

LIMITED PROCEDURES ENGAGEMENT

Palo Alto Borough Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

September 2018



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
Palo Alto Borough
Schuylkill County
Palo Alto, PA 17901

We conducted a Limited Procedures Engagement (LPE) of the Palo Alto Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017 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 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.
- 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 Palo Alto 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 Palo Alto 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.

September 17, 2018



EUGENE A. DEPASQUALE
Auditor General

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PALO ALTO BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Palo Alto Borough has complied with the prior audit recommendation concerning the following:

· Improper Survivors' Benefit

Borough officials adopted Ordinance No. 114-77(A) to eliminate the unauthorized survivor benefit provision from the plan.

PALO ALTO BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 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 | \$ 6,927 | \$ 9,713 | \$ 10,004 |
| Interest | 1,015 | 1,789 | 1,564 |
| Difference between expected and actual experience | 4,081 | - | 7,439 |
| Changes of assumptions | 3,825 | - | (1,075) |
| Net Change in Total Pension Liability | <u>15,848</u> | <u>11,502</u> | <u>17,932</u> |
| Total Pension Liability - Beginning | 14,149 | 29,997 | 41,499 |
| Total Pension Liability - Ending (a) | <u>\$ 29,997</u> | <u>\$ 41,499</u> | <u>\$ 59,431</u> |
| Plan Fiduciary Net Position | | | |
| Net investment income | 11,457 | 12,019 | 12,538 |
| Administrative expense | (1,200) | - | (1,900) |
| Net Change in Plan Fiduciary Net Position | <u>10,257</u> | <u>12,019</u> | <u>10,638</u> |
| Plan Fiduciary Net Position - Beginning | 251,034 | 261,291 | 273,310 |
| Plan Fiduciary Net Position - Ending (b) | <u>\$ 261,291</u> | <u>\$ 273,310</u> | <u>\$ 283,948</u> |
| Net Pension Liability - Ending (a-b) | <u>\$ (231,294)</u> | <u>\$ (231,811)</u> | <u>\$ (224,517)</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 871.06% | 658.59% | 477.78% |
| Estimated Covered Employee Payroll | \$ 36,296 | \$ 37,152 | \$ 38,743 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | -637.24% | -623.95% | -579.50% |

PALO ALTO 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, and 2016, calculated using the discount rate of 4.50%, 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 (3.50%) | Current Discount Rate (4.50%) | 1% Increase (5.50%) |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability - 12/31/14 | \$ (223,750) | \$ (231,294) | \$ (237,223) |
| Net Pension Liability - 12/31/15 | \$ (221,374) | \$ (231,811) | \$ (240,013) |
| Net Pension Liability - 12/31/16 | \$ (209,552) | \$ (224,517) | \$ (236,219) |

SCHEDULE OF INVESTMENT RETURNS

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

| | |
|------|-------|
| 2016 | 4.59% |
| 2015 | 4.56% |
| 2014 | 4.53% |
| 2013 | 4.50% |
| 2012 | 4.50% |
| 2011 | 4.50% |
| 2010 | 4.51% |

PALO ALTO 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 | \$ 240,224 | \$ 6,822 | \$ (233,402) | 3,521.3% |
| 01-01-15 | 261,291 | 29,997 | (231,294) | 871.6% |
| 01-01-17 | 283,948 | 59,431 | (224,517) | 477.8% |

PALO ALTO 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.

PALO ALTO 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 | None | N/A |
| 2013 | None | N/A |
| 2014 | None | N/A |
| 2015 | None | N/A |
| 2016 | None | N/A |
| 2017 | None | N/A |

PALO ALTO 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 | 4.5% |
| Projected salary increases | 3.0% |

PALO ALTO 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 John Deatrich
Mayor

Mr. Brian Dries
Council President

Mr. Vincent Riotto
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Ms. Patricia Schaeffer
Council Member

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