

COMPLIANCE AUDIT

Newtown Township Firefighters' Pension Plan Bucks County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

January 2019



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**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Newtown Township
Bucks County
Newtown, PA 18940

We have conducted a compliance audit of the Newtown Township Firefighters' Pension Plan for the period January 1, 2015 to December 31, 2017. 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 are 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.

Newtown Township contracted with an independent certified public accounting firm for annual audits of its basic 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 Newtown 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 Newtown 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 Newtown 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.

January 24, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Report Distribution List	10

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 Newtown 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 Newtown Township Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2016-0-3. The plan is also affected by the provisions of collective bargaining agreements between the township and its firefighters. The plan was established on January 1, 1985. Active members were required to contribute 4 percent of compensation to the plan. As of December 31, 2017, the plan had 8 active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Attainment of age 60.
Early Retirement	Age 55 and the completion of 10 years of service.
Vesting	Vesting schedule is 40% after 4 years of service increasing by 5% for each of the next 2 years then increasing by 10% each additional year to 100% after 11 years of service.

Retirement Benefit:

A monthly benefit equal to 2.0% of Final Average Compensation (averaged over the final 24 months of employment), multiplied by years of service.

Survivor Benefit:

Before Retirement Eligibility	A monthly benefit equal to 50% of the participant's Vested Accrued Benefit converted to a joint and 50% survivor annuity as of the early retirement age, is payable to the beneficiary commencing immediately.
After Retirement Eligibility	The normal form of payment is a life annuity. At retirement, the participant may select an optional form of payment that is an actuarial equivalent of the normal form.

Service Related Disability Benefit:

For total and permanent disablement that occurs after the completion of 10 years of service, the Accrued Benefit at disablement is payable following 6 months of disablement. The benefit will be offset by any Workers' Compensation benefits received.

NEWTOWN 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 77,106	\$ 76,949
Interest	142,534	151,853
Difference between expected and actual experience	-	(57,521)
Benefit payments, including refunds of member contributions	(37,700)	(37,700)
Net Change in Total Pension Liability	<u>181,940</u>	<u>133,581</u>
Total Pension Liability - Beginning	<u>1,841,851</u>	<u>2,023,791</u>
Total Pension Liability - Ending (a)	<u><u>\$ 2,023,791</u></u>	<u><u>\$ 2,157,372</u></u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 117,401	\$ 120,492
Contributions - member	17,509	24,845
Net investment income	133,613	(52,620)
Benefit payments, including refunds of member contributions	(37,700)	(37,700)
Administrative expense	-	(8,349)
Net Change in Plan Fiduciary Net Position	<u>230,823</u>	<u>46,668</u>
Plan Fiduciary Net Position - Beginning	<u>1,628,126</u>	<u>1,858,949</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,858,949</u></u>	<u><u>\$ 1,905,617</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ 164,842</u></u>	<u><u>\$ 251,755</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.85%	88.33%
 Estimated Covered Employee Payroll	\$ 554,787	\$ 583,649
 Net Pension Liability as a Percentage of Covered Employee Payroll	29.71%	43.13%

NEWTOWN TOWNSHIP FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 81,181	\$ 103,016
Interest	166,503	189,566
Change of benefit terms	-	75,787
Difference between expected and actual experience	-	3,386
Changes of assumptions	-	83,682
Benefit payments, including refunds of member contributions	<u>(37,700)</u>	<u>(37,700)</u>
Net Change in Total Pension Liability	209,984	417,737
Total Pension Liability - Beginning	<u>2,157,372</u>	<u>2,367,356</u>
Total Pension Liability - Ending (a)	<u>\$ 2,367,356</u>	<u>\$ 2,785,093</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 102,096	\$ 103,558
Contributions - member	25,452	25,860
Net investment income	155,852	328,939
Benefit payments, including refunds of member contributions	(37,700)	(37,700)
Administrative expense	<u>(8,785)</u>	<u>(4,816)</u>
Net Change in Plan Fiduciary Net Position	236,915	415,841
Plan Fiduciary Net Position - Beginning	<u>1,905,617</u>	<u>2,142,532</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,142,532</u>	<u>\$ 2,558,373</u>
Net Pension Liability - Ending (a-b)	<u>\$ 224,824</u>	<u>\$ 226,720</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.50%	91.86%
Estimated Covered Employee Payroll	\$ 638,143	\$ 648,703
Net Pension Liability as a Percentage of Covered Employee Payroll	35.23%	34.95%

NEWTOWN TOWNSHIP FIREFIGHTERS' 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, 2014, 2015, and 2016, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	\$ 486,020	\$ 164,842	\$ (103,566)
Net Pension Liability - 12/31/15	\$ 586,260	\$ 251,755	\$ (28,769)
Net Pension Liability - 12/31/16	\$ 583,398	\$ 224,824	\$ (76,649)

In addition, the following presents the net pension liability of the township as of December 31, 2017, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability- 12/31/17	\$ 636,012	\$ 226,720	\$ (116,504)

SCHEDULE OF INVESTMENT RETURNS

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

2014	9.10%
2015	(3.00%)
2016	8.24%
2017	15.37%

NEWTOWN 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	\$ 1,317,049	\$ 1,690,544	\$ 373,495	77.9%
01-01-15	1,786,832	1,966,270	179,438	90.9%
01-01-17	2,227,218	2,530,211	302,993	88.0%

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 over a 4-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 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 contribution levels from year to year.

NEWTOWN 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.

NEWTOWN TOWNSHIP FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 121,478	100.0%
2013	127,045	100.0%
2014	117,401	100.0%
2015	120,492	100.0%
2016	102,096	100.0%
2017	103,558	100.0%

NEWTOWN 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	6 years
Asset valuation method	4-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.25%
Cost-of-living adjustments	None assumed

NEWTOWN 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. Phillip Calabro
Chairman, Board of Township Supervisors

Ms. Linda Bobrin
Vice-Chairwoman, Board of Township Supervisors

Mr. John Mack
Township Supervisor

Mr. Kyle Davis
Township Supervisor

Mr. Dennis Fisher
Township Supervisor

Mr. Micah Lewis
Township Manager

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.