

LIMITED PROCEDURES ENGAGEMENT

Patton Borough Police Pension Plan Cambria County, Pennsylvania For the Period January 1, 2014 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 Borough Council
Patton Borough
Cambria County
Patton, PA 16668

We conducted a Limited Procedures Engagement (LPE) of the Patton Borough Police Pension Plan for the period January 1, 2014 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 findings 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 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 the retired individual and comparing this amount to supporting documentation evidencing amounts determined and actually paid to recipient.
- 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 Patton 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 went from 91.1% as of January 1, 2013, to a ratio is 60.7% 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 Patton 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 10, 2018



EUGENE A. DEPASQUALE
Auditor General

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PATTON BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Patton Borough has complied with the prior audit recommendations concerning the following:

- Pension Benefits In Excess of Act 581; and
- Plan's Governing Document Fails To Contain A Service-Related Disability Benefit Provision

The borough amended and restated the pension plan via Ordinance No. 2017-12-02, effective January 1, 2017. This ordinance adopted a separately executed pension plan joinder agreement with the plan's custodian that authorized the plan to operate pursuant to 600. As such, the pension benefits provided for under the new joinder agreement are consistent with Act 600.

PATTON BOROUGH POLICE 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 19,211	\$ 19,585
Interest	17,774	19,350
Difference between expected and actual experience	-	(19,190)
Changes of assumptions	-	8,098
Net Change in Total Pension Liability	<u>36,985</u>	<u>27,843</u>
Total Pension Liability - Beginning	<u>277,017</u>	<u>314,002</u>
Total Pension Liability - Ending (a)	<u>\$ 314,002</u>	<u>\$ 341,845</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 9,300	\$ 9,768
Contributions – state aid	15,491	15,683
Net investment income	15,887	(2,248)
Administrative expense	(3,095)	(5,412)
Net Change in Plan Fiduciary Net Position	<u>37,583</u>	<u>17,791</u>
Plan Fiduciary Net Position - Beginning	<u>255,357</u>	<u>292,940</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 292,940</u>	<u>\$ 310,731</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 21,062</u>	<u>\$ 31,114</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.3%	90.9%
 Estimated Covered Employee Payroll	\$ 95,646	\$ 99,170
 Net Pension Liability as a Percentage of Covered Employee Payroll	22.0%	31.4%

PATTON 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 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 20,564	\$ 29,807
Interest	21,745	35,531
Change of benefit terms	-	122,790
Difference between expected and actual experience	-	54,403
Changes of assumptions	-	1,021
Net Change in Total Pension Liability	<u>42,309</u>	<u>243,552</u>
Total Pension Liability – Beginning	<u>341,845</u>	<u>384,154</u>
Total Pension Liability - Ending (a)	<u><u>\$ 384,154</u></u>	<u><u>\$ 627,706</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 7,873	\$ 9,933
Contributions – state aid	17,499	18,353
Net investment income	14,290	45,539
Administrative expense	(8,905)	(7,894)
Net Change in Plan Fiduciary Net Position	<u>30,757</u>	<u>65,931</u>
Plan Fiduciary Net Position - Beginning	<u>310,731</u>	<u>341,488</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 341,488</u></u>	<u><u>\$ 407,419</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 42,666</u></u>	<u><u>\$ 220,287</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.9%	64.9%
Estimated Covered Employee Payroll	\$ 98,750	\$ 117,190
Net Pension Liability as a Percentage of Covered Employee Payroll	43.2%	188.0%

PATTON 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 borough as of December 31, 2014, 2015, 2016 and 2017, calculated using the then discount rate of 6.0%, 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 (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability - 12/31/14	\$ 72,824	\$ 21,062	\$ (22,305)
Net Pension Liability - 12/31/15	\$ 86,786	\$ 31,114	\$ (15,432)
Net Pension Liability - 12/31/16	\$ 103,249	\$ 42,666	\$ (8,091)
Net Pension Liability - 12/31/17	\$ 314,582	\$ 220,287	\$ 143,010

The discount rate of 6.0% was used in the preparation of the borough's December 31, 2014, 2015, 2016 and 2017 GASB 67 reports. This rate differs from the 7.0% reported in the Notes to Supplementary Schedules on page 8 of this report.

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.34%
2016	4.51%
2015	(0.70%)
2014	6.16%

PATTON 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	\$ 221,499	\$ 243,041	\$ 21,542	91.1%
01-01-15	292,940	302,910	9,970	96.7%
01-01-17	341,488	562,368	220,880	60.7%

The Actuarial Accrued Liability as of 01-01-17 reflects changes to the benefit structure under the plan including: retirement age (from 55 & 25 years to 50 & 25 years), annuity form change (from 10-year certain & life to joint and 50% survivor, addition of an Act 24 early retirement benefit and a change in averaging period (from 60 months to 36 months) used in determining monthly pension benefits.

PATTON 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.

PATTON BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 3,589	100.0%
2013	5,689	100.0%
2014	24,791	100.0%
2015	25,451	100.0%
2016	25,372	100.0%
2017	28,286	100.0%

PATTON 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	10 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	5.0%

PATTON 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 Jonathan Welchko
Mayor

Mr. Donald Kirk
Council President

Ms. Donna M. Dunegan
Secretary

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.