

COMPLIANCE AUDIT

Mifflinburg Borough Non-Uniformed Pension Plan Union County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

March 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
Mifflinburg Borough
Union County
Mifflinburg, PA 17844

We have conducted a compliance audit of the Mifflinburg Borough Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2017. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objectives 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 objectives 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 the plan member 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined 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.
- 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.

Mifflinburg 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.

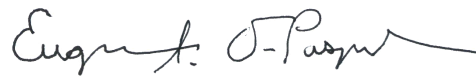
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mifflinburg Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Mifflinburg 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 Mifflinburg 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.

March 25, 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 Mifflinburg 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 Mifflinburg Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan for the borough's non-uniformed employees hired prior to January 1, 2013, locally controlled by the provisions of Ordinance No. 93-05, 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 on August 1, 1974. Active members are required to contribute 4 percent of compensation to the plan. As of December 31, 2017 the plan had 10 active members, 4 terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Attainment of age 65.
Early Retirement	62 and the completion of 5 years of service.
Vesting	A member is 100% vested after the completion of 5 years of service.

Retirement Benefit:

A monthly benefit equal to the greater of: (a) 1.275% of the final monthly average compensation (compensation averaged over the final 36 months of employment) multiplied by credited service; or (b) the actuarial equivalent of the account balance as of retirement date.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	The normal form of payment is a life annuity. At retirement, optional forms that are actuarial equivalents of the normal form may be selected.

Service Related Disability Benefit:

For total and permanent disablement that renders a participant unable to perform a duty of gainful employment for which the participant is suited, the accrued benefit at date of disablement will be payable.

MIFFLINBURG 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 51,593	\$ 49,198
Interest	153,482	159,092
Difference between expected and actual experience	-	(59,834)
Benefit payments, including refunds of member contributions	<u>(65,469)</u>	<u>(65,469)</u>
Net Change in Total Pension Liability	139,606	82,987
Total Pension Liability – Beginning	<u>2,097,558</u>	<u>2,237,164</u>
Total Pension Liability – Ending (a)	<u><u>\$ 2,237,164</u></u>	<u><u>\$ 2,320,151</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 106,239	\$ 104,813
Contributions – member	21,103	20,766
Net investment income	112,220	(14,090)
Benefit payments, including refunds of member contributions	<u>(65,469)</u>	<u>(65,469)</u>
Administrative expense	<u>(18,318)</u>	<u>(13,935)</u>
Net Change in Plan Fiduciary Net Position	155,775	32,085
Plan Fiduciary Net Position – Beginning	<u>1,834,100</u>	<u>1,989,875</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,989,875</u></u>	<u><u>\$ 2,021,960</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 247,289</u></u>	<u><u>\$ 298,191</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.9%	87.1%
Estimated Covered Employee Payroll	\$ 552,841	\$ 557,843
Net Pension Liability as a Percentage of Covered Employee Payroll	44.7%	53.5%

MIFFLINBURG 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	\$ 51,658	\$ 47,588
Interest	167,622	164,700
Difference between expected and actual experience	-	(211,779)
Changes of assumptions	-	254,317
Benefit payments, including refunds of member contributions	(121,697)	(137,987)
Net Change in Total Pension Liability	<u>97,583</u>	<u>116,839</u>
Total Pension Liability – Beginning	2,320,151	2,417,734
Total Pension Liability – Ending (a)	<u>\$ 2,417,734</u>	<u>\$ 2,534,573</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 78,406	\$ 76,000
Contributions – member	17,759	16,681
Net investment income	92,868	266,373
Benefit payments, including refunds of member contributions	(121,697)	(137,987)
Administrative expense	(25,090)	(16,673)
Net Change in Plan Fiduciary Net Position	<u>42,246</u>	<u>204,394</u>
Plan Fiduciary Net Position – Beginning	2,021,960	2,064,206
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,064,206</u>	<u>\$ 2,268,600</u>
Net Pension Liability – Ending (a-b)	<u>\$ 353,528</u>	<u>\$ 265,973</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.4%	89.5%
Estimated Covered Employee Payroll	\$ 410,990	\$ 427,957
Net Pension Liability as a Percentage of Covered Employee Payroll	86.0%	62.1%

MIFFLINBURG 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, 2016, 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 – 12/31/16	\$ 659,539	\$ 353,528	\$ 90,221

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability – 12/31/17	\$ 592,937	\$ 265,973	\$ (12,196)

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

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
2008	\$ 72,899	\$ 72,899	\$ -	\$ 580,708	12.6%
2009	72,743	72,743	-		
2010	64,165	64,165	-	621,410	10.3%
2011	65,707	97,246	(31,539)		
2012	71,193	71,193	-	571,116	12.5%
2013	97,814	97,814	-		
2014	106,239	106,239	-	552,841	19.2%
2015	104,813	104,813	-	557,843	18.8%
2016	78,406	78,406	-	410,990	19.1%
2017	76,000	76,000	-	427,957	17.8%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.24%
2016	4.66%
2015	-0.71%
2014	6.08%

MIFFLINBURG 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	\$ 1,610,495	\$ 1,969,846	\$ 359,351	81.8%
01-01-15	1,937,317	2,177,330	240,013	89.0%
01-01-17	2,186,241	2,460,272	274,031	88.9%

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 4 year averaging period which will be limited to a maximum of 110 percent and a minimum of 90 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.

MIFFLINBURG 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.

MIFFLINBURG 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	4 year smoothing, the actuarial value of assets will be limited to a maximum of 110% and a minimum of 90% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.5%

MIFFLINBURG BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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