

COMPLIANCE AUDIT

Ligonier Borough Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2015 to February 7, 2019

June 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Ligonier Borough
Westmoreland County
Ligonier, PA 15658

We have conducted a compliance audit of the former Ligonier Borough Police Pension Plan for the period January 1, 2015 to February 7, 2019. 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 former 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 former 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 the lone plan member who elected to vest during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined 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.

Ligonier Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016 and 2017, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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

Effective October 15, 2018, Ligonier Borough entered into a Charter Agreement with Ligonier Township to create the Ligonier Valley Police Department and subsequently, on February 7, 2019, transferred a majority of its former police pension plan assets, along with the related pension liabilities of its former plan members, to the newly established Ligonier Valley Police Department Police Pension Plan. In addition, on March 5, 2019, the remaining residual plan account balance was also transferred to this newly consolidated plan. As a result, this report represents the final audit performed for this former pension plan.

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

June 14, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Report Distribution List	10

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 Ligonier Borough Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Ligonier Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 534, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1963. Active members are required to contribute 5 percent of wages to the plan; however, member contributions were reduced to 2.75 percent of wages during the years 2015 and 2016. As of December 31, 2018, the plan had 2 active members, 1 terminated member eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

Effective October 15, 2018, Ligonier Borough entered into a Charter Agreement with Ligonier Township to create the Ligonier Valley Police Department. Article XII of the Charter Agreement mandated that both municipalities transfer its existing pension funds into the Consolidated Police Pension Plan adopted pursuant to Act 600. On February 7, 2019, the borough transferred a majority of the former police pension plan's assets, along with the related pension liabilities, to the newly established Ligonier Valley Police Department Police Pension Plan. Additionally, on March 5, 2019, the remaining residual account balance of the former police pension plan was also transferred to this newly consolidated plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service.
Early Retirement	None
Vesting	100% vesting after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

LIGONIER BOROUGH POLICE 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	\$ 17,242	\$ 16,972
Interest	38,520	41,126
Difference between expected and actual experience	-	6,528
Benefit payments, including refunds of member contributions	(26,571)	(22,961)
Net Change in Total Pension Liability	<u>29,191</u>	<u>41,665</u>
Total Pension Liability – Beginning	546,107	575,298
Total Pension Liability – Ending (a)	<u><u>\$ 575,298</u></u>	<u><u>\$ 616,963</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 34,077	\$ 34,517
Contributions – employee	2,679	2,618
Net investment income	29,758	2,938
Benefit payments, including refunds of member contributions	(26,571)	(22,961)
Administrative expense	(9,773)	(9,406)
Net Change in Plan Fiduciary Net Position	<u>30,170</u>	<u>7,706</u>
Plan Fiduciary Net Position – Beginning	486,150	516,320
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 516,320</u></u>	<u><u>\$ 524,026</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 58,978</u></u>	<u><u>\$ 92,937</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.7%	84.9%
Estimated Covered Employee Payroll	\$ 97,409	\$ 95,207
Net Pension Liability as a Percentage of Covered Employee Payroll	60.5%	97.6%

LIGONIER BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 17,821	\$ 20,597	\$ 21,524
Interest	43,502	38,315	40,371
Difference between expected and actual experience	-	(118,300)	-
Changes of assumptions	-	50,412	-
Benefit payments, including refunds of member contributions	(27,116)	(29,285)	(27,116)
Net Change in Total Pension Liability	34,207	(38,261)	34,779
Total Pension Liability – Beginning	616,963	651,170	612,909
Total Pension Liability – Ending (a)	<u>\$ 651,170</u>	<u>\$ 612,909</u>	<u>\$ 647,688</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 34,166	\$ 31,270	\$ 19,928
Contributions – employee	2,791	5,468	5,006
Net investment income	27,687	70,476	(24,388)
Benefit payments, including refunds of member contributions	(27,116)	(29,285)	(27,116)
Administrative expense	(7,189)	(13,684)	(7,572)
Net Change in Plan Fiduciary Net Position	30,339	64,245	(34,142)
Plan Fiduciary Net Position – Beginning	524,026	554,365	618,610
Plan Fiduciary Net Position – Ending (b)	<u>\$ 554,365</u>	<u>\$ 618,610</u>	<u>\$ 584,468</u>
Net Pension Liability – Ending (a-b)	<u>\$ 96,805</u>	<u>\$ (5,701)</u>	<u>\$ 63,220</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.1%	100.9%	90.2%
Estimated Covered Employee Payroll	\$ 92,483	\$ 97,839	\$ 100,029
Net Pension Liability as a Percentage of Covered Employee Payroll	104.7%	(5.8%)	63.2%

LIGONIER BOROUGH POLICE 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 township as of December 31, 2015 and 2016, calculated using the discount rate of 7.0%, as well as what the township'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 – 12/31/15	\$ 160,896	\$ 92,937	\$ 34,998
Net Pension Liability – 12/31/16	\$ 167,087	\$ 96,806	\$ 36,848

In addition, the following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 6.5%, as well as what the township'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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability – 12/31/17	\$ 72,751	\$ (5,701)	\$ (71,336)
Net Pension Liability – 12/31/18	\$ 145,690	\$ 63,220	\$ (5,764)

LIGONIER BOROUGH POLICE 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	\$ 22,467	\$ 22,467	\$ -	-	
2010	24,727	24,727	-	\$ 129,906	19.0%
2011	31,149	31,487	(338)	-	
2012	35,203	35,203	-	94,444	37.3%
2013	34,213	34,213	-	-	
2014	34,077	34,077	-	97,409	35.0%
2015	34,517	34,517	-	95,207	36.3%
2016	34,166	34,166	-	92,483	36.9%
2017	31,270	31,270	-	97,839	32.0%
2018	19,928	19,928	-	100,029	19.9%

* 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.

For 2011, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.02%)
2017	13.01%
2016	5.37%
2015	0.58%
2014	6.31%

LIGONIER 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	\$ 416,634	\$ 519,646	\$ 103,012	80.2%
01-01-15	501,281	581,826	80,545	86.2%
01-01-17	577,996	583,282	5,286	99.1%

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 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.

As noted earlier in this report, Ligonier Borough consolidated police departments with Ligonier Township forming the Ligonier Valley Police Department and transferred its former police pension plan assets, along with the related pension liabilities to the newly consolidated police pension plan during 2019.

LIGONIER BOROUGH POLICE 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.

LIGONIER 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, closed.
Remaining amortization period	1 year
Asset valuation method	4-year smoothing.
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases *	4.5%

* Includes inflation at 2.75%

LIGONIER 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 Ormond K. Bellas
Mayor

Mr. James B. St. Clair
Council President

Mr. Matthew S. Smith
Vice-President

Ms. Judy A. Hoffer
Councilwoman

Mr. James W. McDonnell
Councilman

Ms. Mariah Fisher
Councilwoman

Mr. Jeff Craig
Councilman

Mr. Terry M. Murphy
Councilman

Ms. Janette M. Shaw
Secretary/Treasurer

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.