

# LIMITED PROCEDURES ENGAGEMENT

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## Upper Milford Township Non-Uniformed Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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May 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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The Board of Township Supervisors  
Upper Milford Township  
Lehigh County  
Old Zionsville, PA 18068

We conducted a Limited Procedures Engagement (LPE) of the Upper Milford Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether retirement benefits calculated for plan members who retired during the engagement period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Upper Milford Township Non-Uniformed Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 Upper Milford Township Non-Uniformed Pension Plan and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

April 30, 2018



EUGENE A. DEPASQUALE  
Auditor General

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(UNAUDITED)

The supplementary information contained on Pages 1 through 3 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 18,607	\$ 19,537
Interest	58,019	60,326
Benefit payments, including refunds of member contributions	(47,683)	(43,794)
Net Change in Total Pension Liability	<u>28,943</u>	<u>36,069</u>
Total Pension Liability - Beginning	805,501	834,444
Total Pension Liability - Ending (a)	<u>\$ 834,444</u>	<u>\$ 870,513</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 37,964	\$ 40,599
Net investment income	(11,747)	24,541
Benefit payments, including refunds of member contributions	(47,683)	(43,794)
Net Change in Plan Fiduciary Net Position	<u>(21,466)</u>	<u>21,346</u>
Plan Fiduciary Net Position - Beginning	714,968	693,502
Plan Fiduciary Net Position - Ending (b)	<u>\$ 693,502</u>	<u>\$ 714,848</u>
Net Pension Liability - Ending (a-b)	<u>\$ 140,942</u>	<u>\$ 155,665</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.1%	82.1%
Estimated Covered Employee Payroll	\$ 386,742	\$ 421,280
Net Pension Liability as a Percentage of Covered Employee Payroll	36.4%	37.0%

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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 and 2016, calculated using the then 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 - 12/31/15	\$ 221,856	\$ 140,942	\$ 71,187
Net Pension Liability - 12/31/16	\$ 238,034	\$ 155,665	\$ 84,616

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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
2008	\$ 43,743	\$ 43,743	\$ -	\$ 456,436	9.6%
2009	48,288	58,288	(10,000)	509,760	11.4%
2010	52,529	52,529	-	387,063	13.6%
2011	61,128	65,653	(4,525)	493,228	13.3%
2012	40,106	40,106	-	503,385	8.0%
2013	41,566	41,566	-	518,935	8.0%
2014	43,977	43,977	-	433,281	10.1%
2015	37,964	37,964	-	386,742	9.8%
2016	34,036	40,599	(6,563)	421,280	9.6%
2017	34,905	34,905	-	*	*

\* Due to the timing of this engagement, covered-employee payroll for 2017 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2016	3.55%
2015	(1.65%)

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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	\$ 620,286	\$ 773,392	\$ 153,106	80.2%
01-01-15	710,882	805,501	94,619	88.3%
01-01-17	771,310	860,285	88,975	89.7%

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. 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.



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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.

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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	7 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	N/A

UPPER MILFORD TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Daniel J. Mohr**  
Chairman, Board of Township Supervisors

**Mr. Edward Carter**  
Township Manager

**Ms. Jessi O'Donald**  
Secretary/Treasurer

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