

# LIMITED PROCEDURES ENGAGEMENT

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## Newton Township Non-Uniformed Employee Pension Plan

Lackawanna County, Pennsylvania

For the Period

January 1, 2016 to December 31, 2018

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August 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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Newton Township  
Lackawanna County  
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We conducted a Limited Procedures Engagement (LPE) of the Newton Township Non-Uniformed Employee Pension Plan for the period January 1, 2016 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- 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 Newton Township Non-Uniformed Employee 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 Newton 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 11, 2019



EUGENE A. DEPASQUALE  
Auditor General

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NEWTON TOWNSHIP NON-UNIFORMED EMPLOYEE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(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, 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	\$ 7,053	\$ -	\$ -	\$ -	\$ -
Interest	27,146	14,813	14,786	15,620	15,652
Difference between expected and actual experience	-	(121,109)	-	3,531	-
Changes of assumptions	-	-	-	7,988	-
Benefit payments, including refunds of member contributions	(125,776)	(15,183)	(15,183)	(15,183)	(15,183)
Net Change in Total Pension Liability	(91,577)	(121,479)	(397)	11,956	469
Total Pension Liability – Beginning	417,788	326,211	204,732	204,335	216,291
Total Pension Liability – Ending (a)	<u>\$ 326,211</u>	<u>\$ 204,732</u>	<u>\$ 204,335</u>	<u>\$ 216,291</u>	<u>\$ 216,760</u>
Plan Fiduciary Net Position					
Contributions – state aid	\$ 7,745	\$ 3,921	\$ 13,124	\$ 8,497	\$ 6,203
Contribution – employer	9,366	12,603	3,400	-	2,294
Net investment income	2,576	(4,790)	6,649	17,485	(11,809)
Benefit payments, including refunds of member contributions	(125,776)	(15,183)	(15,183)	(15,183)	(15,183)
Administrative expense	-	(2,500)	-	(2,700)	(1,000)
Other	91	-	-	-	-
Net Change in Plan Fiduciary Net Position	(105,998)	(5,949)	7,990	8,099	(19,495)
Plan Fiduciary Net Position – Beginning	256,312	150,314	144,365	152,355	160,454
Plan Fiduciary Net Position – Ending (b)	<u>\$ 150,314</u>	<u>\$ 144,365</u>	<u>\$ 152,355</u>	<u>\$ 160,454</u>	<u>\$ 140,959</u>
Net Pension Liability – Ending (a-b)	<u>\$ 175,897</u>	<u>\$ 60,367</u>	<u>\$ 51,980</u>	<u>\$ 55,837</u>	<u>\$ 75,801</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	46.08%	70.51%	74.56%	74.18%	65.03%
Estimated Covered Employee Payroll	\$ 77,659	\$ -	\$ -	\$ -	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	226.50%	0.00%	0.00%	0.00%	0.00%

NEWTON 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 7.5%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 83,332	\$ 60,367	\$ 41,075
Net Pension Liability – 12/31/16	\$ 74,466	\$ 51,980	\$ 33,019
Net Pension Liability – 12/31/17	\$ 79,474	\$ 55,837	\$ 35,866
Net Pension Liability – 12/31/18	\$ 98,888	\$ 75,801	\$ 56,220

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*
2014	\$ 17,111	\$ 17,111	\$ -	\$ 77,659	22.03%
2015	16,524	16,524	-		%
2016	16,524	16,524	-		%
2017	8,497	8,497	-		%
2018	8,497	8,497	-		%

Note: As disclosed in the prior report, effective January 1, 2015, the township changed the benefit structure of its non-uniformed employee pension plan going forward from a defined benefit to a defined contribution plan and effectively froze the accrued benefits of all participants under its previous defined benefit provisions as of December 31, 2014. Beginning in 2015 there are two required contributory components; one based on an actuarial determined contribution (defined benefit-above) and the other based on a defined percentage of employee payroll (defined contribution (see page 7)) for all active employees participating in the pension plan. Therefore, covered employee payroll data will no longer appear in table above.

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	(7.78%)
2017	12.19%
2016	4.78%
2015	(3.35%)
2014	3.18%

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

SCHEDULE OF FUNDING PROGRESS  
 DEFINED BENEFIT PLAN

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	\$ 228,606	\$ 381,891	\$ 153,285	59.9%
01-01-15	150,314	205,102	54,788	73.3%
01-01-17	152,355	215,854	63,499	70.6%

Note: The market value of the plan’s assets at 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method will lower contributions in years of less than expected returned and increase contributions in years of greater the expected returned. The net effect over long periods of time is to have less variance in contribution levels from year to year.

As noted in the prior report and earlier on page 2, effective December 31, 2014, the township froze the accrued benefits for all participants in its originally structured defined benefit employee pension fund. As such, the actuarial accrued liability valued January 1, 2015 represents an overall decrease in the accrued benefits due plan participants which will be payable under the terms of the amended plan document, accordingly.



NEWTON 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.

NEWTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

DEFINED BENEFIT PLAN

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	10 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

NEWTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

DEFINED CONTRIBUTION PLAN

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 8,533
2016	None	8,514
2017	\$ 5,268	3,791
2018	7,850	1,400

NEWTON 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. Douglas Pallman**  
Chairman, Board of Township Supervisors

**Mr. Kevin Carr**  
Vice Chairman, Board of Township Supervisors

**Mr. Robert Naegele**  
Township Supervisor

**Ms. Francine Fawcett**  
Secretary/Treasurer

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