

LIMITED PROCEDURES ENGAGEMENT

Perryopolis Borough Police Pension Plan Fayette County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

May 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
Perryopolis Borough
Fayette County
Perryopolis, PA 15473

We conducted a Limited Procedures Engagement (LPE) of the Perryopolis Borough Police Pension Plan for the period January 1, 2016 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 the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 Perryopolis 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. 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 69.1% as of January 1, 2017**, which is the most recent data available. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

April 16, 2019



EUGENE A. DEPASQUALE
Auditor General

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PERRYOPOLIS 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	\$ 6,738	\$ 7,009	\$ 7,009
Interest	15,436	17,230	18,279
Difference between expected and actual experience	-	3,079	-
Changes of assumptions	-	8,638	-
Benefit payments, including refunds of member contributions	(10,250)	(10,250)	(10,250)
Net Change in Total Pension Liability	11,924	25,706	15,038
Total Pension Liability – Beginning	204,203	216,127	241,833
Total Pension Liability – Ending (a)	<u>\$ 216,127</u>	<u>\$ 241,833</u>	<u>\$ 256,871</u>
Plan Fiduciary Net Position			
Contributions – state aid	\$ 19,068	\$ 19,185	\$ 21,092
Net investment income	8,779	(883)	7,506
Benefit payments, including refunds of member contributions	(10,250)	(10,250)	(10,250)
Administrative expense	(1,806)	(5,357)	(3,048)
Net Change in Plan Fiduciary Net Position	15,791	2,695	15,300
Plan Fiduciary Net Position – Beginning	147,216	163,007	165,702
Plan Fiduciary Net Position – Ending (b)	<u>\$ 163,007</u>	<u>\$ 165,702</u>	<u>\$ 181,002</u>
Net Pension Liability – Ending (a-b)	<u>\$ 53,120</u>	<u>\$ 76,131</u>	<u>\$ 75,869</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.4%	68.5%	70.5%
Estimated Covered Employee Payroll	\$ 70,000	\$ 71,166	\$ 72,902
Net Pension Liability as a Percentage of Covered Employee Payroll	75.9%	107.0%	104.1%

PERRYOPOLIS 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	\$ 7,058	\$ 7,058
Interest	19,780	21,024
Difference between expected and actual experience	3,682	-
Changes of assumptions	1,241	-
Benefit payments, including refunds of member contributions	(10,250)	(10,250)
Net Change in Total Pension Liability	<u>21,511</u>	<u>17,832</u>
Total Pension Liability – Beginning	256,871	278,382
Total Pension Liability – Ending (a)	<u>\$ 278,382</u>	<u>\$ 296,214</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ -	\$ 9,558
Contributions – state aid	21,625	18,738
Net investment income	23,528	(9,532)
Benefit payments, including refunds of member contributions	(10,250)	(10,250)
Administrative expense	(6,280)	(3,429)
Net Change in Plan Fiduciary Net Position	<u>28,623</u>	<u>5,085</u>
Plan Fiduciary Net Position – Beginning	181,002	209,625
Plan Fiduciary Net Position – Ending (b)	<u>\$ 209,625</u>	<u>\$ 214,710</u>
Net Pension Liability – Ending (a-b)	<u>\$ 68,757</u>	<u>\$ 81,504</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.3%	72.5%
Estimated Covered Employee Payroll	\$ 78,360	\$ 75,974
Net Pension Liability as a Percentage of Covered Employee Payroll	87.7%	107.3%

PERRYOPOLIS BOROUGH POLICE PENSION PLAN
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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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/14	\$ 77,225	\$ 53,120	\$ 32,356
Net Pension Liability – 12/31/15	\$ 103,143	\$ 76,131	\$ 52,886
Net Pension Liability – 12/31/16	\$ 103,869	\$ 75,869	\$ 51,718
Net Pension Liability – 12/31/17	\$ 98,205	\$ 68,757	\$ 43,309
Net Pension Liability – 12/31/18	\$ 111,746	\$ 81,504	\$ 55,317

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	\$ 19,068	\$ 19,068	\$ -	\$ 70,000	27.24%
2015	19,186	19,186	-	71,166	26.96%
2016	21,092	21,092	-	72,902	28.93%
2017	21,625	21,625	-	78,360	27.60%
2018	28,296	28,296	-	75,974	37.24%

PERRYOPOLIS BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.55%)
2017	13.00%
2016	4.53%
2015	(0.56%)
2014	6.15%

PERRYOPOLIS 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	\$ 127,910	\$ 193,111	\$ 65,201	66.2%
01-01-15	163,007	227,844	64,837	71.5%
01-01-17	181,002	261,794	80,792	69.1%

PERRYOPOLIS 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.

PERRYOPOLIS 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	6 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	None assumed

PERRYOPOLIS 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 Mark Plewniak
Mayor

Mr. Paul E. Black
Council President

Ms. Colleen Pontoriero
Secretary/Chief Administrative Officer

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.