

LIMITED PROCEDURES ENGAGEMENT

Stewartstown Borough Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

September 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
Stewartstown Borough
York County
Stewartstown, PA 17363

We conducted a Limited Procedures Engagement (LPE) of the Stewartstown Borough Non-Uniformed 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 benefits 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 Stewartstown 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.

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

September 10, 2018



EUGENE A. DEPASQUALE
Auditor General

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STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

· Failure To Properly Fund Members' Accounts

During the current engagement period, the borough made the necessary adjustments to members' accounts to correct the errors disclosed in the prior report.

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

The supplementary information contained on Pages 2 and 3 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	\$ 24,644	\$ 25,422	\$ 25,653
Interest	47,338	52,181	55,836
Difference between expected and actual experience	24,060	(1,980)	(30,806)
Changes of assumptions	-	1,233	3,062
Benefit payments, including refunds of member contributions	(13,374)	(13,374)	(13,374)
Net Change in Total Pension Liability	82,668	63,482	40,371
Total Pension Liability – Beginning	866,036	948,704	1,012,186
Total Pension Liability - Ending (a)	<u>\$ 948,704</u>	<u>\$ 1,012,186</u>	<u>\$ 1,052,557</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 16,049	\$ 7,336	\$ 39,672
Contributions – PMRS assessment	-	300	300
PMRS investment income	47,414	51,980	55,561
Market value investment income	27,440	(56,434)	(13,752)
Transfers *	-	16,222	-
Benefit payment, including refunds of member contributions	(13,374)	(13,374)	(13,374)
PMRS administrative expense	(320)	(300)	(300)
Additional administrative expense	(1,818)	(2,167)	(2,722)
Net Change in Plan Fiduciary Net Position	75,391	3,563	65,385
Plan Fiduciary Net Position – Beginning	855,964	931,355	934,918
Plan Fiduciary Net Position - Ending (b)	<u>\$ 931,355</u>	<u>\$ 934,918</u>	<u>\$ 1,000,303</u>
Net Pension Liability - Ending (a-b)	<u>\$ 17,349</u>	<u>\$ 77,268</u>	<u>\$ 52,254</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.17%	92.37%	95.04%
Estimated Covered Employee Payroll	\$ 246,443	\$ 254,244	\$ 256,529
Net Pension Liability as a Percentage of Covered Employee Payroll	7.04%	30.39%	20.37%

* 2014 employer contributions include (\$8,915) transferred from the Municipal Reserve Account for Municipal for Member contributions. 2015 employer contributions and transfers include (\$9,286) transferred from the Municipal Reserve Account for Municipal for Member contributions and \$7,422 deposited into the Municipal Reserve Account. 2016 employer contributions include \$14,019 deposited into the Municipal Reserve Account.

STEWARTSTOWN 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, 2014 and 2015 calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 190,708	\$ 17,349	\$ (152,653)
Net Pension Liability - 12/31/15	\$ 263,212	\$ 77,268	\$ (105,429)

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

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 245,647	\$ 52,254	\$ (139,360)

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 15,726	\$ 17,355
2013	13,861	None
2014	16,049	1,266
2015	23,525	2,197
2016	25,953	None
2017	25,703	231

Note: In 2012, the borough met the plan's \$38,832 funding requirement through the deposit of \$15,726 in state aid, \$17,355 in employer contributions and \$5,751 in terminated employee forfeitures. In 2013, the borough met the plan's \$29,243 funding requirement through the deposit of \$13,861 in state aid and \$15,382 in terminated employee forfeitures. In 2014, the borough met the plan's \$24,964 funding requirement through the deposit of \$16,049 in state aid, \$1,266 in employer contributions and \$7,649 in terminated employee forfeitures.

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Robert Herzberger
Mayor

Mr. Gordon Wisnom, Jr.
Council President

Ms. Stacy Myers
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.