

LIMITED PROCEDURES ENGAGEMENT

Colonial Regional Police Commission Police Pension Plan Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

April 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 Commissioners
Colonial Regional Police Commission
Northampton County
Bethlehem, PA 18017

We conducted a Limited Procedures Engagement (LPE) of the Colonial Regional Police Commission 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 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 retirement benefits calculated for plan members who retired during the engagement period 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 pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- Whether the January 1, 2013 January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Colonial Regional Police Commission 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 commission 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 Colonial Regional Police Commission and, where appropriate, their responses have been included in this report. We would like to thank commission officials for the cooperation extended to us during the conduct of this LPE.

April 10, 2018



EUGENE A. DEPASQUALE
Auditor General

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COLONIAL REGIONAL POLICE COMMISSION POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 through 3 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 259,419	\$ 272,390
Interest	463,549	515,391
Benefit payments, including refunds of member contributions	(68,104)	(65,916)
Net Change in Total Pension Liability	654,864	721,865
Total Pension Liability – Beginning	5,755,908	6,410,772
Total Pension Liability - Ending (a)	<u>\$ 6,410,772</u>	<u>\$ 7,132,637</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 36,541	\$ 17,712
Contributions – State Aid	188,200	227,482
Contributions – Member	79,509	68,334
Net investment income	(364,176)	231,005
Benefit payments, including refunds of member contributions	(68,104)	(65,916)
Administrative expense	(3,500)	(3,715)
Net Change in Plan Fiduciary Net Position	(131,530)	474,902
Plan Fiduciary Net Position - Beginning	5,436,526	5,304,996
Plan Fiduciary Net Position - Ending (b)	<u>\$ 5,304,996</u>	<u>\$ 5,779,898</u>
Net Pension Liability - Ending (a-b)	<u>\$ 1,105,776</u>	<u>\$ 1,352,739</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.8%	81.0%
Estimated Covered Employee Payroll	\$ 1,935,150	\$ 2,082,559
Net Pension Liability as a Percentage of Covered Employee Payroll	57.1%	65.0%

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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 commission as of December 31, 2015 and 2016, calculated using the discount rate of 7.75%, as well as what the commission'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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability - 12/31/15	\$ 1,997,371	\$ 1,105,776	\$ 357,770
Net Pension Liability - 12/31/16	\$ 2,313,847	\$ 1,352,739	\$ 545,224

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
2008	\$ 181,256	\$ 183,164	\$ (1,908)	\$1,385,219	13.2%
2009	180,009	189,179	(9,170)	1,521,415	12.4%
2010	188,931	188,931	-	1,643,888	11.5%
2011	197,987	210,420	(12,433)	1,734,625	12.1%
2012	196,395	201,399	(5,004)	1,798,963	11.2%
2013	210,603	210,603	-	1,859,992	11.3%
2014	227,077	227,077	-	1,959,302	11.6%
2015	224,741	224,741	-	1,935,150	11.6%
2016	236,857	245,194	(8,337)	2,082,559	11.8%
2017	247,169	247,657	(488)	*	-

* Due to the timing of this audit, covered-employee payroll for 2017 was not provided in this schedule.

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SCHEDULE OF INVESTMENT RETURNS

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

2015	(8.57%)
2016	4.18%

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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, 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	\$ 4,220,017	\$ 4,642,306	\$ 422,289	90.9%
01-01-15	5,552,769	5,790,114	237,345	95.9%
01-01-17	6,457,835	6,878,877	421,042	93.9%

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 5-year averaging period. 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.

COLONIAL REGIONAL POLICE COMMISSION 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	Level dollar
Remaining amortization period	10 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 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return *	7.75%
Projected salary increases *	5.0%
Cost-of-living adjustments	N/A

COLONIAL REGIONAL POLICE COMMISSION POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. John Diacogiannis
Chairman, Board of Commissioners

Mr. Roy D. Seiple
Chief of Police

Ms. Leana McGuigan
Administrative Assistant

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