

COMPLIANCE AUDIT

North Middleton Township Non-Uniformed Employees' Pension Plan

Cumberland County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

October 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
North Middleton Township
Cumberland County
Carlisle, PA 17013

We have conducted a compliance audit of the North Middleton Township Non-Uniformed Employees' 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 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 4 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to 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.
- 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 North Middleton Township Non-Uniformed Employees' 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 North Middleton Township Non-Uniformed Employees' 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 North Middleton 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 2, 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 North Middleton Township Non-Uniformed Employees' 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 North Middleton Township Non-Uniformed Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 95-3, as amended. The plan was established April 21, 1970. Active members are required to contribute 1 percent of compensation to the plan. As of December 31, 2018, the plan had 12 active members, 2 terminated members eligible for vested benefits in the future, and 9 retirees receiving pension benefits.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 62
Early Retirement	Age 55 with 10 years of service.
Vesting	20% vesting available after 3 years of service plus 20% for each year thereafter up to 100%.

Retirement Benefit:

A monthly benefit equal to 2% of Average Compensation (monthly average of total pay received for highest 3 consecutive year out of latest 10 compensation years) multiplied by accrual service.

Survivor Benefit:

Qualified married participant fully or partially vested in an accrued benefit is eligible. Immediate monthly income payable to the surviving eligible spouse in the amount of 50% of the monthly retirement benefit the participant would have received if they had terminated employment on the date of death and survived to early retirement.

Disability Benefit:

For a total and permanent disability, monthly income equal to the accrued benefit on date of disability (minimum \$20) payable to normal retirement date, death or recovery and a deferred annuity payable at normal retirement date.

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' 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 ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 60,352	\$ 51,725	\$ 54,053
Interest	164,349	175,033	183,797
Difference between expected and actual experience	-	(51,104)	-
Changes of Assumptions	-	65,097	-
Benefit payments, including refunds of member contributions	<u>(69,661)</u>	<u>(105,573)</u>	<u>(118,897)</u>
Net Change in Total Pension Liability	155,040	135,178	118,953
Total Pension Liability – Beginning	<u>2,165,803</u>	<u>2,320,843</u>	<u>2,456,021</u>
Total Pension Liability – Ending (a)	<u><u>\$ 2,320,843</u></u>	<u><u>\$ 2,456,021</u></u>	<u><u>\$ 2,574,974</u></u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 116,207	\$ 110,866	\$ 91,188
Contributions – member	-	4,726	5,540
Net investment income (loss)	97,159	(28,343)	115,215
Benefit payments, including refunds of member contributions	<u>(69,661)</u>	<u>(105,573)</u>	<u>(118,897)</u>
Administrative Expenses	<u>(5,000)</u>	<u>(5,800)</u>	<u>(5,040)</u>
Net Change in Plan Fiduciary Net Position	138,705	(24,124)	88,006
Plan Fiduciary Net Position – Beginning	<u>1,934,991</u>	<u>2,073,696</u>	<u>2,049,572</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 2,073,696</u></u>	<u><u>\$ 2,049,572</u></u>	<u><u>\$ 2,137,578</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 247,147</u></u>	<u><u>\$ 406,449</u></u>	<u><u>\$ 437,396</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.4%	83.5%	83.0%
Estimated Covered Employee Payroll	\$ 516,667	\$ 514,935	\$ 472,558
Net Pension Liability as a Percentage of Covered Employee Payroll	47.8%	78.9%	92.6%

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' 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		
Service cost	\$ 64,213	\$ 67,103
Interest	189,969	197,599
Difference between expected and actual experience	(40,298)	-
Changes of Assumptions	8,398	-
Benefit payments, including refunds of member contributions	(148,731)	(161,948)
Net Change in Total Pension Liability	<u>73,551</u>	<u>102,754</u>
Total Pension Liability – Beginning	2,574,974	2,648,525
Total Pension Liability – Ending (a)	<u>\$ 2,648,525</u>	<u>\$ 2,751,279</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 100,288	\$ 118,673
Contributions – member	5,520	7,320
Net investment income (loss)	317,672	(143,438)
Benefit payments, including refunds of member contributions	(148,731)	(161,948)
Administrative Expenses	(5,500)	(6,000)
Net Change in Plan Fiduciary Net Position	<u>269,249</u>	<u>(185,393)</u>
Plan Fiduciary Net Position – Beginning	2,137,578	2,406,827
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,406,827</u>	<u>\$ 2,221,434</u>
Net Pension Liability – Ending (a-b)	<u>\$ 241,698</u>	<u>\$ 529,845</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.9%	80.7%
Estimated Covered Employee Payroll	\$ 532,655	\$ 546,627
Net Pension Liability as a Percentage of Covered Employee Payroll	45.4%	96.9%

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' 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, 2014, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/14	\$ 482,450	\$ 247,147	\$ 44,297
Net Pension Liability – 12/31/15	\$ 666,771	\$ 406,449	\$ 182,387
Net Pension Liability – 12/31/16	\$ 705,030	\$ 437,396	\$ 206,922
Net Pension Liability – 12/31/17	\$ 521,568	\$ 241,698	\$ 780
Net Pension Liability – 12/31/18	\$ 817,888	\$ 529,845	\$ 281,557

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	\$ 69,265	\$ 84,786	\$ (15,521)	\$ 418,402	20.3%
2010	113,127	115,533	(2,406)	456,259	25.3%
2011	112,997	125,426	(12,429)	455,259	27.6%
2012	110,191	112,997	(2,806)	490,800	23.0%
2013	105,055	105,055	-	451,262	23.3%
2014	116,207	116,207	-	516,667	22.5%
2015	110,866	110,866	-	514,935	21.5%
2016	83,593	91,188	(7,595)	472,558	19.3%
2017	88,913	100,288	(11,375)	532,655	18.8%
2018	98,041	118,673	(20,632)	546,627	21.7%

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.11%)
2017	15.34%
2016	5.77%
2015	(1.38%)
2014	5.00%

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' 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	\$ 1,595,071	\$ 2,003,678	\$ 408,607	79.6%
01-01-15	2,030,746	2,334,836	304,090	87.0%
01-01-17	2,272,314	2,543,074	270,760	89.4%

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 five-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.

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' 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.

NORTH MIDDLETON 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	11 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	7.5%
Projected salary increases	4.5%

NORTH MIDDLETON TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Harry E. Kelso
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