

COMPLIANCE AUDIT

Upper Providence Township Non-Uniformed Pension Plan Delaware County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

July 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Township Council
Upper Providence Township
Delaware County
Media, PA 19063

We have conducted a compliance audit of the Upper Providence 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 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 three 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 contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

Upper Providence Township contracted with an independent certified public accounting firm for annual audits of the Upper Providence Township Non-Uniformed Pension Plan's financial statements 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 Upper Providence 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 Upper Providence 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 Upper Providence 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.

July 24, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 Upper Providence 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 Upper Providence Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2003-10 which adopts a separately executed joinder agreement with PSABMRT. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1979. Active members are required to contribute 3.5 percent of compensation to the plan. As of December 31, 2018, the plan had 10 active members, 3 terminated members eligible for vested benefits in the future, and 6 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 65 and 10 years of service.
Early Retirement	Age 55 and 5 years of service or age 50 and 25 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

The greater of (a) or (b): (a) 50% of average monthly compensation as of date of determination multiplied by a fraction, not greater than 1, the numerator of which is credited service as of date of determination and denominator is credited service member would have had at Normal Retirement Date or (b) accrued benefit as of January 1, 1985. For an employee who becomes a member on or after January 1, 1995, 50% of average monthly compensation as of date of determination multiplied by a fraction, not greater than 1, the numerator of which is credited service as of date of determination and denominator is the greater of (i), (ii), or (iii): (i) credited service member would have had at Normal Retirement Date, (ii) credited service as of date of determination or (iii) 25.

Survivor Benefit:

Before Retirement Eligibility	If an active member dies before becoming eligible for an immediate benefit, a lump sum equal to 12 times the accrued monthly benefit will be paid to a beneficiary. If a terminated vested member dies before becoming eligible for an Early Retirement benefit, his beneficiary will receive a refund of the member's contributions plus interest. If an active or terminated vested member dies after becoming eligible for an immediate benefit, his beneficiary will receive 120 guaranteed monthly benefit payments that would have been payable had the member retired on the day before death.
After Retirement Eligibility	If a married active or terminated vested member dies after becoming eligible for Normal Retirement but prior to his/her benefit commencing, the surviving spouse will receive the benefit the spouse would have received had the employee retired on the day before his/her death and elected the 100% Joint and Survivor for payment.

BACKGROUND – (Continued)

Service Related Disability Benefit:

A member who becomes permanently disabled will be entitled to his Accrued Benefit. All disability benefits are offset by benefits from Worker's Compensation, any other benefits that the township has contributed and 50% of the amount of Social Security disability benefit. If the member's death occurs before the benefits equal the amount of his accumulated contributions plus interest, the balance is payable to his designated beneficiary.

UPPER PROVIDENCE 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 55,790	\$ 66,846	\$ 69,854
Interest	78,182	95,558	104,933
Difference between expected and actual experience	-	13,891	-
Changes of assumptions	-	117,619	-
Benefit payments, including refunds of member contributions	(35,840)	(44,985)	(35,840)
Net Change in Total Pension Liability	98,132	248,929	138,947
Total Pension Liability – Beginning	1,000,106	1,098,238	1,347,167
Total Pension Liability – Ending (a)	<u>\$ 1,098,238</u>	<u>\$ 1,347,167</u>	<u>\$ 1,486,114</u>
Plan Fiduciary Net Position			
Contributions – employer and state aid	\$ 59,856	\$ 57,634	\$ 82,301
Contributions – member	17,104	18,112	19,893
Net investment income	56,350	(11,770)	48,191
Benefit payments, including refunds of member contributions	(35,840)	(44,985)	(35,840)
Administrative expense	(19,725)	(17,200)	(10,247)
Net Change in Plan Fiduciary Net Position	77,745	1,791	104,298
Plan Fiduciary Net Position – Beginning	929,400	1,007,145	1,008,936
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,007,145</u>	<u>\$ 1,008,936</u>	<u>\$ 1,113,234</u>
Net Pension Liability – Ending (a-b)	<u>\$ 91,093</u>	<u>\$ 338,231</u>	<u>\$ 372,880</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.70%	74.89%	74.90%
Estimated Covered Employee Payroll	\$ 458,503	\$ 494,964	\$ 518,978
Net Pension Liability as a Percentage of Covered Employee Payroll	19.87%	68.33%	71.85%

UPPER PROVIDENCE 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, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 79,891	\$ 83,486
Interest	119,420	131,171
Change of benefit terms	-	-
Difference between expected and actual experience	40,730	-
Changes of assumptions	4,348	-
Benefit payments, including refunds of member contributions	(37,637)	(54,818)
Net Change in Total Pension Liability	206,752	159,839
Total Pension Liability – Beginning	1,486,114	1,692,866
Total Pension Liability – Ending (a)	<u>\$ 1,692,866</u>	<u>\$ 1,852,705</u>
Plan Fiduciary Net Position		
Contributions – employer and state aid	\$ 87,867	\$ 139,889
Contributions – member	17,748	19,345
Net investment income	147,080	(72,655)
Benefit payments, including refunds of member contributions	(37,637)	(54,818)
Administrative expense	(13,324)	(4,000)
Net Change in Plan Fiduciary Net Position	201,734	27,761
Plan Fiduciary Net Position – Beginning	1,113,234	1,314,968
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,314,968</u>	<u>\$ 1,342,729</u>
Net Pension Liability – Ending (a-b)	<u>\$ 377,898</u>	<u>\$ 509,976</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.67%	72.47%
Estimated Covered Employee Payroll	\$ 573,330	\$ 520,000
Net Pension Liability as a Percentage of Covered Employee Payroll	65.91%	98.07%

UPPER PROVIDENCE 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, calculated using the discount rate of 7.96%, 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 (6.96%)</u>	<u>Current Discount Rate (7.96%)</u>	<u>1% Increase (8.96%)</u>
Net Pension Liability – 12/31/14	\$ 196,103	\$ 91,093	\$ (987)

In addition, 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/15	\$ 473,094	\$ 338,231	\$ 220,635
Net Pension Liability – 12/31/16	\$ 515,751	\$ 372,880	\$ 248,088
Net Pension Liability – 12/31/17	\$ 532,457	\$ 377,898	\$ 242,778
Net Pension Liability – 12/31/18	\$ 672,447	\$ 509,976	\$ 367,835

UPPER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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	\$ 48,345	\$ 48,345	\$ -	Not available	N/A
2010	59,447	59,447	-	\$ 438,561	13.56%
2011	61,565	61,565	-	412,652	14.92%
2012	59,920	59,920	-	384,867	15.57%
2013	57,758	57,758	-	470,911	12.27%
2014	59,856	59,856	-	458,503	13.05%
2015	57,634	57,634	-	494,964	11.64%
2016	82,301	82,301	-	518,978	15.86%
2017	87,867	87,867	-	573,330	15.33%
2018	139,889	139,889	-	520,000	26.90%

N/A – Not applicable, employee covered payroll unavailable

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.04%)
2017	13.21%
2016	4.78%
2015	(6.70%)
2014	6.16%

UPPER PROVIDENCE 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	\$ 935,635	\$ 907,464	\$ (28,171)	103.1%
01-01-15	1,126,497	1,229,748	103,251	91.6%
01-01-17	1,335,881	1,531,192	195,311	87.2%

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 subject to a corridor between 80 and 120 percent of the 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.

UPPER PROVIDENCE 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.

UPPER PROVIDENCE 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	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210(a) of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

UPPER PROVIDENCE 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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Ms. Beth Glassman
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