

LIMITED PROCEDURES ENGAGEMENT

Walnutport Borough Police Pension Plan

Northampton County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2019

April 2020



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
Walnutport Borough
Northampton County
Walnutport, PA 18088

We conducted a Limited Procedures Engagement (LPE) of the Walnutport Borough Police Pension Plan for the period January 1, 2016 to December 31, 2019 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.
- 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, January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018 and 2020, 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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

April 1, 2020



EUGENE A. DEPASQUALE
Auditor General

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WALNUTPORT BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 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, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 14,138	\$ 23,191	\$ 24,351
Interest	84,132	91,231	97,122
Difference between expected and actual experience	-	3,270	-
Changes of assumptions	-	22,018	-
Benefit payments, including refunds of member contributions	<u>(30,964)</u>	<u>(31,428)</u>	<u>(31,428)</u>
Net Change in Total Pension Liability	67,306	108,282	90,045
Total Pension Liability - Beginning	<u>1,203,227</u>	<u>1,270,533</u>	<u>1,378,815</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,270,533</u></u>	<u><u>\$ 1,378,815</u></u>	<u><u>\$ 1,468,860</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 7,759	\$ 14,551	\$ 35,197
Contributions - state aid	27,109	23,525	27,992
Contributions - member	4,860	5,058	5,745
Net investment income	34,138	12,493	7,197
Benefit payments, including refunds of member contributions	<u>(30,964)</u>	<u>(31,428)</u>	<u>(31,428)</u>
Administrative expense	<u>(8,754)</u>	<u>(12,168)</u>	<u>(10,810)</u>
Net Change in Plan Fiduciary Net Position	34,148	12,031	33,893
Plan Fiduciary Net Position - Beginning	<u>1,048,315</u>	<u>1,082,463</u>	<u>1,094,494</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,082,463</u></u>	<u><u>\$ 1,094,494</u></u>	<u><u>\$ 1,128,387</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 188,070</u></u>	<u><u>\$ 284,321</u></u>	<u><u>\$ 340,473</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.2%	79.4%	76.8%
Estimated Covered Employee Payroll	\$ 122,906	\$ 161,842	\$ 166,306
Net Pension Liability as a Percentage of Covered Employee Payroll	153.0%	175.7%	204.7%

WALNUTPORT 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, 2018, AND 2019

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Pension Liability			
Service cost	\$ 35,455	\$ 37,228	\$ 40,151
Interest	97,937	105,144	108,066
Difference between expected and actual experience	(92,436)	-	(70,573)
Changes of assumptions	3,154	-	-
Benefit payments, including refunds of member contributions	(31,868)	(32,537)	(33,416)
Net Change in Total Pension Liability	<u>12,242</u>	<u>109,835</u>	<u>44,228</u>
Total Pension Liability - Beginning	<u>1,468,860</u>	<u>1,481,102</u>	<u>1,590,937</u>
Total Pension Liability - Ending (a)	<u>\$ 1,481,102</u>	<u>\$ 1,590,937</u>	<u>\$ 1,635,165</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 33,955	\$ 33,603	\$ 31,793
Contributions - state aid	28,766	51,528	56,325
Contributions - member	6,747	7,238	7,310
Net investment income	13,713	13,655	70,116
Benefit payments, including refunds of member contributions	(31,868)	(32,537)	(33,416)
Administrative expense	(13,709)	(9,120)	(13,120)
Net Change in Plan Fiduciary Net Position	<u>37,604</u>	<u>64,367</u>	<u>119,008</u>
Plan Fiduciary Net Position - Beginning	<u>1,128,387</u>	<u>1,165,991</u>	<u>1,230,358</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,165,991</u>	<u>\$ 1,230,358</u>	<u>\$ 1,349,366</u>
Net Pension Liability - Ending (a-b)	<u>\$ 315,111</u>	<u>\$ 360,579</u>	<u>\$ 285,799</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.7%	77.3%	82.5%
Estimated Covered Employee Payroll	\$ 162,118	\$ 222,174	\$ 244,686
Net Pension Liability as a Percentage of Covered Employee Payroll	194.4%	162.3%	116.8%

WALNUTPORT BOROUGH POLICE PENSION PLAN
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 (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, 2018 and 2019, calculated using the discount rate of 7.0%, 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:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 337,054	\$ 188,070	\$ 64,390
Net Pension Liability - 12/31/15	\$ 461,239	\$ 284,321	\$ 137,449
Net Pension Liability - 12/31/16	\$ 521,130	\$ 340,473	\$ 190,227
Net Pension Liability - 12/31/17	\$ 504,315	\$ 315,111	\$ 157,454
Net Pension Liability - 12/31/18	\$ 556,751	\$ 360,579	\$ 196,967
Net Pension Liability - 12/31/19	\$ 493,291	\$ 285,799	\$ 112,459

WALNUTPORT BOROUGH POLICE PENSION PLAN
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 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 34,868	\$ 34,868	\$ -	\$ 122,906	28.37%
2015	38,076	38,076	-	161,842	23.53%
2016	63,189	63,189	-	166,306	38.00%
2017	62,721	62,721	-	162,118	38.69%
2018	85,131	85,131	-	222,174	38.32%
2019	88,118	88,118	-	244,686	36.01%

SCHEDULE OF INVESTMENT RETURNS

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

2019	5.70%
2018	1.17%
2017	1.22%
2016	0.66%
2015	1.70%
2014	3.30%

WALNUTPORT 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, 2015, 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)
01-01-15	\$ 1,082,463	\$ 1,295,821	\$ 213,358	83.5%
01-01-17	1,128,387	1,379,578	251,191	81.8%
01-01-19	1,230,358	1,520,364	290,006	80.9%

WALNUTPORT BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
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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.

WALNUTPORT 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	7 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

WALNUTPORT 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 Wayne A. Weidner
Mayor

Mr. William Turk
Council President

Ms. Annette S. Lacko
Secretary/Treasurer

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