

LIMITED PROCEDURES ENGAGEMENT

Pen Argyl Borough Non-Uniformed Pension Plan Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

August 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
Pen Argyl Borough
Northampton County
Pen Argyl, PA 18072

We conducted a Limited Procedures Engagement (LPE) of the Pen Argyl 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether retirement benefits calculated for plan members who retired during the engagement 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 pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Pen Argyl 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 Pen Argyl 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.

August 14, 2018



EUGENE A. DEPASQUALE
Auditor General

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PEN ARGYL BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 and 2 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	\$ 32,012	\$ 32,085	\$ 43,691
Interest	35,376	38,964	42,906
Difference between expected and actual experience	630	680	696
Changes of assumptions	-	643	519
Benefit payments, including refunds of member contributions	(3,443)	(3,443)	(3,443)
Net Change in Total Pension Liability	64,575	68,929	84,369
Total Pension Liability - Beginning	633,579	698,154	767,083
Total Pension Liability - Ending (a)	<u>\$ 698,154</u>	<u>\$ 767,083</u>	<u>\$ 851,452</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 32,076	\$ 31,912	\$ 33,366
Contributions – PMRS assessment	-	220	240
Contributions – member	-	-	10,325
PMRS investment income	35,516	39,083	43,070
Market value investment income	(1,721)	(42,453)	15,525
Benefit payments, including refunds of member contributions	(3,443)	(3,443)	(3,443)
PMRS administrative expense	(220)	(220)	(220)
Additional administrative expense	(1,362)	(1,629)	(2,110)
Net Change in Plan Fiduciary Net Position	60,846	23,470	96,753
Plan Fiduciary Net Position - Beginning	626,872	687,718	711,188
Plan Fiduciary Net Position - Ending (b)	<u>\$ 687,718</u>	<u>\$ 711,188</u>	<u>\$ 807,941</u>
Net Pension Liability - Ending (a-b)	<u>\$ 10,436</u>	<u>\$ 55,895</u>	<u>\$ 43,511</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.51%	92.71%	94.89%
Estimated Covered Employee Payroll	\$ 457,319	\$ 458,353	\$ 476,656
Net Pension Liability as a Percentage of Covered Employee Payroll	2.28%	12.19%	9.13%

PEN ARGYL 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 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 145,901	\$ 10,436	\$ (124,753)
Net Pension Liability - 12/31/15	\$ 205,158	\$ 55,895	\$ (93,104)

The following presents the net pension liability of the borough as of December 31, 2016, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 209,669	\$ 43,511	\$ (122,395)

PEN ARGYL BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 31,167	\$ 1,932
2013	32,491	None
2014	30,981	1,095
2015	31,367	765
2016	32,085	1,521
2017	33,116	3,242

PEN ARGYL BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Mikal P. Sabatine
Mayor

Mr. Joseph LeDonne
Council President

Ms. Robin Zmoda
Borough Manager

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