

COMPLIANCE AUDIT

Sharon Hill Borough Police Pension Plan Delaware County, Pennsylvania

October 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Sharon Hill Borough
Delaware County
Sharon Hill, PA 19079

We have conducted a compliance audit of the Sharon Hill Borough Police Pension Plan pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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:

- For the period January 1, 2020 to December 31, 2024, 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 the period January 1, 2020 to December 31, 2024, 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.
- For the period January 1, 2023 to December 31, 2024, we determined whether annual employee contributions 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 the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2023 to December 31, 2024, we determined whether retirement benefits calculated for plan members who retired and the plan member who elected to vest during the period noted represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.
- For the period January 1, 2023 to December 31, 2024, 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Sharon Hill Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 objectives.

The results of our procedures indicated that, in all significant respects, the Sharon Hill Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Partial Compliance With Prior Recommendation – Inconsistent Provision For Length Of Service Increment
- Finding No. 2 – Noncompliance With Prior Recommendation – Unauthorized Provision For A Killed In Service Benefit
- Finding No. 3 – Noncompliance With Prior Recommendation – Inconsistent Pension Benefits

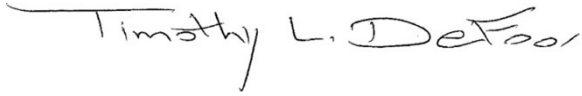
The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

As previously noted, one of the objectives of our audit of the Sharon Hill Borough Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was 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 62.6% as of January 1, 2023**, which is the most recent data available. **Based on this information, the Municipal Pension Reporting Program issued a notification that the borough is currently in Level II moderate 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 Sharon Hill Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor
Auditor General
September 9, 2025

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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.

Annual state aid allocations are provided from a two 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 Sharon Hill Borough Police Pension Plan is also governed by implementing regulations 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Sharon Hill Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 275-R, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established May 1, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2024, the plan had 13 active members, 1 terminated member eligible for vested benefits in the future, and 11 retirees receiving pension benefits.

SHARON HILL BOROUGH POLICE PENSION PLAN STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Sharon Hill Borough has complied with the prior recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

On August 26, 2021, the borough deposited the outstanding MMO due to the police pension plan for the year 2020, with interest, in accordance with Section 302(e) of Act 205.

Partial Compliance With Prior Recommendation

Sharon Hill Borough has partially complied with the prior recommendation concerning the following:

- Pension Benefits Not In Compliance With Act 600 Provisions

The collective bargaining agreement for the period January 1, 2023 to December 31, 2024 contains a revised service increment provision that is in compliance with Act 600, however, still conflicts with the service increment provision in the plan's governing document, as further discussed in Finding No. 1 in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendations

Sharon Hill Borough has not complied with the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Unauthorized Provision For A Killed In Service Benefit
- Inconsistent Pension Benefits

SHARON HILL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Recommendation – Inconsistent Provision For Length Of Service Increment

Condition: The prior five audit reports disclosed that the collective bargaining agreement between the police officers and the borough contained a service increment benefit provision that conflicted with the pension plan’s governing document and was not in compliance with Act 600. As disclosed in the Status of Prior Findings section of this report, the collective bargaining agreement for the period January 1, 2023 to December 31, 2024 contains a revised service increment provision that is in compliance with Act 600; however, it still conflicts with the service increment provision in the plan’s governing document. The inconsistency is as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Length of service increment	A monthly service increment benefit equal to \$100 if the member’s years of service total 26 or more.	Any officer who retires on or after January 1, 2023 shall be entitled to an enhanced service increment as permitted under Act 600. The service increment provisions of the pension plan and related ordinances shall be amended to provide that an Officer shall have their monthly pension increased by \$100.00 per month for each year of service in excess of twenty-five (25) years, to a maximum service increment of \$500.00 per month.	Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond twenty-five years for <u>each completed year</u> of service in excess of twenty-five years, not to exceed one hundred dollars (\$100) per month for <u>each completed year</u> of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years. [Emphasis added]

Furthermore, the prior audit reports disclosed that three police officers who retired, one in 2007 after 25 years and 3 days of service, another in 2008 after 25 years and 7 months of service, and another in 2020 after 25 years and 18 days of service, were each granted a monthly service increment amounting to \$100 in accordance with the provision contained in prior collective bargaining agreements, which granted an annual increase of \$1,200 if an officer worked beyond his 25th anniversary date of employment, which was not in compliance with Act 600.

SHARON HILL BOROUGH POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through collective bargaining, is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: Plan officials failed to update the plan's governing document to incorporate the pension benefits collectively bargained for and agreed to in the agreement effective January 1, 2023 to December 31, 2024. Furthermore, plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions.

Effect: As previously disclosed, three retired police officers were granted a monthly service increment benefit pursuant to the provision contained in prior collective bargaining agreements which conflicted with the pension plan's governing document and was not in compliance with Act 600.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the period subject to audit, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

To the extent that the borough is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the plan's future state aid allocations and submit this information to the department.

SHARON HILL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management's Response: The borough provided the following response:

The Borough is working with the actuary and council to adopt an ordinance and amend the governing document to address this finding and it is anticipated to be completed by December 31, 2025.

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

Finding No. 2 – Noncompliance With Prior Recommendation – Unauthorized Provision For A Killed In Service Benefit

Condition: Sharon Hill Borough maintains a police pension plan governed by the provisions of Act 600, as amended. Prior to the adoption of Act 51 of 2009, Act 600 contained a mandatory killed in service benefit provision; however, Act 51 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit. As disclosed in the prior three audit reports, the pension plan's governing document continues to provide for a killed in service benefit that is no longer authorized by Act 600.

Section 8.2(b) of Resolution 275-R states:

If the Member is "killed-in-service" the Member's surviving spouse shall receive a monthly pension for life equal in amount to 100% of the Member's base monthly earnings.

In addition, the borough continues to fund a killed in service benefit due to its inclusion in the plan's January 1, 2023, actuarial valuation report.

Criteria: Section 1(a) of Act 51 of 2009 states, in part:

In the event a law enforcement officer, ambulance service or rescue squad member, firefighter, certified hazardous material response team member or National Guard member dies as a result of the performance of his duties, such political subdivision, Commonwealth agency or, in the case of National Guard members, the Adjutant General, or, in the case of a member of a Commonwealth law enforcement agency, the authorized survivor or the agency head, within 90 days from the date of death, shall submit certification of such death to the Commonwealth.

SHARON HILL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Section 1(d) of Act 51 of 2009 states, in part:

. . . the Commonwealth shall, from moneys payable out of the General Fund, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the sum of \$100,000, adjusted in accordance with subsection (f) of this section, and an amount equal to the monthly salary, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, less any workers' compensation or pension or retirement benefits paid to such survivors, and shall continue such monthly payments until there is no eligible beneficiary to receive them. For the purpose of this subsection, the term "eligible beneficiary" means the surviving spouse or the child or children under the age of eighteen years or, if attending college, under the age of twenty-three years, of the firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty. When no spouse or minor children survive, a single sum of \$100,000, adjusted in accordance with subsection (f) of this section, shall be paid to the parent or parents of such firefighter, ambulance service member, rescue squad member or law enforcement officer. [Emphasis added]

Furthermore, Section 2 of Act 51 of 2009 states:

Repeals are as follows:

- (1) The General Assembly declares that the repeals under paragraph (2) are necessary to effectuate the amendment of section 1 of the act.
- (2) The following parts of acts are repealed:
 - (i) Section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No. 600), referred to as the Municipal Police Pension Law.
 - (ii) Section 202(b)(3)(vi) and (4)(vi) of the act of December 18, 1984 (P.L.1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

Therefore, since Act 51 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that were contained in Act 205, the provision of a killed in service benefit is no longer authorized.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

SHARON HILL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of a killed in service benefit could result in the pension plan being obligated to pay a benefit that is no longer authorized by Act 600, and would have been paid entirely by the Commonwealth absent such provision.

Recommendation: We again recommend that the municipality review the plan's killed in service benefit with its solicitor in conjunction with Act 51 of 2009 and eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management's Response: Municipal officials provided the following response:

The Borough is working with the actuary and council to adopt an ordinance and amend the governing document to address this finding and it is anticipated to be completed by December 31, 2025.

Auditor's Conclusion: Considering the plan's funded status, we again urge borough officials to comply with the finding recommendation at their earliest opportunity to do so, especially in light of the fact that the Commonwealth has assumed the responsibility of paying the mandated killed in service benefit and the elimination of this benefit would improve the funding status of the plan going forward.

Finding No. 3 – Noncompliance With Prior Recommendation - Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan's governing document, Resolution No. 275-R, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Normal retirement age & service	A member will be eligible for Normal Retirement benefits provided that he retires from the borough's employment and upon such retirement he has attained at least age 50 and completed at least 25 years of service.	As to any officer hired after January 1, 2019, the requirements for a superannuation pension shall be 52 years of age and 25 years of service.

SHARON HILL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service-connected disability benefit	An eligible member shall, while disabled, receive an immediate monthly benefit equal to 100% of his monthly wages at time of disability.	A service-related disability pension shall be 75% of average salary based on the highest 12 months of compensation received by the disabled officer while employed.

In addition, the actuarial valuation report form C, for the police pension plan, with a valuation date of January 1, 2023, submitted to the Municipal Pension Reporting Program, reported the benefit provisions included in the collective bargaining agreement.

Criteria: A governing document which contains clearly defined and updated benefit provisions, including those negotiated through collective bargaining, is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: The borough again failed to update the plan's governing document to incorporate the pension benefits collectively bargained for and agreed to in the agreement effective January 1, 2019 to December 31, 2022. Furthermore, plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

Management's Response: Municipal officials provided the following response:

The Borough is working with the actuary and council to adopt an ordinance and amend the governing document to address this finding and it is anticipated to be completed by December 31, 2025.

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

SHARON HILL 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, 2019, 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)
01-01-19	\$ 4,397,443	\$ 6,523,642	\$ 2,126,199	67.4%
01-01-21	4,872,456	7,339,503	2,467,047	66.4%
01-01-23	4,798,972	7,665,233	2,866,261	62.6%

Note: The market values of the plan's assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the market value of assets. This method 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.

SHARON HILL 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.

SHARON HILL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2015	\$ 204,423	\$ 204,423	\$ -	\$ 770,442	26.53%
2016	216,792	216,792	-	835,812	25.94%
2017	239,055	239,055	-	919,206	26.01%
2018	290,566	290,566	-	1,213,254	23.95%
2019	292,232	292,232	-	1,230,000	23.76%
2020	387,151	138,507*	248,644*	1,210,000	11.45%
2021	378,259	378,259	-	1,210,000	31.26%
2022	455,760	455,760	-	1,100,000	41.43%
2023	459,843	459,843	-	1,134,028	40.55%
2024	569,434	569,434	-	1,400,000	40.67%

* For 2020 reflects the net reduction of employer contribution made due to the inclusion of imputed interest in accordance with Act 205 requirements.

SHARON HILL 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	Cost-of-living increase provided in accordance with Act 600.

SHARON HILL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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