

# LIMITED PROCEDURES ENGAGEMENT

---

## Heidelberg Township Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

---

December 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
[www.PaAuditor.gov](http://www.PaAuditor.gov)

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Board of Township Supervisors  
Heidelberg Township  
Berks County  
Robesonia, PA 19551

We conducted a Limited Procedures Engagement (LPE) of the Heidelberg Township Police Pension Plan for the period January 1, 2013 to December 31, 2016 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 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 monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Heidelberg 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 Heidelberg 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.

December 22, 2017



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Status of Prior Finding .....	1
Supplementary Information .....	2
Report Distribution List .....	8

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Improper Elimination Of Member Contributions

The township properly eliminated member contributions for all years of the engagement period in accordance with Act 600.

HEIDELBERG 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 8,853	\$ 9,384
Interest	16,707	17,683
Benefit payments, including refunds of member contributions	(15,118)	(23,281)
Net Change in Total Pension Liability	<u>10,442</u>	<u>3,786</u>
Total Pension Liability - Beginning	237,377	247,819
Total Pension Liability - Ending (a)	<u>\$ 247,819</u>	<u>\$ 251,605</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 20,619	\$ 7,308
Net investment income	(1,365)	3,986
Benefit payments, including refunds of member contributions	(15,118)	(23,281)
Administrative expense	(1,388)	(4,954)
Net Change in Plan Fiduciary Net Position	<u>2,748</u>	<u>(16,941)</u>
Plan Fiduciary Net Position - Beginning	254,405	257,153
Plan Fiduciary Net Position - Ending (b)	<u>\$ 257,153</u>	<u>\$ 240,212</u>
Net Pension Liability - Ending (a-b)	<u>\$ (9,334)</u>	<u>\$ 11,393</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.77%	95.47%
Estimated Covered Employee Payroll	\$ 53,767	\$ 52,936
Net Pension Liability as a Percentage of Covered Employee Payroll	(17.36%)	21.52%

HEIDELBERG 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, 2015, calculated using the discount rate of 6.0%, 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	\$ 18,854	\$ (9,334)	\$ (33,557)

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
2006	\$ 9,434	\$ 9,434	\$ -		
2007	10,678	10,678	-		
2008	14,892	14,892	-		
2009	15,229	15,229	-		
2010	15,574	15,574	-		
2011	17,874	17,874	-		
2012	19,579	19,579	-		
2013	21,152	21,152	-		
2014	20,182	20,182	-		
2015	20,619	20,619	-	\$ 53,767	38.35%
2016	9,389	7,308	2,081	35,686	20.48%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2015.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2016	(0.6%)
2015	(0.6%)

HEIDELBERG 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, 2011, 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)
01-01-11	\$ 237,504	\$ 302,454	\$ 64,950	78.5%
01-01-13	241,223	309,020	67,797	78.1%
01-01-15	267,685	237,377	(30,308)	112.8%

Note: The market value of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gain and/or losses over a 5-year averaging period which will be limited to a maximum of 110 percent and a minimum of 90 percent of the fair 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 the contribution levels from year to year.

HEIDELBERG 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.

HEIDELBERG 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, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	5-year smoothing – the actuarial value of assets will be limited to a maximum of 110% and a minimum of 90% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	6.0%
Cost-of-living adjustments	None assumed

HEIDELBERG 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. David Randler**  
Chairman, Board of Township Supervisors

**Mr. David Manbeck**  
Vice Chairman, Board of Township Supervisors

**Mr. Brian Thumm**  
Township Supervisor

**Mr. Thomas Schoener**  
Township Supervisor

**Mr. Terry Wolfe**  
Township Supervisor

**Ms. Carol A. Keppley**  
Chief Administrative Officer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).