

# LIMITED PROCEDURES ENGAGEMENT

---

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

---

January 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  
Caernarvon Township  
Lancaster County  
Narvon, PA 17555

We conducted a Limited Procedures Engagement (LPE) of the Caernarvon 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 annuity monthly 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 Caernarvon 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 Caernarvon 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 4, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Supplementary Information .....	1
Summary of Deposited State Aid and Employer Contributions .....	4
Report Distribution List .....	5

CAERNARVON 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	\$ 23,866	\$ 25,232
Interest	27,947	30,849
Change of benefit terms	<u>1</u>	<u>-</u>
Net Change in Total Pension Liability	51,814	56,081
Total Pension Liability – Beginning	<u>499,331</u>	<u>551,145</u>
Total Pension Liability – Ending (a)	<u>\$ 551,145</u>	<u>\$ 607,226</u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 17,407	\$ 21,891
Contributions – PMRS assessment	-	200
Contributions – employee	6,573	7,211
PMRS investment income	27,993	30,971
Market value investment income	(1,828)	(34,808)
PMRS administrative expense	(180)	(200)
Additional administrative expense	<u>(1,074)</u>	<u>(1,291)</u>
Net Change in Plan Fiduciary Net Position	48,891	23,974
Plan Fiduciary Net Position – Beginning	<u>494,418</u>	<u>543,309</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 543,309</u>	<u>\$ 567,283</u>
Net Pension Liability – Ending (a-b)	<u>\$ 7,836</u>	<u>\$ 39,943</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.58%	93.42%
Estimated Covered Employee Payroll	\$ 288,216	\$ 300,347
Net Pension Liability as a Percentage of Covered Employee Payroll	2.72%	13.30%

\* 2014 Employer Contributions includes \$1,825 deposited into the Municipal Reserve Account and (\$1,891) allocated from the Municipal Reserve Account. 2015 Employer Contributions includes an additional \$3,870 deposited into the Municipal Reserve Account and liquidated during 2016.

CAERNARVON 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	\$ 22,345	\$ 24,916
Interest	33,642	34,474
Difference between expected and actual experience	(10,366)	-
Changes of assumptions	628	-
Benefit payments, including refunds of member contributions	<u>(4,297)</u>	<u>(2,924)</u>
Net Change in Total Pension Liability	41,952	56,466
Total Pension Liability – Beginning	<u>607,226</u>	<u>649,178</u>
Total Pension Liability – Ending (a)	<u>\$ 649,178</u>	<u>\$ 705,644</u>
 Plan Fiduciary Net Position		
Contributions – employer *	\$ 7,967	\$ 11,513
Contributions – PMRS assessment	200	180
Contributions – employee	6,505	9,371
PMRS investment income	34,079	34,626
Market value investment income	11,641	75,848
Benefit payments, including refunds of member contributions	(4,297)	(2,924)
PMRS administrative expense	(200)	(180)
Additional administrative expense	<u>(1,670)</u>	<u>(1,592)</u>
Net Change in Plan Fiduciary Net Position	54,225	126,842
Plan Fiduciary Net Position – Beginning	<u>567,283</u>	<u>621,508</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 621,508</u>	<u>\$ 748,350</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 27,670</u>	<u>\$ (42,706)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.74%	106.05%
Estimated Covered Employee Payroll	\$ 264,004	\$ 259,072
Net Pension Liability as a Percentage of Covered Employee Payroll	10.48%	(16.48%)

\* 2016 Employer Contributions includes \$9,895 in forfeitures and (\$7,873) allocated from the Municipal Reserve Account. 2017 Employer Contributions includes \$3,726 deposited into the Municipal Reserve Account and (\$7,758) allocated from the Municipal Reserve Account.

CAERNARVON 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	\$ 118,065	\$ 7,836	\$ (102,393)
Net Pension Liability - 12/31/15	\$ 161,388	\$ 39,943	\$ (81,502)

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	\$ 153,757	\$ 27,670	\$ (98,065)
Net Pension Liability - 12/31/17	\$ 94,825	\$ (42,706)	\$ (179,897)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 9,226	\$ 2,367
2013	10,793	4,213
2014	14,513	2,960
2015	17,293	928
2016	4,191	1,954
2017	14,967	758

Note: In 2016, the township met the plan's \$16,040 funding requirement through the deposit of \$4,191 in state aid and \$1,954 in employer contributions and allocation of \$9,895 in terminated employee forfeitures.



CAERNARVON 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. Bob Lauffer**  
Chairman, Board of Township Supervisors

**Ms. Kathryn Norris**  
Secretary/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).