

COMPLIANCE AUDIT

New Britain Borough Non-Uniformed Defined Benefit Pension Plan

Bucks County, Pennsylvania
For the Period
January 1, 2014 to December 31, 2017

April 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
New Britain Borough
Bucks County
New Britain, PA 18901

We have conducted a compliance audit of the New Britain Borough Non-Uniformed Defined Benefit Pension Plan for the period January 1, 2014 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 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 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 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the New Britain Borough Non-Uniformed Defined Benefit 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 New Britain Borough Non-Uniformed Defined Benefit 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 New Britain 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, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 New Britain Borough Non-Uniformed Defined Benefit 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 New Britain Borough Non-Uniformed Defined Benefit Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 327, as amended, for non-uniformed employees hired prior to January 1, 2015. The plan was established January 1, 2008. Active members are not required to contribute to the plan. As of December 31, 2017, the plan had no active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement Age 65 and 10 years of service

Early Retirement None

Vesting 100% after 10 years of service

Retirement Benefit:

Benefit is 50% credit for each year of service (maximum 25%) times the average monthly salary over the participant's last 36 months of employment.

Survivor Benefit:

The monthly survivor benefit shall be equal to 50% of the pension that the participant was entitled to receive or would have been receiving had he or she been retired at the time of death.

Disability Benefit:

None

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 and 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 4,542	\$ 2,170	\$ 2,268
Interest	7,975	8,241	8,787
Difference between expected and actual experience	-	4,243	-
Changes of assumptions	-	(2,433)	-
Benefit payments, including refunds of member contributions	(270)	(3,238)	(3,238)
Net Change in Total Pension Liability	<u>12,247</u>	<u>8,983</u>	<u>7,817</u>
Total Pension Liability - Beginning	<u>95,277</u>	<u>107,524</u>	<u>116,507</u>
Total Pension Liability - Ending (a)	<u>\$ 107,524</u>	<u>\$ 116,507</u>	<u>\$ 124,324</u>
Plan Fiduciary Net Position			
Contributions – State Aid	\$ 11,618	\$ 7,842	\$ 8,749
Contributions – Employer*	-	1,772	4,098
Net investment income	2,102	(2,681)	2,770
Benefit payments, including refunds of member contributions	(270)	(3,238)	(3,238)
Administrative expense	(700)	(1,500)	(1,000)
Net Change in Plan Fiduciary Net Position	<u>12,750</u>	<u>2,195</u>	<u>11,379</u>
Plan Fiduciary Net Position - Beginning	<u>60,351</u>	<u>73,101</u>	<u>75,296</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 73,101</u>	<u>\$ 75,296</u>	<u>\$ 86,675</u>
Net Pension Liability - Ending (a-b)	<u>\$ 34,423</u>	<u>\$ 41,211</u>	<u>\$ 37,649</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.99%	64.63%	69.72%
Estimated Covered Employee Payroll	\$ 133,026	\$ 100,163	\$ 33,000
Net Pension Liability as a Percentage of Covered Employee Payroll	25.88%	41.14%	114.09%

* 2016 Employer Contributions represent contributions made to the defined contribution plan.

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
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 (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, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/14	\$ 46,445	\$ 34,423	\$ 23,964

The following presents the net pension liability of the borough as of December 31, 2015 and 2016, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/15	\$ 52,917	\$ 41,211	\$ 30,924
Net Pension Liability - 12/31/16	\$ 49,592	\$ 37,649	\$ 27,138

The discount rate of 7.5% was used in the preparation of the borough's December 31, 2016 GASB 67 schedules. This rate differs from the 7.0% reported in the Notes to Supplementary Schedules on page 8 of this report.

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT 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	\$ 46,168	\$ 83,893	\$ 37,725	55.0%
01-01-15	73,101	109,334	36,233	66.9%
01-01-17	81,314	96,962	15,648	83.9%

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT 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.

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 9,280	100.0%
2013	9,157	100.0%
2014	9,274	125.3%
2015	9,614	100.0%
2016	7,487	116.9%
2017	7,572	100.0%

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT 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	Fair market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

NEW BRITAIN BOROUGH NON-UNIFORMED DEFINED BENEFIT PENSION PLAN
REPORT DISTRIBUTION LIST

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