COMPLIANCE AUDIT

Penn Township Firefighters' Pension Plan

York County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2018

August 2019

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

COUNCIL 90 AFSCME UNION LABEL

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Board of Township Commissioners
Penn Township
York County
Hanover, PA 17331

We have conducted a compliance audit of the Penn Township Firefighters' Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. 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. 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 whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- We determined that there were no benefit calculations prepared for the years covered by our audit period.

- We determined 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Penn Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Penn Township Firefighters' 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 and as previously described, 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 procedures indicated that, in all significant respects, the Penn Township Firefighters' 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 Penn Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

July 19, 2019

EUGENE A. DEPASQUALE
Auditor General

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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 Penn Township Firefighters' Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Penn Township Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 691, as amended, and a separately executed plan agreement with the plan's custodian. The plan is also affected by the provisions of collective bargaining agreements between the township and its firefighters. The plan was established January 1, 2004. Active members were required to contribute 1 percent of salary to the plan during 2015 and 1.5 percent of salary to the plan during 2016, 2017, and 2018. As of December 31, 2018, the plan had 15 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of accrual service.
Early Retirement	None
Vesting	100% after 5 years of service.

Retirement Benefit:

2% of the monthly average if employee compensation for the lasts 60 months multiplied by accrual service (maximum 25 years).

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Disability Benefit:

None

PENN TOWNSHIP FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, 2015, 2016, 2017, AND 2018

	2014	2015	2016	2017	2018
Total Pension Liability					
Service cost	$ 121,704	$ 143,657	$ 150,840	$ 154,161	$ 161,869
Interest	78,825	104,937	122,841	138,642	159,678
Change of benefit terms	-	169,430	-	-	-
Difference between expected and actual experience	-	(42,380)	-	(55,759)	-
Changes of assumptions	-	23,488	-	4,489	-
Net Change in Total Pension Liability	200,529	399,132	273,681	241,533	321,547
Total Pension Liability – Beginning	1,004,372	1,204,901	1,604,033	1,877,714	2,119,247
Total Pension Liability – Ending (a)	$ 1,204,901	$ 1,604,033	$ 1,877,714	$ 2,119,247	$ 2,440,794
Plan Fiduciary Net Position					
Contributions – employer	$ 22,266	$ 28,250	$ 53,402	$ 48,974	$ 59,544
Contributions – state aid	116,180	117,625	131,240	137,648	140,532
Contributions – member	-	6,129	9,179	17,801	14,470
Net investment income	41,006	(11,712)	58,602	204,315	(107,500)
Administrative expense	(5,000)	(6,600)	(5,500)	(5,500)	(5,500)
Net Change in Plan Fiduciary Net Position	174,452	133,692	246,923	403,238	101,546
Plan Fiduciary Net Position – Beginning	803,746	978,198	1,111,890	1,358,813	1,762,051
Plan Fiduciary Net Position – Ending (b)	$ 978,198	$ 1,111,890	$ 1,358,813	$ 1,762,051	$ 1,863,597
Net Pension Liability – Ending (a-b)	$ 226,703	$ 492,143	$ 518,901	$ 357,196	$ 577,197
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.2%	69.3%	72.4%	83.1%	76.4%
Estimated Covered Employee Payroll	$ 811,188	$ 819,498	$ 857,617	$ 872,143	$ 916,916
Net Pension Liability as a Percentage of Covered Employee Payroll	27.9%	60.1%	60.5%	41.0%	62.9%

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, 2016, 2017, and 2018, calculated using the discount rate of 7.0%, 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 – 12/31/15	$ 795,325	$ 492,143	$ 242,035
Net Pension Liability – 12/31/16	$ 863,518	$ 518,901	$ 233,642
Net Pension Liability – 12/31/17	$ 735,024	$ 357,196	$ 43,524
Net Pension Liability – 12/31/18	$ 998,706	$ 577,197	$ 226,136

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
2009	$ 79,063	$ 79,063	$ -	$ 573,917	13.8%
2010	89,762	89,762	-	639,298	14.0%
2011	100,435	100,435	-	731,140	13.7%
2012	102,485	102,485	-	764,135	13.4%
2013	103,927	103,927	-	776,181	13.4%
2014	138,446	138,446	-	811,188	17.1%
2015	145,875	145,875	-	819,498	17.8%
2016	184,642	184,642	-	857,617	21.5%
2017	186,622	186,622	-	872,143	21.4%
2018	200,076	200,076	-	916,916	21.8%

PENN TOWNSHIP FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.93%)
2017	14.62%
2016	5.14%
2015	(1.15%)
2014	5.01%

PENN TOWNSHIP FIREFIGHTERS' 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	$ 603,586	$ 822,756	$ 219,170	73.4%
01-01-15	962,796	1,355,439	392,643	71.0%
01-01-17	1,428,981	1,826,444	397,463	78.2%

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 five-year averaging period subject to a corridor between 80 to 120 percent of the 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 contribution levels from year to year.

PENN TOWNSHIP FIREFIGHTERS' 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.

PENN TOWNSHIP FIREFIGHTERS' 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	9 years
Asset valuation method	5-year smoothing, subject to a corridor between 80-120% of market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

PENN TOWNSHIP FIREFIGHTERS' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Raymond M. Van de Castle
President, Board of Township Commissioners

Mr. Joseph A. Klunk
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