net investment income/(loss) of \$82,008 and income/(loss) due to the difference between expected and actual asset values of \$3,878 which includes the impact from allocation of assets in support of the underlying retiree liabilities.

The above does not reflect changes in benefits, assumptions, or reserve accounts after the measurement date. The TPL, as of December 31, 2021. Except as noted above, the TPL as of December 31, 2021 was based on the data, actuarial methods and assumptions, and plan provisions described in Appendix A and Appendix E of the PMRS 68 report. The assumptions used to determine the TPL as of December 31, 2020 measurement date can be found in the January 1, 2021 PMRS actuarial valuation report or the prior year's GASB report.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**TOTAL PENSION LIABILITY, PLAN FIDUCIARY NET POSITION, AND NET PENSION LIABILITY (Continued)**

According to Governmental Accounting Standards Board (GASB) Statements No. 67 and 68, PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer 'plan fiduciary net position.' PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning Fiduciary Net Position balance adjusted for cash flows throughout the year. The 'Additional administrative expenses' are the expenses in excess of the 'PMRS administrative expense' (i.e. \$20 per participant expense paid by each plan). The 'PMRS investment income' is based upon the regular and excess interest used to credit accounts annually. The 'Market value investment income' reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of the underlying retiree liabilities.

**SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

The impact of investment gains or losses for expending 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 pension expense over the average expected remaining service live of all active and inactive members of the Plan. The impact of plan changes is recognized immediately. The following is a schedule of collective deferred inflows and outflows as of December 31, 2021:

|                                                                                  | <b><u>Deferred<br/>Outflows of<br/>Resources</u></b> | <b><u>Deferred<br/>Inflows of<br/>Resources</u></b> |
|----------------------------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------|
| Differences between expected and actual experience                               | \$ -                                                 | \$ 11,631                                           |
| Changes of assumptions                                                           | 18,591                                               | -                                                   |
| Net difference between projected and actual earnings on pension plan investments | -                                                    | 164,363                                             |
| Contributions after measurement date                                             | 4,515                                                | -                                                   |
| TOTAL                                                                            | <b><u>\$ 23,106</u></b>                              | <b><u>\$ 175,994</u></b>                            |

The \$4,515 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement date December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in subsequent audit reports as follows:

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**SCHEDULE OF DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES**  
**(Continued)**

| Measurement<br>Date<br>Year ended<br><u>Dec 31,</u> | Reporting<br>Date<br>Year ended<br><u>Dec 31,</u> | <u>Amount</u> |
|-----------------------------------------------------|---------------------------------------------------|---------------|
| 2022                                                | 2023                                              | \$ (47,861)   |
| 2023                                                | 2024                                              | (54,644)      |
| 2024                                                | 2025                                              | (37,720)      |
| 2025                                                | 2026                                              | (17,178)      |
| 2026                                                | 2027                                              | -             |
| Thereafter                                          | Thereafter                                        | -             |

**PENSION EXPENSE**

The annual pension expense recognized can be calculated two different ways. First, it is the change in the amounts reported on for the Employer's Statement of Net Position that relate to the plan and are not attributable to employer contributions. That is, the change in Net Pension Liability (NPL) plus the changes in deferred outflows and deferred inflows plus employer contributions.

Alternatively, annual pension expense can be calculated by its individual components. Although not required by GASB, PMRS provides an example of this calculation at [pmrs.state.pa.us/yearendrptg](http://pmrs.state.pa.us/yearendrptg).

**LONG-TERM EXPECTED RATE OF RETURN ON PLAN ASSETS**

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future nominal rates of return (net of investment expenses) are developed for each asset class. These returns are combined to produce the Systems' Long-Term Expected Real Rate of Return by calculating the weighted average return for each asset class using each respective target asset allocation percentage and multiplying by the expected future nominal rate of return, while also factoring in covariance across asset classes, then deducting expected inflation (2.5%). Best estimates of geometric real rates of return for each utilized asset class are included in the pension plan's target asset allocation as of December 31, 2021, and summarized in the table below labeled "System Nominal Net and Real Rates of Return by Asset Class."

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**LONG-TERM EXPECTED RATE OF RETURN ON PLAN ASSETS (Continued)**

**System Nominal and Real Rates of Return by Asset Class**

| <b>Asset Class</b>                          | <b>Target<br/>Asset<br/>Allocation</b> | <b>Nominal<br/>Net Rate of<br/>Return</b> | <b>Long-Term<br/>Expected<br/>Real Rate<br/>of Return</b> |
|---------------------------------------------|----------------------------------------|-------------------------------------------|-----------------------------------------------------------|
| Domestic Equities (large cap)               | 24.50%                                 | 7.49%                                     | 4.99%                                                     |
| Domestic Equities (small cap)               | 8.00%                                  | 8.18%                                     | 5.68%                                                     |
| International Equities (developing markets) | 14.50%                                 | 8.07%                                     | 5.57%                                                     |
| International Equities (emerging markets)   | 3.00%                                  | 8.21%                                     | 5.71%                                                     |
| Global Equities                             | 5.00%                                  | 7.28%                                     | 4.78%                                                     |
| Real Estate                                 | 10.00%                                 | 7.40%                                     | 4.90%                                                     |
| Timber                                      | 5.00%                                  | 6.17%                                     | 3.67%                                                     |
| Fixed Income (Core Investment Grade)        | 24.00%                                 | 4.32%                                     | 1.82%                                                     |
| Fixed Income (Oppirtunistic Credit)         | 5.00%                                  | 7.88%                                     | 5.38%                                                     |
| Cash                                        | 1.00%                                  | 1.18%                                     | -1.32%                                                    |
| Total Portfolio                             | 100.00%                                | 7.42%                                     | 4.92%                                                     |

Based on the aforementioned methodology, the Board established the System's Long-Term Expected Rate of Return at 7.42%.

In addition to determining the System's Long-Term Nominal Expected Rate of Return, the PMRS Board, under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), is obligated to develop and apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. The rationale for the difference between the System's Long-Term Expected Rate of Return and the individual participating municipalities' Regular Interest Rate is described in the following section "Discount Rate." As of December 31, 2021, this rate is equal to 5.25%.

The Board has determined the minimum acceptable confidence level for achieving the Regular Interest Rate to be 60%. The table below labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels based on the most recent asset allocation study conducted by the Boards' investment consultant, Marquette Associates.

**Confidence Levels for System Nominal and Real Rates of Return**

| <b>Confidence<br/>Interval</b> | <b>Nominal<br/>Rate of<br/>Return</b> | <b>Long-Term<br/>Expected<br/>Real Rate<br/>of Return</b> |
|--------------------------------|---------------------------------------|-----------------------------------------------------------|
| 95.00%                         | 4.20%                                 | 1.70%                                                     |
| 90.00%                         | 5.06%                                 | 2.56%                                                     |
| 85.00%                         | 5.57%                                 | 3.07%                                                     |
| 80.00%                         | 6.18%                                 | 3.68%                                                     |
| 75.00%                         | 6.47%                                 | 3.97%                                                     |
| 70.00%                         | 6.93%                                 | 4.43%                                                     |
| 60.00%                         | 7.57%                                 | 5.07%                                                     |

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**DISCOUNT RATE**

While it is often common practice to establish an actuarial Discount Rate that is equal to the Long-Term Expected Rate of return, PMRS is required by law (Act 15 of 1974) to establish a Discount Rate equal to the Regular Interest Rate. The PMRS Board establishes the Regular Interest Rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The Board considers the following five quantitative factors in establishing the Regular Interest Rate:

1. Retiree Plan liability as a percentage of total Plan liability,
2. Active Plan participant liability as a percentage of total Plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System Long-Term Expected Rate of Return, and
5. PMRS administrative expenses

The formula using these factors is as follows:

Regular Interest Rate/Discount Rate = (Retiree Liability Percentage x Smoothed PBGC Annuity Rates) + (Active Employee Liability Percentage x System Long-Term Expected Rate of Return) – (Investment Expenses as a percentage of assets)

The Board may then adjust the Regular Interest Rate/Discount Rate derived from the formula against a variety of qualitative factors such as the desire to minimize Regular Interest Rate/Discount Rate volatility, probability of achieving the Regular Interest Rate, varying levels of asset allocation and liquidity, trending annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The Regular Interest Rate/Discount Rate adopted by the Board and used to measure the individual participating municipalities' total pension liability was 5.25% as of December 31, 2021.

The Regular Interest Rate/Discount Rate will likely result in a System Long-Term Expected Rate of Return. Should the System experience a prolonged period of investment returns in excess of the Regular Interest Rate/Discount Rate, the Board is authorized to allocate any applicable portion of any such excess in accordance with Board policies in the form of Excess Interest as provided for in the law.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the Regular Interest Rate/Discount Rate was required ("depletion testing"), used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsors contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's Long-Term Expected Rate of Return will be used in the depletion testing of projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 - AUTHORITY PENSION PLAN (Continued)**

**SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE**

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 very 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 the disclosure.

|                                                                      | <b><u>1% Decrease</u></b><br><b><u>(4.25%)</u></b> | <b><u>Current</u></b><br><b><u>Discount Rate</u></b><br><b><u>(5.25%)</u></b> | <b><u>1% Increase</u></b><br><b><u>(6.25%)</u></b> |
|----------------------------------------------------------------------|----------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------|
| Total Pension Liability                                              | \$ 890,452                                         | \$ 801,011                                                                    | \$ 724,591                                         |
| Plan Fiduciary Net Position                                          | <u>1,060,747</u>                                   | <u>1,060,747</u>                                                              | <u>1,060,747</u>                                   |
| Net Pension Liability                                                | \$ (170,295)                                       | \$ (259,736)                                                                  | \$ (336,156)                                       |
| <br>                                                                 |                                                    |                                                                               |                                                    |
| Plan Fiduciary Net Position as a<br>% of the Total Pension Liability | 119.12%                                            | 132.43%                                                                       | 146.39%                                            |

**NOTE 9 – RISKS AND UNCERTAINTIES**

**GENERAL INSURANCE**

The Elizabeth Borough Municipal Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

**STATE AND FEDERAL FUNDING**

The Elizabeth Borough Municipal Authority's state and federally funded programs are subject to program compliance audits by various governmental agencies. The audit scope of these program compliance audits is different than the scope of financial audits performed by an outside independent certified public accounting firm. The Authority is potentially liable for any expenditure disallowed by the results of these program compliance audits. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

**LEGAL MATTERS**

The Elizabeth Borough Municipal Authority, on occasion, is party to various legal matters normally associated with sewer facility operations. Management is not aware of any matters that would materially affect the financial position or results of operations of the Authority.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022**

**NOTE 10 – ASSET PURCHASE AGREEMENT WITH PENNSYLVANIA-AMERICAN WATER COMPANY**

The Authority's treatment plant and collection system were originally built in the 1950's and underwent upgrades in 1970 and in 1990 but still need constant attention to keep them operating efficiently and cost effectively. In response to the pump station needing major rehabilitation, it was decided that it was more cost effective to replace than repair due to age. The new pump station was put in service on June 21<sup>st</sup>, 2021, and the existing pump station was decommissioned and demolished. The existing treatment needs to be expanded to meet flow capacities as part of the Long-Term Control Plan. In response to the need for implementing the Long-Term Control Plan, as well as, maintenance of the existing plant and collection system, the Board decided to look at the possibility of selling or leasing the treatment plant due to the costs associated with the expansion. The Board requested Proposals and received one from Pennsylvania American Water and one from Aqua America. The proposals were evaluated, and the Board decided to sell the treatment plant, pump station, and collection system to Pennsylvania American Water. Accordingly, the Elizabeth Borough Municipal Authority entered into an Asset Purchase Agreement on January 24, 2023 with the Pennsylvania-American Water Company for consideration totaling \$28,000,000. The closing of the sale and purchase of the assets shall commence within thirty (30) days following the date on which all of the conditions set forth in Article 10 of the Agreement have been met or waived. Management anticipates the sale should be completed by the 3<sup>rd</sup> quarter of 2024.

**NOTE 11 – SUBSEQUENT EVENTS**

Management has determined that there are no events subsequent to December 31, 2022, through the December 18, 2023 date of the 'Independent Auditor's Report', which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

***REQUIRED***

***SUPPLEMENTARY***

***INFORMATION***

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

|                                                                           | Measurement Year<br>Ending<br>12/31/2021 | Measurement Year<br>Ending<br>12/31/2020 | Measurement Year<br>Ending<br>12/31/2019 | Measurement Year<br>Ending<br>12/31/2018 | Measurement Year<br>Ending<br>12/31/2017 | Measurement Year<br>Ending<br>12/31/2016 | Measurement Year<br>Ending<br>12/31/2015 | Measurement Year<br>Ending<br>12/31/2014 |
|---------------------------------------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|------------------------------------------|
| <b>Total Pension Liability-Beginning</b>                                  | \$ 798,871                               | \$ 775,863                               | \$ 789,979                               | \$ 798,359                               | \$ 778,957                               | \$ 729,853                               | \$ 716,683                               | \$ 752,277                               |
| Service Cost                                                              | 18,238                                   | 12,833                                   | 14,073                                   | 17,051                                   | 16,457                                   | 15,564                                   | 16,738                                   | 20,640                                   |
| Interest (Includes Interest on Service Cost)                              | 41,408                                   | 39,916                                   | 40,434                                   | 41,829                                   | 40,779                                   | 39,971                                   | 39,312                                   | 39,220                                   |
| Changes of Benefit Terms                                                  | -                                        | -                                        | -                                        | 5,181                                    | -                                        | -                                        | -                                        | -                                        |
| Differences Between Expected and Actual Experience                        | -                                        | (9,416)                                  | -                                        | (34,607)                                 | -                                        | 11,157                                   | -                                        | 25,825                                   |
| Changes of Assumptions                                                    | -                                        | 37,181                                   | -                                        | -                                        | -                                        | 20,246                                   | (5,046)                                  | -                                        |
| Transfers                                                                 | -                                        | -                                        | -                                        | -                                        | -                                        | -                                        | -                                        | 34,392                                   |
| Benefit Payments                                                          | (57,506)                                 | (57,506)                                 | (68,623)                                 | (37,834)                                 | (37,834)                                 | (37,834)                                 | (37,834)                                 | (155,671)                                |
| Net Change in Total Pension Liability                                     | \$ 2,140                                 | \$ 23,008                                | \$ (14,116)                              | \$ (8,380)                               | \$ 19,402                                | \$ 49,104                                | \$ 13,170                                | \$ (35,594)                              |
| <b>Total Pension Liability-Ending</b>                                     | \$ 801,011                               | \$ 798,871                               | \$ 775,863                               | \$ 789,979                               | \$ 798,359                               | \$ 778,957                               | \$ 729,853                               | \$ 716,683                               |
| <b>Plan Fiduciary Net Position-Beginning</b>                              | \$ 980,508                               | \$ 881,186                               | \$ 772,410                               | \$ 824,096                               | \$ 721,406                               | \$ 682,986                               | \$ 704,953                               | \$ 777,960                               |
| Contributions - Employer                                                  | 2,888                                    | 8,873                                    | 10,775                                   | 9,963                                    | 9,938                                    | 6,681                                    | 4,949                                    | 2,229                                    |
| Contributions - PMRS Assessment                                           | 20                                       | 140                                      | 140                                      | -                                        | -                                        | -                                        | -                                        | -                                        |
| Contributions - Member                                                    | 6,809                                    | 4,932                                    | 5,409                                    | 6,646                                    | 6,414                                    | 6,384                                    | 6,368                                    | 5,796                                    |
| PMRS Investment Income                                                    | 44,821                                   | 42,148                                   | 43,379                                   | 39,978                                   | 39,027                                   | 39,534                                   | 38,419                                   | 36,697                                   |
| Market Value Investment Income                                            | 85,886                                   | 102,711                                  | 119,335                                  | (68,535)                                 | 87,060                                   | 25,712                                   | (32,147)                                 | 5,057                                    |
| Transfers                                                                 | -                                        | -                                        | -                                        | -                                        | -                                        | -                                        | -                                        | 34,392                                   |
| Benefit Payments                                                          | (57,506)                                 | (57,506)                                 | (68,623)                                 | (37,834)                                 | (37,834)                                 | (37,834)                                 | (37,834)                                 | (155,671)                                |
| PMRS Administrative Expense                                               | (140)                                    | (140)                                    | (140)                                    | (120)                                    | (120)                                    | (120)                                    | (120)                                    | (100)                                    |
| Additional Administrative Expense                                         | (2,539)                                  | (1,836)                                  | (1,499)                                  | (1,784)                                  | (1,795)                                  | (1,937)                                  | (1,602)                                  | (1,407)                                  |
| Change in Plan Fiduciary Net Position                                     | \$ 80,239                                | \$ 99,322                                | \$ 108,776                               | \$ (51,686)                              | \$ 102,690                               | \$ 38,420                                | \$ (21,967)                              | \$ (73,007)                              |
| <b>Plan Fiduciary Net Position-Ending</b>                                 | \$ 1,060,747                             | \$ 980,508                               | \$ 881,186                               | \$ 772,410                               | \$ 824,096                               | \$ 721,406                               | \$ 682,986                               | \$ 704,953                               |
| <b>Net Pension Liability (Asset) - Ending</b>                             | \$ (259,736)                             | \$ (181,637)                             | \$ (105,323)                             | \$ 17,569                                | \$ (25,737)                              | \$ 57,551                                | \$ 46,867                                | \$ 11,730                                |
| <b>RATIOS:</b>                                                            |                                          |                                          |                                          |                                          |                                          |                                          |                                          |                                          |
| Plan Fiduciary Net Position as a<br>Percentage of Total Pension Liability | 132.43%                                  | 122.74%                                  | 113.57%                                  | 97.78%                                   | 103.22%                                  | 92.61%                                   | 93.58%                                   | 98.36%                                   |
| Covered-employee Payroll                                                  | \$ 194,552                               | \$ 140,925                               | \$ 154,540                               | \$ 189,877                               | \$ 183,259                               | \$ 182,305                               | \$ 181,934                               | \$ 215,870                               |
| Net Pension Liability as a Percentage<br>of Covered-employee Payroll      | -133.50%                                 | -128.89%                                 | -68.15%                                  | 9.25%                                    | -14.04%                                  | 31.57%                                   | 25.76%                                   | 5.43%                                    |

NOTE: Schedule requires information for past 10 calendar years. Most recent actuarial valuation presents information for calendar years 2014 through 2021 only.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**SCHEDULE OF ACTUARIALLY DETERMINED PENSION CONTRIBUTION AND RELATED RATIOS**  
**REQUIRED SUPPLEMENTARY INFORMATION (RSI)**

|                                                           | <u>12/31/2021</u> | <u>12/31/2020</u> | <u>12/31/2019</u> | <u>12/31/2018</u> | <u>12/31/2017</u> | <u>12/31/2016</u> | <u>12/31/2015</u> | <u>12/31/2014</u> |
|-----------------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Actuarially Determined Contribution                       | \$ 2,888          | \$ 8,993          | \$ 10,895         | \$ 9,963          | \$ 9,938          | \$ 6,681          | \$ 4,949          | \$ 1,910          |
| Contributions                                             | <u>2,908</u>      | <u>9,013</u>      | <u>10,915</u>     | <u>9,963</u>      | <u>9,938</u>      | <u>6,681</u>      | <u>4,949</u>      | <u>2,229</u>      |
| Contribution Deficiency (Excess)                          | <u>\$ (20)</u>    | <u>\$ (20)</u>    | <u>\$ (20)</u>    | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ (319)</u>   |
| <b>RATIOS:</b>                                            |                   |                   |                   |                   |                   |                   |                   |                   |
| Covered-employee Payroll                                  | \$ 194,552        | \$ 140,925        | \$ 154,540        | \$ 189,877        | \$ 183,259        | \$ 182,305        | \$ 181,934        | \$ 215,870        |
| Contributions as a Percentage of Covered-employee Payroll | 1.49%             | 6.40%             | 7.06%             | 5.25%             | 5.42%             | 3.66%             | 2.72%             | 1.03%             |

NOTE: Schedule requires information for past 10 calendar years. Most recent actuarial valuation presents information for calendar years 2014 through 2021 only.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**  
**NOTES TO SCHEDULES OF REQUIRED**  
**SUPPLEMENTARY INFORMATION – PENSION PLAN**  
**DECEMBER 31, 2022**

**NOTE 1 - FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR PENSION BENEFITS**

**Changes in Benefit Terms**

None

**Changes in Assumptions used in the Measurement of Total Pension Liability**

- Effective 12/31/15 the assumptions based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015.
- Effective 12/31/16, the investment return assumption for municipal assets decreased from 5.50% to 5.25%.
- Effective 12/31/20 the assumptions based on the PMRS Experience Study for the period covering January 1, 2014 through December 31, 2018 issued by the actuary in September 2020.

**Actuarial Assumptions used in Calculations of Actuarially Determined Contributions**

The following actuarial methods and assumptions were used to determine actuarially determined contributions:

- **Actuarial Cost Method** - Entry Age Normal
- **Actuarial Valuation:** January 1, 2019
- **Amortization Period** – Level dollar based on the amortization periods in Act 205
- **Asset Valuation Method** – Based on the Municipal Reserves
- **Discount Rate** – 5.25%
- **Inflation** – 2.8%
- **Salary Increases** – age-related scale with merit and inflation component
- **COLA Increases** – 2.8% for those eligible for a COLA
- **Pre-Retirement Mortality** – Males: RP 2000 Non-Annuitant Male table projected 15 years with Scale AA. Females: RP 2000 Non-Annuitant Female table projected 15 years with Scale AA, setback five years
- **Post-Retirement Mortality** – Males: RP2000 Annuitant Male table projected 5 years with Scale AA. Females: RP2000 Annuitant Female table projected 10 years with Scale AA.

**ELIZABETH BOROUGH MUNICIPAL AUTHORITY**

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FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

**ELIZABETH BOROUGH MUNICIPAL
AUTHORITY**

ALLEGHENY COUNTY, PENNSYLVANIA

FINANCIAL STATEMENTS

WITH REPORT BY

CERTIFIED PUBLIC ACCOUNTANT

**FOR THE YEAR ENDED
DECEMBER 31, 2023**

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
ALLEGHENY COUNTY, PENNSYLVANIA

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Mark C. Turnley

Certified Public Accountant

1000 3rd Avenue
New Brighton, Pennsylvania 15066
(724) 384-1081
FAX (724) 384-8908

**Board of Directors
Elizabeth Borough Municipal Authority
Allegheny County, Pennsylvania**

Independent Auditor's Report

Opinion

I have audited the accompanying financial statements of the Elizabeth Borough Municipal Authority, Allegheny County, Pennsylvania as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Elizabeth Borough Municipal Authority's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Elizabeth Borough Municipal Authority as of December 31, 2023, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Elizabeth Borough Municipal Authority, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter

As discussed in Note 10 to the financial statements, the Elizabeth Borough Municipal Authority entered into an Asset Purchase Agreement on January 24, 2023 with the Pennsylvania-American Water Company. The closing of the sale and purchase of the assets shall commence within thirty (30) days following the date on which all of the conditions set forth in Article 10 of the Agreement have been met or waived. My opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

Mark C. Turnley, CPA

Responsibilities of Management for the Financial Statements (Continued)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Elizabeth Borough Municipal Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Elizabeth Borough Municipal Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Elizabeth Borough Municipal Authority's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Mark C. Turnley, CPA

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages iv-viii, and the defined benefit pension information on pages 24-26, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.



Mark C. Turnley, CPA

September 17, 2024
New Brighton, Pennsylvania

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2023

The discussion and analysis of the Elizabeth Borough Municipal Authority's financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2023. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the financial statements and notes to the financial statements to enhance their understanding of the Authority's financial performance.

The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2023 are as follows:

- The Authority's total net position increased by \$289,622 in calendar year 2023, as compared to an increase of \$491,586 for calendar year 2022.
- Operating revenues increased \$44,640 in 2023 or 2.45% from the prior year.
- Operating expenses increased \$245,956 in 2023 or 2.29% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority's basic financial statements consist of the following:

- **Exhibit A – Statement of Net Position** – The statement of net position presents information that includes all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the Authority as a whole is improving or deteriorating.
- **Exhibit B – The Statement of Revenues, Expenses and Changes in Net Position** – This statement reports how the Authority's net position changed during the current fiscal year. All current year revenues and expenses are included, regardless of when cash is received or paid. This statement distinctly separates operating from non-operating revenues and expenses. The change in net position at the end of the statement reconciles the beginning and ending total net position as shown on the statement of net position.
- **Exhibit C – Statement of Cash Flows** – The statement of cash flows provides information regarding the increase or decrease in cash resulting from operating activities, capital, and noncapital financing activities, and investing activities.

Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the Authority's financial statements. The notes to the financial statements begin immediately following the basic financial statements indicated above.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2023

FINANCIAL ANALYSIS OF THE AUTHORITY

A breakdown of the assets, liabilities, and net position of the Authority for the years 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>	<u>INCREASE <DECREASE></u>
Current Assets	\$ 903,436	\$ 931,696	\$ (28,260)
Restricted Assets	928,076	1,217,706	(289,630)
Property, Plant and Equipment - Net	16,948,343	16,740,424	207,919
Other Assets	190,473	259,736	(69,263)
Deferred Outflows of Resources	-	47,174	(47,174)
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 18,970,328</u>	<u>\$ 19,196,736</u>	<u>\$ (226,408)</u>
Current Liabilities	\$ 371,539	\$ 305,422	\$ 66,117
Long-Term Liabilities	12,778,778	13,196,112	(417,334)
Deferred Inflows of Resources	24,954	175,994	(151,040)
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>\$ 13,175,271</u>	<u>\$ 13,677,528</u>	<u>\$ (502,257)</u>
Net Investment in Capital Assets	\$ 3,909,565	\$ 3,294,312	\$ 615,253
Restricted	928,076	1,217,706	(289,630)
Unrestricted (Deficit)	980,189	1,007,190	(27,001)
TOTAL NET POSITION	<u>\$ 5,817,830</u>	<u>\$ 5,519,208</u>	<u>\$ 298,622</u>

Restricted assets decreased as the monies in the 2019 Construction Fund were used for capital projects totaling approximately \$331,931. Property, plant, and equipment increased, along with long-term liabilities as the Authority drew down an additional \$250,000 on its' Pennsylvania Infrastructure Investment Authority (PENNVEST) loan during calendar year 2023 which were used to finance the new pump station project. Current liabilities increased mainly due to a increase in accounts payable totaling \$55,984.

A comparison of the Authority's revenues, expenses, and changes in net position for the years 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>	<u>INCREASE <DECREASE></u>
Operating Revenues	\$ 1,866,530	\$ 1,821,890	\$ 44,640
Operating Expenses	1,322,752	1,076,794	245,958
NET OPERATING INCOME	<u>\$ 543,778</u>	<u>\$ 745,096</u>	<u>\$ (201,318)</u>
NonOperating Revenues	\$ 80	\$ 98	\$ (18)
NonOperating Expenses	(245,236)	253,608	(498,844)
NET NONOPERATING REVENUE	<u>\$ (245,156)</u>	<u>\$ (253,510)</u>	<u>\$ 498,826</u>
CHANGE IN NET POSITION	<u>\$ 298,622</u>	<u>\$ 491,586</u>	<u>\$ 297,508</u>

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2023

CHANGE IN COMPONENTS OF OPERATING REVENUES AND EXPENSES

Operating revenues for the year ended December 31, 2023, increased \$44,640 (2.45%) from calendar year 2022. Operating expenses increased approximately \$245,156 (2.29%) in calendar year 2023 as compared to the prior calendar year 2022. The decrease in nonoperating revenues is due to less interest income than in 2022.

BUDGETARY INFORMATION

A comparison of the Authority's budget for 2023 versus actual results is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Operating Revenues	\$ 1,873,600	\$ 1,866,530	\$ (7,070)
Operating Expenses	971,600	1,322,752	351,152
NET OPERATING INCOME	<u>\$ 902,000</u>	<u>\$ 543,778</u>	<u>\$ (358,222)</u>
NonOperating Revenues	\$ 100	\$ 80	\$ (20)
NonOperating Expenses	906,698	245,236	(661,462)
NET NONOPERATING REVENUE	<u>\$ (906,598)</u>	<u>\$ (245,156)</u>	<u>\$ 661,442</u>

Included in the nonoperating expense budget is the principal portion of the Authority's Series of 2019 Sewer Revenue Bonds debt obligation.

CAPITAL ASSETS

On December 31, 2023, the Authority had \$16,948,343 in net plant assets, including land, plant and system, vehicles and equipment, office equipment, and construction in progress. During the year ended December 31, 2023, the Authority had capital additions of \$348,473 mainly from the continued construction of the Authority's pump station replacement project funded through a loan received from the Pennsylvania Infrastructure Investment Authority (PENNVEST). A summary of the Authority's capital assets net of accumulated depreciation for the past two years is as follows:

	<u>2023</u>	<u>2022</u>	<u>INCREASE <DECREASE></u>
Land	\$ 261,000	\$ 261,000	\$ -
Plant and System	7,675,458	7,654,323	21,135
Vehicles and Equipment	374,812	374,812	-
Office Equipment	26,067	26,067	-
Construction in Progress	9,271,064	8,943,726	327,338
	<u>\$ 17,608,401</u>	<u>\$ 17,259,928</u>	<u>\$ 348,473</u>
Accumulated Depreciation	(660,058)	(519,504)	(140,554)
	<u>\$ 16,948,343</u>	<u>\$ 16,740,424</u>	<u>\$ 207,919</u>

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2023

LONG-TERM DEBT

As of December 31, 2023, the Elizabeth Borough Municipal Authority had **1)** a Sewer Revenue Bond, Series of 2019 and **2)** a promissory note outstanding with the Pennsylvania Infrastructure Investment Authority (PENNVEST) as follows:

The Elizabeth Borough Municipal Authority issued Sewer Revenue Bonds - Series of 2019 totaling \$6,740,000 dated August 20, 2019. The bonds were issued under the terms of the First Supplemental Trust Indenture Agreement by and between the Authority and The Bank of New York Mellon (Trustee). The proceeds from the bonds were used to 1) currently refund the outstanding principal balance due on the Authority's Series of 2012A bond issue, 2) currently refund the outstanding principal balance due on the Authority's Series of 2012B bond issue, 3) finance certain improvements to the sewer system, and 4) to pay for costs related to the issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 of each year through maturity. Interest rates on the bonds range between 2.0% and 3.0%. These bonds are scheduled to mature on November 15, 2041. The bonds are subject to optional redemption prior to maturity. The bonds are limited obligations of the Authority payable solely from the pledged revenues as provided in the Trust Indenture.

On June 5, 2019, the Pennsylvania Infrastructure Investment Authority (PENNVEST) issued a promissory note (loan) in the amount of \$8,800,000 to the Elizabeth Borough Municipal Authority for the purpose of providing financing for the installation of a new pump station with additional wet well and channel capacity to accommodate wet weather flows; grit screening equipment is also included in the new pump station construction. The terms of the note agreement call for monthly payments of interest only for a maximum of 36 months. The note term is for a period of 265 months with interest at the rate of 1.085% for years 1 through 5, and at the rate of 1.850% for each succeeding month until the scheduled maturity date of August 1, 2041. As of December 31, 2023, the Authority has drawn down \$8,256,326 on this note obligation.

ECONOMIC OUTLOOK

The treatment plant and collection system were originally built in the 1950's and underwent upgrades in 1970 and in 1990 but still need constant attention to keep them operating efficiently and cost effectively. In response to the pump station needing major rehabilitation, it was decided that it was more cost effective to replace than repair due to age. The new pump station was put in service on June 21st, 2021, and the existing pump station was decommissioned and demolished. The existing treatment needs to be expanded to meet flow capacities as part of the Long-Term Control Plan. In response to the need for implementing the Long-Term Control Plan, as well as, maintenance of the existing plant and collection system, the Board decided to look at the possibility of selling or leasing the treatment plant due to the costs associated with the expansion. The Board requested Proposals and received one from Pennsylvania American Water and one from Aqua America. The proposals were evaluated, and the Board decided to sell the treatment plant, pump station, and collection system to Pennsylvania American Water. The sale should be completed by the 4th quarter of 2025. The Authority has not been immune to the effects of the COVID pandemic, as the cost of goods and services, especially utilities such as electricity, natural gas, and water have increased and availability of items due to supply chain issues provided challenges to the financial health of the Authority. The Authority voted to use reserves to balance the short fall in the 2024 budget instead of raising rates.

The Authority Board continues to invest in capital improvement projects to help improve treatment plant and collection system reliability, reduce maintenance, operation, and electrical costs while trying to keep the rate structure affordable to its customers.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
December 31, 2023**

CONTACTING THE AUTHORITY FINANCIAL MANAGEMENT

Our financial report is designed to provide our customers, investors, and creditors with a general overview of the Authority's finances and to show the Board of Directors' accountability for the money they administer on behalf of the communities served by the Elizabeth Borough Municipal Authority. If you have questions about this report or wish to request additional financial information, please contact Board Chairman, Tim Guffey at the Elizabeth Borough Municipal Authority, 1 Locust Street, Elizabeth, Pa. 15037.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS:

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 124,586
Accounts Receivable	724,146
Prepaid Expenses	54,704
TOTAL CURRENT ASSETS	<u>\$ 903,436</u>

RESTRICTED ASSETS:

Cash and Cash Equivalents	\$ 928,076
TOTAL RESTRICTED ASSETS	<u>\$ 928,076</u>

PROPERTY, PLANT AND EQUIPMENT:

Land	\$ 261,000
Plant and System	7,675,458
Vehicles and Equipment	374,812
Office Equipment	26,067
Construction in Progress	9,271,064
	<u>\$ 17,608,401</u>
Less Accumulated Depreciation	(660,058)
NET PROPERTY, PLANT AND EQUIPMENT	<u>\$ 16,948,343</u>

OTHER ASSETS:

Net Pension Asset	\$ 190,473
TOTAL OTHER ASSETS	<u>\$ 190,473</u>
TOTAL ASSETS	<u>\$ 18,970,328</u>

DEFERRED OUTFLOWS OF RESOURCES:

Deferred Outflows of Resources - Bond Insurance	\$ 22,773
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 22,773</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 18,993,101</u>

LIABILITIES:

CURRENT LIABILITIES:

Accounts Payable	\$ 103,128
Accrued Payroll and Taxes	8,411
Bonds Payable - Current Portion	260,000
TOTAL CURRENT LIABILITIES	<u>\$ 371,539</u>

LONG-TERM LIABILITIES:

Bonds Payable - Long-Term Portion (Net)	\$ 5,476,148
Note Payable - PENNVEST	7,302,630
TOTAL LONG-TERM LIABILITIES	<u>\$ 12,778,778</u>
TOTAL LIABILITIES	<u>\$ 13,150,317</u>

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows of Resources - Pensions	\$ 24,954
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 24,954</u>

NET POSITION:

Net Investment in Capital Assets	\$ 3,909,565
Restricted	928,076
Unrestricted	980,189
TOTAL NET POSITION	<u>\$ 5,817,830</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 18,993,101</u>

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023

OPERATING REVENUES:

Sewer Revenues	\$ 1,865,415
Lien Letter Fees	1,115
TOTAL OPERATING REVENUES	<u>\$ 1,866,530</u>

OPERATING EXPENSES:

Salaries and Wages	\$ 180,795
Payroll Taxes	13,163
Employee Benefits	(34,373)
Professional Services	610,962
Insurance	35,970
Utilities	61,431
Sludge Removal	132,983
Sewer Vacuuming	3,591
Repairs and Maintenance	76,842
System Supplies	18,323
Administrative	30,110
Office Expenses	13,606
Licenses and Permits	7,650
Lab and Testing	13,703
Telephone	5,927
Vehicle and Travel	4,518
Uniforms	6,997
Depreciation	140,554
TOTAL OPERATING EXPENSES	<u>\$ 1,322,752</u>

\$ 543,778

NON-OPERATING REVENUES AND (EXPENSES)

Interest Income	\$ 80
Interest Expense	(245,236)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ (245,156)</u>

\$ 298,622

NET POSITION - JANUARY 1, 2023 5,519,208

NET POSITION - DECEMBER 31, 2023 **\$ 5,817,830**

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$ 1,798,573
Cash Paid for Employee Salaries and Benefits	(193,220)
Cash Paid for Vendor Supplies and Services	(938,807)
Net Cash Provided by Operating Activities	<u>\$ 666,546</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition of Property and Equipment	\$ (445,634)
Proceeds from PENNVEST Note	250,000
Principal Payments on Bonds/Notes	(659,215)
Interest Paid on Debt	(248,355)
Net Cash (Used In) Capital and Related Financing Activities	<u>\$ (1,103,204)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest Income	\$ 80
Net Cash Provided by Investing Activities	<u>\$ 80</u>
Net Increase <Decrease> in Cash and Cash Equivalents	\$ (436,578)
CASH AND CASH EQUIVALENTS - JANUARY 1, 2023	<u>1,489,240</u>
CASH AND CASH EQUIVALENTS - DECEMBER 31, 2023	<u>\$ 1,052,662</u>
<u>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</u>	
Net Operating Income (Loss)	\$ 543,778
Adjustments to Reconcile Net Operating Income to Net Cash Provided by (Used In) Operating Activities:	
Depreciation	140,554
Amortization of Bond Insurance Expense	1,295
Change in Current Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(67,957)
(Increase) Decrease in Deferred Outflows of Resources	23,106
(Increase) Decrease in Prepaid Expenses	50,732
(Increase) Decrease in Net Pension Asset	69,263
Increase (Decrease) in Accounts Payable	56,077
Increase (Decrease) in Accrued Payroll and Taxes	738
Increase (Decrease) in Deferred Inflows of Resources - Pension	(151,040)
Net Cash Provided by (Used In) Operating Activities	<u>\$ 666,546</u>

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

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Elizabeth Borough Municipal Authority (the Authority) was incorporated on December 29, 1949 as a public corporation of the Commonwealth of Pennsylvania, organized and existing under the Municipality Authorities Act of 1945 (as amended). The Authority was established pursuant to an Ordinance of the Borough of Elizabeth and is governed by a Board of seven (7) members. The Board is composed of five (5) members appointed by members of Borough Council of the Borough of Elizabeth, and two (2) members appointed by the Commissioners from the Township of Elizabeth. The Authority is authorized by law to acquire, hold, construct, improve, maintain, and operate a sewer system, and to make and issue negotiable bonds. Revenue or other cash received must be disbursed for specific purposes in accordance with provisions of the Trust Indenture dated as of August 15, 2012, as amended, and supplemented by a First Supplemental Trust Indenture dated as of August 20, 2019, by and between the Authority and the Bank of New York Mellon Trust Company as Trustee.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure the financial statements are not misleading. The primary government of the Elizabeth Borough Municipal Authority consists of all funds, departments, boards, and agencies that are not legally separate from the Authority. As defined by generally accepted accounting standards, component units are legally separate entities that are included in the Authority's reporting entity because of the significance of their operating or financial relationships with the Authority. Based on the application of these criteria, the Elizabeth Borough Municipal Authority has no component units.

FINANCIAL STATEMENT PRESENTATION

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental 'enterprise (proprietary) funds'. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below.

BUDGETARY ACCOUNTING

Management submits a proposed budget to the Authority Board of Directors annually prepared consistent with accounting principles generally accepted in the United States of America. The budget is used by management and the Board of Directors for internal reporting purposes to monitor and control the finances of the Authority. All unexpended and unencumbered appropriations in the operating budget lapse at year-end. No appropriation for a capital project in the capital budget lapses until the purpose for which the funds were appropriated have been accomplished or abandoned. Management is authorized to transfer budgeted amounts between line items within the Authority's expense categories.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING

The Authority is considered a proprietary (enterprise) fund type. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public be financed or recovered primarily through user charges. Accordingly, the Authority utilizes the accrual method of accounting. Under this method, revenues are recognized when earned rather than when cash is received, and expenses are recognized when an obligation is incurred rather than when cash is actually paid.

CASH AND CASH EQUIVALENTS

For the purposes of the Statement of Cash Flows, cash and cash equivalents include amounts in demand deposit accounts, and any other short-term highly liquid assets with original maturity terms of less than three months.

INVESTMENTS

The Municipal Authorities Act authorizes the Authority to invest in the following:

- I. Obligations of (a) the United States of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America, (b) the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the Commonwealth of Pennsylvania, or (c) of any political subdivision of the Commonwealth of Pennsylvania or any of its agencies or instrumentalities backed by the full faith and credit of the political subdivision.
- II. Deposits in savings accounts, time deposits and share accounts of institutions insured by the Federal Deposit Insurance Corporation (FDIC) to the extent that such accounts are so insured and, for any amounts above the insured maximum, provided that approved collateral, as provided by law, is pledged by the depository.
- III. U.S. government obligations, short-term commercial paper issued by a public corporation, and banker's acceptances.

In addition, the Board of Directors can invest the Authority's sinking funds as authorized for local governments in the Local government Unit Debt Act, 53 Pa.C.S. 8224. The Authority is in compliance with the Municipal Authorities Act investment restrictions as of December 31, 2023.

RESTRICTED ASSETS

In accordance with the provisions of the aforementioned Trust Indentures, by and between the Bank of New York Mellon and the Elizabeth Borough Municipal Authority, which secure the Authority's Sewer Revenue Bonds, Series of 2019, the Authority is obligated to restrict certain funds to pay for construction related expenditures and to meet debt service requirements. In addition, the Authority has restricted certain funds for specific operating purposes. The total of these funds is reflected in Exhibit A as 'restricted assets' and is comprised of the following on December 31, 2023:

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

RESTRICTED ASSETS (Continued)

Trust Indenture Restricted:	
Debt Service Funds	\$ 417,746
 Authority Restricted:	
Capacity Replacement	\$ 421,057
Pump Station Project	84,212
Sludge Removal	5,061
	\$ 510,330
TOTAL	\$ 928,076

ACCOUNTS RECEIVABLE

Accounts receivable are stated at net realizable value. The Authority uses the direct write-off method for charging uncollectible accounts receivable to operations. Management estimates that the result of this method materially approximates the allowance method.

INVENTORY – MATERIALS AND SUPPLIES

The Authority does not maintain a physical inventory. Management estimates that inventory values during the year are minimal for cost control purposes. Accordingly, management is of the opinion that any value that existed on December 31, 2023, would not materially affect the financial position of the Authority.

UNAMORTIZED BOND DISCOUNT COSTS

The Authority incurred bond discount costs of \$41,375 in connection with its Sewer Revenue Bond issue, Series of 2019. The bond discount costs are being amortized on a straight-line basis over the life of the bond issue. The unamortized bond discount costs totaling \$33,852 are reflected in the Statement of Net Position as a component of 'bonds payable – long term portion'. Amortization of these costs is charged to interest expense and totaled \$1,881 for the year ended December 31, 2023.

LONG-TERM DEBT FINANCING COSTS

Long-term debt issuance costs, other than discount costs, related to bonds and notes issued are recorded as expenses in the financial statements in the year paid. During the year ended December 31, 2023, the Authority incurred no bond or note issuance costs.

PROPERTY, PLANT, AND EQUIPMENT

The Authority records property, plant and equipment purchases at cost. Property, plant, and equipment include major betterments that extend the economic useful life of the assets affected. The Authority records depreciation on all fixed assets capitalized after calendar year 2015. Fixed assets capitalized prior to this date were not depreciated in accordance with accounting principles generally accepted in the United States. Routine repair and maintenance costs are charged to operations as incurred.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT, AND EQUIPMENT (Continued)

Depreciation expense is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and System	7-40 Years
Machinery and Equipment	7 Years
Office Equipment	5 Years

Depreciation expense is not required for land and construction in progress. Depreciation expense for the year ended December 31, 2023 was \$140,554.

NET POSITION

Net Position is classified into three categories according to external donor or legal restrictions or availability of assets to satisfy Authority obligations. Net Position is classified as follows:

- Net Investment in Capital Assets – This component of Net Position consists of capital assets net of accumulated depreciation, and reduced by the outstanding balances of debt that is attributable to the acquisition, construction and improvement of the capital assets, plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted Net Position – This component of Net Position consists of restricted assets reduced by liabilities and deferred inflows related to those assets. Restricted net position consists of the following:

Trust Indenture Restricted:	
Debt Service Funds	<u>\$ 417,746</u>
Authority Restricted:	
Capacity Replacement	\$ 421,057
Pump Station Project	84,212
Sludge Removal	5,061
	<u>\$ 510,330</u>
TOTAL	<u>\$ 928,076</u>

- Unrestricted – Consists of all other Net Position that does not meet the definition of ‘restricted’ or ‘net investment in capital assets’.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority’s policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

UNEARNED REVENUE

Unearned revenue arises when the Authority receives resources before it has legal claim to them. This occurs when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the Authority has a legal claim to the resources, the unearned revenue liability is removed, and revenue is recognized.

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

In addition to assets, the financial statements 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 position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority currently has two items that qualify for reporting in this category on the statement of net position:

- Deferred Outflows Related to Pensions (Note 8)
- Deferred Outflows Related to Bond Insurance Premiums (Note 5)

In addition to liabilities, the financial statements 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 position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority currently has one item that qualifies for reporting in this category on the statement of net position:

- Deferred Outflows Related to Pensions (Note 8)

OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Elizabeth Borough Municipal Authority, these revenues are sewer user charges. Operating expenses are the necessary costs incurred to operate the Authority. Non-operating revenues of the Authority consist of interest income. Non-operating expenses consist of interest on long-term debt.

ADOPTION OF GASB PRONOUNCEMENTS

The requirements of the following GASB Statement were adopted for the Authority's 2023 financial statements. Except where noted, the adoption of this pronouncement did not have a significant impact on the Authority's financial statements.

- **GASB issued Statement No. 94**, *'Public-Private and Public-Public Partnerships and Availability Payment Arrangements'*.
- **GASB issued Statement No. 96**, *'Subscription-Based Information Technology Arrangements'*.
- **GASB issued Statement No 99**, *'Omnibus 2022'*. (except the requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 which are effective for the Authority's December 31, 2024, financial statements).

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PENDING GASB PRONOUNCEMENTS

- **GASB issued Statement No 100**, '*Accounting Changes and Error Correction*'. The provisions of this Statement are effective for the Authority's December 31, 2024, financial statements.
- **GASB issued Statement No 101**, '*Compensated Absences*'. The provisions of this Statement are effective for the Authority's December 31, 2024, financial statements.
- **GASB issued Statement No 102**, '*Certain Risk Disclosures*'. The provisions of this Statement are effective for the Authority's December 31, 2025, financial statements.

The effects of implementing these Statements on the Authority's financial statements have not yet been determined.

COMPENSATED ABSENCES

It is the Authority's policy to account for the costs of compensated absences as incurred. Management does not consider the value of compensated absences as of December 31, 2023, if any, to be material to the financial statements.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires the Authority's management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH DEPOSITS

At December 31, 2023, the Authority had the following bank balance and carrying value on its cash and cash equivalent accounts:

	Bank Balance	Carrying Value
PNC Bank	\$ 631,520	\$ 631,020
Bank of New York Mellon	417,746	417,746
Petty Cash	-	100
	\$ 1,049,266	\$ 1,048,866

The difference between the bank balance and the book balance represents year-end reconciling items such as deposits in transit and outstanding checks. The Federal Deposit Insurance Coverage (FDIC) coverage threshold for government accounts is \$250,000 per official custodian. This coverage includes checking and savings accounts, money market deposit accounts, and certificates of deposit.

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. As of December 31, 2023, \$381,520 of the Authority's bank balance total is exposed to custodial credit risk as this amount represents uninsured deposits collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the Authority's name. In accordance with Act Number 72-1971 Session of the Commonwealth of Pennsylvania, deposits in interest bearing accounts in excess of \$250,000, are collateralized by securities pledged to a pooled public funds account with the Federal Reserve System.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable for sewer charges, as reflected in Exhibit A, is comprised of the following:

Borough of Elizabeth	\$ 501,119
Elizabeth Township	142,375
Elizabeth Manor (Forward Township)	35,022
Fallen Timber (Forward Township)	4,174
Kelly Run Sanitation (Forward Township)	16,021
Lincoln Borough	1,597
PWSA Reimbursement Pipe Cleaning	23,838
	<u>\$ 724,146</u>

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT

The following comprises the changes to the Authority's property, plant, and equipment account during 2023:

	<u>Balance</u> <u>1/1/2023</u>	<u>Additions</u>	<u>Dispositions</u>	<u>12/31/2023</u>
Capital Assets not being Depreciated:				
Land	\$ 261,000	\$ -	\$ -	\$ 261,000
Construction in Progress	8,943,726	327,338	-	9,271,064
Plant and System (Pre-2016)	4,204,459	-	-	4,204,459
Vehicles and Equipment (Pre-2016)	194,827	-	-	194,827
Office Equipment (Pre-2016)	7,198	-	-	7,198
	<u>\$ 13,611,210</u>	<u>\$ 327,338</u>	<u>\$ -</u>	<u>\$ 13,938,548</u>
Capital Assets being Depreciated:				
Plant and System	\$ 3,449,864	\$ 21,135	\$ -	\$ 3,470,999
Vehicles and Equipment	179,985	-	-	179,985
Office Equipment	18,869	-	-	18,869
	<u>\$ 3,648,718</u>	<u>\$ 21,135</u>	<u>\$ -</u>	<u>\$ 3,669,853</u>
TOTAL	<u>\$ 17,259,928</u>	<u>\$ 348,473</u>	<u>\$ -</u>	<u>\$ 17,608,401</u>
Less Accumulated Depreciation:				
Plant and System	\$ (434,813)	\$ (113,494)	\$ -	\$ (548,307)
Vehicles and Equipment	(69,182)	(25,379)	-	(94,561)
Office Equipment	(15,509)	(1,681)	-	(17,190)
	<u>\$ (519,504)</u>	<u>\$ (140,554)</u>	<u>\$ -</u>	<u>\$ (660,058)</u>
TOTAL	<u>\$ (519,504)</u>	<u>\$ (140,554)</u>	<u>\$ -</u>	<u>\$ (660,058)</u>
NET PROPERTY, PLANT AND EQUIPMENT	<u>\$ 16,740,424</u>	<u>\$ 207,919</u>	<u>\$ -</u>	<u>\$ 16,948,343</u>

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 5 - SEWER REVENUE BONDS – SERIES OF 2019

The Elizabeth Borough Municipal Authority issued Sewer Revenue Bonds - Series of 2019 totaling \$6,740,000 dated August 20, 2019. The bonds were issued under the terms of the First Supplemental Trust Indenture Agreement by and between the Authority and The Bank of New York Mellon (Trustee). The proceeds from the bonds were used to 1) currently refund the outstanding principal balance due on the Authority's Series of 2012A bond issue, 2) currently refund the outstanding principal balance due on the Authority's Series of 2012B bond issue, 3) finance certain improvements to the sewer system, and 4) to pay for costs related to the issuance of the bonds. The bonds were issued in denominations of \$5,000 with interest payable on May 15 and November 15 of each year through maturity. Interest rates on the bonds range between 2.0% and 3.0%. These bonds are scheduled to mature on November 15, 2041. The bonds are subject to optional redemption prior to maturity. The bonds are limited obligations of the Authority payable solely from the pledged revenues as provided in the Trust Indenture.

DEFAULT PROVISIONS – SEWER REVENUE BONDS, SERIES OF 2019

In the event of default, the Trustee's remedies are as described in the First Supplemental Trust Indenture Agreement between the Authority and the Trustee. The Bondholder Rights and Remedies, as provided in the Indenture, upon the happening and during continuance of any Event of Default, as defined in the Indenture, then and in every case the Trustee may declare, and upon written request of Holders of not less than 25% in aggregate principal amount of bonds outstanding under the Indenture, and the Bond Insurer, the Trustee shall declare, by notice in writing delivered to the Authority, the principal of all Bonds outstanding under the Indenture to be due and payable, and the interest accrued thereon to be due and payable immediately; and upon such declaration the same shall become and shall be due and payable immediately; and upon such declaration the same shall become and shall be due and payable immediately; provided, however, that the consent of the Insurer of the Bonds, may be required for any acceleration of Bonds outstanding under the Indenture.

The following summarizes the bond debt service obligations of the Authority as of December 31, 2023:

<u>Dec 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 260,000	\$ 155,418	\$ 415,418
2025	265,000	147,618	412,618
2026	275,000	142,318	417,318
2027	275,000	136,818	411,818
2028-2032	1,490,000	586,296	2,076,296
2033-2037	1,695,000	377,819	2,072,819
2038-2041	1,510,000	113,400	1,623,400
	<u>\$ 5,770,000</u>	<u>\$ 1,659,687</u>	<u>\$ 7,429,687</u>

The Authority paid bond insurance premiums of \$28,486 in connection with the issuance of their Series of 2019 sewer revenue bond issue. This amount is being amortized on a straight-line basis over the life of the bond issue. Amortization of the premiums totaled \$1,295. The remaining unamortized amount of \$22,773 as of December 31, 2023, is reflected as part of 'deferred outflows of resources' in the statement of net position.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 6 – NOTES PAYABLE (DIRECT BORROWING)

PENNVEST NOTE – 2019

On June 5, 2019, the Pennsylvania Infrastructure Investment Authority (PENNVEST) issued a promissory note (loan) in the amount of \$8,800,000 to the Elizabeth Borough Municipal Authority for the purpose of providing financing for the installation of a new pump station with additional wet well and channel capacity to accommodate wet weather flows; grit screening equipment is also included in the new pump station construction. The terms of the note agreement call for monthly payments of interest only for a maximum of 36 months. The note term is for a period of 265 months with interest at the rate of 1.085% for years 1 through 5, and at the rate of 1.850% for each succeeding month until the scheduled maturity date of August 1, 2041. As of December 31, 2023, the Authority has drawn down \$8,256,326 on this note obligation. The Authority made \$409,215 in principal payments during 2022 leaving a principal balance of \$7,302,630 on December 31, 2023.

DEFAULT PROVISIONS – PENNVEST

The Notes are secured by a pledge of all of the gross revenues and receipts generated from or by the Sewer System and all other gross revenues and receipts (security and collateral pledged) as more fully set forth in the Note Purchase Agreement between the Authority and PENNVEST subject to the prior liens of PENNVEST.

In the event of default, the entire unpaid principal sum, plus all interest accrued, plus all other sums due and payable to PENNVEST under the debt obligation documents shall become payable immediately at the option of PENNVEST. In addition, upon the occurrence of any event of default by the Authority, PENNVEST may exercise singly, concurrently, successively, or otherwise any and all rights and remedies available under any of the debt obligation documents or with respect to any collateral, or available to PENNVEST by law, equity, statute or otherwise.

NOTE 7 – LONG-TERM DEBT CHANGES

The following represents the changes in the Authority's debt obligations during 2023:

	<u>1/1/2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2023</u>	<u>Due Within One Year</u>
Bonds	\$ 6,020,000	\$ -	\$ 250,000	\$ 5,770,000	\$ 260,000
Direct Borrowing - Notes	7,461,845	250,000	409,215	7,302,630	-
	<u>\$ 13,481,845</u>	<u>\$ 250,000</u>	<u>\$ 659,215</u>	<u>\$ 13,072,630</u>	<u>\$ 260,000</u>

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN

DESCRIPTION OF PLAN

The Elizabeth Borough Municipal Authority pension plan is a single-employer defined benefit pension plan controlled by the provisions of Resolution No. 09-03 adopted pursuant to Act 15 of 1974. The plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report (CAFR). A copy of the CAFR can be obtained by contacting the PMRS accounting office or visiting their website at pmrs.state.pa.us.

PLAN MEMBERSHIP

Plan membership consisted of the following as of January 1, 2023:

Active plan members	3
Retirees and beneficiaries	
currently receiving benefits	4
Terminated employees entitled to	
benefits but not yet receiving them	1
Total	8

PLAN BENEFITS

The plan provides retirement, disability, and death benefits to eligible plan members and their beneficiaries. Cost of living allowances are provided at the discretion of the plan. All participants are eligible for retirement benefits provided they have attained the normal retirement age of 60. Early retirement provisions are available after 20 years of service. Monthly pension benefits are equal to 1.5% times credited service times Final Average Salary (FAS). Effective January 1, 2020, the FAS changed from the high 5 year average to high 3 year average. Participants are fully vested upon completion of five (5) years of service.

PLAN CONTRIBUTION REQUIREMENTS

Employer contributions are actuarially determined reflecting a payment equal to annual Normal Cost, the expected Administrative Expenses, and an amount necessary to amortize the remaining Unfunded Actuarial Liability as a level dollar amount over a closed period. This contribution is based upon the Minimum Municipal Obligation (MMO) as defined in Act 205. For the calendar year 2023, the Authority contributed \$0 to the plan. This contribution to the pension plan, subsequent to the measurement date of the Authority's net pension liability (NPL), is recognized as a component of 'deferred outflows of resources – pension' on the statement of net position. Participants are required to contribute 3.5% of compensation to the plan, which for calendar year 2023 totaled \$5,013.

ACTUARIAL ASSUMPTIONS:

The Authority's total pension liability (TPL) was measured as of December 31, 2021, based on the actuarial valuation as of January 1, 2021. The TPL as of December 31, 2021, was based upon the following actuarial assumptions:

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

ACTUARIAL ASSUMPTIONS: (Continued)

- **Actuarial Cost Method** – Entry Age Normal.
- **Rates of Pre-Retirement Mortality** – Males and Females: PUB-2010 General Employees male and female tables.
- **Rates of Post-Retirement Mortality** – Males and Females: RP2006 annuitant male and female tables.
- **Disabled Life Mortality Rates** – Males and Females: RP2006 disabled annuitant male and female tables.
- **Mortality Improvement** – All base mortality tables described above are projected from the applicable table's base year to 2023 using Mortality Improvement Scale MP-2018.
- **Termination Rates Before Retirement** – Less than 25 active members – sliding scale 1 year 11% down to 10 plus years at 3%. More than 25 active members – sliding scale 1 year 12% down to 10 plus years at 3.5%.
- **Disability Incidence Rates** – 50% of 2017 CALPERS Public Miscellaneous Group disability rates for males. 20% of disablements are assumed to be service related for municipal plans, and 70% for uniform plans.
- **Workers Compensation** – Service-related disability benefits payable from municipal plans are offset by 25% of final average salary.
- **Salary Scale:** Sliding scale - age 25 (6.22%) down to age 65 (2.79%).
- **Rates of Retirement:** Municipal members - Under age 55 (33%), age 55 (30%), age 56-57 (12%), age 58-59 (14%), age 60 (18%), age 61 (10%), age 62 (20%), age 63 (18%), age 64 (15%), age 65-67 (25%), age 68-70 (20%), age 71-73 (22%), age 74 (20%), age 75 (100%). Uniformed members - Under age 49 (0%), age 50 (25%), age 51-53 (10%), age 54-55 (15%), age 56-58 (17%), age 59-60 (15%), age 61 (20%), age 62 (28%), age 63 (22%), age 64 (25%), age 65 (35%), age 66 (30%), age 67+ (100%).
- **Deferred Retirement Option Plan (DROP)** – For plans with these options, at participant's normal retirement age, retirement rates multiplied by the following factors: uniform 130% nonuniformed 115%
- **Marital Status and Spouse's Age (if applicable):** For plans with the 50% J&S form of payment, 85%/65% of active male/female members are assumed to be married. Male spouses are assumed to be 3 years older than female spouses.
- **Social Security Projections (if applicable):** Social security wage base will increase 2.7% compounded annually; CPI will increase 2.2% compounded annually; average total wages will increase 2.7% compounded annually
- **Post-Retirement Cost of Living Increases:** 2.2% per year, subject to plan limitations.
- **Investment Return:** 5.25% compounded annually, net of investment and certain administrative expenses.
- **Administrative expenses:** The expense assumption is based upon the expected expenses for the current year. The administrative expense consists of two pieces: 1) the PMRS administrative expenses (i.e., the \$20 per participant charge paid directly by the municipality, and 2) the additional administrative expenses in excess of the PMRS administrative expenses that are paid through the Undistributed Earnings.

These assumptions are based on the PMRS Experience Study for the period covering January 1, 2014, through December 31, 2018, issued by the actuary in September 2020, covering the defined benefit plan participants and all retirees, as well as subsequent assumption changes approved by the Pension Board. The assumption changes from the Experience Study were first used for the December 31, 2020 measurement date. Effective with the December 31, 2016 measurement date, the Investment Return Assumption for municipal assets decreased from 5.5% to 5.25%.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

TOTAL PENSION LIABILITY, PLAN FIDUCIARY NET POSITION, AND NET PENSION LIABILITY

The following shows the changes in the Total Pension Liability (TPL), the Plan Fiduciary Net Position (fair value of plan assets), and the Net Pension Liability (NPL) as of the Measurement date.

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)
Balances at 12/31/2022	\$ 755,687	\$ 904,025	\$ (148,338)
Changes for the year:			
Service cost	15,535		15,535
Interest	38,999		38,999
Changes of benefits	-		-
Changes of assumptions	-		-
Differences between expected and actual experience	-		-
Contributions - employer	-	-	-
Contributions - PMRS assessment	-	-	-
Contributions - member	-	5,013	(5,013)
PMRS investment income	-	45,992	(45,992)
Market value investment income**	-	48,400	(48,400)
Transfers		-	-
Benefit payments	(57,506)	(57,506)	-
PMRS administrative expense		(160)	160
Additional administrative expense		(2,576)	2,576
Net changes	<u>(2,972)</u>	<u>39,163</u>	<u>(42,135)</u>
Balances at 12/31/2021	<u>\$ 752,715</u>	<u>\$ 943,188</u>	<u>\$ (190,473)</u>

** Reflects the net investment income/(loss) of \$49,755 and income/(loss) due to the difference between expected and actual asset values of \$(1,355) which includes the impact from allocation of assets in support of the underlying retiree liabilities.

The above does not reflect changes in benefits, assumptions, or reserve accounts after the measurement date. The TPL, as of December 31, 2021. Except as noted above, the TPL as of December 31, 2021 was based on the data, actuarial methods and assumptions, and plan provisions described in Appendix A and Appendix E of the PMRS 68 report. The assumptions used to determine the TPL as of December 31, 2020 measurement date can be found in the January 1, 2021 PMRS actuarial valuation report or the prior year's GASB report.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

TOTAL PENSION LIABILITY, PLAN FIDUCIARY NET POSITION, AND NET PENSION LIABILITY
(Continued)

According to Governmental Accounting Standards Board (GASB) Statements No. 67 and 68, PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer 'plan fiduciary net position.' PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning Fiduciary Net Position balance adjusted for cash flows throughout the year. The 'Additional administrative expenses' are the expenses in excess of the 'PMRS administrative expense' (i.e. \$20 per participant expense paid by each plan). The 'PMRS investment income' is based upon the regular and excess interest used to credit accounts annually. The 'Market value investment income' reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of the underlying retiree liabilities.

SCHEDULE OF DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The impact of investment gains or losses for expending 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 pension expense over the average expected remaining service live of all active and inactive members of the Plan. The impact of plan changes is recognized immediately. The following is a schedule of collective deferred inflows and outflows as of December 31, 2023:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 22,983
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,971
Contributions after measurement date	-	-
TOTAL	<u>\$ -</u>	<u>\$ 24,954</u>

The \$0 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement date December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in subsequent audit reports as follows:

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

SCHEDULE OF DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES
(Continued)

Measurement Date Year ended Dec 31,	Reporting Date Year ended Dec 31,	Amount
2024	2024	\$ (28,343)
2025	2025	(7,800)
2026	2026	20,869
2027	2028	(9,680)
2028	2028	-
Thereafter	Thereafter	-

PENSION EXPENSE

The annual pension expense recognized can be calculated two different ways. First, it is the change in the amounts reported on for the Employer's Statement of Net Position that relate to the plan and are not attributable to employer contributions. That is, the change in Net Pension Liability (NPL) plus the changes in deferred outflows and deferred inflows plus employer contributions.

Alternatively, annual pension expense can be calculated by its individual components. Although not required by GASB, PMRS provides an example of this calculation at pmrs.state.pa.us/yearendrptg.

LONG-TERM EXPECTED RATE OF RETURN ON PLAN ASSETS

The PMRS System's long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future nominal rates of return (net of investment expenses) are developed for each asset class. These returns are combined to produce the Systems' Long-Term Expected Real Rate of Return by calculating the weighted average return for each asset class using each respective target asset allocation percentage and multiplying by the expected future nominal rate of return, while also factoring in covariance across asset classes, then deducting expected inflation (2.5%). Best estimates of geometric real rates of return for each utilized asset class are included in the pension plan's target asset allocation as of December 31, 2021, and summarized in the table below labeled "System Nominal Net and Real Rates of Return by Asset Class."

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

LONG-TERM EXPECTED RATE OF RETURN ON PLAN ASSETS (Continued)

System Nominal and Real Rates of Return by Asset Class

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Nominal Net Rate of Return</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities (large cap)	24.50%	7.49%	4.99%
Domestic Equities (small cap)	8.00%	8.18%	5.68%
International Equities (developing markets)	14.50%	8.07%	5.57%
International Equities (emerging markets)	3.00%	8.21%	5.71%
Global Equities	5.00%	7.28%	4.78%
Real Estate	10.00%	7.40%	4.90%
Timber	5.00%	6.17%	3.67%
Fixed Income (Core Investment Grade)	24.00%	4.32%	1.82%
Fixed Income (Oppirtunistic Credit)	5.00%	7.88%	5.38%
Cash	1.00%	1.18%	-1.32%
Total Portfolio	100.00%	7.42%	4.92%

Based on the aforementioned methodology, the Board established the System's Long-Term Expected Rate of Return at 7.42%.

In addition to determining the System's Long-Term Nominal Expected Rate of Return, the PMRS Board, under the laws of the Commonwealth of Pennsylvania (Act 15 of 1974), is obligated to develop and apply the Regular Interest Rate to each of the individual participating municipalities' actuarial asset accounts held by PMRS. The rationale for the difference between the System's Long-Term Expected Rate of Return and the individual participating municipalities' Regular Interest Rate is described in the following section "Discount Rate." As of December 31, 2021, this rate is equal to 5.25%.

The Board has determined the minimum acceptable confidence level for achieving the Regular Interest Rate to be 60%. The table below labeled "Confidence Levels for System Nominal and Real Rates of Return" identifies simulated portfolio returns at various confidence levels based on the most recent asset allocation study conducted by the Boards' investment consultant, Marquette Associates.

Confidence Levels for System Nominal and Real Rates of Return

<u>Confidence Interval</u>	<u>Nominal Rate of Return</u>	<u>Long-Term Expected Real Rate of Return</u>
95.00%	4.20%	1.70%
90.00%	5.06%	2.56%
85.00%	5.57%	3.07%
80.00%	6.18%	3.68%
75.00%	6.47%	3.97%
70.00%	6.93%	4.43%
60.00%	7.57%	5.07%

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

DISCOUNT RATE

While it is often common practice to establish an actuarial Discount Rate that is equal to the Long-Term Expected Rate of return, PMRS is required by law (Act 15 of 1974) to establish a Discount Rate equal to the Regular Interest Rate. The PMRS Board establishes the Regular Interest Rate on the basis of expected stable and consistent earnings on investments to be applied to the accounts of the individual participating municipalities and includes the accounts of plan participants, municipalities, and plan retirees each year. The Board considers the following five quantitative factors in establishing the Regular Interest Rate:

1. Retiree Plan liability as a percentage of total Plan liability,
2. Active Plan participant liability as a percentage of total Plan liability,
3. Smoothed Pension Benefit Guarantee Corporation (PBGC) annuity rates,
4. PMRS System Long-Term Expected Rate of Return, and
5. PMRS administrative expenses

The formula using these factors is as follows:

Regular Interest Rate/Discount Rate = (Retiree Liability Percentage x Smoothed PBGC Annuity Rates) + (Active Employee Liability Percentage x System Long-Term Expected Rate of Return) – (Investment Expenses as a percentage of assets)

The Board may then adjust the Regular Interest Rate/Discount Rate derived from the formula against a variety of qualitative factors such as the desire to minimize Regular Interest Rate/Discount Rate volatility, probability of achieving the Regular Interest Rate, varying levels of asset allocation and liquidity, trending annuity rates, total PMRS actuarial and market value funding ratios, feedback from existing PMRS municipalities, and recommendations from the System's investment and actuarial consultants. The Regular Interest Rate/Discount Rate adopted by the Board and used to measure the individual participating municipalities' total pension liability was 5.25% as of December 31, 2023.

The Regular Interest Rate/Discount Rate will likely result in a System Long-Term Expected Rate of Return. Should the System experience a prolonged period of investment returns in excess of the Regular Interest Rate/Discount Rate, the Board is authorized to allocate any applicable portion of any such excess in accordance with Board policies in the form of Excess Interest as provided for in the law.

The projection of cash flows for each underlying municipal plan, used to determine if any adjustment to the Regular Interest Rate/Discount Rate was required ("depletion testing"), used the following assumptions: 1) member contributions will be made at the current contribution rate, 2) participating plan sponsors contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate, and 3) the System's Long-Term Expected Rate of Return will be used in the depletion testing of projected cash flows. Based on those assumptions, the PMRS pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 8 - AUTHORITY PENSION PLAN (Continued)

SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

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 very 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 the disclosure.

	1% Decrease (4.25%)	Discount Rate (5.25%)	1% Increase (6.25%)
Total Pension Liability	\$ 838,586	\$ 752,715	\$ 680,739
Plan Fiduciary Net Position	943,188	943,188	943,188
Net Pension Liability	\$ (104,602)	\$ (190,473)	\$ (262,449)
 Plan Fiduciary Net Position as a % of the Total Pension Liability	 112.47%	 125.30%	 138.55%

NOTE 9 – RISKS AND UNCERTAINTIES

GENERAL INSURANCE

The Elizabeth Borough Municipal Authority is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets, errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

STATE AND FEDERAL FUNDING

The Elizabeth Borough Municipal Authority's state and federally funded programs are subject to program compliance audits by various governmental agencies. The audit scope of these program compliance audits is different than the scope of financial audits performed by an outside independent certified public accounting firm. The Authority is potentially liable for any expenditure disallowed by the results of these program compliance audits. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

LEGAL MATTERS

The Elizabeth Borough Municipal Authority, on occasion, is party to various legal matters normally associated with sewer facility operations. Management is not aware of any matters that would materially affect the financial position or results of operations of the Authority.

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE 10 – ASSET PURCHASE AGREEMENT WITH PENNSYLVANIA-AMERICAN WATER COMPANY

The Authority's treatment plant and collection system were originally built in the 1950's and underwent upgrades in 1970 and in 1990 but still need constant attention to keep them operating efficiently and cost effectively. In response to the pump station needing major rehabilitation, it was decided that it was more cost effective to replace than repair due to age. The new pump station was put in service on June 21st, 2021, and the existing pump station was decommissioned and demolished. The existing treatment needs to be expanded to meet flow capacities as part of the Long-Term Control Plan. In response to the need for implementing the Long-Term Control Plan, as well as, maintenance of the existing plant and collection system, the Board decided to look at the possibility of selling or leasing the treatment plant due to the costs associated with the expansion. The Board requested Proposals and received one from Pennsylvania American Water and one from Aqua America. The proposals were evaluated, and the Board decided to sell the treatment plant, pump station, and collection system to Pennsylvania American Water. Accordingly, the Elizabeth Borough Municipal Authority entered into an Asset Purchase Agreement on January 24, 2023 with the Pennsylvania-American Water Company for consideration totaling \$28,000,000. The closing of the sale and purchase of the assets shall commence within thirty (30) days following the date on which all of the conditions set forth in Article 10 of the Agreement have been met or waived. Management anticipates the sale should be completed by the 4th quarter of 2025.

NOTE 11 – SUBSEQUENT EVENTS

Management has determined that there are no events subsequent to December 31, 2023, through the September 17, 2024 date of the 'Independent Auditor's Report', which is the date the financial statements were available to be issued, that require additional disclosure in the financial statements.

REQUIRED

SUPPLEMENTARY

INFORMATION

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

	Measurement Year Ending 12/31/2023	Measurement Year Ending 12/31/2022	Measurement Year Ending 12/31/2021	Measurement Year Ending 12/31/2020	Measurement Year Ending 12/31/2019	Measurement Year Ending 12/31/2018	Measurement Year Ending 12/31/2017	Measurement Year Ending 12/31/2016	Measurement Year Ending 12/31/2015	Measurement Year Ending 12/31/2014
Total Pension Liability-Beginning	\$ 755,687	\$ 801,011	\$ 798,871	\$ 775,863	\$ 789,979	\$ 798,359	\$ 778,957	\$ 729,853	\$ 716,683	\$ 752,277
Service Cost	15,535	16,709	18,238	12,833	14,073	17,051	16,457	15,564	16,738	20,640
Interest (Includes Interest on Service Cost)	38,999	41,440	41,408	39,916	40,434	41,829	40,779	39,971	39,312	39,220
Changes of Benefit Terms	-	-	-	-	-	5,181	-	-	-	-
Differences Between Expected and Actual Experience	-	(45,967)	-	(9,416)	-	(34,607)	-	11,157	-	25,825
Changes of Assumptions	-	-	-	37,181	-	-	-	20,246	(5,046)	-
Transfers	-	-	-	-	-	-	-	-	-	34,392
Benefit Payments	(57,506)	(57,506)	(57,506)	(57,506)	(68,623)	(37,834)	(37,834)	(37,834)	(37,834)	(155,671)
Net Change in Total Pension Liability	\$ (2,972)	\$ (45,324)	\$ 2,140	\$ 23,008	\$ (14,116)	\$ (8,380)	\$ 19,402	\$ 49,104	\$ 13,170	\$ (35,594)
Total Pension Liability-Ending	\$ 752,715	\$ 755,687	\$ 801,011	\$ 798,871	\$ 775,863	\$ 789,979	\$ 798,359	\$ 778,957	\$ 729,853	\$ 716,683
Plan Fiduciary Net Position-Beginning	\$ 904,025	\$ 1,060,747	\$ 980,508	\$ 881,186	\$ 772,410	\$ 824,096	\$ 721,406	\$ 682,986	\$ 704,953	\$ 777,960
Contributions - Employer	-	4,515	2,888	8,873	10,775	9,963	9,938	6,681	4,949	2,229
Contributions - PMRS Assessment	-	-	20	140	140	-	-	-	-	-
Contributions - Member	5,013	6,513	6,809	4,932	5,409	6,646	6,414	6,384	6,368	5,796
PMRS Investment Income	45,992	45,020	44,821	42,148	43,379	39,978	39,027	39,534	38,419	36,697
Market Value Investment Income	48,400	(152,745)	85,886	102,711	119,335	(68,535)	87,060	25,712	(32,147)	5,057
Transfers	-	-	-	-	-	-	-	-	-	34,392
Benefit Payments	(57,506)	(57,506)	(57,506)	(57,506)	(68,623)	(37,834)	(37,834)	(37,834)	(37,834)	(155,671)
PMRS Administrative Expense	(160)	(140)	(140)	(140)	(140)	(120)	(120)	(120)	(120)	(100)
Additional Administrative Expense	(2,576)	(2,379)	(2,539)	(1,836)	(1,499)	(1,784)	(1,795)	(1,937)	(1,602)	(1,407)
Change in Plan Fiduciary Net Position	\$ 39,163	\$ (156,722)	\$ 80,239	\$ 99,322	\$ 108,776	\$ (51,686)	\$ 102,690	\$ 38,420	\$ (21,967)	\$ (73,007)
Plan Fiduciary Net Position-Ending	\$ 943,188	\$ 904,025	\$ 1,060,747	\$ 980,508	\$ 881,186	\$ 772,410	\$ 824,096	\$ 721,406	\$ 682,986	\$ 704,953
Net Pension Liability (Asset) - Ending	\$ (190,473)	\$ (148,338)	\$ (259,736)	\$ (181,637)	\$ (105,323)	\$ 17,569	\$ (25,737)	\$ 57,551	\$ 46,867	\$ 11,730
RATIOS:										
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	125.30%	119.63%	132.43%	122.74%	113.57%	97.78%	103.22%	92.61%	93.58%	98.36%
Covered-employee Payroll	\$ 151,079	\$ 178,244	\$ 194,552	\$ 140,925	\$ 154,540	\$ 189,877	\$ 183,259	\$ 182,305	\$ 181,934	\$ 215,870
Net Pension Liability as a Percentage of Covered-employee Payroll	-126.08%	-83.22%	-133.50%	-128.89%	-68.15%	9.25%	-14.04%	31.57%	25.76%	5.43%

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
SCHEDULE OF ACTUARIALLY DETERMINED PENSION CONTRIBUTION AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION (RSI)

	<u>12/31/2023</u>	<u>12/31/2022</u>	<u>12/31/2021</u>	<u>12/31/2020</u>	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarially Determined Contribution	\$ -	\$ 4,515	\$ 2,888	\$ 8,993	\$ 10,895	\$ 9,963	\$ 9,938	\$ 6,681	\$ 4,949	\$ 1,910
Contributions	-	4,515	2,908	9,013	10,915	9,963	9,938	6,681	4,949	2,229
Contribution Deficiency (Excess)	\$ -	\$ -	\$ (20)	\$ (20)	\$ (20)	\$ -	\$ -	\$ -	\$ -	\$ (319)
RATIOS:										
Covered-employee Payroll	\$ 151,079	\$ 178,244	\$ 194,552	\$ 140,925	\$ 154,540	\$ 189,877	\$ 183,259	\$ 182,305	\$ 181,934	\$ 215,870
Contributions as a Percentage of Covered-employee Payroll	0.00%	2.53%	1.49%	6.40%	7.06%	5.25%	5.42%	3.66%	2.72%	1.03%

ELIZABETH BOROUGH MUNICIPAL AUTHORITY
NOTES TO SCHEDULES OF REQUIRED
SUPPLEMENTARY INFORMATION – PENSION PLAN
DECEMBER 31, 2023

NOTE 1 - FACTORS AND TRENDS USED IN THE ACTUARIAL VALUATION FOR PENSION BENEFITS

Changes in Benefit Terms

None

Changes in Assumptions used in the Measurement of Total Pension Liability

- Effective 12/31/15 the assumptions based on the PMRS Experience Study for the period covering January 1, 2009 through December 31, 2013 issued by the actuary in July 2015.
- Effective 12/31/16, the investment return assumption for municipal assets decreased from 5.50% to 5.25%.
- Effective 12/31/20 the assumptions based on the PMRS Experience Study for the period covering January 1, 2014 through December 31, 2018 issued by the actuary in September 2020.

Actuarial Assumptions used in Calculations of Actuarially Determined Contributions

The following actuarial methods and assumptions were used to determine actuarially determined contributions:

- **Actuarial Cost Method** - Entry Age Normal
- **Actuarial Valuation:** January 1, 2019
- **Amortization Period** – Level dollar based on the amortization periods in Act 205
- **Asset Valuation Method** – Based on the Municipal Reserves
- **Discount Rate** – 5.25%
- **Inflation** – 2.8%
- **Salary Increases** – age-related scale with merit and inflation component
- **COLA Increases** – 2.8% for those eligible for a COLA
- **Pre-Retirement Mortality** – Males: RP 2000 Non-Annuitant Male table projected 15 years with Scale AA. Females: RP 2000 Non-Annuitant Female table projected 15 years with Scale AA, setback five years
- **Post-Retirement Mortality** – Males: RP2000 Annuitant Male table projected 5 years with Scale AA. Females: RP2000 Annuitant Female table projected 10 years with Scale AA.