

# LIMITED PROCEDURES ENGAGEMENT

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## Upper Nazareth Township Non-Uniformed Pension Plan Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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February 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Upper Nazareth Township  
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Nazareth, PA 18064

We conducted a Limited Procedures Engagement (LPE) of the Upper Nazareth Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, 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 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, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Upper Nazareth 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 Upper Nazareth 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.

January 29, 2019



EUGENE A. DEPASQUALE  
Auditor General

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UPPER NAZARETH TOWNSHIP NON-UNIFORMED 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 25,180	\$ 23,040
Interest	5,457	6,941
Difference between expected and actual experience	-	1,313
Changes of assumptions	-	405
Benefit payments, including refunds of member contributions	-	(1,585)
Net Change in Total Pension Liability	<u>30,637</u>	<u>30,114</u>
Total Pension Liability – Beginning	90,073	120,710
Total Pension Liability – Ending (a)	<u>\$ 120,710</u>	<u>\$ 150,824</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 15,438	\$ 15,497
Contributions – PMRS assessment	-	200
Contributions – member	9,815	7,401
PMRS investment income	5,599	7,066
Market value investment income	(612)	(7,991)
Benefit payments, including refunds of member contributions	-	(1,585)
PMRS administrative expense	(180)	(200)
Additional administrative expense	(215)	(295)
Net Change in Plan Fiduciary Net Position	<u>29,845</u>	<u>20,093</u>
Plan Fiduciary Net Position – Beginning	89,284	119,129
Plan Fiduciary Net Position – Ending (b)	<u>\$ 119,129</u>	<u>\$ 139,222</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,581</u>	<u>\$ 11,602</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.69%	92.31%
Estimated Covered Employee Payroll	\$ 318,052	\$ 347,735
Net Pension Liability as a Percentage of Covered Employee Payroll	0.50%	3.34%

\* 2014 Employer Contributions include (\$107) transferred from the Municipal Reserve Account.  
2015 Employer Contributions include (\$143) transferred from the Municipal Reserve Account.

UPPER NAZARETH 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 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 25,728	\$ 29,240
Interest	8,726	10,109
Difference between expected and actual experience	213	-
Changes of assumptions	621	-
Benefit payments, including refunds of member contributions	<u>(2,693)</u>	<u>(2,693)</u>
Net Change in Total Pension Liability	32,595	36,656
Total Pension Liability – Beginning	<u>150,824</u>	<u>183,419</u>
Total Pension Liability – Ending (a)	<u>\$ 183,419</u>	<u>\$ 220,075</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 16,000	\$ 16,333
Contributions – PMRS assessment	200	200
Contributions – member	9,728	12,907
PMRS investment income	8,812	10,197
Market value investment income	2,510	22,512
Benefit payments, including refunds of member contributions	<u>(2,693)</u>	<u>(2,693)</u>
PMRS administrative expense	<u>(200)</u>	<u>(200)</u>
Additional administrative expense	<u>(432)</u>	<u>(469)</u>
Net Change in Plan Fiduciary Net Position	33,925	58,787
Plan Fiduciary Net Position – Beginning	<u>139,222</u>	<u>173,147</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 173,147</u>	<u>\$ 231,934</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 10,272</u>	<u>\$ (11,859)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.40%	105.39%
 Estimated Covered Employee Payroll	\$ 399,782	\$ 449,807
 Net Pension Liability as a Percentage of Covered Employee Payroll	2.57%	(2.64%)

UPPER NAZARETH 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ 25,723	\$ 1,581	\$ (22,561)
Net Pension Liability – 12/31/15	\$ 38,248	\$ 11,602	\$ (14,678)

In addition, the following presents the net pension liability of the township as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, 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 (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability – 12/31/16	\$ 43,423	\$ 10,272	\$ (22,526)
Net Pension Liability – 12/31/17	\$ 28,751	\$ (11,859)	\$ (52,128)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 14,044	\$ 96
2013	14,140	None
2014	15,258	\$ 287
2015	15,807	33
2016	16,200	None
2017	16,200	\$ 333

UPPER NAZARETH 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. Michael Rinker**  
Chairman, Board of Township Supervisors

**Ms. Betty Parrish**  
Treasurer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).