COMPLIANCE AUDIT

Lititz Borough Non-Uniformed Pension Plan

Lancaster County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2018

July 2019

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Lititz Borough
Lancaster County
Lititz, PA 17543

We have conducted a compliance audit of the Lititz Borough Non-Uniformed Pension Plan for the period January 1, 2015 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.

- We determined whether retirement benefits calculated for both 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 also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.

- We determined 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.

- We determined 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.

Lititz Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lititz 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 Lititz 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 Lititz 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 27, 2019

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 Lititz Borough Non-Uniformed 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 Lititz Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 422, 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 January 1, 1966. Active members are not required to contribute to the plan. As of December 31, 2013, the plan had 15 active members, 2 terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

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

Eligibility Requirements:

Normal Retirement	Attained age 60.
Early Retirement	Attained age 55.
Vesting	20% after 3 years of vesting service, plus 20% per year thereafter up to 100%.

Retirement Benefit:

Benefit equals 1.80% of average compensation (average of final 3 years of compensation) multiplied by accrual service, plus a benefit equal to the actuarial equivalent of the special transfer value. Minimum benefit of an amount actuarially equivalent to the transfer value.

Survivor Benefit:

For qualified married participants that are fully or partially vested in an accrued benefit, an amount is paid immediately to the surviving spouse equal to the amount that would have been paid if the participant terminated employment of the date of death and survived to his/her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, then died the next day.

Disability Benefit:

Active participant who become totally and permanently disabled will receive his/her accrued benefit as of the date of disability.

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

The supplementary information contained on Pages 3 through 6 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

	2014	2015	2016
Total Pension Liability			
Service cost	$ 88,276	$ 103,607	$ 108,787
Interest	259,499	278,872	298,754
Difference between expected and actual experience	-	(60,516)	-
Changes of Assumptions	-	165,411	-
Benefit payments, including refunds of member contributions	(82,786)	(143,999)	(118,246)
Net Change in Total Pension Liability	264,989	343,375	289,295
Total Pension Liability – Beginning	3,196,856	3,461,845	3,805,220
Total Pension Liability – Ending (a)	$ 3,461,845	$ 3,805,220	$ 4,094,515
Plan Fiduciary Net Position			
Contributions – employer	$ 337,075	$ 358,923	$ 395,149
Net investment income and appreciation (depreciation)	100,363	(29,984)	136,452
Benefit payments, including refunds of member contributions	(82,786)	(143,999)	(118,246)
Administrative expense	(5,790)	(7,090)	(6,500)
Net Change in Plan Fiduciary Net Position	348,862	177,850	406,855
Plan Fiduciary Net Position – Beginning	1,893,202	2,242,064	2,419,914
Plan Fiduciary Net Position – Ending (b)	$ 2,242,064	$ 2,419,914	$ 2,826,769
Net Pension Liability – Ending (a-b)	$ 1,219,781	$ 1,385,306	$ 1,267,746
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.8%	63.6%	69.0%
Estimated Covered Employee Payroll	$ 819,385	$ 836,870	$ 858,915
Net Pension Liability as a Percentage of Covered Employee Payroll	148.9%	165.5%	147.6%

LITITZ BOROUGH NON-UNIFORMED PENSION PLAN
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(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	2017	2018
Total Pension Liability		
Service cost	$ 93,037	$ 97,689
Interest	303,782	324,587
Difference between expected and actual experience	(214,364)	-
Changes of assumptions	9,504	-
Benefit payments, including refunds of member contributions	(125,855)	(140,303)
Net Change in Total Pension Liability	66,104	281,973
Total Pension Liability – Beginning	4,094,515	4,160,619
Total Pension Liability – Ending (a)	$ 4,160,619	$ 4,442,592
Plan Fiduciary Net Position		
Contributions – employer	$ 394,832	$ 343,977
Net investment income and appreciation (depreciation)	425,228	(191,287)
Benefit payments, including refunds of member contributions	(125,855)	(140,303)
Administrative expense	(6,140)	(8,550)
Net Change in Plan Fiduciary Net Position	688,065	3,837
Plan Fiduciary Net Position – Beginning	2,826,769	3,514,834
Plan Fiduciary Net Position – Ending (b)	$ 3,514,834	$ 3,518,671
Net Pension Liability – Ending (a-b)	$ 645,785	$ 923,921
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.5%	79.2%
Estimated Covered Employee Payroll	$ 856,365	$ 848,088
Net Pension Liability as a Percentage of Covered Employee Payroll	75.4%	108.9%

LITITZ 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, 2017, and 2018, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	$ 1,850,789	$ 1,385,305	$ 989,530
Net Pension Liability – 12/31/16	1,757,345	1,267,746	851,213
Net Pension Liability – 12/31/17	1,116,281	645,785	245,972
Net Pension Liability – 12/31/18	1,410,831	923,921	509,953

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
2009	$ 102,392	$ 102,392	$ -	$ 665,073	15.4%
2010	106,754	106,754	-	726,681	14.7%
2011	178,424	178,424	-	745,671	23.9%
2012	263,454	263,454	-	788,532	33.4%
2013	264,318	264,318	-	797,329	33.2%
2014	302,075	337,075	(35,000)	819,385	41.1%
2015	303,923	358,923	(55,000)	836,870	42.9%
2016	315,149	395,149	(80,000)	858,915	46.0%
2017	314,832	394,832	(80,000)	856,365	46.1%
2018	263,973	343,977	(80,004)	848,088	40.6%

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.5%)
2017	15.0%
2016	5.7%
2015	(1.3%)
2014	5.3%
2013	15.5%
2012	13.1%

LITITZ 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:

Actuarial Valuation Date	(1) Actuarial Value of Assets (a)	(2) Actuarial Accrued Liability (AAL) - Entry Age (b)	(3) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	(4) Funded Ratio (a)/(b)
01-01-13	$ 1,454,288	$ 2,914,504	$ 1,460,216	49.9%
01-01-15	2,238,466	3,566,740	1,328,274	62.8%
01-01-17	3,009,408	3,889,655	800,247	77.4%

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.

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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.

LITITZ 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	7 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	7.75%
Projected salary increases	5.00%
Cost-of-living adjustments	None assumed

LITITZ BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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