

COMPLIANCE AUDIT

Marlborough Township Municipal Employees Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

June 2018



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
Marlborough Township
Montgomery County
Green Lane, PA 18054

We have conducted a compliance audit of the Marlborough Township Municipal Employees Pension Plan for the period January 1, 2014 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 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 whether retirement benefits calculated for both of the plan members who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Marlborough Township Municipal Employees 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 Marlborough Township Municipal Employees 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 Marlborough Township and, where appropriate, their responses have been included in the report.

May 31, 2018



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 Marlborough Township Municipal Employees 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 Marlborough Township Municipal Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 84-4, as amended. The plan was established July 23, 1984. Active members are not required to contribute to the plan. As of December 31, 2017, the plan had 4 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	Age 65 with 15 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 10 years of credited service.

Retirement Benefit:

Benefit equals 1.5% of average monthly pay based on last 36 months of employment times years of service.

Survivor Benefit:

If an active member dies, death benefit payable to surviving spouse equal to 100% of accrued benefit payable as a joint and 50% survivor annuity.

Disability Benefit:

Benefit is equal to benefit accrued to date.

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES 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	\$ 19,587	\$ 25,597
Interest	32,705	37,224
Difference between expected and actual experience	-	1,414
Changes of assumptions	-	14,812
Benefit payments, including refunds of member contributions	(11,486)	(8,447)
Net Change in Total Pension Liability	<u>40,806</u>	<u>70,600</u>
Total Pension Liability - Beginning	453,365	494,171
Total Pension Liability - Ending (a)	<u>\$ 494,171</u>	<u>\$ 564,771</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 13,346	\$ 14,635
Contributions – State Aid	15,491	19,604
Net investment income	15,304	(5,896)
Benefit payments, including refunds of member contributions	(11,486)	(8,447)
Administrative expense	(3,700)	(7,200)
Net Change in Plan Fiduciary Net Position	<u>28,955</u>	<u>12,696</u>
Plan Fiduciary Net Position - Beginning	398,352	427,307
Plan Fiduciary Net Position - Ending (b)	<u>\$ 427,307</u>	<u>\$ 440,003</u>
Net Pension Liability - Ending (a-b)	<u>\$ 66,864</u>	<u>\$ 124,768</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.5%	77.9%
Estimated Covered Employee Payroll	\$ 223,236	\$ 284,628
Net Pension Liability as a Percentage of Covered Employee Payroll	30.0%	43.8%

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES 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	\$ 26,621	\$ 26,308
Interest	41,200	41,930
Difference between expected and actual experience	-	(54,222)
Changes of assumptions	-	2,094
Benefit payments, including refunds of member contributions	(5,644)	(4,243)
Net Change in Total Pension Liability	<u>62,177</u>	<u>11,867</u>
Total Pension Liability – Beginning	564,771	626,948
Total Pension Liability - Ending (a)	<u>\$ 626,948</u>	<u>\$ 638,815</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 18,039	\$ 15,965
Contributions – State Aid	21,873	22,941
Net investment income	31,897	76,794
Benefit payments, including refunds of member contributions	(5,644)	(4,243)
Administrative expense	(4,700)	(7,800)
Net Change in Plan Fiduciary Net Position	<u>61,465</u>	<u>103,657</u>
Plan Fiduciary Net Position – Beginning	440,003	501,468
Plan Fiduciary Net Position - Ending (b)	<u>\$ 501,468</u>	<u>\$ 605,125</u>
Net Pension Liability - Ending (a-b)	<u>\$ 125,480</u>	<u>\$ 33,690</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.0%	94.7%
Estimated Covered Employee Payroll	\$ 294,094	\$ 283,344
Net Pension Liability as a Percentage of Covered Employee Payroll	42.7%	11.9%

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES 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, 2016, and 2017, calculated using the discount rate of 7.00%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability - 12/31/14	\$ 141,533	\$ 66,864	\$ 3,835
Net Pension Liability - 12/31/15	\$ 213,555	\$ 124,768	\$ 50,022
Net Pension Liability - 12/31/16	\$ 221,120	\$ 125,480	\$ 44,724
Net Pension Liability - 12/31/17	\$ 129,803	\$ 33,690	\$ (47,643)

SCHEDULE OF INVESTMENT RETURNS

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

2017	15.31%
2016	7.25%
2015	(1.39%)
2014	3.90%

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES 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	\$ 372,031	\$ 413,151	\$ 41,120	90.0%
01-01-15	439,977	510,397	70,420	86.2%
01-01-17	545,112	574,820	29,708	94.8%

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 ceiling of 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.

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES 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.

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 24,036	100.0%
2013	22,396	100.0%
2014	28,837	100.0%
2015	34,239	100.0%
2016	39,912	100.0%
2017	38,906	100.0%

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES 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	12 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

MARLBOROUGH TOWNSHIP MUNICIPAL EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Chairman, Board of Township Supervisors

Mr. William Hurst
Vice-Chairman, Board of Township Supervisors

Mr. Bill Jacobs
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Ms. Marybeth Cody
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