

# COMPLIANCE AUDIT

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## Northampton Township Non-Uniformed Employees Pension Plan

Bucks County, Pennsylvania  
For the Period  
January 1, 2011 to December 31, 2013

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August 2014



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Northampton Township  
Bucks County  
Richboro, PA 18954

We have conducted a compliance audit of the Northampton Township Non-Uniformed Employees Pension Plan for the period January 1, 2011, to December 31, 2013. 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

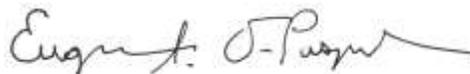
Northampton Township contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2011 and 2012 which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Northampton Township Non-Uniformed Employees 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 township's internal controls as they relate to the township'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, 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 tests indicated that, in all significant respects, the Northampton Township Non-Uniformed Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Northampton Township and, where appropriate, their responses have been included in the report.



EUGENE A. DEPASQUALE  
Auditor General

July 22, 2014

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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. 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 Northampton Township Non-Uniformed Employees Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Northampton Township Non-Uniformed Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 548. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 3, 1967. Active members are not required to contribute to the plan. As of December 31, 2013, the plan had 58 active members, 20 terminated members eligible for vested benefits in the future and 23 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2013, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement    Age 65

Early Retirement      Age 55 and 10 years of service.

Vesting                Vesting is 50% after 5 years of service, increasing by 10% per year until 100% after 10 years of service.

### Retirement Benefit:

If hired before January 1, 1994, the greater of A or B. A) a benefit equal to 1% of Final Monthly Average Salary (FMAS) up to \$1,000 plus 1.75% of FMAS in excess of \$1,000, multiplied by years of service prior to normal retirement date. The benefit shall not be less than \$10/ month for each year of service. B) A monthly benefit equal to 1.5% FMAS multiplied by years of service, up to a maximum of 30 years, plus 1.0% of FMAS multiplied by years of service, up to a maximum of 30 years. If hired after January 1, 1994, Option B.

### Survivor Benefit:

After vesting eligibility: Survivor's portion of the participant's accrued benefit, adjusted for the joint and 100% survivor option and early retirement, if applicable, is payable to the spouse for life, starting at the date the participant would have been eligible for early retirement. After retirement: None, except as provided by the form of benefit payment in force at the time death occurs.

### Service Related Disability Benefit:

After the completion of 10 years of service, the accrued benefit at date of disablement offset by worker's compensation is payable.

NORTHAMPTON TOWNSHIP NON-UNIFORMED EMPLOYEES 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, 2009, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 6,803,648	\$ 8,782,531	\$ 1,978,883	77.5%	\$ 2,973,165	66.6%
01-01-11	7,117,057	10,546,639	3,429,582	67.5%	3,348,227	102.4%
01-01-13	7,857,593	11,209,008	3,351,415	70.1%	3,476,663	96.4%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period subject to a corridor between 70 to 130 percent of the market value of assets. The market values of the plan's assets at 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. 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.

NORTHAMPTON TOWNSHIP NON-UNIFORMED EMPLOYEES 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

NORTHAMPTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 247,595	106.7%
2009	425,243	100.0%
2010	432,152	100.0%
2011	473,826	100.0%
2012	478,531	100.1%
2013	733,265	100.1%

NORTHAMPTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the required 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	13 years
Asset valuation method	4-year smoothing, 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 shall not exceed the percentage increase in the Consumer Price Index from the date the member retired.

NORTHAMPTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Northampton Township Non-Uniformed Employees Pension Plan  
Bucks County  
55 Township Road  
Richboro, PA 18954

Ms. Eileen Silver                      Chairman, Board of Township Supervisors

Mr. Robert Pellegrino                Township Manager

Mr. Robert Armelin                  Finance Officer

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).  
Media questions about the report can be directed to the Pennsylvania Department of the Auditor  
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:  
news@auditorgen.state.pa.us.