

COMPLIANCE AUDIT

Zelienople Borough Non-Uniformed Pension Plan Butler County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

July 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
Zelienople Borough
Butler County
Zelienople, PA 16063

We have conducted a compliance audit of the Zelienople Borough Non-Uniformed Pension Plan for the period January 1, 2017 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 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 all three of the 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 benefits 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, 2017 actuarial valuation report was prepared and submitted by March 31, 2018, in accordance with Act 205 and whether selected information provided on this report 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Zelienople 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 Zelienople 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 Zelienople 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.

July 15, 2019

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 Zelienople 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 Zelienople Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 745, as amended. The plan was established January 1, 1963. Active employees hired prior to January 1, 2018 are not required to contribute to the plan. Active employees hired on or after January 1, 2018 are required to contribute 5% of compensation. As of December 31, 2018, the plan had 13 active members, 2 terminated members eligible for vested benefits in the future, and 8 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 and 10 years of service.
Early Retirement	Age 55 and 10 years of service.
Vesting	100% vesting available after 10 years of service.

Retirement Benefit:

Benefit equals 1.5% of final monthly compensation (base wages over the final 60 months) multiplied by the years of credited service to a maximum of 30 years.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	None, except the form of benefit payment in force for the participant at the time that death occurs.

Service Related Disability Benefit:

For total and permanent disablement which has continued for at least 6 months and occurred after the completion of 10 years of participation, the accrued retirement benefit at date of disablement will be payable.

Non-Service Related Disability Benefit:

Same as service related disability benefit.

Other Benefit:

Early retirement benefit: If eligible, the accrued benefit is payable at normal retirement date. Benefit may be elected to commence immediately but will be reduced by 5.9% for each month by which commencement precedes normal retirement date.

ZELIENOPLE 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	\$ 54,876	\$ 52,767
Interest	141,214	148,199
Difference between expected and actual experience	-	(34,978)
Benefit payments, including refunds of member contributions	<u>(59,177)</u>	<u>(72,809)</u>
Net Change in Total Pension Liability	136,913	93,179
Total Pension Liability – Beginning	<u>1,857,035</u>	<u>1,993,948</u>
Total Pension Liability – Ending (a)	<u><u>\$ 1,993,948</u></u>	<u><u>\$ 2,087,127</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 95,180	\$ 105,379
Net investment income	126,352	6,799
Benefit payments, including refunds of member contributions	<u>(59,177)</u>	<u>(72,809)</u>
Administrative expense	<u>(16,798)</u>	<u>(16,719)</u>
Net Change in Plan Fiduciary Net Position	145,557	22,650
Plan Fiduciary Net Position – Beginning	<u>1,569,250</u>	<u>1,714,807</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,714,807</u></u>	<u><u>\$ 1,737,457</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 279,141</u></u>	<u><u>\$ 349,670</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.0%	83.2%
Estimated Covered Employee Payroll	\$ 752,739	\$ 785,136
Net Pension Liability as a Percentage of Covered Employee Payroll	37.1%	44.5%

ZELIENOPLE 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	\$ 46,540	\$ 42,433
Interest	157,138	172,866
Difference between expected and actual experience	-	21,187
Change of assumptions	-	152,247
Benefit payments, including refunds of member contributions	<u>(78,419)</u>	<u>(89,345)</u>
Net Change in Total Pension Liability	125,259	299,388
Total Pension Liability – Beginning	<u>2,087,127</u>	<u>2,212,386</u>
Total Pension Liability – Ending (a)	<u>\$ 2,212,386</u>	<u>\$ 2,511,774</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 105,742	\$ 104,895
Net investment income	91,208	291,107
Benefit payments, including refunds of member contributions	(78,419)	(89,345)
Administrative expense	<u>(13,863)</u>	<u>(18,964)</u>
Net Change in Plan Fiduciary Net Position	104,668	287,693
Plan Fiduciary Net Position – Beginning	<u>1,737,457</u>	<u>1,842,125</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,842,125</u>	<u>\$ 2,129,818</u>
Net Pension Liability – Ending (a-b)	<u>\$ 370,261</u>	<u>\$ 381,956</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.3%	84.8%
Estimated Covered Employee Payroll	\$ 776,572	\$ 734,073
Net Pension Liability as a Percentage of Covered Employee Payroll	47.7%	52.0%

ZELIENOPLE 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, 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	\$ 582,727	\$ 349,670	\$ 149,134
Net Pension Liability – 12/31/16	\$ 610,382	\$ 370,261	\$ 163,391

In addition, the following presents the net pension liability of the borough as of December 31, 2017, 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 – 12/31/17	\$ 666,723	\$ 381,956	\$ 139,187

ZELIENOPLE 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
2009	\$ 59,364	\$ 59,364	-		
2010	61,175	61,175	-	\$ 655,731	9.3%
2011	79,849	79,849	-		
2012	85,232	85,232	-	737,325	11.6%
2013	92,773	92,773	-		
2014	95,180	95,180	-	712,658	13.4%
2015	105,379	105,379	-	785,136	13.4%
2016	105,742	105,742	-	776,572	13.6%
2017	104,895	104,895	-	734,073	14.3%
2018	107,411	107,411	-		

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

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.03%
2016	5.31%
2015	0.40%
2014	8.14%

ZELIENOPLE 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	\$ 1,278,226	\$ 1,718,203	\$ 439,977	74.4%
01-01-15	1,622,061	1,958,970	336,909	82.8%
01-01-17	1,928,138	2,385,820	457,682	80.8%

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 four-year averaging period. 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.

ZELIENOPLE 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.

ZELIENOPLE 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, closed
Remaining amortization period	13 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.25%
Projected salary increases *	4.50%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.75%

ZELIENOPLE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

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