

LIMITED PROCEDURES ENGAGEMENT

Springdale Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

October 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
Springdale Borough
Allegheny County
Springdale, PA 15144

We conducted a Limited Procedures Engagement (LPE) of the Springdale Borough Police Pension Plan for the period January 1, 2016 to December 31, 2018 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.
- 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Springdale 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.

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

October 2, 2019



EUGENE A. DEPASQUALE
Auditor General

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SPRINGDALE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Report Recommendation

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

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

On March 31, 2017, the borough reimbursed the Commonwealth \$22,256 for the overpayment of state aid received in 2014 and complied with the instructions that accompanied Certification Form AG 385s and accurately reported the required data.

SPRINGDALE 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 78,430	\$ 82,352
Interest	37,553	42,388
Benefit payments, including refunds of member contributions	(40,476)	(31,014)
Net Change in Total Pension Liability	<u>75,507</u>	<u>93,726</u>
Total Pension Liability – Beginning	594,623	670,130
Total Pension Liability – Ending (a)	<u>\$ 670,130</u>	<u>\$ 763,856</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 85,211	\$ 57,566
Contributions – member	15,201	11,609
Net investment income	6,365	37,568
Benefit payments, including refunds of member contributions	(40,476)	(31,014)
Administrative expense	(2,452)	(3,599)
Net Change in Plan Fiduciary Net Position	<u>63,849</u>	<u>72,130</u>
Plan Fiduciary Net Position – Beginning	624,755	688,604
Plan Fiduciary Net Position – Ending (b)	<u>\$ 688,604</u>	<u>\$ 760,734</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (18,474)</u>	<u>\$ 3,122</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	102.8%	99.6%
 Estimated Covered Employee Payroll	\$ 229,865	\$ 232,167
 Net Pension Liability as a Percentage of Covered Employee Payroll	(8.0%)	1.3%

SPRINGDALE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017, AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 64,356	\$ 67,574
Interest	42,460	47,019
Difference between expected and actual experience	(77,405)	-
Changes of assumptions	2,796	-
Benefit payments, including refunds of member contributions	(30,754)	(30,742)
Net Change in Total Pension Liability	<u>1,453</u>	<u>83,851</u>
Total Pension Liability – Beginning	<u>763,856</u>	<u>765,309</u>
Total Pension Liability – Ending (a)	<u>\$ 765,309</u>	<u>\$ 849,160</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 53,110	\$ 48,404
Contributions – member	11,994	13,727
Net investment income	68,561	(7,529)
Benefit payments, including refunds of member contributions	(30,754)	(30,742)
Administrative expense	(4,022)	(4,447)
Net Change in Plan Fiduciary Net Position	<u>98,889</u>	<u>19,413</u>
Plan Fiduciary Net Position – Beginning	<u>760,734</u>	<u>859,623</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 859,623</u>	<u>\$ 879,036</u>
Net Pension Liability – Ending (a-b)	<u>\$ (94,314)</u>	<u>\$ (29,876)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	112.3%	103.5%
Estimated Covered Employee Payroll	\$ 239,685	\$ 312,460
Net Pension Liability as a Percentage of Covered Employee Payroll	(39.3%)	(9.6%)

SPRINGDALE 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, 2016, 2017, and 2018 calculated using the discount rate of 5.75%, 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 (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Net Pension Liability – 12/31/16	\$ 131,804	\$ 3,122	\$ (100,563)
Net Pension Liability – 12/31/17	\$ 38,003	\$ (94,314)	\$ (199,940)
Net Pension Liability – 12/13/18	\$ 119,705	\$ (29,876)	\$ (149,321)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(0.87%)
2017	9.03%
2016	5.37%

SPRINGDALE 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	\$ 479,357	\$ 630,234	\$ 150,877	76.1%
01-01-15	624,755	594,623	(30,132)	105.1%
01-01-17	760,734	689,247	(71,487)	110.4%

SPRINGDALE 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.

SPRINGDALE 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
2013	\$ 40,381	100.0%
2014	74,592	100.0%
2015	85,211	100.0%
2016	57,566	100.00%
2017	53,110	100.0%
2018	48,404	100.0%

SPRINGDALE 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	5.75% net of investment expenses not funded through the MMO, and including inflation
Projected salary increases *	5.0% including inflation

* Includes inflation at 2.75%

SPRINGDALE 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 Joseph Bertoline
Mayor

Mr. James R. Zurisko
Council President

Ms. Eileen Miller
Council Vice-President

Ms. Kimberly McAfoose
Borough Manager

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