

LIMITED PROCEDURES ENGAGEMENT

Falls Creek Borough Non-Uniformed Pension Plan Jefferson County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

December 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
Falls Creek Borough
Jefferson County
Falls Creek, PA 15840

We conducted a Limited Procedures Engagement (LPE) of the Falls Creek Borough Non-Uniformed Pension Plan for the period January 1, 2016 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 Falls Creek Borough Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Failure To Deposit State Aid Into The Pension Plan

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 Falls Creek 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.

November 29, 2018



EUGENE A. DEPASQUALE
Auditor General

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FALLS CREEK BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit State Aid Into The Pension Plan

Condition: The municipality received an additional allotment of state aid during 2016 in the amount of \$1,041; however, as of the date of this report, the state aid was not deposited into the non-uniformed pension plan in accordance with Act 205.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the respective pension plan.

Cause: A portion of the 2014 state allocation was inadvertently returned to the Commonwealth by municipal officials in error. When the error was discovered during our previous engagement covering the period January 1, 2014 to December 31, 2015, the funds were returned to the municipality during November 2016 with instructions to deposit the \$1,041 into the non-uniformed pension plan. However, plan officials indicated that the plan custodian instructed them otherwise, and as a result, the state allocation remains in the borough's general fund.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the additional allotment of state aid received by the borough amounting to \$1,041, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually into the non-uniformed pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next engagement.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited in accordance with Act 205.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

FALLS CREEK BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 and 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost(beginning of the year)	\$ 15,051	\$ 13,662	\$ 11,049
Interest (includes interest on service cost)	18,981	11,519	12,299
Difference between expected and actual experience	(154,383)	(11,606)	(9,088)
Changes of assumptions	-	(6,197)	7,432
Benefit payments, including refunds of employee contributions	<u>(2,465)</u>	<u>(2,190)</u>	<u>(2,190)</u>
Net Change in Total Pension Liability	(122,816)	5,188	19,502
Total Pension Liability – Beginning	<u>331,270</u>	<u>208,454</u>	<u>213,642</u>
Total Pension Liability – Ending (a)	<u><u>\$ 208,454</u></u>	<u><u>\$ 213,642</u></u>	<u><u>\$ 233,144</u></u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 12,744	\$ 11,318	\$ 14,600
Contributions –PMRS assessment	-	160	180
PMRS investment income	10,075	11,217	12,358
Market value investment income	(439)	(12,769)	4,409
Benefit payments, including refunds of employee contributions	(2,465)	(2,190)	(2,190)
PMRS administrative expense	(180)	(160)	(160)
Additional administrative expense	<u>(386)</u>	<u>(468)</u>	<u>(605)</u>
Net Change in Plan Fiduciary Net Position	19,349	7,108	28,592
Plan Fiduciary Net Position – Beginning	<u>180,163</u>	<u>199,512</u>	<u>206,620</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 199,512</u></u>	<u><u>\$ 206,620</u></u>	<u><u>\$ 235,212</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 8,942</u></u>	<u><u>\$ 7,022</u></u>	<u><u>\$ (2,068)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.71%	96.71%	100.89%
Estimated Covered Employee Payroll	\$ 147,742	\$ 137,370	\$ 114,751
Net Pension Liability as a Percentage of Covered Employee Payroll	6.05%	5.11%	(1.80%)

* The 2014 employer contribution includes administrative expense and allocated insurance premiums paid from actuarial surplus. The 2016 contribution includes \$20 administrative expense.

FALLS CREEK 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, 2014 and 2015, calculated using the discount rate of 5.5%, 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability – 12/31/14	\$ 38,841	\$ 8,942	\$ (15,795)
Net Pension Liability – 12/31/15	\$ 38,176	\$ 7,022	\$ (18,510)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability – 12/31/16	\$ 26,603	\$ (2,068)	\$ (25,593)

FALLS CREEK 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	\$ 294,697	\$ 302,504	\$ 7,807	97.4%
01-01-15	202,786	208,454	5,668	97.3%
01-01-17	248,500	233,144	(15,356)	106.6%

FALLS CREEK 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.

FALLS CREEK 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	\$ 13,903	100.1%
2013	12,010	100.2%
2014	12,449	100.2%
2015	11,478	100.0%
2016	14,760	100.1%
2017	11,508	100.0%

FALLS CREEK 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	Level dollar
Remaining amortization period	None
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.

Actuarial assumptions:

Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

FALLS CREEK 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 Karen Forsythe
Mayor

Mr. Kevin Reynolds
Council President

Ms. Cindy Fritz
Borough Manager

Ms. Charity Rosenberry
Pennsylvania Municipal Retirement System

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