

# COMPLIANCE AUDIT

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

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June 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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Board of Township Supervisors  
East Goshen Township  
Chester County  
West Chester, PA 19380

We have conducted a compliance audit of the East Goshen Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017 (defined contribution), are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 4 of the plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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.

East Goshen Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2016, 2015, and 2014 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 East 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 East 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 East 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.

June 13, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal flourish 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 East 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.

The East Goshen Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2014-60, effective October 21, 2014. Prior to October 21, 2014, the plan was locally controlled by the provisions of Resolution No. 10-61, as amended. The plan was established effective January 1, 2011. Active members are not required to contribute to the plan. The municipality was required to contribute 5 percent of compensation for the years 2014 and 2015, and 5.5 percent of compensation for the years 2016 and 2017. As of December 31, 2017, the plan had 25 active members and 3 terminated members eligible for vested benefits in the future.

Prior to January 1, 2011, the township maintained a defined benefit plan for its non-uniformed employees that was previously established January 1, 1987. The defined benefit plan was frozen and benefits were accrued through December 31, 2010. As of December 31, 2017, the defined benefit plan had 17 active participants, 12 terminated members eligible for vested benefits in the future and 4 retirees receiving pension benefits.

## **BACKGROUND – (Continued)**

Selected plan benefit provisions for the aforementioned defined benefit plan (frozen as of December 31, 2010) are as follows:

### Eligibility Requirements:

Normal Retirement	Age 65 and 10 years of service
Early Retirement	Age 55 with 10 years of service
Vesting	As of January 1, 2011, all members were 100% vested. Plan is now frozen as of December 31, 2010.

### Retirement Benefit:

A monthly benefit equal to 1.25% times final average earnings times years and fractions of years. Final average earnings are based on highest 5 calendar years out of the last 10 calendar years. Unmarried: Life Income, Married: Life Income; 50% to surviving spouse. Benefit accrual is frozen as of December 31, 2010.

### Survivor Benefit:

Benefit to surviving spouse is automatic after participant is eligible for early retirement. Benefit is equal to 50% of the pension which would have been paid to the participant if he had retired.

### Disability Benefit:

Eligible after 10 years of service and receiving Social Security disability benefits. No reduction if benefit starts before age 65. Same benefit as Normal Retirement Benefit.

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
DEFINED BENEFIT PLAN  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Interest	\$ 146,061	\$ 151,866	\$ 155,548	\$ 164,144
Difference between expected and actual experience	-	(30,794)	-	(22,325)
Changes of assumptions	-	323,943	-	7,114
Benefit payments, including refunds of member contributions	(8,664)	(182,254)	(16,253)	(18,829)
Net Change in Total Pension Liability	<u>137,397</u>	<u>262,761</u>	<u>139,295</u>	<u>130,104</u>
Total Pension Liability – Beginning	<u>1,830,089</u>	<u>1,967,486</u>	<u>2,230,247</u>	<u>2,369,542</u>
Total Pension Liability - Ending (a)	<u><u>\$1,967,486</u></u>	<u><u>\$2,230,247</u></u>	<u><u>\$2,369,542</u></u>	<u><u>\$2,499,646</u></u>
Plan Fiduciary Net Position				
Net investment income	\$ 106,960	\$ (25,973)	\$ 187,198	\$ 431,723
Benefit payments, including refunds of member contributions	(8,664)	(182,254)	(16,253)	(18,829)
Administrative expense	(3,575)	(7,975)	(4,850)	(8,850)
Net Change in Plan Fiduciary Net Position	<u>94,721</u>	<u>(216,202)</u>	<u>166,095</u>	<u>404,044</u>
Plan Fiduciary Net Position – Beginning	<u>2,642,483</u>	<u>2,737,204</u>	<u>2,521,002</u>	<u>2,687,097</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$2,737,204</u></u>	<u><u>\$2,521,002</u></u>	<u><u>\$2,687,097</u></u>	<u><u>\$3,091,141</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (769,718)</u></u>	<u><u>\$ (290,755)</u></u>	<u><u>\$ (317,555)</u></u>	<u><u>\$ (591,495)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	139.1%	113.0%	113.4%	123.7%
Estimated Covered Employee Payroll	N/A	N/A	N/A	N/A
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	N/A	N/A	N/A



EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT PLAN  
 (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 8.00%, 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 (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability- 12/31/14	\$ (496,115)	\$ (769,718)	\$ (997,217)

The following presents the net pension liability of the township as of December 31, 2015, 2016 and 2017, calculated using the discount rate of 7.00%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability - 12/31/15	\$ 48,793	\$ (290,755)	\$ (571,181)
Net Pension Liability - 12/31/16	\$ 20,145	\$ (317,555)	\$ (598,193)
Net Pension Liability - 12/31/17	\$ (275,380)	\$ (591,495)	\$ (854,245)

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.16%
2016	7.92%
2015	(0.97%)
2014	4.59%

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT PLAN  
 (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	\$ 2,335,011	\$ 1,746,596	\$ (588,415)	133.7%
01-01-15	2,737,204	2,260,635	(476,569)	121.1%
01-01-17	2,687,097	2,354,331	(332,766)	114.1%

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
DEFINED BENEFIT PLAN  
(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.

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT PLAN  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	None	N/A
2013	None	N/A
2014	None	N/A
2015	None	N/A
2016	None	N/A
2017	None	N/A

Note: Since the actuarial value of assets exceeded the actuarial present value of future benefits for the defined benefit plan (see page 5), there was no minimum municipal obligation required for the years 2012 through 2017 as shown above

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
DEFINED BENEFIT PLAN  
(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	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	N/A
Cost-of-living adjustments	None assumed

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS  
DEFINED CONTRIBUTION PLAN

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 83,276	None
2013	102,554	None
2014	92,838	None
2015	92,985	None
2016	95,704	None
2017	106,707	None

EAST GOSHEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
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This report was initially distributed to the following:

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