

LIMITED PROCEDURES ENGAGEMENT

Adams Township Police Pension Plan Cambria County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

May 2018



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
Adams Township
Cambria County
Sidman, PA 15955

We conducted a Limited Procedures Engagement (LPE) of the Adams Township 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 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, 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.
- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.


Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Adams 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 report were discussed with officials of Adams Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

May 14, 2018


EUGENE A. DEPASQUALE
Auditor General

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ADAMS TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Adams Township has complied with the prior audit recommendation concerning the following:

- Unauthorized Provision For A Killed In Service Benefit

The township eliminated the unauthorized provision for a killed-in-service benefit, effective January 1, 2014.

ADAMS TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 12,846	\$ 13,647
Interest	52,322	58,997
Change of benefit terms	-	57,875
Difference between expected and actual experience	-	(41,129)
Changes of assumptions	-	13,618
Benefit payments, including refunds of member contributions	(4,406)	(10,274)
Net Change in Total Pension Liability	<u>60,762</u>	<u>92,734</u>
Total Pension Liability - Beginning	686,987	747,749
Total Pension Liability - Ending (a)	<u><u>\$ 747,749</u></u>	<u><u>\$ 840,483</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 25,313	\$ 25,425
Contributions – member	4,339	4,218
Net investment income	42,250	(5,181)
Benefit payments, including refunds of member contributions	(4,406)	(10,274)
Administrative expense	(6,541)	(13,206)
Net Change in Plan Fiduciary Net Position	<u>60,955</u>	<u>982</u>
Plan Fiduciary Net Position - Beginning	680,827	741,782
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 741,782</u></u>	<u><u>\$ 742,764</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 5,967</u></u>	<u><u>\$ 97,719</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.2%	88.4%
Estimated Covered Employee Payroll	\$ 153,740	\$ 155,670
Net Pension Liability as a Percentage of Covered Employee Payroll	3.9%	62.8%

ADAMS TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS – (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 14,329	\$ 13,517
Interest	66,872	54,820
Change of benefit terms	57,875	-
Difference between expected and actual experience	-	(214,257)
Changes of assumptions	-	1,461
Benefit payments, including refunds of member contributions	(42,114)	(14,465)
Net Change in Total Pension Liability	<u>96,962</u>	<u>(158,924)</u>
Total Pension Liability - Beginning	840,483	937,445
Total Pension Liability - Ending (a)	<u>\$ 937,445</u>	<u>\$ 778,521</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 15,191	\$ 12,723
Contributions – member	3,797	4,103
Net investment income	34,179	97,583
Benefit payments, including refunds of member contributions	(42,114)	(14,465)
Administrative expense	(7,944)	(10,934)
Net Change in Plan Fiduciary Net Position	<u>3,109</u>	<u>89,010</u>
Plan Fiduciary Net Position - Beginning	742,764	745,873
Plan Fiduciary Net Position - Ending (b)	<u>\$ 745,873</u>	<u>\$ 834,883</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 191,572</u>	<u>\$ (56,362)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.6%	107.2%
 Estimated Covered Employee Payroll	\$ 158,862	\$ 117,040
 Net Pension Liability as a Percentage of Covered Employee Payroll	120.6%	(48.2%)

ADAMS TOWNSHIP 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 township as of December 31, 2014, 2015, 2016, and 2017, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	\$ 77,818	\$ 5,967	\$ (55,482)
Net Pension Liability - 12/31/15	\$ 181,163	\$ 97,719	\$ 26,362
Net Pension Liability - 12/31/16	\$ 281,211	\$ 191,572	\$ 114,887
Net Pension Liability - 12/31/17	\$ 15,947	\$ (56,362)	\$ (118,090)

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.08%
2016	4.60%
2015	(0.70%)
2014	6.23%

ADAMS TOWNSHIP 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	\$ 578,063	\$ 631,076	\$ 53,013	91.6%
01-01-15	741,782	720,238	(21,544)	102.9%
01-01-17	745,873	724,649	(21,224)	102.9%

ADAMS TOWNSHIP 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.

ADAMS TOWNSHIP 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	\$ 24,018	100.0%
2013	24,060	100.0%
2014	25,313	100.0%
2015	25,425	100.0%
2016	15,191	100.0%
2017	12,723	100.0%

ADAMS TOWNSHIP 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 *	7.5%
Projected salary increases *	5.0%

* Includes inflation at 2.25%

ADAMS TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Dennis P. Richards
Chairman, Board of Township Supervisors

Ms. Jennifer Zakraysek
Township Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.