

COMPLIANCE AUDIT

State College Borough General Government Employees Pension Plan Centre County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

December 2019



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
State College Borough
Centre County
State College, PA 16801

We have conducted a compliance audit of the State College Borough General Government Employees Pension Plan for the period January 1, 2017 to December 31, 2018. 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 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 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 3 of the 9 plan members¹ who retired during the current audit period, and through the completion of our fieldwork procedures, 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. We also determined whether retirement benefits calculated for 4 of the 7 plan members² who elected to vest during the current audit period, and through the completion of our fieldwork procedures, 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 pension benefit due to retired individuals and comparing these amounts to supporting
- We determined whether the January 1, 2017 actuarial valuation report was prepared and submitted in accordance with Act 205 and whether selected information provided on this report 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.

State College Borough contracted with an independent certified public accounting firm for annual audits of basic financial statements 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 State College Borough General Government Employees 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

¹ We selected plan members randomly in order to obtain a representative selection of plan members who retired during the current audit period. While the results of representative selections may be projected to their respective population, the characteristics present in the population may differ from the characteristics of the items selected.

² We selected plan members randomly in order to obtain a representative selection of plan members who elected to vest during the sub to the current audit period. While the results of representative selections may be projected to their respective population, the characteristics present in the population may differ from the characteristics of the item selected.

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 State College Borough General Government Employees 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.

The contents of this report were discussed with officials of State College 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.

November 21, 2019



EUGENE A. DEPASQUALE
Auditor General

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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 State College Borough General Government Employees 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The State College Borough General Government Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1925, as amended, for non-uniformed employees hired prior to January 1, 2011. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established November 1, 1955. Active members are required to contribute 4 percent of compensation to the plan. As of December 31, 2018 the plan had 94 active members, 50 terminated members eligible for vested benefits in the future, and 93 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 62 and 5 years of service.
Early Retirement	Age 55 and 5 years of service, or 35 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

Benefit equals 2% of average monthly compensation based on highest 3 consecutive years, times years of service; up to a maximum of 70% of average monthly compensation.

Survivor Benefit:

Before Retirement Eligibility	50% of the actuarially reduced accrued benefit if vested and married for one year. If not, 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:

If qualified for Social Security disability, a benefit accrued to the date of disability.

STATE COLLEGE BOROUGH GENERAL GOVERNMENT EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 837,893	\$ 818,874	\$ 859,817	\$ 668,350	\$ 701,768
Interest	2,562,160	2,627,863	2,780,536	2,892,010	3,030,962
Difference between expected and actual experience	-	(1,052,012)	-	(1,590,970)	-
Changes of assumptions	-	-	-	1,273,290	-
Benefit payments, including refunds of member contributions *	<u>(1,500,106)</u>	<u>(1,515,355)</u>	<u>(1,660,663)</u>	<u>(1,795,254)</u>	<u>(1,957,808)</u>
Net Change in Total Pension Liability	1,899,947	879,370	1,979,690	1,447,426	1,774,922
Total Pension Liability – Beginning	<u>31,939,151</u>	<u>33,839,098</u>	<u>34,718,468</u>	<u>36,698,158</u>	<u>38,145,584</u>
Total Pension Liability – Ending (a)	<u>\$ 33,839,098</u>	<u>\$ 34,718,468</u>	<u>\$ 36,698,158</u>	<u>\$ 38,145,584</u>	<u>\$ 39,920,506</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 1,171,908	\$ 1,567,066	\$ 1,496,900	\$ 1,423,246	\$ 1,384,923
Contributions – member	320,318	290,355	278,916	252,184	266,831
Net investment income	1,646,500	(125,621)	1,939,821	4,282,944	(1,690,810)
Benefit payments, including refunds of member contributions **	(1,505,485)	(1,515,123)	(1,660,663)	(1,795,254)	(1,957,808)
Administrative expense	<u>(16,290)</u>	<u>(35,300)</u>	<u>(33,605)</u>	<u>(37,958)</u>	<u>(42,886)</u>
Net Change in Plan Fiduciary Net Position	1,616,951	181,377	2,021,369	4,125,162	(2,039,750)
Plan Fiduciary Net Position – Beginning	<u>25,347,248</u>	<u>26,964,199</u>	<u>27,145,576</u>	<u>29,166,945</u>	<u>33,292,107</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 26,964,199</u>	<u>\$ 27,145,576</u>	<u>\$ 29,166,945</u>	<u>\$ 33,292,107</u>	<u>\$ 31,252,357</u>
Net Pension Liability – Ending (a-b)	<u>\$ 6,874,899</u>	<u>\$ 7,572,892</u>	<u>\$ 7,531,213</u>	<u>\$ 4,853,477</u>	<u>\$ 8,668,149</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.68%	78.19%	79.48%	87.28%	78.29%
Estimated Covered Employee Payroll	\$ 7,469,469	\$ 7,233,702	\$ 6,573,000	\$ 6,291,266	\$ 6,218,703
Net Pension Liability as a Percentage of Covered Employee Payroll	92.04%	104.69%	114.58%	77.15%	139.39%

Note: Benefit payment amounts determined by *actuary/**Borough

STATE COLLEGE BOROUGH GENERAL GOVERNMENT 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 borough as of December 31, 2014, 2015, 2016, 2017 and 2018, calculated using the discount rate of 8.0%, 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:

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Net Pension Liability – 12/31/14	\$ 10,661,518	\$ 6,874,899	\$ 3,648,979
Net Pension Liability – 12/31/15	\$ 11,430,902	\$ 7,572,892	\$ 4,274,119
Net Pension Liability – 12/31/16	\$ 11,529,172	\$ 7,531,213	\$ 4,110,209
Net Pension Liability – 12/31/17	\$ 9,009,929	\$ 4,853,477	\$ 1,257,136
Net Pension Liability – 12/31/18	\$ 12,923,277	\$ 8,668,149	\$ 5,028,669

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 1,171,908*	\$ 1,171,908*	\$ 7,469,469	15.69%
2015	1,567,066	1,567,066	7,233,702	21.66%
2016	1,496,900	1,496,900	6,573,000	22.77%
2017	1,423,246	1,423,246	6,291,266	22.62%
2018	1,384,923	1,384,923	6,218,703	22.27%

* Amount previously reported as \$1,171,135 by the municipality.

STATE COLLEGE BOROUGH GENERAL GOVERNMENT EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.10%)
2017	14.23%
2016	7.17%
2015	(0.54%)
2014	6.58%

STATE COLLEGE BOROUGH GENERAL GOVERNMENT 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	\$ 21,525,774	\$ 29,992,420	\$ 8,466,646	71.8%
01-01-15	26,961,286	32,787,086	5,825,800	82.2%
01-01-17	29,165,842	36,380,478	7,214,636	80.2%

STATE COLLEGE BOROUGH GENERAL GOVERNMENT 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.

STATE COLLEGE BOROUGH GENERAL GOVERNMENT 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	Level dollar, closed
Remaining amortization period	9 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

STATE COLLEGE BOROUGH GENERAL GOVERNMENT EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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