

COMPLIANCE AUDIT

Red Lion Borough Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

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
Red Lion Borough
York County
Red Lion, PA 17356

We have conducted a compliance audit of the Red Lion Borough Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2015. 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 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 plan member 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 the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether retirement benefits calculated for the plan member who terminated employment and retired and elected a lump-sum form of pension benefit during the current audit period, represented payment to the person entitled to receive it and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined 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.
- 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Red Lion Borough Non-Uniformed 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 Red Lion Borough Non-Uniformed 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 Red Lion 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.

October 11, 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 Red Lion Borough Non-Uniformed 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 Red Lion Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a Joinder Agreement with the PSABMRT restated effective January 1, 2015, adopted pursuant to Resolution No. 2015-6. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees hired prior to February 1, 2015. The plan was established January 1, 1974. Active borough union members are required to contribute 2 percent of gross earnings to the plan. Active borough water authority union members are required to contribute 3 percent of gross earnings to the plan. Management and non-union employees are not required to contribute to the plan. As of December 31, 2015, the plan had 24 active members, 1 terminated member eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

On April 13, 2015, the borough adopted Resolution No. 2015-06, which adopted a restated plan agreement with PSABMRT. The restated agreement provides for a defined contribution pension plan for employees hired after February 1, 2015. The borough will be required to contribute 6 percent of each eligible member's compensation. Water authority members will be required to contribute 3 percent of compensation and other employees will be required to contribute 2 percent of compensation. As of December 31, 2015, there were no active members in the defined contribution plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Attainment of Age 65
Early Retirement	Attainment of Age 62
Vesting	A member is 100% vested after the completion of 5 years of service.

Retirement Benefit:

A monthly benefit equal to 1.0% of average monthly compensation for Water Authority members and 1.18% for borough Management, Non-Union, and union members (Compensation averaged over the final 36 months of employment), multiplied by years of credited service.

Survivor Benefit:

Pre-Retirement: For deaths while the participant is actively employed, a monthly benefit equal to the survivor's portion of the participant's accrued benefit (as of the date of death) converted to a joint & 50% survivor annuity will be payable to the participant's eligible spouse. In addition, the participant's beneficiary will receive a lump sum payment of \$15,000.

Post-Retirement: The normal form of payment is a life annuity. At retirement, the Participant may select an optional form of payment that is an Actuarial equivalent of the normal form.

Service Related Disability Benefit:

Upon total and permanent disablement, the participant's accrued benefit at date of disability offset by Social Security Disability and Workers' Compensation is payable immediately.

RED LION BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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 YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 93,322	\$ 97,507
Interest	136,353	149,004
Change of Benefit Terms	-	60,343
Difference between expected and actual experience	-	(86,252)
Changes of assumptions	-	13,013
Benefit payments, including refunds of member contributions	(67,133)	(37,447)
Net Change in Total Pension Liability	<u>162,542</u>	<u>196,168</u>
Total Pension Liability - Beginning	<u>1,758,284</u>	<u>1,920,826</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,920,826</u></u>	<u><u>\$ 2,116,994</u></u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 90,894	\$ 93,607
Contribution - member	14,107	12,228
Net investment income	115,376	(14,221)
Benefit payments, including refunds of member contributions	(67,133)	(37,447)
Administrative expense	(12,714)	(17,719)
Net Change in Plan Fiduciary Net Position	<u>140,530</u>	<u>36,448</u>
Plan Fiduciary Net Position - Beginning	<u>1,890,369</u>	<u>2,030,899</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,030,899</u></u>	<u><u>\$ 2,067,347</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ (110,073)</u></u>	<u><u>\$ 49,647</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.7%	97.7%
 Estimated Covered Employee Payroll	\$ 1,319,466	\$ 1,385,500
 Net Pension Liability as a Percentage of Covered Employee Payroll	(8.3%)	3.6%

RED LION 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 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 187,648	\$ 49,647	(\$ 81,158)

SCHEDULE OF INVESTMENT RETURNS

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

2015	(-0.49%)
2014	6.34%

RED LION 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	\$ 1,385,241	\$ 1,394,461	\$ 9,220	99.3%
01-01-13	1,572,578	1,555,050	(17,528)	101.1%
01-01-15	2,030,899	1,907,930	(122,969)	106.4%

RED LION 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.

RED LION 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
2010	\$ 38,955	183.4%
2011	69,699	100.0%
2012	79,353	100.0%
2013	82,030	105.4%
2014	90,894	100.0%
2015	93,607	100.0%

RED LION 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	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.5%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.25%

RED LION BOROUGH NON-UNIFORMED PENSION PLAN
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