COMPLIANCE AUDIT

Manor Township
Non-Uniformed Pension Plan
Lancaster County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

November 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
Manor Township
Lancaster County
Lancaster, PA 17603

We have conducted a compliance audit of the Manor Township Non-Uniformed Pension Plan for the period January 1, 2015 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and

2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 the lone 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.

- 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.

- We determined 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Manor 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Manor 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 Manor 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.

October 24, 2019

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 Manor 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.

The Manor Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6-2007, as amended, and a separately executed agreement with the plan's insurance carrier. The plan was established February 5, 1973. Active members are required to contribute 1 percent of their compensation to the plan. As of December 31, 2018, the plan had 17 active members, 2 terminated members eligible for vested benefits in the future, and 17 retirees receiving pension benefits.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Attained age 60
Early Retirement	None
Vesting	20% vesting available after 3 years of vesting service plus 20% per year thereafter, up to 100%.

Retirement Benefit:

Benefit equals 2% of average compensation (the monthly average of total pay received for the 3 compensation years before retirement date), multiplied by accrual service.

Survivor Benefit:

Monthly annuity payable to spouse deferred to participant's earliest retirement date, amount is the amount that would have been paid had the participant terminated employment on the date of death and survived to his/her earliest retirement age, retired with a qualified joint & 50% survivor annuity in effect, then died the next day.

Disability Benefit:

None

MANOR TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Manor Township has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

  During the current audit period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

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

The supplementary information contained on pages 4 through 7 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

	2014	2015
Total Pension Liability		
Service cost	$ 99,540	$ 101,385
Interest	363,114	394,504
Difference between expected and actual experience	-	42,356
Changes of assumptions	-	148,579
Benefit payments, including refunds of member contributions	(211,545)	(289,278)
Net Change in Total Pension Liability	251,109	397,546
Total Pension Liability – Beginning	4,691,580	4,942,689
Total Pension Liability – Ending (a)	$ 4,942,689	$ 5,340,235
Plan Fiduciary Net Position		
Contributions – Employer	$ 119,915	$ 158,658
Contributions – State Aid	94,881	65,851
Contributions – Member	8,191	8,169
Net investment income	234,222	(33,043)
Benefit payments, including refunds of member contributions	(211,545)	(289,278)
Administrative expense	(5,300)	(6,250)
Net Change in Plan Fiduciary Net Position	240,364	(95,893)
Plan Fiduciary Net Position – Beginning	4,337,912	4,578,276
Plan Fiduciary Net Position – Ending (b)	$ 4,578,276	$ 4,482,383
Net Pension Liability – Ending (a-b)	$ 364,413	$ 857,852
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.6%	83.9%
Estimated Covered Employee Payroll	$ 885,326	$ 903,111
Net Pension Liability as a Percentage of Covered Employee Payroll	41.2%	95.0%

MANOR 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, 2016, 2017, AND 2018

	2016	2017	2018
Total Pension Liability			
Service cost	$ 106,201	$ 118,825	$ 124,469
Interest	410,471	430,530	448,802
Difference between expected and actual experience	-	15,288	-
Changes of assumptions	-	21,163	-
Benefit payments, including refunds of member contributions	(300,079)	(313,745)	(324,728)
Net Change in Total Pension Liability	216,593	272,061	248,543
Total Pension Liability – Beginning	5,340,235	5,556,828	5,828,889
Total Pension Liability – Ending (a)	$ 5,556,828	$ 5,828,889	$ 6,077,432
Plan Fiduciary Net Position			
Contributions – Employer	$ 189,885	$ 161,652	$ 169,605
Contributions – State Aid	40,050	78,001	79,634
Contributions – Member	8,227	8,358	8,768
Net investment income	258,989	792,226	(326,501)
Benefit payments, including refunds of member contributions	(300,079)	(313,745)	(324,728)
Administrative expense	(5,915)	(5,875)	(5,995)
Net Change in Plan Fiduciary Net Position	191,157	720,617	(399,217)
Plan Fiduciary Net Position – Beginning	4,482,383	4,673,540	5,394,157
Plan Fiduciary Net Position – Ending (b)	$ 4,673,540	$ 5,394,157	$ 4,994,940
Net Pension Liability – Ending (a-b)	$ 883,288	$ 434,732	$ 1,082,492
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.1%	92.5%	82.2%
Estimated Covered Employee Payroll	$ 936,082	$ 1,014,134	$ 967,809
Net Pension Liability as a Percentage of Covered Employee Payroll	94.4%	42.9%	111.8%

MANOR 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, 2016, 2017 and 2018, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	$ 1,422,466	$ 857,852	$ 372,923
Net Pension Liability – 12/31/16	$ 1,463,407	$ 883,288	$ 384,775
Net Pension Liability – 12/31/17	$ 1,048,886	$ 434,732	$ (93,381)
Net Pension Liability – 12/31/18	$ 1,715,180	$ 1,082,492	$ 538,230

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	$ 182,196	$ 182,196	$ -	$ 847,356	21.5%
2010	253,895	253,895	-	870,273	29.2%
2011	249,599	249,599	-	869,973	28.7%
2012	237,438	237,438	-	842,387	28.2%
2013	198,667	198,667	-	859,234	23.1%
2014	214,796	214,796	-	885,326	24.3%
2015	216,752	224,509	(7,757)	903,111	24.9%
2016	229,935	229,935	-	936,082	24.6%
2017	239,653	239,653	-	1,014,134	23.6%
2018	249,239	249,239	-	967,809	25.8%

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.20%)
2017	17.46%
2016	5.94%
2015	(0.73%)
2014	5.50%

MANOR 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	$ 3,560,932	$ 4,439,448	$ 878,516	80.2%
01-01-15	4,413,496	5,133,624	720,128	86.0%
01-01-17	4,940,237	5,593,279	653,042	88.3%

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 5-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair 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.

MANOR 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.

MANOR 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
Remaining amortization period	7 years
Asset valuation method	5-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	Related to Consumer Price Index (up to 3.0% annually) with an overall benefit limit of 130% of the normal retirement benefit.

MANOR 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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