

# LIMITED PROCEDURES ENGAGEMENT

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## Lake City Borough Police Pension Plan Erie County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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July 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  
Lake City Borough  
Erie County  
Lake City, PA 16423

We conducted a Limited Procedures Engagement (LPE) of the Lake City Borough Police Pension Plan for the period January 1, 2015 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.
- 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 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 monthly 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 Lake City 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 Lake City 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.

July 11, 2018



EUGENE A. DEPASQUALE  
Auditor General

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LAKE CITY 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, 2008, 2009, 2010, 2011, AND 2012

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Pension Liability					
Service cost	\$ 18,101	\$ 19,654	\$ 22,383	\$ 23,794	\$ 24,253
Interest	32,833	35,161	39,774	43,000	48,958
Difference between expected and actual experience	-	25,272	-	32,746	-
Changes of assumptions	-	-	-	-	-
Benefit payments, including refunds of member contributions	(20,560)	(22,189)	(20,560)	(20,560)	(20,560)
Net Change in Total Pension Liability	30,374	57,898	41,597	78,980	52,651
Total Pension Liability - Beginning	430,805	461,179	519,077	560,674	639,654
Total Pension Liability - Ending (a)	<u>\$ 461,179</u>	<u>\$ 519,077</u>	<u>\$ 560,674</u>	<u>\$ 639,654</u>	<u>\$ 692,305</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ -	\$ 154	\$ -	\$ -	\$ -
Contribution – State Aid	13,029	13,474	16,548	17,694	18,056
Contribution – member	1,382	3,577	-	5,138	5,028
Net investment income	37,976	(140,280)	107,046	71,196	(23,118)
Benefit payments, including refunds of member contributions	(20,560)	(22,189)	(20,560)	(20,560)	(20,560)
Administrative expense	(2,425)	(925)	-	(3,725)	(2,825)
Net Change in Plan Fiduciary Net Position	29,402	(146,189)	103,034	69,743	(23,419)
Plan Fiduciary Net Position - Beginning	570,730	600,132	453,943	556,977	626,720
Plan Fiduciary Net Position - Ending (b)	<u>\$ 600,132</u>	<u>\$ 453,943</u>	<u>\$ 556,977</u>	<u>\$ 626,720</u>	<u>\$ 603,301</u>
Net Pension Liability - Ending (a-b)	<u>\$ (138,953)</u>	<u>\$ 65,134</u>	<u>\$ 3,697</u>	<u>\$ 12,934</u>	<u>\$ 89,004</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	130.13%	87.45%	99.34%	97.98%	87.14%
Estimated Covered Employee Payroll	\$ 126,137	\$ 137,444	\$ 156,522	\$ 166,508	\$ 169,723
Net Pension Liability as a Percentage of Covered Employee Payroll	(110.16%)	47.39%	2.36%	7.77%	52.44%

LAKE CITY BOROUGH POLICE PENSION PLAN  
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SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014, 2015, 2016, AND 2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability					
Service cost	\$ 24,372	\$ 25,908	\$ 29,461	\$ 27,582	\$ 29,425
Interest	52,916	56,281	61,169	66,483	71,601
Difference between expected and actual experience	(13,396)	-	2,661	-	309
Changes of assumptions	-	-	-	-	123,134
Benefit payments, including refunds of member contributions	<u>(20,560)</u>	<u>(20,560)</u>	<u>(20,560)</u>	<u>(20,560)</u>	<u>(33,694)</u>
Net Change in Total Pension Liability	43,332	61,629	72,731	73,505	190,775
Total Pension Liability - Beginning	<u>692,305</u>	<u>735,637</u>	<u>797,266</u>	<u>869,997</u>	<u>943,502</u>
Total Pension Liability - Ending (a)	<u><u>\$ 735,637</u></u>	<u><u>\$ 797,266</u></u>	<u><u>\$ 869,997</u></u>	<u><u>\$ 943,502</u></u>	<u><u>\$ 1,134,277</u></u>
Plan Fiduciary Net Position					
Contributions – employer**	\$ -	\$ -	\$ -	\$ 7,368*	\$ -
Contributions – State Aid	24,490	28,876	28,838	24,266	29,761
Contribution – member	5,489	8,262	10,929	9,943	10,828
Net investment income	80,144	100,394	34,756	(37,092)	66,041
Benefit payments, including refunds of member contributions	(20,560)	(20,560)	(20,560)	(20,560)	(33,694)
Administrative expense	(750)	-	(3,750)	(3,725)	(925)
Net Change in Plan Fiduciary Net Position	<u>88,813</u>	<u>116,972</u>	<u>50,213</u>	<u>(19,800)</u>	<u>72,011</u>
Plan Fiduciary Net Position - Beginning	<u>603,301</u>	<u>692,114</u>	<u>809,086</u>	<u>859,299</u>	<u>839,499</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 692,114</u></u>	<u><u>\$ 809,086</u></u>	<u><u>\$ 859,299</u></u>	<u><u>\$ 839,499</u></u>	<u><u>\$ 911,510</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 43,523</u></u>	<u><u>\$ (11,820)</u></u>	<u><u>\$ 10,698</u></u>	<u><u>\$ 104,003</u></u>	<u><u>\$ 222,767</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.08%	101.48%	98.77%	88.98%	80.36%
Estimated Covered Employee Payroll	\$ 168,429	\$ 179,045	\$ 203,598	\$ 200,200	\$ 197,536
Net Pension Liability as a Percentage of Covered Employee Payroll	25.84%	(6.60%)	5.25%	51.95%	112.77%

\* Forfeiture from 2014 included as employer contribution.

\*\* Employer contributions prior year based on measurement date of January 1.

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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, 2015, 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	\$ 240,821	\$ 104,003	\$ (8,724)

The following presents the net pension liability of the borough as of December 31, 2016, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability	\$ 395,755	\$ 222,767	\$ 82,466

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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
2007	\$ 13,029	\$ 13,029	\$ -	\$ 126,137	10.33%
2008	13,332	13,628	(296)	137,444	9.92%
2009	16,061	16,548	(487)	156,522	10.57%
2010	17,694	17,694	-	166,508	10.63%
2011	18,056	18,056	-	169,723	10.64%
2012	24,490	24,490	-	168,429	14.54%
2013	21,932	28,876	(6,944)	179,045	16.13%
2014	24,257	28,838	(4,581)	203,598	14.16%
2015	24,266	31,634	(7,368)	200,200	15.80%
2016	29,761	29,761	-	197,536	15.07%
2017	23,634	35,598	(11,964)	*	-

\* Due to the timing of this engagement, covered-employee payroll for 2017 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2016	7.84%
2015	(4.27)%
2014	4.26%
2013	14.33%
2012	13.19%
2011	(3.69)%
2010	12.80%
2009	23.69%
2008	(23.49)%
2007	6.70%



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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	\$ 740,741	\$ 735,637	\$ (5,104)	100.7%
01-01-15	861,325	869,997	8,672	99.0%
01-01-17	987,933	1,134,277	146,344	87.1%

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 subject to a corridor between 80 to 120 percent of the market value of assets. 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.

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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.

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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	17 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	3.0% per annum

\* Includes inflation at 3.0%

LAKE CITY BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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**The Honorable Andrew J. Graves**  
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**Ms. Stacy Kibler**  
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