

LIMITED PROCEDURES ENGAGEMENT

East Penn Township Non-Uniformed Pension Plan Carbon County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

August 2019



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 Penn Township
Carbon County
Lehighton, PA 18235

We conducted a Limited Procedures Engagement (LPE) of the East Penn Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018 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 municipal officials took appropriate corrective action to address the finding contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.


Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the East Penn 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 East Penn Township 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.

July 17, 2019



EUGENE A. DEPASQUALE
Auditor General

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EAST PENN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

East Penn Township has complied with the prior LPE report recommendation concerning the following:

- Failure To Deposit State Aid Into An Eligible Pension Plan

The township deposited \$3,767 into the non-uniformed pension plan, along with applicable interest on April 4, 2016.

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

The supplementary information contained on Pages 2 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, 2015 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Normal cost	\$ 33,695	\$ 35,211
Interest	10,079	12,049
Net Change in Total Pension Liability	<u>43,774</u>	<u>47,260</u>
Total Pension Liability – Beginning	223,971	267,745
Total Pension Liability – Ending (a)	<u>\$ 267,745</u>	<u>\$ 315,005</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 25,658	\$ 41,866
Expected investment return	10,539	12,219
Additional investment return	(4,438)	(6,060)
Administrative expense	<u>(2,613)</u>	<u>(3,438)</u>
Net Change in Plan Fiduciary Net Position	29,146	44,587
Plan Fiduciary Net Position – Beginning	223,173	252,319
Plan Fiduciary Net Position – Ending (b)	<u>\$ 252,319</u>	<u>\$ 296,906</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 15,426</u>	<u>\$ 18,099</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.24%	94.25%
 Estimated Covered Employee Payroll	\$ 208,900	\$ 156,537
 Net Pension Liability as a Percentage of Covered Employee Payroll	7.38%	11.56%

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Normal cost	\$ 17,390	\$ 18,086
Interest	9,535	10,535
Difference between expected and actual experience	(92,205)	-
Changes of assumptions	15,575	-
Benefit payments, including refunds of member contributions	(1,934)	(7,354)
Net Change in Total Pension Liability	<u>(51,639)</u>	<u>21,267</u>
Total Pension Liability – Beginning	315,005	263,366
Total Pension Liability – Ending (a)	<u>\$ 263,366</u>	<u>\$ 284,633</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 26,665	\$ 29,994
Expected investment return	12,339	13,561
Additional investment return	(4,638)	(6,963)
Benefit payments, including refunds of member contributions	(1,934)	(7,354)
Administrative expense	(3,519)	(3,604)
Net Change in Plan Fiduciary Net Position	<u>28,913</u>	<u>25,634</u>
Plan Fiduciary Net Position – Beginning	296,906	325,819
Plan Fiduciary Net Position – Ending (b)	<u>\$ 325,819</u>	<u>\$ 351,453</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (62,453)</u>	<u>\$ (66,820)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	123.71%	123.48%
 Estimated Covered Employee Payroll	\$ 200,401	\$ 234,667
 Net Pension Liability as a Percentage of Covered Employee Payroll	(31.16%)	(28.47%)

EAST PENN 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 as of December 31, 2015 and 2016, calculated using the discount rate of 4.5%, 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:

	<u>1% Decrease (3.5%)</u>	<u>Current Discount Rate (4.5%)</u>	<u>1% Increase (5.5%)</u>
Net Pension Liability – 12/31/15	\$ 53,949	\$ 15,426	\$ (16,588)
Net Pension Liability – 12/31/16	\$ 62,564	\$ 18,099	\$ (18,838)

In addition, the following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 4.0%, 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:

	<u>1% Decrease (3.0%)</u>	<u>Current Discount Rate (4.0%)</u>	<u>1% Increase (5.0%)</u>
Net Pension Liability – 12/31/17	\$ (24,199)	\$ (62,453)	\$ (90,473)
Net Pension Liability – 12/31/18	\$ (27,301)	\$ (66,820)	\$ (99,330)

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

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	\$ 8,643	\$ 9,891	\$ (1,248)		
2010	9,465	9,488	(23)	\$ 67,628	14.03%
2011	5,567	1,205	4,362		
2012	7,690	22,030	(14,340)	110,047	20.02%
2013	14,801	16,753	(1,952)		
2014	18,857	19,101	(244)	204,393	9.35%
2015	24,683	25,658	(975)	208,900	12.28%
2016	38,099	41,866	(3,767)	156,537	26.75%
2017	26,665	26,665	-	200,401	13.31%
2018	29,994	29,994	-	234,667	12.78%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

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

2018	1.97%
2017	2.50%
2016	2.27%
2015	2.60%
2014	2.81%
2013	2.85%
2012	2.85%
2011	4.06%
2010	3.49%
2009	4.17%

EAST PENN 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, 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	\$ 180,601	\$ 130,938	\$ (49,663)	137.9%
01-01-15	223,173	223,971	798	99.6%
01-01-17	296,906	238,375	(58,531)	124.6%

EAST PENN 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 PENN 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, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%

EAST PENN 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. William G. Schwab
Chairman, Board of Township Supervisors

Ms. Jillyan Sterling
Township Secretary

Mr. William Donovan
Township Treasurer

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.