

# COMPLIANCE AUDIT

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## Montoursville Borough Non-Uniformed Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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April 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Montoursville Borough  
Lycoming County  
Montoursville, PA 17754

We have conducted a compliance audit of the Montoursville 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 the two 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 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 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.

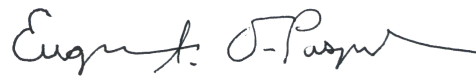
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Montoursville Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Montoursville 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. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 56.8% as of January 1, 2017**, which is the most recent data available. We encourage borough officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Montoursville 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.

April 4, 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 Montoursville 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 Montoursville Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 434, as amended. The plan was established January 1, 2008. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 12 active members, 1 terminated member eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

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

### Eligibility Requirements:

Normal Retirement    Age 65

Early Retirement     Age 55 and 12 years of service.

Vesting                A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 1.5% of average monthly compensation based on the last 36 months times years of service completed by the member after January 1, 2008 and before January 1, 1976.

### Survivor Benefit:

If vested and married at least a year, the benefit is a 50% survivor benefit to the surviving spouse. The amount of the benefit would be 50% survivor benefit payable under a joint and 50% survivor option based upon the pension accrued to the date of death reduced for early retirement.

### Service Related Disability Benefit:

None

MONTOURSVILLE 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	\$ 30,353	\$ 32,993
Interest	34,748	37,647
Difference between expected and actual experience	-	(21,398)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(4,924)	(4,924)
Net Change in Total Pension Liability	<u>60,177</u>	<u>44,318</u>
Total Pension Liability – Beginning	468,505	528,682
Total Pension Liability – Ending (a)	<u>\$ 528,682</u>	<u>\$ 573,000</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ -	\$ 17,597
Contributions – state aid	45,423	47,050
Net investment income	10,685	(5,598)
Benefit payments, including refunds of member contributions	(4,924)	(4,924)
Administrative expense	(1,500)	(4,600)
Net Change in Plan Fiduciary Net Position	<u>49,684</u>	<u>49,525</u>
Plan Fiduciary Net Position – Beginning	213,407	263,091
Plan Fiduciary Net Position – Ending (b)	<u>\$ 263,091</u>	<u>\$ 312,616</u>
Net Pension Liability – Ending (a-b)	<u>\$ 265,591</u>	<u>\$ 260,384</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	49.8%	54.6%
Estimated Covered Employee Payroll	\$ 552,612	\$ 607,115
Net Pension Liability as a Percentage of Covered Employee Payroll	48.1%	42.9%



MONTOURSVILLE 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	\$ 34,313	\$ 38,168
Interest	42,220	49,692
Difference between expected and actual experience	-	(7,136)
Changes of assumptions	-	42,669
Benefit payments, including refunds of member contributions	(8,333)	(10,038)
Net Change in Total Pension Liability	<u>68,200</u>	<u>113,355</u>
Total Pension Liability – Beginning	573,000	641,200
Total Pension Liability – Ending (a)	<u>\$ 641,200</u>	<u>\$ 754,555</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 18,608	\$ 16,362
Contributions – state aid	52,496	55,059
Net investment income	12,160	46,911
Benefit payments, including refunds of member contributions	(8,333)	(10,038)
Administrative expense	(3,000)	(4,600)
Net Change in Plan Fiduciary Net Position	<u>71,931</u>	<u>103,694</u>
Plan Fiduciary Net Position – Beginning	312,616	384,547
Plan Fiduciary Net Position – Ending (b)	<u>\$ 384,547</u>	<u>\$ 488,241</u>
Net Pension Liability – Ending (a-b)	<u>\$ 256,653</u>	<u>\$ 266,314</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.0%	64.7%
Estimated Covered Employee Payroll	\$ 587,244	\$ 591,966
Net Pension Liability as a Percentage of Covered Employee Payroll	43.7%	45.0%

MONTOURSVILLE 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 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/14	\$ 347,653	\$ 265,591	\$ 196,581
Net Pension Liability – 12/31/15	\$ 342,875	\$ 260,384	\$ 190,404
Net Pension Liability – 12/31/16	\$ 345,753	\$ 256,653	\$ 180,835
Net Pension Liability – 12/31/17	\$ 372,228	\$ 266,314	\$ 176,526

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
2014	\$ 45,423	\$ 45,423	\$ -	\$ 552,612	8.22%
2015	64,647	64,647	-	607,115	10.65%
2016	71,104	71,104	-	587,244	12.11%
2017	71,421	71,421	-	591,966	12.07%
2018	70,084	70,084	-	*	

\* Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

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

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.35%
2016	5.09%
2015	(0.94%)
2014	6.36%

MONTOURSVILLE 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	\$ 154,778	\$ 413,432	\$ 258,654	37.4%
01-01-15	263,091	507,284	244,193	51.9%
01-01-17	384,547	676,733	292,186	56.8%

MONTOURSVILLE 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.

MONTOURSVILLE 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	11 years
Asset valuation method	Fair value.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

MONTOURSVILLE BOROUGH NON-UNIFORMED PENSION PLAN  
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