COMPLIANCE AUDIT

Brighton Township
Police Pension Plan

Beaver County, Pennsylvania

For the Period
January 1, 2016 to December 31, 2018

February 2020

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
Brighton Township
Beaver County
Beaver, PA 15009

We have conducted a compliance audit of the Brighton Township Police Pension Plan for the period January 1, 2016 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

Brighton Township contracted with an independent certified public accounting firm for annual audits of its financial statements 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 Brighton Township Police 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 Brighton Township Police 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 Brighton 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.

February 12, 2020

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 Brighton Township Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Brighton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 94-18, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established February 12, 1968. Active members are required to contribute not less than 5 percent nor more than 8 percent of salary to the plan; however, during the current audit period, member contributions were reduced to 3.5 percent of salary. As of December 31, 2018, the plan had 11 active members, 1 terminated member eligible for vested benefits in the future, and 5 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 service
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service

Retirement Benefit:

Benefit equals 50% of final 36 months average compensation. Compensation includes base salary, overtime and longevity pay.

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.

Service Related Disability Benefit:

50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

BRIGHTON TOWNSHIP POLICE 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	$ 67,223	$ 82,147	$ 85,472	$ 93,025	$ 96,167
Interest	126,338	111,489	125,033	126,955	139,296
Difference between expected and actual experience	(214,195)	-	(4,861)	-	47,975
Changes of assumptions	29,076	-	44,533	-	47,154
Benefit payments, including refunds of member contributions	(77,307)	(77,305)	(77,431)	(77,686)	(77,903)
Net Change in Total Pension Liability	(68,865)	116,331	172,746	142,294	252,689
Total Pension Liability - Beginning	1,808,938	1,740,073	1,856,404	2,029,150	2,171,444
Total Pension Liability - Ending (a)	$ 1,740,073	$ 1,856,404	$ 2,029,150	$ 2,171,444	$ 2,424,133
Plan Fiduciary Net Position					
Contributions - employer	$ 101,159	$ 104,474	$ 91,827	$ 88,242	$ 107,250
Contributions - member	17,829	17,866	18,175	20,397	21,138
Investment income	44,096	48,589	41,827	52,733	71,423
Market value investment income (loss)	78,421	(41,070)	51,952	217,048	(173,164)
Benefit payments, including refunds of member contributions	(77,307)	(77,305)	(77,431)	(77,686)	(77,903)
Administrative expense	(994)	(2,897)	(1,004)	(2,482)	(424)
Investment expense	(11,424)	(8,463)	(8,802)	(9,669)	(10,665)
Net Change in Plan Fiduciary Net Position	151,780	41,194	116,544	288,583	(62,345)
Plan Fiduciary Net Position - Beginning	1,422,999	1,574,779	1,615,973	1,732,517	2,021,100
Plan Fiduciary Net Position - Ending (b)	$ 1,574,779	$ 1,615,973	$ 1,732,517	$ 2,021,100	$ 1,958,755
Net Pension Liability - Ending (a-b)	$ 165,294	$ 240,431	$ 296,633	$ 150,344	$ 465,378
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.5%	87.0%	85.38%	93.08%	80.80%
Estimated Covered Employee Payroll	$ 522,866	$ 545,884	$ 519,290	$ 628,154	$ 649,291
Net Pension Liability as a Percentage of Covered Employee Payroll	31.61%	44.04%	57.12%	23.93%	71.67%

BRIGHTON TOWNSHIP POLICE PENSION PLAN
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(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, 2016, 2017, and 2018, calculated using the discount rate of 6.25%, 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 (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net Pension Liability - 12/31/16	$ 547,864	$ 296,633	$ 85,146
Net Pension Liability - 12/31/17	$ 419,193	$ 150,344	$ (75,974)
Net Pension Liability - 12/31/18	$ 776,283	$ 465,378	$ 205,706

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	$ 33,939	$ 33,939	$ -	$ 334,665	10.14%
2010	57,016	57,016	-	375,419	15.19%
2011	60,446	60,446	-	404,741	14.93%
2012	82,180	82,180	-	416,010	19.75%
2013	83,327	83,327	-	421,724	19.76%
2014	85,605	101,159	(15,554)	522,866	19.35%
2015	104,474	104,474	-	545,884	19.14%
2016	91,827	91,827	-	519,290	17.68%
2017	88,242	88,242	-	628,154	14.05%
2018	107,250	107,250	-	649,291	16.52%

BRIGHTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.55%)
2017	15.19%
2016	5.31%
2015	(.06%)
2014	7.88%
2013	13.48%
2012	6.67%
2011	2.41%
2010	8.19%
2009	10.49%

BRIGHTON 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	$ 1,346,100	$ 1,709,803	$ 363,703	78.7%
01-01-15	1,574,779	1,740,073	165,294	90.5%
01-01-17	1,827,138	2,029,150	202,012	90.0%

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 subject to a corridor of 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.

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.

BRIGHTON 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	Level dollar
Remaining amortization period	10 year
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.25%
Projected salary increases	4.0%
Cost-of-living adjustments	2.5%

BRIGHTON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Mr. John Curtaccio
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Mr. Mark Piccirilli
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