

COMPLIANCE AUDIT

Harborcreek Township Non-Uniformed Pension Plan Erie County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

April 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
Harborcreek Township
Erie County
Harborcreek, PA 16421

We have conducted a compliance audit of the Harborcreek Township Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2018. 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 whether retirement benefits calculated for all 3 of the plan members 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 these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined 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.

Harborcreek Township contracted with an independent certified public accounting firm for an annual audit of its basic financial statements for the year ended December 31, 2017, 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 Harborcreek 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 Harborcreek 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 Harborcreek 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.

March 22, 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

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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 Harborcreek Township Non-Uniformed 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Harborcreek Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 99-32, as amended. The plan was established August 1, 1966. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2018, the plan had 25 active members, 6 terminated members eligible for vested benefits in the future, and 22 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 62 with 5 years of service.
Early Retirement	Age 55 with 5 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

A monthly benefit equal to 55% of average compensation, which is based on the highest 5 years of employment. The monthly pension shall be reduced proportionately for each year of credited service less than 15 years at retirement.

Survivor Benefit:

Before Retirement Eligibility	A monthly benefit equal to 50% of the present value of accrued benefits.
After Retirement Eligibility	The normal benefit is a benefit payment for life. A survivor benefit option may be selected at retirement.

Service Related Disability Benefit:

The member's accrued benefit as of date of disability.

HARBORCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 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 BEGINNING JANUARY 1, 2009, 2010, 2011, 2012, AND 2013

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Total Pension Liability					
Service cost	\$ 116,519	\$ 110,627	\$ 128,682	\$ 119,852	\$ 131,187
Interest	310,935	316,758	333,947	360,071	379,668
Difference between expected and actual experience	(127,677)	-	113,531	-	(65,134)
Changes of assumptions	-	-	-	-	-
Benefit payments, including refunds of member contributions	(216,283)	(216,210)	(216,280)	(221,317)	(237,296)
Net Change in Total Pension Liability	83,494	211,175	359,880	258,606	208,425
Total Pension Liability – Beginning	4,146,431	4,229,925	4,441,100	4,800,980	5,059,586
Total Pension Liability – Ending (a)	<u>\$ 4,229,925</u>	<u>\$ 4,441,100</u>	<u>\$ 4,800,980</u>	<u>\$ 5,059,586</u>	<u>\$ 5,268,011</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 106,925	\$ 113,854	\$ 234,617	\$ 98,041	\$ 130,762
Contributions – State Aid	89,217	78,200	84,106	156,700	100,131
Contribution – member	32,963	34,344	38,127	38,039	40,042
Net investment income	(885,634)	560,187	340,869	(9,795)	335,295
Benefit payments, including refunds of member contributions	(216,283)	(216,210)	(216,280)	(221,317)	(237,296)
Administrative expense	(3,500)	(2,925)	(1,250)	(2,875)	(825)
Net Change in Plan Fiduciary Net Position	(876,312)	567,450	480,189	58,793	368,109
Plan Fiduciary Net Position – Beginning	3,384,243	\$ 2,507,931	3,075,381	3,555,570	3,614,363
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,507,931</u>	<u>\$ 3,075,381</u>	<u>\$ 3,555,570</u>	<u>\$ 3,614,363</u>	<u>\$ 3,982,472</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,721,994</u>	<u>\$ 1,365,719</u>	<u>\$ 1,245,410</u>	<u>\$ 1,445,223</u>	<u>\$ 1,285,539</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.29%	69.25%	74.06%	71.44%	75.60%
Estimated Covered Employee Payroll	\$ 1,188,970	\$ 1,128,842	\$ 1,344,644	\$ 1,252,373	\$ 1,309,251
Net Pension Liability as a Percentage of Covered Employee Payroll	144.83%	120.98%	92.62%	115.40%	98.19%

HARBORCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS BEGINNING JANUARY 1, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 131,243	\$ 117,627	\$ 123,287	\$ 141,346	\$ 144,603
Interest	393,962	411,896	427,559	448,251	483,490
Difference between expected and actual experience	-	(46,397)	-	(133,645)	-
Changes of assumptions	-	-	-	770,586	-
Benefit payments, including refunds of member contributions	(270,321)	(274,291)	(284,737)	(300,005)	(299,043)
Net Change in Total Pension Liability	<u>254,884</u>	<u>208,835</u>	<u>266,109</u>	<u>926,533</u>	<u>329,050</u>
Total Pension Liability – Beginning	<u>5,268,011</u>	<u>5,522,895</u>	<u>5,731,730</u>	<u>5,997,839</u>	<u>6,924,372</u>
Total Pension Liability – Ending (a)	<u><u>\$ 5,522,895</u></u>	<u><u>\$ 5,731,730</u></u>	<u><u>\$ 5,997,839</u></u>	<u><u>\$ 6,924,372</u></u>	<u><u>\$ 7,253,422</u></u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 122,171	\$ 146,360	\$ 194,421	\$ 179,031	\$ 175,800
Contributions – State Aid	108,762	100,690	101,942	113,741	119,295
Contribution – member	38,678	38,981	39,656	40,474	42,194
Net investment income	589,712	365,957	32,511	333,404	765,093
Benefit payments, including refunds of member contributions	(270,321)	(274,291)	(284,737)	(300,005)	(299,043)
Administrative expense	(3,550)	(875)	(6,475)	(625)	(4,050)
Net Change in Plan Fiduciary Net Position	<u>585,452</u>	<u>376,822</u>	<u>77,318</u>	<u>366,020</u>	<u>799,289</u>
Plan Fiduciary Net Position – Beginning	<u>3,982,472</u>	<u>4,567,924</u>	<u>4,944,746</u>	<u>5,022,064</u>	<u>5,388,084</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 4,567,924</u></u>	<u><u>\$ 4,944,746</u></u>	<u><u>\$ 5,022,064</u></u>	<u><u>\$ 5,388,084</u></u>	<u><u>\$ 6,187,373</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 954,971</u></u>	<u><u>\$ 786,984</u></u>	<u><u>\$ 975,775</u></u>	<u><u>\$ 1,536,288</u></u>	<u><u>\$ 1,066,049</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.71%	86.27%	83.73%	77.81%	85.30%
Estimated Covered Employee Payroll	\$ 1,309,807	\$ 1,244,725	\$ 1,330,227	\$ 1,347,842	\$ 1,384,191
Net Pension Liability as a Percentage of Covered Employee Payroll	72.91%	63.23%	73.35%	113.98%	77.02%

HARBORCREEK 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 January 1, 2017 and 2018, calculated using the discount rate of 7.0%, 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:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 01/01/17	\$ 2,363,096	\$ 1,536,288	\$ 837,014
Net Pension Liability – 01/01/18	\$ 1,932,147	\$ 1,066,049	\$ 333,545

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	\$ 192,054	\$ 192,054	\$ -	\$ 1,128,842	17.01%
2010	318,723	318,723	-	1,344,644	23.70%
2011	254,741	254,741	-	1,252,373	20.34%
2012	230,893	230,893	-	1,309,251	17.64%
2013	230,933	230,933	-	1,309,807	17.63%
2014	247,050	247,050	-	1,244,725	19.85%
2015	296,363	296,363	-	1,330,227	22.28%
2016	292,772	292,772	-	1,347,842	21.72%
2017	295,095	295,095	-	1,384,191	21.32%
2018	358,612	358,612	-	1,382,101	25.95%

HARBORCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	14.15%
2016	6.62%
2015	0.65%
2014	8.00%
2013	14.82%
2012	9.23%
2011	(0.27%)
2010	10.84%
2009	22.30%
2008	(26.13%)

HARBORCREEK 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	\$ 3,982,472	\$ 5,268,011	\$ 1,285,539	75.6%
01-01-15	4,944,746	5,731,730	786,984	86.3%
01-01-17	5,388,084	6,924,372	1,536,288	77.8%

HARBORCREEK 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.

HARBORCREEK 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	Level dollar, closed.
Remaining amortization period	10 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed.

HARBORCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
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Mr. Joseph D. Peck
Chairman, Board of Township Supervisors

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Mr. Dean S. Pepicello
Township Supervisor

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