

COMPLIANCE AUDIT

Kennett Township Police Pension Plan Chester County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

December 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Kennett Township
Chester County
Chadds Ford, PA 19317

We have conducted a compliance audit of the Kennett Township Police Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and 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. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit.

- We determined 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.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017, and January 1, 2019, actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020 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.

The Kennett Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Kennett Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials and performed procedures to the extent necessary 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 procedures indicated that, in all significant respects, the Kennett Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Incorrect Data On Certification AG 385 Resulting In A Net Overpayment Of State Aid
- Finding No. 2 – Failure To Properly Determine The Minimum Municipal Obligation Of The Plan
- Finding No. 3 – Inadequate Accounting/Reporting Of Activity Of The Pension Plan
- Finding No. 4 – Failure To Implement Mandatory Provisions Of Act 205

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



Timothy L. DeFoor
Auditor General
November 28, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid.....	2
Finding No. 2 – Failure To Properly Determine The Minimum Municipal Obligation Of The Plan.....	4
Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan.....	7
Finding No. 4 – Failure To Implement Mandatory Provisions of Act 205	9
Potential Withhold of State Aid.....	11
Supplementary Information	12
Report Distribution List	16

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.

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 Kennett Township Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Kennett Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 295 and a separately executed plan agreement with the plan custodian, effective May 4, 2022, adopted pursuant to Act 15. Prior to May 4, 2022, the plan was locally controlled by the provisions of Ordinance No. 226 and an agreement with the plan custodian, effective January 1, 2014, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established January 1, 2014. Active members are not required to contribute to the plan. As of December 31, 2021, the plan had nine active members, no terminated members eligible for vested benefits in the future, and one retiree receiving pension benefits.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$41,040 on the Certification Form AG 385 filed in 2019. In addition, the township certified an ineligible police officer (2 units), failed to include an eligible non-uniformed employee (1 unit) and overstated total eligible payroll by \$2,664 on the Certification Form AG 385 filed in 2020. Furthermore, the township certified four ineligible non-uniformed employees (4 units) and overstated payroll by \$176,096 on the Certification Form AG 385 filed in 2021. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year. In addition, the non-uniformed pension plan document contains a more stringent requirement for participation in the pension plan.

Section 1.71 of the plan’s separately executed plan agreement, indicates the following:

Plan Entry Date. After completion of Eligibility Criteria under Section 2.01.

Section 2.10, states the following:

Membership Eligibility. Eligibility Date is the date on which the employee completes twelve months of Eligibility Service.

Cause: Plan officials were unsure which pension plan the police department’s secretary should be certified under during 2019 and did not take into account the plan’s probationary period regarding eligibility of non-uniformed employees entering the pension plan during 2021. Additionally, the township failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported pension data.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2019	Non-Uniformed	(1)	\$ 5,120	\$ (5,120)
2020	Police	2	4,924	9,848
	Non-Uniformed	(1)	4,924	(4,924)
			Total 2020	4,924
2021	Non-Uniformed	4	4,797	19,188
			Net Overpayment of State Aid	\$ 18,992

In addition, the township used the overpayments of state aid to pay the minimum municipal obligation MMOs due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the overpayment of state aid, in the amount of \$18,992, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management’s Response: The township provided the following response:

The township was not provided a detailed write-up of the finding from the Auditor General’s office and therefore cannot write an exact response. It was discussed verbally at the exit conference. Our response is based on that verbal discussion. There were some mistakes in preparation of the AG 385 under both the former administration and the new administration. New controls have been introduced where the AG 385 form is more carefully reviewed by multiple parties.

Specifically, an item was highlighted for 2020. This report is due March 31 of each year. Therefore, it was completed just as COVID hit and immediately after our HR Specialist joined the team. There was a mistake with somebody that was included but hadn’t completed the year of service probationary period. New controls have been introduced where the AG 385 form is more carefully reviewed by multiple parties. We also more clearly understand the rules for each submission in relation to the one-year probationary period rule.

Auditor’s Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

Finding No. 2 – Failure To Properly Determine The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine the minimum municipal obligation (MMO) of the police pension plan for the year 2022, as required by Act 205. Plan officials failed to include two new plan members and understated payroll by \$215,812 when estimating payroll used for the 2022 MMO; therefore, the MMO was deficient by approximately \$21,344. Based upon an estimate prepared by this department, the municipality should deposit \$115,604 into the police pension plan for the year 2022 by the December 31 deadline in accordance with Act 205, instead of the \$94,260 originally calculated.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The township did not comply with the Act 205 requirements because plan officials omitted the aforementioned individuals and lacked adequate internal control procedures to timely identify the omission prior to determination, approval and submission of the 2022 MMO to the municipal governing body.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the municipality pay the recalculated MMO amount of \$115,604 due to the police pension plan for the year 2022 by its due date in accordance with Section 302(e) of Act 205.

We also recommend that, in the future, plan officials properly determine the amount of payroll to be used in the MMO calculation and establish adequate internal control procedures, such as having another individual review the accuracy of the plan's annual MMO determination prior to submission to the governing body.

Management's Response: The township provided the following response:

The Township was not provided a detailed write-up of the finding from the Auditor General's office and therefore cannot write an exact response. It was discussed verbally over the phone after our exit conference. Our response is based on that verbal discussion.

Based on the discussion, there appears to be a couple of reasons for the issues cited [*sic*] where the forecast salaries used for the MMO completion are different from the final W2 earnings. These differences from forecast to actuals caused the auditor to view the MMO as being too low. The MMO is based on a forecast calculated at the end of August. With police in particular, there is room for very large variances in the last four months of the year. 1) There is potential for a lot of overtime due to vacation schedules of other officers and resulting shift coverage OT. 2) There are a lot of holidays in the last four months (Labor Day, Columbus Day, Veteran's Day, Thanksgiving, Day after Thanksgiving, Christmas, Christmas Eve and New Year's Eve). Officers that work the holidays are paid 3x. We don't know who will work those holidays and/or how many officers per shift. 3) Additionally, we provide officers for [an entity]. That is highly unpredictable around the holidays. 4) Under the current contract, officers can have sick and vacation time paid out with no caps. These amounts are hard to estimate as each officer can make individual choices. Sick time isn't even pension eligible so W2 earnings aren't accurate for pension.

Additionally, there was confusion on whether to include one officer who was on military duty for a year which included about 8 months of 2021 as he hadn't finished probation before he left for active duty. There was one other new officer that had just completed his year and was mistakenly excluded. The probationary period causes a lot of confusion, but we have a better understanding of the rules for submission now.

Auditor's Conclusion: Based on the management response, the issue remains as stated. Compliance will be evaluated during our next audit of the plan.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Condition: The municipality’s accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2021. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2021.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2021 to ensure the accuracy and propriety of the transaction activity.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Management’s Response: The township provided the following response:

This finding is related to services provided by the Pennsylvania Municipal Retirement System (PMRS) who is the pension administrator for the Township. PMRS has had major disruptions to services provided and has been working with municipalities and the Auditor General on a schedule to catch up and resume normal services. Every municipality using PMRS will receive this finding. Given that it is out of control of the municipality, the Township strongly objects to this finding. The finding states that the auditor did in fact receive alternate data to perform the audit, however, still says that the municipalities should “establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitors the plan’s financial operations.” Given that the data was provided, the Township was able to monitor the financial operations. This finding lacks professional justification and is beyond the control of every municipality with this finding. The Township will review the remaining challenges with PMRS, determine where they stand in rectifying the issue and determine if additional procedures or controls are needed.

Auditor’s Conclusion: As aforementioned earlier in this report, the department’s authority to audit every municipality which receives general municipal pension system state aid is derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)). The department does not have the authority to audit the plan custodians. And as indicated in the Criteria above, although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality. For 2021, although the township cites that, “...the data was provided, the Township was able to monitor financial operations”, without year-end custodial account statements or financial statements summarizing the annual fund balance and the annual financial activity of the plan (*state aid, employer contributions, member contributions, interest, benefit, retiree reserve transfers, administrative expenses, etc.*) that occurred during 2021, the department disagrees with management’s assertion. The mitigating documentation provided by the township or obtained from the custodian afforded the department the opportunity to perform the compliance aspects of the engagement. However, the issue remains as stated.

It was noted that the plan custodian recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. In addition, the custodian has taken active measures to resolve these issues and expects 2021 financial reports to be distributed before the end of 2022. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Implement Mandatory Provisions Of Act 205

Condition: During the prior audit, plan officials were notified of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts,, but failed to adopt such mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states, in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

KENNETT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states, in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The township's failure to adopt the required provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the pension plan could result in a general lack of overall transparency of the proposed actions to be taken by plan officials relative to the awarding of future investment and advisory service contracts for the plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

Management Response: Municipal officials were notified of the finding on November 15, 2022, and a management response was requested. However, as of the date of this report, no such response has been provided. The failure to provide a response does not preclude the township from providing a response upon receipt of this report.

Auditor Conclusion: Compliance will be evaluated during our next audit of the plan.

KENNETT TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$18,992, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

KENNETT 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, 2015, 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)
01-01-15	\$ 31,684	\$ 114,407	\$ 82,723	27.7%
01-01-17	225,409	320,827	95,418	70.3%
01-01-19	489,394	629,790	140,396	77.7%

Note: The information presented represents the most recently filed actuarial information available and although the actuarial valuation report valued 1-1-21 is currently due in accordance with Act 205, the municipality is working with the Municipal Reporting Program as of the date of this report to finalize the information submitted.

KENNETT 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.

KENNETT TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll*</u>
2014	\$ 31,917	\$ 31,957	\$ (40)	\$ 160,837	19.87%
2015	32,448	32,448	-	300,593	10.79%
2016	44,560	44,560	-	259,457	17.17%
2017	55,038	55,058	(20)	426,403	12.91%
2018	56,330	56,350	(20)	548,569	10.27%
2019	63,175	75,239	(12,064)	715,317	10.52%
2020	83,611	83,631	(20)	773,653	10.81%
2021	81,100	81,100	-		

* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

KENNETT 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar for plan bases and an average for Aggregate Gain/Loss, 10% of surplus is credited against aggregate cost where applicable.
Remaining amortization period	9 years
Asset valuation method	The Actuarial Value of Assets equal the sum of all audited reserve funds as of the valuation date, including Member, Municipal, Retired, Disability, and DROP Reserves, when applicable, and a one year administration expense reserve, plus the portion of any additional investment income to be distributed as excess interest, based on PMRS Policy Statement 05-2. This asset valuation is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law. ¹

Actuarial assumptions:

Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses
Projected salary increases *	2.8%-7.05%
* Includes inflation at	2.8%
Cost-of-living adjustments	2.8% per year, subject to plan limitations

The information presented represents the most recently filed actuarial information available and although the actuarial valuation report valued 1-1-21 is currently due in accordance with Act 205, the municipality is working with the Municipal Reporting Program as of the date of this report to finalize the information submitted.

¹ The administrative rules adopted by the PMRS Board, which are not subject to comply with Actuarial Standards of Practice (ASOP), when defining the Actuarial Value of Assets (AVA), does not necessarily meet the requirement of ASOP 44 Selection and Use of Asset Valuation Methods for Pension Valuations. The AVA provided within this report follow the Pennsylvania Municipal Retirement Law and the PMRS policy statement.

KENNETT TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Dr. Richard L. Leff
Chairman, Board of Township Supervisors

Mr. Scudder G. Stevens
Vice-Chairman, Board of Township Supervisors

Mr. Geoffrey Gamble
Township Supervisor

Mr. Eden R. Ratliff
Township Manager

Ms. Amy Heinrich
Finance Director

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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.