

# LIMITED PROCEDURES ENGAGEMENT

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## Springdale Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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October 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  
Springdale Borough  
Allegheny County  
Springdale, PA 15144

We conducted a Limited Procedures Engagement (LPE) of the Springdale Borough Non-Uniformed 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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, 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 Springdale 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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report, which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 75.7% as of January 1, 2013, to a ratio of 64.4% as of January 1, 2017**, which is the most recent data available. We encourage borough officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

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

October 3, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Status of Prior Finding .....	1
Supplementary Information .....	2
Report Distribution List .....	9

SPRINGDALE BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Springdale Borough has complied with the prior audit report recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

On March 31, 2017, the borough reimbursed the Commonwealth \$22,256 for the overpayment of state aid received in 2014 and complied with the instructions accompanying Certification Form AG 385s and accurately reported the required data.

SPRINGDALE BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 through 5 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	\$ 90,320	\$ 78,553
Interest	144,408	193,990
Difference between expected and actual experience	808,926	-
Changes of assumptions	-	5,430
Benefit payments, including refunds of member contributions	(131,259)	(130,033)
Net Change in Total Pension Liability	<u>912,395</u>	<u>147,940</u>
Total Pension Liability – Beginning	2,606,331	3,518,726
Total Pension Liability – Ending (a)	<u>\$ 3,518,726</u>	<u>\$ 3,666,666</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 97,559	\$ 115,177
Contributions – PMRS assessment	-	340
Contributions – member	38,268	34,934
PMRS investment income	112,959	119,442
Market value investment income	6,681	(157,441)
Benefit payments, including refunds of member contributions	(131,259)	(130,033)
PMRS administrative expense	(340)	(340)
Administrative expense	(4,332)	(4,979)
Net Change in Plan Fiduciary Net Position	<u>119,536</u>	<u>(22,900)</u>
Plan Fiduciary Net Position – Beginning	2,046,319	2,165,855
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,165,855</u>	<u>\$ 2,142,955</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,352,871</u>	<u>\$ 1,523,711</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.55%	58.44%
Estimated Covered Employee Payroll	\$ 523,939	\$ 460,455
Net Pension Liability as a Percentage of Covered Employee Payroll	258.21%	330.91%

SPRINGDALE 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	\$ 86,001	\$ 99,969
Interest	201,387	194,535
Difference between expected and actual experience	(186,536)	-
Changes of assumptions	102,960	-
Benefit payments, including refunds of member contributions	(169,458)	(175,420)
Net Change in Total Pension Liability	<u>34,354</u>	<u>119,084</u>
Total Pension Liability – Beginning	<u>3,666,666</u>	<u>3,701,020</u>
Total Pension Liability – Ending (a)	<u><u>\$ 3,701,020</u></u>	<u><u>\$ 3,820,104</u></u>
9Plan Fiduciary Net Position		
Contributions – employer	\$ 113,861	\$ 207,989
Contributions – PMRS assessment	420	380
Contributions – employee	40,296	44,773
PMRS investment income	106,970	117,987
Market value investment income	(61,984)	273,720
Benefit payments, including refunds of member contributions	(169,458)	(175,420)
PMRS administrative expense	(340)	(360)
Additional administrative expense	(5,241)	(5,426)
Net Change in Plan Fiduciary Net Position	<u>24,524</u>	<u>463,643</u>
Plan Fiduciary Net Position – Beginning	<u>2,142,955</u>	<u>2,167,479</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 2,167,479</u></u>	<u><u>\$ 2,631,122</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,533,541</u></u>	<u><u>\$ 1,188,982</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	58.56%	68.88%
Estimated Covered Employee Payroll	\$ 510,168	\$ 541,063
Net Pension Liability as a Percentage of Covered Employee Payroll	300.60%	219.75%

SPRINGDALE 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, calculated using the discount rate of 5.5%, 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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability – 12/31/15	\$ 1,963,770	\$ 1,523,711	\$ 1,155,435

In addition the following presents the net pension liability of the borough as of December 31, 2016 and 2017, 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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 1,973,348	\$ 1,533,541	\$ 1,166,511
Net Pension Liability – 12/31/17	\$ 1,642,940	\$ 1,188,982	\$ 810,142



SPRINGDALE 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
2014	\$ 97,559	\$ 97,559	\$ -	\$ 523,939	18.62%
2015	115,517	115,517	-	460,455	25.09%
2016	114,201	114,281	(80)	510,168	22.40%
2017	208,349	208,369	(20)	541,063	38.51%
2018	206,234	206,234	-	*	*

\* Due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

SPRINGDALE 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	\$ 1,870,562	\$ 2,470,081	\$ 599,519	75.7%
01-01-15	2,231,524	3,518,726	1,287,202	63.4%
01-01-17	2,384,512	3,701,020	1,316,508	64.4%

The Actuarial Accrued Liability as of 01-01-17 reflects increases due to changes in actuarial assumptions as well as a change in the assumed interest rate/investment return on municipal assets.

SPRINGDALE 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.

SPRINGDALE 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	Fair value
Remaining amortization period	10 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.

Actuarial assumptions:

Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

SPRINGDALE BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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