

COMPLIANCE AUDIT

West Goshen Township Non-Uniformed Pension Plan Chester 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



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
West Goshen Township
Chester County
West Chester, PA 19380

We have conducted a compliance audit of the West Goshen 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all five of the plan members who retired during the current audit 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 also determined whether retirement benefits calculated for all three of the plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined 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.
- We determined 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 report 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.

West Goshen Township contracted with an independent certified public accounting firm for annual audits of the West Goshen Township Non-Uniformed Pension Plan's financial statements for the years ended December 31, 2015, 2016, and 2017, 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 West Goshen 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 West Goshen 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 West Goshen 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 3, 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 West Goshen 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The West Goshen Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2-2019. The plan was established December 1, 1968. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 50 active members, 13 terminated members eligible for vested benefits in the future, and 24 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, or age 60 and 20 years of service.

Early Retirement Age 50 and 15 years of service.

Vesting 50% after 5 years of service, increasing 10% per year to 100% after 10 or more years of service.

Retirement Benefit:

Lifetime monthly pension with 120 months guaranteed of 1.5% of average monthly compensation based on the last 36 months of employment times years of benefit service up to 35 years.

Survivor Benefit:

If a member who been married for at least one year dies after completion of 10 years vesting service and reaching age 50, the member's surviving spouse shall receive the same benefit that would have been payable had the member retired on a joint and 100% survivor annuity.

Service Related Disability Benefit:

Benefit accrued to date of disability.

WEST GOSHEN TOWNSHIP NON-UNIFORMED 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 254,248	\$ 303,948
Interest	440,546	486,872
Difference between expected and actual experience	-	154,907
Benefit payments, including refunds of member contributions	<u>(222,549)</u>	<u>(244,638)</u>
Net Change in Total Pension Liability	472,245	701,089
Total Pension Liability – Beginning	6,144,774	6,617,019
Total Pension Liability – Ending (a)	<u>\$ 6,617,019</u>	<u>\$ 7,318,108</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 179,953	\$ 203,323
Contributions – state aid	163,162	171,819
Net investment income	384,114	(9,007)
Benefit payments, including refunds of member contributions	<u>(222,549)</u>	<u>(244,638)</u>
Administrative expense	<u>(14,992)</u>	<u>(14,690)</u>
Net Change in Plan Fiduciary Net Position	489,688	106,807
Plan Fiduciary Net Position – Beginning	5,620,360	6,110,048
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,110,048</u>	<u>\$ 6,216,855</u>
Net Pension Liability – Ending (a-b)	<u>\$ 506,971</u>	<u>\$ 1,101,253</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.34%	84.95%
Estimated Covered Employee Payroll	\$ 2,782,787	\$ 2,844,820
Net Pension Liability as a Percentage of Covered Employee Payroll	18.22%	38.71%

WEST GOSHEN 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

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 315,049	\$ 296,549	\$ 309,699
Interest	524,397	564,858	604,412
Difference between expected and actual experience	-	(238,199)	-
Changes of assumptions	-	294,753	-
Benefit payments, including refunds of member contributions	(286,817)	(309,384)	(310,049)
Net Change in Total Pension Liability	<u>552,629</u>	<u>608,577</u>	<u>604,062</u>
Total Pension Liability – Beginning *	<u>7,318,108</u>	<u>7,870,737</u>	<u>8,479,782</u>
Total Pension Liability – Ending (a) *	<u>\$ 7,870,737</u>	<u>\$ 8,479,314</u>	<u>\$ 9,083,844</u>
 Plan Fiduciary Net Position			
Contributions – employer	\$ 132,083	\$ 117,667	\$ 399,015
Contributions – state aid	268,686	278,562	-
Net investment income	476,625	1,041,023	(362,560)
Benefit payments, including refunds of member contributions	(286,387)	(309,384)	(310,049)
Administrative expense	(14,892)	(15,553)	-
Net Change in Plan Fiduciary Net Position	<u>576,115</u>	<u>1,112,315</u>	<u>(273,594)</u>
Plan Fiduciary Net Position – Beginning *	<u>6,216,855</u>	<u>6,792,970</u>	<u>7,905,753</u>
Plan Fiduciary Net Position – Ending (b) *	<u>\$ 6,792,970</u>	<u>\$ 7,905,285</u>	<u>\$ 7,632,159</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 1,077,767</u>	<u>\$ 574,029</u>	<u>\$ 1,451,685</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.31%	93.23%	84.02%
 Estimated Covered Employee Payroll	\$ 2,807,489	\$ 2,845,587	\$ 2,981,440
 Net Pension Liability as a Percentage of Covered Employee Payroll	38.39%	20.17%	48.69%

* The Total Pension Liability and Plan Fiduciary Net Position ending balances for 2017 differ from the respective beginning balances for 2018 by \$468. The 2017 information was presented in the plan's audited financial statements as part of the required supplementary information while the 2018 information was prepared by the plan's actuary.

WEST GOSHEN 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, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/14	\$ 1,325,158	\$ 506,971	\$ (190,139)
Net Pension Liability – 12/31/15	\$ 2,012,729	\$ 1,101,253	\$ 327,476
Net Pension Liability – 12/31/16	\$ 2,050,061	\$ 1,077,767	\$ 251,827
Net Pension Liability – 12/31/17	\$ 1,641,472	\$ 574,029	\$ (328,984)
Net Pension Liability – 12/31/18	\$ 2,581,811	\$ 1,451,685	\$ 495,170

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	\$ 181,383	\$ 181,383	\$ -	\$2,041,108	8.89%
2010	185,993	185,993	-		
2011	218,297	218,297	-	2,167,797	10.07%
2012	219,956	219,956	-		
2013	322,581	322,581	-	2,379,505	13.56%
2014	343,115	343,115	-	2,782,787	12.33%
2015	375,143	375,143	-	2,844,820	13.19%
2016	400,769	400,769	-	2,807,489	14.27%
2017	396,229	396,229	-	2,845,587	13.92%
2018	399,015	399,015	-	2,981,440	13.38%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was only provided for odd years prior to 2014.

WEST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	15.51%
2016	7.75%
2015	(0.15%)
2014	6.89%

WEST GOSHEN 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	\$ 4,888,014	\$ 5,701,500	\$ 813,486	85.7%
01-01-15	6,115,818	6,777,696	661,878	90.2%
01-01-17	6,794,668	7,928,927	1,134,259	85.7%

Note: The market value of the plan’s assets at 01-01-13 has been adjusted to reflect the smoothing 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.

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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.

WEST GOSHEN 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	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

WEST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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