

# LIMITED PROCEDURES ENGAGEMENT

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## Mercersburg Borough Police Pension Plan Franklin County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

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October 2016



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  
Mercersburg Borough  
Franklin County  
Mercersburg, PA 17236

We conducted a Limited Procedures Engagement (LPE) of the Mercersburg Borough Police Pension Plan for the period January 1, 2012 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 findings 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 the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Mercersburg Borough Police 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 letter were discussed with officials of Mercersburg Borough and, where appropriate, their responses have been included in this letter. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

October 18, 2016



EUGENE A. DEPASQUALE  
Auditor General

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MERCERSBURG BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Mercersburg Borough has complied with the prior audit recommendations concerning the following:

- Restated Plan Document Not Adopted By Ordinance

The borough formally adopted the restated plan document through Ordinance No. 5-7.

- Failure To Appoint A Chief Administrative Officer

The borough adopted Resolution No. 08-15 which appointed a new Chief Administrative Officer for the pension plan.

MERCERSBURG BOROUGH POLICE 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 YEARS ENDING DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 6,041	\$ 6,343
Interest	12,332	12,498
Difference between expected and actual experience	-	(68,475)
Changes of assumptions	-	(4,541)
Benefit payments, including refunds of member contributions	(15,971)	(14,326)
Net Change in Total Pension Liability	<u>2,402</u>	<u>(68,501)</u>
Total Pension Liability - Beginning	161,064	163,466
Total Pension Liability - Ending (a)	<u>\$ 163,466</u>	<u>\$ 94,965</u>
Plan Fiduciary Net Position		
Net investment income	\$ 6,068	\$ (6,347)
Benefit payments, including refunds of member contributions	(15,971)	(14,326)
Administrative expense	(5,375)	(11,250)
Other changes	-	495
Net Change in Plan Fiduciary Net Position	<u>(15,278)</u>	<u>(31,428)</u>
Plan Fiduciary Net Position - Beginning	318,450	303,172
Plan Fiduciary Net Position - Ending (b)	<u>\$ 303,172</u>	<u>\$ 271,744</u>
Net Pension Liability - Ending (a-b)	<u>\$ (139,706)</u>	<u>\$ (176,779)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	185.46%	286.15%
Estimated Covered Employee Payroll	\$ 81,825	\$ 89,486
Net Pension Liability as a Percentage of Covered Employee Payroll	(170.74%)	(197.55%)

MERCERSBURG BOROUGH POLICE 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 6.25%, 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 (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net Pension Liability	\$ (165,654)	\$ (176,779)	\$ (186,232)

The discount rate of 6.25% was used in the preparation of the borough's December 31, 2015 GASB 67 report. This rate differs from the 7.75% reported in the Notes to Supplementary Schedules on page 7 of this report.

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
2006	\$ -	\$ -	\$ -	\$ 60,985	0.0%
2007	-	-	-	66,754	0.0%
2008	-	-	-	67,447	0.0%
2009	-	-	-	36,853	0.0%
2010	-	-	-	72,330	0.0%
2011	-	-	-	76,444	0.0%
2012	-	-	-	86,459	0.0%
2013	-	-	-	83,146	0.0%
2014	-	-	-	81,825	0.0%
2015	-	-	-	88,734	0.0%

MERCERSBURG BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2015	(2.20%)
2014	2.06%



MERCERSBURG BOROUGH POLICE 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	\$ 326,571	\$ 160,835	\$ (165,736)	203.0%
01-01-13	305,397	159,123	(146,274)	191.9%
01-01-15	303,172	174,028	(129,144)	174.2%

MERCERSBURG BOROUGH POLICE 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.

MERCERSBURG BOROUGH POLICE 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	7.75%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

MERCERSBURG BOROUGH POLICE PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Roger Defibaugh**  
Mayor

**Mr. Thomas Suddeth**  
Council President

**Mr. Jeff Main**  
Council Vice-President

**Ms. Lisa McCoy**  
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**Ms. Amy Burkot**  
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**Mr. Donald Stoner**  
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**Ms. Dawn Scheller**  
Borough Manager

**Ms. Catalin Bonciu**  
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