

# LIMITED PROCEDURES ENGAGEMENT

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## Rice Township Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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February 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Rice Township  
Luzerne County  
Mountaintop, PA 18707

We conducted a Limited Procedures Engagement (LPE) of the Rice Township Police Pension Plan for the period January 1, 2012 to December 31, 2014 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 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, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 Rice Township 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 township 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 letter were discussed with officials of Rice Township and, where appropriate, their responses have been included in this letter. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

February 8, 2016



EUGENE A. DEPASQUALE  
Auditor General

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 (UNAUDITED)

The supplementary information contained on Pages 1 and 2 reflect 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability		
Service cost	\$	35,291
Interest		57,238
Benefit payments, including refunds of member contributions		-
Net Change in Total Pension Liability		92,529
Total Pension Liability – Beginning		782,388
Total Pension Liability - Ending (a)	\$	874,917
Plan Fiduciary Net Position		
Contributions – employer	\$	18,276
Contribution – state aid		38,771
Net investment income		45,649
Benefit payments, including refunds of member contributions		-
Administrative expense		( 2,000)
Net Change in Plan Fiduciary Net Position		100,696
Plan Fiduciary Net Position – Beginning		813,723
Plan Fiduciary Net Position - Ending (b)	\$	914,419
Net Pension Liability - Ending (a-b)	\$	( 39,502)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		104.5%
Estimated Covered Employee Payroll	\$	225,470
Net Pension Liability as a Percentage of Covered Employee Payroll		(17.5%)

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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 township, calculated using the discount rate of 7.0%, as well as what the township'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	\$ 86,910	\$ (39,502)	\$ (143,315)

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
2005	\$ 31,575	\$ 31,575	\$ -	\$ 119,840	26.3%
2006	31,862	31,862	-	127,210	25.0%
2007	33,604	33,604	-	135,081	24.9%
2008	53,010	53,010	-	172,762	30.7%
2009	50,343	50,343	-	159,512	31.6%
2010	65,950	91,376	(25,426)	175,673	52.0%
2011	69,100	69,100	-	191,019	36.2%
2012	50,660	50,660	-	195,273	25.9%
2013	52,662	52,662	-	207,620	25.4%
2014	57,047	57,047	-	225,470	25.3%

SCHEDULE OF INVESTMENT RETURNS

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

2014                      5.62%

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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, 2009, 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)
01-01-09	\$ 303,134	\$ 516,519	\$ 213,385	58.7%
01-01-11	507,584	568,343	60,759	89.3%
01-01-13	635,689	697,594	61,905	91.1%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period subject to a corridor between 80-120% 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.

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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.

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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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	5 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of the assets.
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%

\* Includes inflation at 3.0%

RICE TOWNSHIP POLICE PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Rice Township Police Pension Plan  
Luzerne County  
3000 Church Road  
Mountaintop, PA 18707

<b>Ms. Marcia Thomas</b>	Chairperson, Board of Township Supervisors
<b>Mr. Robert Pipech</b>	Vice Chairman, Board of Township Supervisors
<b>Mr. Miller J. Stella, Jr.</b>	Township Supervisor
<b>Ms. Alicia E. Stier</b>	Secretary

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