

# LIMITED PROCEDURES ENGAGEMENT

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## Hughesville Borough Non-Uniformed Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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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  
Hughesville Borough  
Lycoming County  
Hughesville, PA 17737

We conducted a Limited Procedures Engagement (LPE) of the Hughesville Borough Non-Uniformed Pension Plan for the period January 1, 2014 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 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.

- 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 Hughesville 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 Hughesville 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 15, 2018



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

|                                 | <u>Page</u> |
|---------------------------------|-------------|
| Supplementary Information ..... | 1           |
| Report Distribution List .....  | 8           |

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

The supplementary information contained on Pages 1 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 ENDED DECEMBER 31, 2014 AND 2015

|  | <u>2014</u>              | <u>2015</u>              |
|--|--------------------------|--------------------------|
| Total Pension Liability  |                          |                          |
| Service cost   | \$ 7,716                 | \$ 16,413                |
| Interest   | 45,843                   | 49,375                   |
| Difference between expected and actual experience                          | -                        | 14,094                   |
| Changes of assumptions   | -                        | 16,012                   |
| Benefit payments, including refunds of member contributions                | (42,345)                 | (48,196)                 |
| Net Change in Total Pension Liability                                      | <u>11,214</u>            | <u>47,698</u>            |
| Total Pension Liability - Beginning  | 624,692                  | 635,906                  |
| Total Pension Liability - Ending (a)                                       | <u><u>\$ 635,906</u></u> | <u><u>\$ 683,604</u></u> |
| Plan Fiduciary Net Position  |                          |                          |
| Contributions – employer   | \$ 43,022                | \$ 45,307                |
| Net investment income  | 17,405                   | (15,309)                 |
| Benefit payments, including refunds of member contributions                | (42,345)                 | (48,196)                 |
| Administrative expense   | (5,375)                  | (5,875)                  |
| Net Change in Plan Fiduciary Net Position                                  | <u>12,707</u>            | <u>(24,073)</u>          |
| Plan Fiduciary Net Position - Beginning                                    | 556,144                  | 568,851                  |
| Plan Fiduciary Net Position - Ending (b)                                   | <u><u>\$ 568,851</u></u> | <u><u>\$ 544,778</u></u> |
| Net Pension Liability - Ending (a-b)                                       | <u><u>\$ 67,055</u></u>  | <u><u>\$ 138,826</u></u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 89.5%                    | 79.7%                    |
| Estimated Covered Employee Payroll   | \$ 136,287               | \$ 160,618               |
| Net Pension Liability as a Percentage of Covered Employee Payroll          | 49.2%                    | 86.4%                    |

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

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

|  | <u>2016</u>       | <u>2017</u>       |
|--|-------------------|-------------------|
| Total Pension Liability  |                   |                   |
| Service cost   | \$ 17,152         | \$ 17,574         |
| Interest   | 50,640            | 51,437            |
| Difference between expected and actual experience                          | -                 | (8,709)           |
| Changes of assumptions   | -                 | 2,245             |
| Benefit payments, including refunds of member contributions                | (51,122)          | (51,122)          |
| Net Change in Total Pension Liability                                      | <u>16,670</u>     | <u>11,425</u>     |
| Total Pension Liability - Beginning  | 683,604           | 700,274           |
| Total Pension Liability - Ending (a)                                       | <u>\$ 700,274</u> | <u>\$ 711,699</u> |
| <br>   |                   |                   |
| Plan Fiduciary Net Position  |                   |                   |
| Contributions - employer   | \$ 48,325         | \$ 48,473         |
| Net investment income  | 21,855            | 61,551            |
| Benefit payments, including refunds of member contributions                | (51,122)          | (51,122)          |
| Administrative expense   | (5,875)           | (5,875)           |
| Net Change in Plan Fiduciary Net Position                                  | <u>13,183</u>     | <u>53,027</u>     |
| Plan Fiduciary Net Position - Beginning                                    | 544,778           | 557,961           |
| Plan Fiduciary Net Position - Ending (b)                                   | <u>\$ 557,961</u> | <u>\$ 610,988</u> |
| <br>   |                   |                   |
| Net Pension Liability - Ending (a-b)                                       | <u>\$ 142,313</u> | <u>\$ 100,711</u> |
| <br>   |                   |                   |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 79.7%             | 85.8%             |
| <br>   |                   |                   |
| Estimated Covered Employee Payroll   | \$ 163,754        | \$ 165,160        |
| <br>   |                   |                   |
| Net Pension Liability as a Percentage of Covered Employee Payroll          | 86.9%             | 61.0%             |

HUGHESVILLE 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, 2015, 2016 and 2017, 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<br>(6.5%) | Current<br>Discount Rate<br>(7.5%) | 1% Increase<br>(8.5%) |
|----------------------------------|-----------------------|------------------------------------|-----------------------|
| Net Pension Liability - 12/31/14 | \$ 127,018            | \$ 67,055                          | \$ 14,726             |
| Net Pension Liability - 12/31/15 | \$ 204,581            | \$ 138,826                         | \$ 81,603             |
| Net Pension Liability - 12/31/16 | \$ 209,402            | \$ 142,313                         | \$ 83,862             |
| Net Pension Liability - 12/31/17 | \$ 167,990            | \$ 100,711                         | \$ 42,043             |

SCHEDULE OF CONTRIBUTIONS

| Year Ended<br>December 31 | Actuarially<br>Determined<br>Contribution | Actual<br>Contributions | Contribution<br>Deficiency<br>(Excess) | Covered-<br>Employee<br>Payroll | Contributions as<br>a Percentage of<br>Covered-<br>Employee<br>Payroll |
|---------------------------|---|-------------------------|--|---------------------------------|--|
| 2008                      | \$ 52,195                                 | \$ 52,272               | \$ (77)                                | \$ 150,000                      | 34.8%  |
| 2009                      | 51,865                                    | 51,865                  | -                                      | 148,494                         | 34.9%  |
| 2010                      | 63,840                                    | 63,840                  | -                                      | 150,431                         | 42.4%  |
| 2011                      | 64,708                                    | 68,708                  | (4,000)                                | 154,526                         | 44.5%  |
| 2012                      | 77,261                                    | 77,261                  | -                                      | 222,684                         | 34.7%  |
| 2013                      | 46,336                                    | 46,336                  | -                                      | 77,903                          | 59.5%  |
| 2014                      | 43,022                                    | 43,022                  | -                                      | 136,287                         | 31.6%  |
| 2015                      | 45,307                                    | 45,307                  | -                                      | 160,618                         | 28.2%  |
| 2016                      | 48,325                                    | 48,325                  | -                                      | 163,754                         | 29.5%  |
| 2017                      | 48,473                                    | 48,473                  | -                                      | 165,160                         | 29.3%  |

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

SCHEDULE OF INVESTMENT RETURNS

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

|      |        |
|------|--------|
| 2014 | 3.33%  |
| 2015 | -2.74% |
| 2016 | 4.28%  |
| 2017 | 11.67% |



HUGHESVILLE 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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-13                       | \$ 535,612                             | \$ 614,593   | \$ 78,981  | 87.1%                      |
| 01-01-15                       | 594,811                                | 666,012  | 71,201   | 89.3%                      |
| 01-01-17                       | 617,604                                | 693,810  | 76,206   | 89.0%                      |

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

HUGHESVILLE 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.

HUGHESVILLE 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 | 5 years   |
| Asset valuation method        | 5-year smoothing - the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets |
| Actuarial assumptions:        |   |
| Investment rate of return     | 7.5%  |
| Projected salary increases    | 4.5%  |

HUGHESVILLE BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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