COMPLIANCE AUDIT

Sugarcreek Borough Maintenance Employees Pension Plan

Venango County, Pennsylvania

For the Period

January 1, 2012 to December 31, 2014

January 2016

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

COUNCIL 90 AFSCME UNION LABEL

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Sugarcreek Borough
Venango County
Franklin, PA 16323

We have conducted a compliance audit of the Sugarcreek Borough Maintenance Employees Pension Plan for the period January 1, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- × We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- × We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- × We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- × We determined whether retirement benefits calculated for the 2 plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.

- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

- × We determined whether the terms of the contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

- × We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfer made during the audit period.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Sugarcreek Borough Maintenance Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Sugarcreek Borough Maintenance Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Ordinance Improperly Amended By Resolution

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Sugarcreek Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

January 12, 2016

EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Sugarcreek Borough Maintenance Employees Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Sugarcreek Borough Maintenance Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 12 of 2012, effective July 1, 2012. Prior to July 1, 2012, the pension plan was locally controlled by the provisions of Ordinance No. 269 of 2011 and a joinder agreement with PSABMRT effective January 1, 2012. (See Finding.) The plan is also affected by the provisions of collective bargaining agreements between the borough and its maintenance employees. The plan was established May 1, 1978. Active members are required to contribute 2 percent of compensation to the plan. As of December 31, 2014, the plan had 9 active members, no terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65 and 5 years of service
Early Retirement	Age 62 and 30 years of service
Vesting	25% after 5 years of service, increasing by 5% per year for the next 5 years, and by 10% per year thereafter until 100% after 15 years of service

Retirement Benefit:

1.15% of highest consecutive 60 months of final 120 months average monthly compensation multiplied by years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, plus interest.
After Retirement Eligibility	The normal form of benefit is a life annuity. At retirement, the participant may select an optional form of benefit payment that is an actuarial equivalent of the normal form.

Disability Benefit:

None

SUGARCREEK BOROUGH MAINTENANCE EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Ordinance Improperly Amended By Resolution

Condition: The pension plan governing document, Ordinance No. 269 of 2011, was restated in its entirety by Resolution No. 12 of 2012, effective July 1, 2012.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the borough amend the plan's governing document with a properly executed ordinance.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance will be evaluated during our next audit of the plan.

SUGARCREEK BOROUGH MAINTENANCE EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 reflect the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability		
Service cost	$	18,178
Interest		82,994
Benefit payments, including refunds of member contributions		(21,452)
Net Change in Total Pension Liability		79,720
Total Pension Liability - Beginning		1,137,100
Total Pension Liability - Ending (a)	$	1,216,820
Plan Fiduciary Net Position		
Contributions - employer	$	56,067
Contribution - member		7,160
Net investment income		48,753
Benefit payments, including refunds of member contributions		(21,452)
Administrative expense		(1,825)
Net Change in Plan Fiduciary Net Position		88,703
Plan Fiduciary Net Position - Beginning		953,928
Plan Fiduciary Net Position - Ending (b)	$	1,042,631
Net Pension Liability - Ending (a-b)	$	174,189
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		85.7%
Estimated Covered Employee Payroll	$	381,700
Net Pension Liability as a Percentage of Covered Employee Payroll		45.6%

SUGARCREEK BOROUGH MAINTENANCE EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the borough, calculated using the discount rate of 7.25%, as well as what the borough's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability	$ 308,173	$ 174,189	$ 56,762

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 15,694	$ 15,694	$ -		
2008	-	-	-	$ 360,945	0.0%
2009	-	-	-		
2010	-	35,873	(35,873)	365,525	9.8%
2011	35,679	35,679	-		
2012	20,864	20,864	-	330,223	6.3%
2013	19,283	21,490	(2,207)		
2014	56,067	56,067	-	381,700	14.7%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans,* being implemented only recently, the amount of Covered-Employee Payroll was not provided for all years prior to 2014.

SCHEDULE OF INVESTMENT RETURN

Annual money-weighted rate of return, net of investment expense not funded through the MMO:

2014	6.02%

SUGARCREEK BOROUGH MAINTENANCE EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	$ 566,322	$ 684,233	$ 117,911	82.8%
01-01-11	766,593	777,698	11,105	98.6%
01-01-13	819,730	1,063,553	243,823	77.1%

The Actuarial Accrued Liability as of 01-01-13 reflects increases in the plan's benefit provisions made in 2012.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

SUGARCREEK BOROUGH MAINTENANCE EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.5%

* Includes inflation at 3.0%

SUGARCREEK BOROUGH MAINTENANCE EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Sugarcreek Borough Maintenance Employees Pension Plan
Venango County
212 Fox Street
Franklin, PA 16323

The Honorable Jeff MacKenzie	Mayor
Mr. Bogan Goughler	Council President
Mr. Larry Baughman	Councilman
Mr. Robert Resinger	Councilman
Mr. Howard Barger	Councilman
Mr. John McClelland	Councilman
Mr. Joseph Sporer	Borough Manager
Ms. Barbara Manski	Treasurer

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