

# COMPLIANCE AUDIT

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## East Norriton Township Non-Uniformed Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

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April 2016



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  
East Norriton Township  
Montgomery County  
East Norriton, PA 19401

We have conducted a compliance audit of the East Norriton Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2015. 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 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 whether retirement benefits calculated for the plan member who retired during the current audit 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 this amount to supporting documentation evidencing the amount determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the 2 plan members who elected to vest during the current audit period 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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 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.

East Norriton Township contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ending December 31, 2014 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 East Norriton Township Non-Uniformed 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 East Norriton Township Non-Uniformed 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 East Norriton Township and, where appropriate, their responses have been included in the report.

April 22, 2016

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 .....  | 9           |

## **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 East Norriton Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The East Norriton Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 161, as amended. The plan was established on August 14, 1967. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2015, the plan had 25 active members, 5 terminated members eligible for vested benefits in the future, and 26 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2015, selected plan benefit provisions are as follows:

### Eligibility Requirements:

|                   |   |
|-------------------|---|
| Normal Retirement | Age 58 and 10 years of service or age 55 and 25 years of service if hired before August 1, 2014.<br>Age 62 and 10 years of service if hired on or after August 1, 2014. |
| Early Retirement  | Age 55 and 10 years of service.   |
| Vesting           | 0-5 years = 0%, 6 years = 20%, 7 years = 40%, 8 years = 60%,<br>9 years = 80%, 10 or more years = 100%.   |

### Retirement Benefit:

Benefit equals 1.00% of average monthly compensation based on last 5 years up to \$750, plus 1.50% of average monthly compensation in excess of \$750, times years and months of benefit service.

### Survivor Benefit:

If married, 50% of accrued benefit at the date of death is payable to the surviving spouse or children under 18. If unmarried, 50% of the accrued benefit to the named beneficiary at the participant's earliest retirement date.

### Disability Benefit:

The disability benefit is equal to the participant's accrued benefit.

EAST NORRITON TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

The supplementary information contained on Pages 3 and 4 reflect 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 YEAR ENDED DECEMBER 31, 2014

|  |    |                         |
|--|----|-------------------------|
| Total Pension Liability  |    |                         |
| Service cost   | \$ | 144,642                 |
| Interest   |    | 483,969                 |
| Benefit payments, including refunds of member contributions                |    | (256,992)               |
| Net Change in Total Pension Liability                                      |    | <u>371,619</u>          |
| Total Pension Liability - Beginning  |    | 6,551,898               |
| Total Pension Liability - Ending (a)                                       | \$ | <u><u>6,923,517</u></u> |
|  |    |                         |
| Plan Fiduciary Net Position  |    |                         |
| Contributions - employer   | \$ | 225,902                 |
| Contribution - member  |    | 77,446                  |
| Net investment income  |    | 238,284                 |
| Benefit payments, including refunds of member contributions                |    | (256,992)               |
| Administrative expense   |    | (4,000)                 |
| Net Change in Plan Fiduciary Net Position                                  |    | <u>280,640</u>          |
| Plan Fiduciary Net Position - Beginning                                    |    | 4,828,408               |
| Plan Fiduciary Net Position - Ending (b)                                   | \$ | <u><u>5,109,048</u></u> |
|  |    |                         |
| Net Pension Liability - Ending (a-b)                                       | \$ | <u><u>1,814,469</u></u> |
|  |    |                         |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |    | 73.79%                  |
|  |    |                         |
| Estimated Covered Employee Payroll   | \$ | 1,531,039               |
|  |    |                         |
| Net Pension Liability as a Percentage of Covered Employee Payroll          |    | 118.51%                 |

EAST NORRITON TOWNSHIP NON-UNIFORMED 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, 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<br>(6.5%) | Current<br>Discount Rate<br>(7.5%) | 1% Increase<br>(8.5%) |
|-----------------------|-----------------------|------------------------------------|-----------------------|
| Net Pension Liability | \$ 2,524,170          | \$ 1,814,469                       | \$ 1,211,796          |

SCHEDULE OF INVESTMENT RETURN

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

|      |       |
|------|-------|
| 2014 | 5.30% |
|------|-------|

EAST NORRITON TOWNSHIP NON-UNIFORMED 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, 2011, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        |
|--------------------------------|--|--|--|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-11                       | \$ 4,158,958                           | \$ 5,751,179   | \$ 1,592,221   | 72.3%                      |
| 01-01-13                       | 4,102,051                              | 6,200,881  | 2,098,830  | 66.2%                      |
| 01-01-15                       | 5,109,048                              | 6,752,154  | 1,643,106  | 75.7%                      |

Note: The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses over a 5-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.

EAST NORRITON TOWNSHIP NON-UNIFORMED 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.

EAST NORRITON TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2010                   | \$ 136,204                   | 100.0%                 |
| 2011                   | 169,669                      | 100.0%                 |
| 2012                   | 137,467                      | 100.0%                 |
| 2013                   | 227,365                      | 100.0%                 |
| 2014                   | 225,902                      | 100.0%                 |
| 2015                   | 315,228                      | 100.0%                 |

EAST NORRITON TOWNSHIP NON-UNIFORMED 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, 2015  |
| Actuarial cost method         | Entry age normal |
| Amortization method           | Level dollar     |
| Remaining amortization period | 9 years          |
| Asset valuation method        | Market value     |
| Actuarial assumptions:        |                  |
| Investment rate of return     | 7.5%             |
| Projected salary increases    | 5.0%             |
| Cost-of-living adjustments    | None assumed     |

EAST NORRITON TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Ms. Tina Howell**  
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**Mr. Marc Alfarano**  
Vice Chairman, Board of Township Supervisors

**Mr. Dennis DeSanto, Jr.**  
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**Ms. Angelina Salamone**  
Township Supervisor

**Mr. John Zurzola, Esq.**  
Township Supervisor

**Mr. Donald Delamater**  
Township Manager/Chief Administrative Officer

**Mr. Dave Crist**  
Finance Director

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