

LIMITED PROCEDURES ENGAGEMENT

City of Corry Non-Uniformed Employees' Pension Plan Erie County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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 City Council
City of Corry
Erie County
Corry, PA 16407

We conducted a Limited Procedures Engagement (LPE) of the City of Corry Non-Uniformed Employees' Pension Plan for the period January 1, 2016 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 municipal officials took appropriate corrective action to address the finding contained in our prior LPE 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 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, 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 City of Corry Non-Uniformed Employees' 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 city 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 the City of Corry and, where appropriate, their responses have been included in this report. We would like to thank city officials for the cooperation extended to us during the conduct of this LPE.

June 14, 2018



EUGENE A. DEPASQUALE
Auditor General

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CITY OF CORRY NON-UNIFORMED EMPLOYEES' PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

The City of Corry has complied with the prior LPE report recommendation concerning the following:

- Pension Benefit Payments Made To Deceased Individual

During the engagement period, city officials reimbursed the pension plan \$4,290 for the improper benefit payments.

CITY OF CORRY NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 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	\$ 107,467	\$ 140,135	\$ 129,792
Interest	437,645	429,723	443,494
Difference between expected and actual experience	-	(354,655)	-
Benefit payments, including refunds of member contributions	(312,101)	(346,013)	(406,896)
Net Change in Total Pension Liability	<u>233,011</u>	<u>(130,810)</u>	<u>166,390</u>
Total Pension Liability - Beginning	5,881,024	6,114,035	5,983,225
Total Pension Liability - Ending (a)	<u>\$ 6,114,035</u>	<u>\$ 5,983,225</u>	<u>\$ 6,149,615</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 42,925	\$ -	\$ -
Contributions – member	74,941	65,566	71,282
Net investment income	406,276	(367,175)	599,677
Benefit payments, including refunds of member contributions	(312,101)	(346,013)	(406,896)
Administrative expense	(22,384)	(21,371)	(26,320)
Net Change in Plan Fiduciary Net Position	<u>189,657</u>	<u>(668,993)</u>	<u>237,743</u>
Plan Fiduciary Net Position - Beginning	7,507,487	7,697,143	7,028,150
Plan Fiduciary Net Position - Ending (b)	<u>\$ 7,697,143</u>	<u>\$ 7,028,150</u>	<u>\$ 7,265,893</u>
Net Pension Liability - Ending (a-b)	<u>\$ (1,583,108)</u>	<u>\$ (1,044,925)</u>	<u>\$ (1,116,278)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	125.9%	117.5%	118.2%
Estimated Covered Employee Payroll	\$ 1,048,583	\$ 1,120,952	\$ 1,137,904
Net Pension Liability as a Percentage of Covered Employee Payroll	(150.9%)	(93.2%)	(98.1%)

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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 city as of December 31, 2015 and 2016, calculated using the discount rate of 7.50%, as well as what the city'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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/15	\$ (444,982)	\$ (1,044,925)	\$ (1,558,262)
Net Pension Liability - 12/31/16	\$ (504,094)	\$ (1,116,278)	\$ (1,640,224)

Note: The discount rate of 7.50% was used in the preparation of the city's December 31, 2015 and 2016 GASB 67 schedules. This rate differs from the 7.25% reported in the Notes to Supplementary Schedules on page 7 of this report.

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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
2008	\$ -	\$ -	\$ -	\$ 1,073,158	
2009	-	-	-		
2010	-	24,139	(24,139)	1,096,435	2.2%
2011	112,283	112,283	-		
2012	114,369	114,369	-	1,106,305	10.3%
2013	41,709	41,709	-		
2014	42,925	42,925	-	1,048,853	4.1%
2015	-	-	-	1,120,952	N/A
2016	-	-	-	1,137,904	N/A
2017	-	-	-		

* 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 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	8.70%
2015	(4.86%)
2014	5.49%
2013	19.92%

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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	\$ 6,332,999	\$ 5,639,051	\$ (693,948)	112.3%
01-01-15	7,324,640	5,759,380	(1,565,260)	127.2%
01-01-17	7,705,095	6,243,563	(1,461,532)	123.4%

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 4-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.

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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.

CITY OF CORRY NON-UNIFORMED EMPLOYEES' 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair 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%

CITY OF CORRY NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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City Manager

Ms. Joanne M. Smith
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Ms. Diane L. Cowles
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