

COMPLIANCE AUDIT

Beaver Borough Municipal Employees' Pension Plan Beaver County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

July 2019



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
Beaver Borough
Beaver County
Beaver, PA 15009

We have conducted a compliance audit of the Beaver Borough Municipal Employees' Pension Plan for the period January 1, 2017 to December 31, 2018. 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 total 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 all 5 of the plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2017 actuarial valuation report was prepared and submitted by March 31, 2018 in accordance with Act 205 and whether selected information provided on this report 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 Beaver Borough Municipal Employees' 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 Beaver Borough Municipal Employees' 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 Beaver 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.

June 25, 2019

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 Beaver Borough Municipal Employees' 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 Beaver Borough Municipal Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 774, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established April 1, 1971. Active members are required to contribute 3 percent of total compensation to the plan. As of December 31, 2018, the plan had 5 active members, 2 terminated members eligible for vested benefits in the future, and 15 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 if hired before January 1, 1995, or age 60 and 20 years of service if hired on or after January 1, 1995
Early Retirement	Age 50 and 10 years of service
Vesting	100% after 10 years of service

Retirement Benefit:

50% of average monthly compensation averaged over the last 36 months of employment

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	After Early Retirement but Before Normal Retirement: A monthly benefit is payable to the spouse equal to 50% of the early retirement pension the participant was entitled to on the day of death, had the participant elected a joint and 50% survivor annuity option. After Normal Retirement: Benefits, if any, are provided by optional benefit form elected at retirement.

Disability Benefit:

For total and permanent disablement that qualifies for Social Security disability benefits upon a participant completing at least 10 years of service, the accrued benefit at the date of disablement will be payable.

BEAVER BOROUGH MUNICIPAL EMPLOYEES' 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 98,929	\$ 95,472	\$ 100,723	\$ 90,055	\$ 95,008
Interest	272,557	265,379	276,206	283,244	289,381
Difference between expected and actual experience	-	(250,885)	-	(23,093)	-
Benefit payments, including refunds of member contributions	(216,159)	(216,159)	(217,359)	(274,839)	(312,356)
Net Change in Total Pension Liability	<u>155,327</u>	<u>(106,193)</u>	<u>159,570</u>	<u>75,367</u>	<u>72,033</u>
Total Pension Liability – Beginning	3,768,564	3,923,891	3,817,698	3,977,268	4,052,635
Total Pension Liability – Ending (a)	<u>\$ 3,923,891</u>	<u>\$ 3,817,698</u>	<u>\$ 3,977,268</u>	<u>\$ 4,052,635</u>	<u>\$ 4,124,668</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 81,795	\$ 120,816	\$ 95,389	\$ 108,347	\$ 92,721
Contributions – state aid	41,493	47,050	56,870	50,471	70,266
Contributions – member	18,165	19,301	19,801	19,484	12,393
Net investment income	193,459	(21,188)	146,749	431,254	(165,807)
Benefit payments, including refunds of member contributions	(216,159)	(216,159)	(217,359)	(274,839)	(312,356)
Administrative expense	(24,647)	(23,865)	(20,642)	(24,282)	(20,615)
Net Change in Plan Fiduciary Net Position	<u>94,106</u>	<u>(74,045)</u>	<u>80,808</u>	<u>310,435</u>	<u>(323,398)</u>
Plan Fiduciary Net Position – Beginning	3,240,481	3,334,587	3,260,542	3,341,350	3,651,785
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,334,587</u>	<u>\$ 3,260,542</u>	<u>\$ 3,341,350</u>	<u>\$ 3,651,785</u>	<u>\$ 3,328,387</u>
Net Pension Liability – Ending (a-b)	<u>\$ 589,304</u>	<u>\$ 557,156</u>	<u>\$ 635,918</u>	<u>\$ 400,850</u>	<u>\$ 796,281</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.0%	85.4%	84.0%	90.1%	80.7%
Estimated Covered Employee Payroll	\$ 514,797	\$ 603,712	\$ 601,140	\$ 652,096	\$ 650,000
Net Pension Liability as a Percentage of Covered Employee Payroll	114.5%	92.3%	105.8%	61.5%	122.5%

BEAVER BOROUGH MUNICIPAL EMPLOYEES' 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, 2016, 2017, and 2018, 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 – 12/31/15	\$ 954,102	\$ 557,156	\$ 218,951
Net Pension Liability – 12/31/16	\$ 1,041,716	\$ 635,918	\$ 289,754
Net Pension Liability – 12/31/17	\$ 815,669	\$ 400,850	\$ 46,292
Net Pension Liability – 12/31/18	\$ 1,218,655	\$ 796,281	\$ 434,833

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
2014	\$ 123,288	\$ 123,288	\$ -	\$ 514,797	23.95%
2015	167,866	167,866	-	603,712	27.81%
2016	152,259	152,259	-	601,140	25.33%
2017	158,818	158,818	-	652,096	24.36%
2018	162,987	162,987	-	650,000	25.07%

BEAVER BOROUGH MUNICIPAL EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.54%)
2017	12.91%
2016	4.50%
2015	(0.65%)
2014	6.76%

BEAVER BOROUGH MUNICIPAL EMPLOYEES' 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	\$ 3,018,224	\$ 3,645,487	\$ 627,263	82.8%
01-01-15	3,334,587	3,673,006	338,419	90.8%
01-01-17	3,341,350	3,954,175	612,825	84.5%

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 over a 4-year averaging period. 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.

BEAVER BOROUGH MUNICIPAL EMPLOYEES' 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.

BEAVER BOROUGH MUNICIPAL EMPLOYEES' 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, closed
Remaining amortization period	13 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	7.25%
Projected salary increases	5.50%

* Includes inflation at 2.25%

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