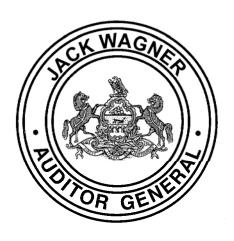
PENNDEL BOROUGH POLICE PENSION PLAN BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



PENNDEL BOROUGH POLICE PENSION PLAN BUCKS COUNTY

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BACKGROUND

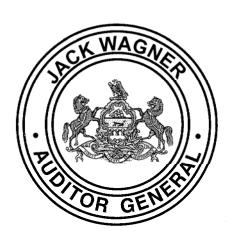
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Penndel Borough Police Pension Plan is also governed by implementing regulations adopted by the 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 147 Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 600 Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Penndel Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 2003-3, adopted pursuant to Act 600.



The Honorable Mayor and Borough Council Penndel Borough Bucks County Penndel, PA 19047

We have conducted a compliance audit of the Penndel Borough Police Pension Plan for the period January 1, 2006, to December 31, 2007. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

- 1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
- 2. 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 objectives identified above. Penndel Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 an internal control structure to provide reasonable assurance that the Penndel Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Penndel Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 64 Resulting In An Overpayment Of Reimbursement For The 2002 Special Ad Hoc Postretirement Adjustment

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Penndel Borough and, where appropriate, their responses have been included in the report.

October 17, 2008

JACK WAGNER Auditor General

PENNDEL BOROUGH POLICE PENSION PLAN STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The borough has complied with the prior audit recommendations concerning the following:

· Failure To Adopt Benefit Provisions Mandated By Act 30

The borough adopted Ordinance 2003-5, which brought the police pension plan's benefit structure into compliance with Act 600, as amended by Act 30; and

Unauthorized Termination Of 2002 Special Ad Hoc Postretirement Adjustment

The borough resumed the payment of the 2002 special ad hoc postretirement adjustment due to the retiree in accordance with Act 147.

PENNDEL BOROUGH POLICE PENSION PLAN FINDING AND RECOMMENDATION

<u>Finding – Incorrect Data On Certification Form AG 64 Resulting In An Overpayment Of</u> Reimbursement For The 2002 Special Ad Hoc Postretirement Adjustment

<u>Condition</u>: The borough overstated the total non-employee contributions made to all pension plans on the Certification Forms AG 64 filed for 2006 and 2007.

<u>Criteria</u>: Section 502.1(a)(2) of Act 147 states, in part:

The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension plan under Chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year.

<u>Cause</u>: Plan officials failed to comply with the instructions that accompany Certification Form AG 64.

<u>Effect</u>: The data submitted on this certification form is used to calculate the reimbursement due the borough for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147. The effect of the incorrect certification of data on the borough's reimbursements is identified below:

Year	bursement laimed	Rei	mbursement Due	Excess bursement
2006	\$ 331	\$	221	\$ 110
2007	\$ 341	\$	245	 96
			Total	\$ 206

PENNDEL BOROUGH POLICE PENSION PLAN FINDING AND RECOMMENDATION

<u>Finding – (Continued)</u>

Recommendation: We recommend that the total excess reimbursement, in the amount of \$206, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data.

Management's Response: Municipal officials agreed with the finding without exception.

PENNDEL 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
						Unfunded
			Unfunded			(Assets in
		Actuarial	(Assets in			Excess of)
		Accrued	Excess of)			Actuarial
	Actuarial	Liability	Actuarial			Accrued
Actuarial	Value of	(AAL) -	Accrued	Funded	Covered	Liability as a %
Valuation	Assets	Entry Age	Liability	Ratio	Payroll	of Payroll
Date	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b-a)/(c)]
01-01-03	\$ 231,408	\$ 272,386	\$ 40,978	85.0%	\$ 43,974	93.2%
01-01-05	245,977	282,072	36,095	87.2%	43,660	82.7%
01-01-07	258,380	298,467	40,087	86.6%	46,217	86.7%

The amounts in the above table have been adjusted, as appropriate, for insurance/annuity contracts maintained preretirement to fund a portion of the benefits provided by the pension plan at retirement.

PENNDEL 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

PENNDEL 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
2002	None	N/A
2003	None	N/A
2004	None	N/A
2005	\$ 7,958	100.0%
2006	10,136	100.0%
2007	10,226	100.0%

PENNDEL BOROUGH POLICE PENSION PLAN SUPPLEMENTARY INFORMATION NOTES TO SUPPLEMENTARY SCHEDULES (UNAUDITED)

The information presented in the required 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, 2007

Actuarial cost method Entry age normal

Amortization method Level dollar

Remaining amortization period 6 years

Asset valuation method Fair value

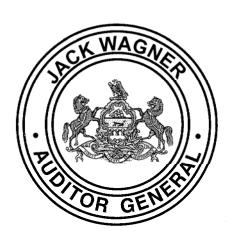
Actuarial assumptions:

Investment rate of return * 8.0%

Projected salary increases * 5.0%

* Includes inflation at Not disclosed

Cost-of-living adjustments None assumed



PENNDEL BOROUGH POLICE PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell Governor Commonwealth of Pennsylvania

Penndel Borough Police Pension Plan Bucks County 300 Bellevue Avenue Penndel, PA 19047

The Honorable Michael Sodano Mayor

Mr. Ward McMasters Council President

Ms. Marie Serota Secretary/Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.