

COMPLIANCE AUDIT

Hatfield Borough Non-Uniformed Defined Benefit Pension Plan

Montgomery County, Pennsylvania
For the Period
January 1, 2014 to December 31, 2017

April 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Hatfield Borough
Montgomery County
Hatfield, PA 19440

We have conducted a compliance audit of the Hatfield Borough Non-Uniformed Defined Benefit Pension Plan for the period January 1, 2014 to December 31, 2017. 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted 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.

Hatfield Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2014, 2015, and 2016, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hatfield Borough Non-Uniformed Defined Benefit 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 Hatfield Borough Non-Uniformed Defined Benefit Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Hatfield 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.

April 16, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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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 Hatfield Borough Non-Uniformed Defined Benefit Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Hatfield Borough Non-Uniformed Defined Benefit Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 425, as amended, for non-uniformed employees hired prior to January 1, 2015. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 1970. As of December 31, 2017, the plan had 7 active members, no terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 62 and completion of 10 years of service.
Early Retirement	Age 55 and completion of 10 years of service.
Vesting	Vesting is 20% after 6 years of service, with an additional 20% for each year of service thereafter, up to 100% after the completion of 10 years of service.

Retirement Benefit:

Benefit equals 2.0% of final average 36 months compensation, multiplied by years of service (maximum service for benefit accrual shall be 25 years).

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	The form of benefit payment in force for such participant at the time death occurs. The normal form of payment is a life annuity. Optional forms are available at the election of the retiring participant and equivalent to the normal form of payment.

Disability Benefit:

Total and permanent disability – A monthly benefit equal to the accrued benefit at date of disablement will be payable immediately for the life of participant.

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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	\$ 52,569	\$ 58,543
Interest	111,403	119,897
Difference between expected and actual experience	-	16,149
Changes of assumptions	-	36,253
Benefit payments, including refunds of member contributions	<u>(115,899)</u>	<u>(116,459)</u>
Net Change in Total Pension Liability	48,073	114,383
Total Pension Liability - Beginning	<u>1,397,919</u>	<u>1,445,992</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,445,992</u></u>	<u><u>\$ 1,560,375</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 73,626	\$ 71,640
State Aid	34,854	31,367
Net investment income	68,085	(26,314)
Benefit payments, including refunds of member contributions	<u>(115,899)</u>	<u>(116,459)</u>
Net Change in Plan Fiduciary Net Position	60,666	(39,766)
Plan Fiduciary Net Position - Beginning	<u>1,184,396</u>	<u>1,245,062</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,245,062</u></u>	<u><u>\$ 1,205,296</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 200,930</u></u>	<u><u>\$ 355,079</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.1%	77.2%
Estimated Covered Employee Payroll	\$ 444,756	\$ 398,802
Net Pension Liability as a Percentage of Covered Employee Payroll	45.2%	89.0%

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT 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	\$ 61,470	\$ 60,890
Interest	125,067	129,093
Difference between expected and actual experience	-	(23,840)
Changes of assumptions	-	5,224
Benefit payments, including refunds of member contributions	<u>(117,019)</u>	<u>(117,019)</u>
Net Change in Total Pension Liability	69,518	54,348
Total Pension Liability - Beginning	<u>1,560,375</u>	<u>1,629,893</u>
Total Pension Liability - Ending (a)	<u>\$ 1,629,893</u>	<u>\$ 1,684,241</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 72,992	\$ 71,154
Contributions - state aid	39,372	41,294
Net investment income	70,955	158,043
Benefit payments, including refunds of member contributions	<u>(117,019)</u>	<u>(117,019)</u>
Net Change in Plan Fiduciary Net Position	66,300	153,472
Plan Fiduciary Net Position - Beginning	<u>1,205,296</u>	<u>1,271,596</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,271,596</u>	<u>\$ 1,425,068</u>
Net Pension Liability - Ending (a-b)	<u>\$ 358,297</u>	<u>\$ 259,173</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.0%	84.6%
Estimated Covered Employee Payroll	\$ 429,572	\$ 430,152
Net Pension Liability as a Percentage of Covered Employee Payroll	83.4%	60.3%

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT 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, 2014, 2015, 2016, and 2017, calculated using the discount rate of 8.00%, 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 (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability - 12/31/14	\$ 326,192	\$ 200,930	\$ 91,410
Net Pension Liability - 12/31/15	\$ 498,030	\$ 355,079	\$ 230,661
Net Pension Liability - 12/31/16	\$ 506,821	\$ 358,297	\$ 228,863
Net Pension Liability - 12/31/17	\$ 408,697	\$ 259,173	\$ 128,682

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.43%
2016	5.89%
2015	(2.18%)
2014	6.04%

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT 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	\$ 978,892	\$ 1,342,762	\$ 363,870	72.9%
01-01-15	1,245,062	1,498,394	253,332	83.1%
01-01-17	1,271,596	1,611,277	339,681	78.9%

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT 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.

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 131,667	100.0%
2013	128,570	100.1%
2014	108,480	100.0%
2015	103,007	100.0%
2016	112,364	100.0%
2017	112,448	100.0%

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT 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	6 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

HATFIELD BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Ms. Diane Farrall
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