

LIMITED PROCEDURES ENGAGEMENT

Galeton Borough Non-Uniformed Pension Plan Potter County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

December 2016



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
Galeton Borough
Potter County
Galeton, PA 16922

We conducted a Limited Procedures Engagement (LPE) of the Galeton Borough Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2015 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 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 the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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 Galeton 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 Galeton 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.

December 5, 2016



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Finding	1
Supplementary Information	2
Report Distribution List	8

GALETON BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Galeton Borough has complied with the prior audit recommendation concerning the following:

- Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

During the current engagement period, municipal officials deposited the remaining 2011 state aid allocation of \$3,725 plus interest into the non-uniformed pension plan.

GALETON BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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 YEAR ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 14,056	\$ 16,143
Interest	34,248	38,466
Difference between expected and actual experience	-	7,787
Net Change in Total Pension Liability	<u>48,304</u>	<u>62,396</u>
Total Pension Liability - Beginning	458,335	506,639
Total Pension Liability - Ending (a)	<u>\$ 506,639</u>	<u>\$ 569,035</u>
 Plan Fiduciary Net Position		
Contributions – employer *	\$ 28,637	\$ 21,338
Contribution – member	4,202	4,468
Net investment income	23,564	(3,823)
Administrative expense	(1,550)	(6,624)
Net Change in Plan Fiduciary Net Position	<u>54,853</u>	<u>15,359</u>
Plan Fiduciary Net Position - Beginning	469,583	524,436
Plan Fiduciary Net Position - Ending (b)	<u>\$ 524,436</u>	<u>\$ 539,795</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (17,797)</u>	<u>\$ 29,240</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.5%	94.9%
 Estimated Covered Employee Payroll	\$ 210,086	\$ 223,321
 Net Pension Liability as a Percentage of Covered Employee Payroll	(8.5%)	13.1%

* 2014 employer contributions include the late deposit of 2011 state aid with interest.

GALETON BOROUGH NON-UNIFORMED 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 as of December 31, 2015, 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	\$ 101,369	\$ 29,240	\$ (33,388)

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	\$ 19,604	\$ 19,604	\$ -		
2008	17,473	17,473	-	\$ 191,714	9.1%
2009	18,010	18,010	-		
2010	25,603	25,603	-	166,126	15.4%
2011	23,192	23,192	-		
2012	24,019	24,019	-	171,415	14.0%
2013	22,401	22,401	-		
2014	23,707	23,707	-	210,086	11.3%
2015	21,338	21,338	-	223,321	9.6%

* 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 odd years prior to 2014.

GALETON BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2015	-0.73%
2014	6.07%

GALETON 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, 2011, 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)
01-01-11	\$ 334,771	\$ 357,155	\$ 22,384	93.7%
01-01-13	391,886	413,965	22,079	94.7%
01-01-15	524,436	514,426	(10,010)	101.9%

GALETON BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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.

GALETON 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, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

GALETON 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 Vincent Salvadge
Mayor

Mr. Michael J. Messino
Council President

Mr. Douglas Droppa
Council Vice President

Ms. Denise Dean
Council Member

Mr. Ronald Tarabori
Council Member

Mr. Robert Pflug
Council Member

Mr. Joseph Petrencsik
Council Member

Ms. Andrea Caracciolo
Chief Administrative Officer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.