

LIMITED PROCEDURES ENGAGEMENT

Port Carbon Borough Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

June 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Port Carbon Borough
Schuylkill County
Port Carbon, PA 17965

We conducted a Limited Procedures Engagement (LPE) of the Port Carbon Borough Police Pension Plan for the period January 1, 2015 to December 31, 2018 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.
- 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.
- 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 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 Port Carbon Borough Police 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 Port Carbon 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.

May 28, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Supplementary Information	1
Report Distribution List	8

PORT CARBON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 through 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	\$ 17,274	\$ 9,149	\$ 9,561
Interest	62,006	73,359	74,729
Change of benefit terms	-	(1,414)	-
Difference between expected and actual experience	-	111,513	-
Changes of assumptions	-	17,449	-
Benefit payments, including refunds of member contributions	(29,990)	(64,659)	(64,659)
Net Change in Total Pension Liability	49,290	145,397	19,631
Total Pension Liability – Beginning	824,466	873,756	1,019,153
Total Pension Liability – Ending (a)	<u>\$ 873,756</u>	<u>\$ 1,019,153</u>	<u>\$ 1,038,784</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 29,995	\$ 30,444	\$ 36,183
Contributions – state aid	15,491	15,683	17,499
Net investment income	45,757	(2,348)	37,941
Benefit payments, including refunds of member contributions	(29,990)	(64,659)	(64,659)
Administrative expense	(7,643)	(11,279)	(8,165)
Other	-	-	-
Net Change in Plan Fiduciary Net Position	53,610	(32,159)	18,799
Plan Fiduciary Net Position – Beginning	760,221	813,831	781,672
Plan Fiduciary Net Position – Ending (b)	<u>\$ 813,831</u>	<u>\$ 781,672</u>	<u>\$ 800,471</u>
Net Pension Liability – Ending (a-b)	<u>\$ 59,925</u>	<u>\$ 237,481</u>	<u>\$ 238,313</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.1%	76.7%	77.1%
Estimated Covered Employee Payroll	\$ 113,910	\$ 117,820	\$ 69,806
Net Pension Liability as a Percentage of Covered Employee Payroll	52.6%	201.6%	341.4%

PORT CARBON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 10,511	\$ 10,984
Interest	75,886	77,552
Change of benefit terms	-	-
Difference between expected and actual experience	(7,543)	-
Changes of assumptions	2,395	-
Benefit payments, including refunds of member contributions	(64,659)	(64,659)
Net Change in Total Pension Liability	<u>16,590</u>	<u>23,877</u>
Total Pension Liability – Beginning	1,038,784	1,055,374
Total Pension Liability – Ending (a)	<u>\$ 1,055,374</u>	<u>\$ 1,079,251</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 32,621	\$ 26,106
Contributions – state aid	18,353	18,738
Contributions – member	3,765	5,288
Net investment income	101,308	(40,564)
Benefit payments, including refunds of member contributions	(64,659)	(64,659)
Administrative expense	(11,466)	(8,793)
Other	-	-
Net Change in Plan Fiduciary Net Position	<u>79,922</u>	<u>(63,884)</u>
Plan Fiduciary Net Position – Beginning	800,471	880,393
Plan Fiduciary Net Position – Ending (b)	<u>\$ 880,393</u>	<u>\$ 816,509</u>
Net Pension Liability – Ending (a-b)	<u>\$ 174,981</u>	<u>\$ 262,742</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.4%	75.7%
Estimated Covered Employee Payroll	\$ 95,380	\$ 86,000
Net Pension Liability as a Percentage of Covered Employee Payroll	183.5%	305.5%

PORT CARBON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
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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, 2017, and 2018, 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/14	\$ 170,539	\$ 59,925	\$ (33,116)
Net Pension Liability – 12/31/15	\$ 355,970	\$ 237,481	\$ 138,210
Net Pension Liability – 12/31/16	\$ 357,193	\$ 238,313	\$ 138,465
Net Pension Liability – 12/31/17	\$ 296,665	\$ 174,981	\$ 72,624
Net Pension Liability – 12/31/18	\$ 385,038	\$ 262,742	\$ 159,614

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 45,486	\$ 45,486	\$ -	\$ 113,910	39.93%
2015	46,127	46,127	-	117,820	39.15%
2016	53,682	53,682	-	69,806	76.90%
2017	50,974	50,974	-	95,380	53.44%
2018	44,844	44,844	-	86,000	52.14%

PORT CARBON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	-4.61%
2017	12.93%
2016	4.85%
2015	-0.59%
2014	5.76%

PORT CARBON BOROUGH POLICE 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	\$ 692,622	\$ 772,601	\$ 79,979	89.6%
01-01-15	813,831	1,001,304	187,473	81.3%
01-01-17	848,411	1,033,636	185,225	82.1%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses at 120 percent of market value. The market value of the plan's assets at 01-01-17 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. These methods 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.

PORT CARBON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
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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.

PORT CARBON BOROUGH POLICE 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	Fair value, 5-year smoothing.
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50%
Cost-of-living adjustments	4.00%

PORT CARBON BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Harold Herndon
Mayor

Mr. Mike Quercia
Council President

Ms. Luanne Mengle
Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.