

LIMITED PROCEDURES ENGAGEMENT

Conneaut Lake Borough Non-Uniformed Pension Plan Crawford County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

April 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Conneaut Lake Borough
Crawford County
Conneaut Lake, PA 16316

We conducted a Limited Procedures Engagement (LPE) of the Conneaut Lake Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 2016 and 2018, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Conneaut Lake Borough Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

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 Conneaut Lake Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

April 2, 2018



EUGENE A. DEPASQUALE
Auditor General

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CONNEAUT LAKE BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 through 3 reflects 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 YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 4,113	\$ 4,451
Interest	12,451	11,908
Difference between expected and actual experience	-	(29,366)
Changes of assumptions	-	5,229
Net Change in Total Pension Liability	<u>16,564</u>	<u>(7,778)</u>
Total Pension Liability - Beginning	161,894	178,458
Total Pension Liability - Ending (a)	<u><u>\$ 178,458</u></u>	<u><u>\$ 170,680</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ -	\$ 145
Contributions – state aid	2,992	4,667
Contribution – member	1,514	1,631
Net investment income	8,849	(978)
Administrative expense	(1,818)	(5,105)
Net Change in Plan Fiduciary Net Position	<u>11,537</u>	<u>360</u>
Plan Fiduciary Net Position - Beginning	142,059	153,596
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 153,596</u></u>	<u><u>\$ 153,956</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 24,862</u></u>	<u><u>\$ 16,724</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.1%	90.2%
Estimated Covered Employee Payroll	\$ -	\$ 37,526
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	44.6%

CONNEAUT LAKE BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 4,674	\$ 4,907
Interest	12,884	12,600
Difference between expected and actual experience	-	(11,297)
Changes of assumptions	-	428
Benefit payments, including refunds of member contributions	(7,136)	(14,272)
Net Change in Total Pension Liability	10,422	(7,634)
Total Pension Liability - Beginning	170,680	181,102
Total Pension Liability - Ending (a)	<u>\$ 181,102</u>	<u>\$ 173,468</u>
Plan Fiduciary Net Position		
Contributions – state aid	\$ 6,743	\$ 6,863
Contribution – member	1,661	1,684
Net investment income	7,235	20,188
Benefit payments, including refunds of member contributions	(7,136)	(14,272)
Administrative expense	(2,457)	(5,282)
Net Change in Plan Fiduciary Net Position	6,046	9,181
Plan Fiduciary Net Position - Beginning	153,956	160,002
Plan Fiduciary Net Position - Ending (b)	<u>\$ 160,002</u>	<u>\$ 169,183</u>
Net Pension Liability - Ending (a-b)	<u>\$ 21,100</u>	<u>\$ 4,285</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.3%	97.5%
Estimated Covered Employee Payroll	\$ 41,302	\$ 41,236
Net Pension Liability as a Percentage of Covered Employee Payroll	51.1%	10.4%

CONNEAUT LAKE BOROUGH NON-UNIFORMED PENSION PLAN
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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the borough as of December 31, 2014, 2015, 2016 and 2017, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/14	\$ 40,021	\$ 24,862	\$ 11,565
Net Pension Liability - 12/31/15	\$ 31,265	\$ 16,724	\$ 4,095
Net Pension Liability - 12/31/16	\$ 35,896	\$ 21,100	\$ 8,259
Net Pension Liability - 12/31/17	\$ 21,092	\$ 4,285	\$ (10,161)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2017	12.62%
2016	4.70%
2015	(0.64%)
2014	6.24%

CONNEAUT LAKE BOROUGH NON-UNIFORMED 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, 2013, 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)
01-01-13	\$ 144,022	\$ 146,682	\$ 2,660	98.2%
01-01-15	153,596	154,321	725	99.5%
01-01-17	160,002	170,233	10,231	94.0%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses at 120 percent of market value. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CONNEAUT LAKE BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
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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.

CONNEAUT LAKE BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 5,518	101.1%
2013	5,518	101.1%
2014	2,670	112.1%
2015	4,812	100.0%
2016	6,540	103.1%
2017	6,534	105.0%

CONNEAUT LAKE BOROUGH NON-UNIFORMED 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.25%

CONNEAUT LAKE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable John O’Grady
Mayor

Mr. Richard Holabaugh
Council President

Ms. Beverly Mobley
Chief Administrative Officer

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