

LIMITED PROCEDURES ENGAGEMENT

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

February 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
Hughestown Borough
Luzerne County
Hughestown, PA 18640

We conducted a Limited Procedures Engagement (LPE) of the Hughestown 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 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 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 Hughestown 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 Hughestown 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.

February 13, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Supplementary Information	1
Summary of Deposited State Aid and Employer Contributions	4
Report Distribution List	5

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

The supplementary information contained on Pages 1 through 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 1,128	\$ 1,189
Interest	2,148	2,140
Change of benefit terms	-	-
Difference between expected and actual experience	3,955	3,407
Changes of assumptions	-	385
Benefit payments, including refunds of member contributions	<u>(7,817)</u>	<u>(7,059)</u>
Net Change in Total Pension Liability	(586)	62
Total Pension Liability – Beginning	<u>42,567</u>	<u>41,981</u>
Total Pension Liability – Ending (a)	<u>\$ 41,981</u>	<u>\$ 42,043</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,188	\$ 1,202
Contributions – PMRS assessment	-	60
Net investment income	2,094	2,097
Market value investment income	3,808	1,245
Benefit payments, including refunds of member contributions	(7,817)	(7,059)
Administrative expense	(60)	(60)
Additional administrative expense	<u>(80)</u>	<u>(87)</u>
Net Change in Plan Fiduciary Net Position	(867)	(2,602)
Plan Fiduciary Net Position – Beginning	<u>41,396</u>	<u>40,529</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 40,529</u>	<u>\$ 37,927</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,452</u>	<u>\$ 4,116</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.54%	90.21%
Estimated Covered Employee Payroll	\$ 22,560	\$ 23,778
Net Pension Liability as a Percentage of Covered Employee Payroll	6.44%	17.31%

HUGHESTOWN BOROUGH NON-UNIFORMED 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	\$ 1,235	\$ 1,186
Interest	2,145	1,706
Change of benefit terms	-	-
Difference between expected and actual experience	(3,174)	-
Changes of assumptions	415	-
Benefit payments, including refunds of member contributions	(7,059)	(7,059)
Net Change in Total Pension Liability	(6,438)	(4,167)
Total Pension Liability – Beginning	42,043	35,605
Total Pension Liability – Ending (a)	<u>\$ 35,605</u>	<u>\$ 31,438</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,235	\$ 1,186
Contributions – PMRS assessment	60	60
Net investment income	2,085	1,634
Market value investment income	(1,638)	3,895
Benefit payments, including refunds of member contributions	(7,059)	(7,059)
Administrative expense	(60)	(60)
Additional administrative expense	(102)	(75)
Net Change in Plan Fiduciary Net Position	(5,479)	(419)
Plan Fiduciary Net Position – Beginning	37,927	32,448
Plan Fiduciary Net Position – Ending (b)	<u>\$ 32,448</u>	<u>\$ 32,029</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,157</u>	<u>\$ (591)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.13%	101.88%
Estimated Covered Employee Payroll	\$ 24,695	\$ 23,710
Net Pension Liability as a Percentage of Covered Employee Payroll	12.78%	(2.49%)

HUGHESTOWN 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:

	1% Decrease 4.50%	Current Discount Rate 5.50%	1% Increase 6.50%
Net Pension Liability – 12/31/14	\$ 3,938	\$ 1,452	\$ (730)
Net Pension Liability – 12/31/15	\$ 6,762	\$ 4,116	\$ 1,762

In addition, the following presents the net pension liability of the borough as of December 31, 2016 and 2017, 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:

	1% Decrease 4.25%	Current Discount Rate 5.25%	1% Increase 6.25%
Net Pension Liability – 12/31/16	\$ 5,768	\$ 3,157	\$ 826
Net Pension Liability – 12/31/17	\$ 1,977	\$ (591)	\$ (2,929)

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

Year Ended December 31	State Aid	Employer Contributions
2012	None	\$ 1,368
2013	None	1,210
2014	None	1,188
2015	\$ 1,128	134
2016	1,189	106
2017	1,235	11

HUGHESTOWN 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 Wayne Quick, Jr.
Mayor

Mr. Robert Gable
Council President

Ms. Angela Acierno
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.