

LIMITED PROCEDURES ENGAGEMENT

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

November 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
West Homestead Borough
Allegheny County
West Homestead, PA 15120

We conducted a Limited Procedures Engagement (LPE) of the West Homestead 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the West Homestead 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 West Homestead 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 22, 2019



EUGENE A. DEPASQUALE
Auditor General

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WEST HOMESTEAD BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 and 2 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, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 57,303	\$ 62,165	\$ 64,646	\$ 61,889	\$ 64,353
Interest	100,387	112,013	104,490	118,522	125,872
Difference between expected and actual experience	(14,978)	-	(110,590)	-	2,637
Changes of assumptions	110,017	-	(1,525)	-	(5,333)
Benefit payments, including refunds of member contributions	<u>(50,642)</u>	<u>(51,291)</u>	<u>(50,929)</u>	<u>(50,929)</u>	<u>(50,929)</u>
Net Change in Total Pension Liability	202,087	122,887	6,092	129,482	136,600
Total Pension Liability – Beginning	<u>1,356,159</u>	<u>1,558,246</u>	<u>1,681,133</u>	<u>1,687,225</u>	<u>1,816,707</u>
Total Pension Liability – Ending (a)	<u>\$ 1,558,246</u>	<u>\$ 1,681,133</u>	<u>\$ 1,687,225</u>	<u>\$ 1,816,707</u>	<u>\$ 1,953,307</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 9,173	\$ 9,011	\$ 8,461	\$ 9,606	\$ 11,523
General Municipal State Aid	15,606	11,922	14,489	12,862	17,720
Contributions – member	9,226	9,033	8,425	9,480	12,068
Net investment income	46,376	(72,678)	128,221	264,266	(152,069)
Benefit payments, including refunds of member contributions	(50,642)	(51,291)	(50,929)	(50,929)	(50,929)
Administrative expense	(1,758)	(1,450)	(7,116)	(2,403)	(4,465)
Other	<u>8,000</u>	<u>7,986</u>	<u>7,986</u>	<u>7,986</u>	<u>3,065</u>
Net Change in Plan Fiduciary Net Position	35,981	(87,467)	109,537	250,868	(163,087)
Plan Fiduciary Net Position – Beginning	<u>1,949,764</u>	<u>1,985,745</u>	<u>1,898,278</u>	<u>2,007,815</u>	<u>2,258,683</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,985,745</u>	<u>\$ 1,898,278</u>	<u>\$ 2,007,815</u>	<u>\$ 2,258,683</u>	<u>\$ 2,095,596</u>
Net Pension Liability – Ending (a-b)	<u>\$ (427,499)</u>	<u>\$ (217,145)</u>	<u>\$ (320,590)</u>	<u>\$ (441,976)</u>	<u>\$ (142,289)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	127.43%	112.92%	119.00%	124.33%	107.28%
Estimated Covered Employee Payroll	\$ 369,018	\$ 361,371	\$ 357,201	\$ 379,154	\$ 440,607
Net Pension Liability as a Percentage of Covered Employee Payroll	(115.85%)	(60.09%)	(89.75%)	(116.57%)	(32.29%)

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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 and 2015, 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:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Net Pension Liability – 12/31/14	\$ (189,084)	\$ (427,499)	\$ (622,908)
Net Pension Liability – 12/31/15	\$ 40,072	\$ (217,145)	\$ (427,964)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 6.75%, 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:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability – 12/31/16	\$ (68,515)	\$ (320,590)	\$ (527,632)
Net Pension Liability – 12/31/17	\$ (170,556)	\$ (441,976)	\$ (664,907)
Net Pension Liability – 12/31/18	\$ 139,815	\$ (142,289)	\$ (375,003)

WEST HOMESTEAD 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	\$ 1,632,087	\$ 1,261,555	\$ (370,532)	129.4%
01-01-15	1,916,628	1,558,246	(358,382)	123.0%
01-01-17	2,112,742	1,687,225	(425,517)	125.2%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

WEST HOMESTEAD 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.

WEST HOMESTEAD 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	None	Not applicable
2014	None	Not applicable
2015	\$ 9,643	217.1%
2016	10,801	212.5%
2017	5,775	389.1%
2018	16,872	173.3%

WEST HOMESTEAD 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	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Market value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.0%

WEST HOMESTEAD BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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