

COMPLIANCE AUDIT

Millbourne Borough Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

June 2018



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
Millbourne Borough
Delaware County
Millbourne, PA 19082

We have conducted a compliance audit of the Millbourne Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017. 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 that there were no employee contributions required by the plan’s governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined 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.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Millbourne Borough Police 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 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 Millbourne Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

As previously noted, the objective of our audit of the Millbourne Borough Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was previously amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report **which indicates the plan's funded ratio is 42.8% as of January 1, 2017**, which is the most recent data available. Based on this information, **the borough is currently in Level III severe distress status**. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

June 1, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Report Distribution List	10

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 Millbourne Borough Police 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 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. § 767 et seq.

The Millbourne Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 363, adopted pursuant to Act 600. The plan was established September 29, 1959. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had no active members, no terminated members eligible for vested benefits in the future, and 5 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service
Early Retirement	None
Vesting	Member is 100% vested after 12 years of service

Retirement Benefit:

Benefit equals 50% of final 36 months average salary.

Survivor Benefit:

Before Retirement Eligibility	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:

A monthly benefit equal to 60% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

MILLBOURNE BOROUGH POLICE 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ -	\$ -
Interest	51,324	52,803
Difference between expected and actual experience	-	20,589
Changes of assumptions	-	16,559
Benefit payments, including refunds of member contributions	<u>(67,350)</u>	<u>(67,350)</u>
Net Change in Total Pension Liability	(16,026)	22,601
Total Pension Liability - Beginning	<u>766,877</u>	<u>750,851</u>
Total Pension Liability - Ending (a)	<u><u>\$ 750,851</u></u>	<u><u>\$ 773,452</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 48,272	\$ 48,272
Net investment income	24,621	(3,015)
Benefit payments, including refunds of member contributions	<u>(67,350)</u>	<u>(67,350)</u>
Net Change in Plan Fiduciary Net Position	5,543	(22,093)
Plan Fiduciary Net Position - Beginning	<u>348,312</u>	<u>353,855</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 353,855</u></u>	<u><u>\$ 331,762</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 396,996</u></u>	<u><u>\$ 441,690</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.1%	42.9%
Estimated Covered Employee Payroll	\$ N/A	\$ N/A
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

MILLBOURNE BOROUGH POLICE 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	\$ -	\$ -
Interest	51,484	50,948
Difference between expected and actual experience	-	14,570
Changes of assumptions	-	2,212
Benefit payments, including refunds of member contributions	<u>(75,927)</u>	<u>(75,927)</u>
Net Change in Total Pension Liability	(24,443)	(8,197)
Total Pension Liability - Beginning	<u>773,452</u>	<u>749,009</u>
Total Pension Liability - Ending (a)	<u>\$ 749,009</u>	<u>\$ 740,812</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 49,465	\$ 37,974
Net investment income	22,154	46,685
Benefit payments, including refunds of member contributions	<u>(75,927)</u>	<u>(75,927)</u>
Net Change in Plan Fiduciary Net Position	(4,308)	8,732
Plan Fiduciary Net Position - Beginning	<u>331,762</u>	<u>327,454</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 327,454</u>	<u>\$ 336,186</u>
Net Pension Liability - Ending (a-b)	<u>\$ 421,555</u>	<u>\$ 404,626</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	43.7%	45.4%
Estimated Covered Employee Payroll	\$ N/A	\$ N/A
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A

MILLBOURNE 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, 2014, 2015, 2016 and 2017, 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%)
Net Pension Liability - 12/31/14	\$ 469,494	\$ 396,996	\$ 335,587
Net Pension Liability - 12/31/15	\$ 515,443	\$ 441,690	\$ 379,226
Net Pension Liability - 12/31/16	\$ 492,378	\$ 421,555	\$ 361,449
Net Pension Liability - 12/31/17	\$ 472,293	\$ 404,626	\$ 346,958

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.28%
2016	7.73%
2015	-0.93%
2014	7.78%

MILLBOURNE 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	\$ 321,939	\$ 781,854	\$ 459,915	41.2%
01-01-15	353,855	787,999	434,144	44.9%
01-01-17	327,454	765,791	438,337	42.8%

MILLBOURNE 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.

MILLBOURNE 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
2012	\$ 47,686	100.0%
2013	47,686	100.0%
2014	48,272	100.0%
2015	48,272	100.0%
2016	49,465	100.0%
2017	37,974	100.0%

MILLBOURNE 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	Level dollar
Remaining amortization period	13 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	Discretionary

MILLBOURNE 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 Thomas Kramer
Mayor

Mr. Justin Skariah
Council President

Mr. Nurul Hasan
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Mr. Mohammed F. Islam
Councilman

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Mr. Munsur Ali
Councilman

Ms. Nancy Baulis
Interim Borough Manager

Ms. Nona Hart
Finance Officer

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