

LIMITED PROCEDURES ENGAGEMENT

Fairchance Borough Non-Uniformed Pension Plan Fayette County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

May 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
Fairchance Borough
Fayette County
Fairchance, PA 15436

We conducted a Limited Procedures Engagement (LPE) of the Fairchance Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017 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 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, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Fairchance 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 Fairchance 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.

May 1, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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

The supplementary information contained on Pages 1 through 3 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		
Interest	\$ 12,384	\$ 12,777
Difference between expected and actual experience	-	5,075
Changes of assumptions	-	4,142
Benefit payments, including refunds of member contributions	(15,819)	(16,891)
Net Change in Total Pension Liability	(3,435)	5,103
Total Pension Liability - Beginning	173,028	169,593
Total Pension Liability - Ending (a)	<u>\$ 169,593</u>	<u>\$ 174,696</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ -	\$ -
Net investment income	25,477	(2,455)
Benefit payments, including refunds of member contributions	(15,819)	(16,891)
Administrative expense	(4,518)	(7,903)
Net Change in Plan Fiduciary Net Position	5,140	(27,249)
Plan Fiduciary Net Position - Beginning	420,708	425,848
Plan Fiduciary Net Position - Ending (b)	<u>\$ 425,848</u>	<u>\$ 398,599</u>
Net Pension Liability - Ending (a-b)	<u>\$ (256,255)</u>	<u>\$ (223,903)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	251.1%	228.2%
Estimated Covered Employee Payroll	N/A	N/A
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS – (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Interest	\$ 12,469	\$ 12,728
Difference between expected and actual experience	-	7,334
Changes of assumptions	-	541
Benefit payments, including refunds of member contributions	(16,891)	(16,891)
Net Change in Total Pension Liability	(4,422)	3,712
Total Pension Liability - Beginning	174,696	170,274
Total Pension Liability - Ending (a)	<u>\$ 170,274</u>	<u>\$ 173,986</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 500	\$ -
Net investment income	17,945	51,047
Benefit payments, including refunds of member contributions	(16,891)	(16,891)
Administrative expense	(4,876)	(7,896)
Net Change in Plan Fiduciary Net Position	(3,322)	26,260
Plan Fiduciary Net Position - Beginning	398,599	395,277
Plan Fiduciary Net Position - Ending (b)	<u>\$ 395,277</u>	<u>\$ 421,537</u>
Net Pension Liability - Ending (a-b)	<u>\$ (225,003)</u>	<u>\$ (247,551)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	232.1%	242.3%
Estimated Covered Employee Payroll	N/A	N/A
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

FAIRCHANCE 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, 2016 and 2017 calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/15	\$ (210,407)	\$ (223,903)	\$ (235,746)
Net Pension Liability - 12/31/16	\$ (212,292)	\$ (225,003)	\$ (236,190)
Net Pension Liability - 12/31/17	\$ (235,255)	\$ (247,551)	\$ (258,411)

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.91%
2016	4.50%
2015	(0.59)%
2014	6.16%

FAIRCHANCE 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, 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	\$ 383,405	\$ 173,119	\$ (210,286)	221.5%
01-01-15	425,848	178,810	(247,038)	238.2%
01-01-17	395,277	178,149	(217,128)	221.9%

FAIRCHANCE 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.

FAIRCHANCE 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
2012	None	N/A
2013	None	N/A
2014	None	N/A
2015	None	N/A
2016	None	N/A
2017	None	N/A

FAIRCHANCE 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, 2017
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	None assumed

FAIRCHANCE 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 Thomas L. Tanner
Mayor

Mr. Howard L. McGhee
Council President

Ms. Karen S. Caringola
Executive Secretary

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