COMPLIANCE AUDIT

Franconia Township Non-Uniformed Pension Plan

Montgomery County, Pennsylvania

For the Period

January 1, 2016 to December 31, 2019

April 2020

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

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
Franconia Township
Montgomery County
Telford, PA 18969

We have conducted a compliance audit of the Franconia Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. 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 both 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 also determined whether retirement benefits calculated for the plan member 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined.

- 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.

Franconia Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2016, 2017, and 2018, 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 Franconia 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 Franconia 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 Franconia Township and, where appropriate, their responses have been included in the report.

April 1, 2020

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

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 Franconia 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 Franconia Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 350, as amended. The plan was established January 1, 1980. Active members are currently not required to contribute to the plan. As of December 31, 2019, the plan had 16 active members, 7 terminated members eligible for vested benefits in the future, and 12 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2019, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Age 55
Vesting	10% per year of service

Retirement Benefit:

An amount equal to 1.5% of average monthly compensation multiplied by full and partial years of service rendered after January 1, 2014 plus 1% of average monthly compensation multiplied by full and partial years of service rendered prior to January 1, 2014.

Survivor Benefit:

Pre-Retirement	Present value of accrued benefit. If married, payable as a joint & survivor annuity.
Post-Retirement	Based on annuity option elected.

Disability Benefit:

Benefit equals 100% of accrued benefit payable immediately. Must be permanent disability as determined by township chosen doctor, form equals life annuity.

The supplementary information contained on Pages 3 through 5 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, 2017, AND 2018

	2014	2015	2016	2017	2018
Total Pension Liability					
Service cost	$ 56,862	$ 50,628	$ 52,653	$ 59,312	$ 61,684
Interest	124,341	150,224	160,621	136,132	145,784
Difference between expected and actual experience	-	(5,809)	-	(471,142)	-
Changes of assumptions	-	117,860	-	(43,066)	-
Benefit payments, including refunds of member contributions	(52,973)	(54,806)	(53,908)	(57,214)	(62,670)
Net Change in Total Pension Liability	128,230	258,097	159,366	(375,978)	144,798
Total Pension Liability - Beginning	1,882,558	2,010,788	2,268,885	2,428,251	2,052,273
Total Pension Liability - Ending (a)	$ 2,010,788	$ 2,268,885	$ 2,428,251	$ 2,052,273	$ 2,197,071
Plan Fiduciary Net Position					
Contributions - employer	$ 113,577	$ 109,504	$ 100,856	$ 117,237	$ 117,600
Net investment income	65,805	(26,283)	121,886	207,032	(101,212)
Benefit payments, including refunds of member contributions	(52,973)	(54,806)	(53,908)	(57,214)	(62,670)
Administrative expense	(4,300)	(3,850)	(3,500)	(3,500)	(3,500)
Net Change in Plan Fiduciary Net Position	122,109	24,565	165,334	263,555	(49,782)
Plan Fiduciary Net Position - Beginning	1,427,008	1,549,117	1,573,682	1,739,016	2,002,571
Plan Fiduciary Net Position - Ending (b)	$ 1,549,117	$ 1,573,682	$ 1,739,016	$ 2,002,571	$ 1,952,789
Net Pension Liability - Ending (a-b)	$ 461,671	$ 695,203	$ 689,235	$ 49,702	$ 244,282
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.0%	69.4%	71.6%	97.6%	88.9%
Estimated Covered Employee Payroll	$ 1,186,612	$ 1,313,266	$ 1,149,770	$ 1,149,350	$ 1,157,455
Net Pension Liability as a Percentage of Covered Employee Payroll	38.9%	52.9%	59.9%	4.3%	21.1%

FRANCONIA 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, 2015, 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 - 12/31/15	$ 986,721	$ 695,203	$ 446,901

In addition, the following presents the net pension liability of the township as of December 31, 2016, 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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/16	$ 991,350	$ 689,235	$ 431,603

Furthermore, the following presents the net pension liability of the township as of December 31, 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 - 12/31/17	$ 288,077	$ 49,702	$ 155,191
Net Pension Liability - 12/31/18	$ 490,996	$ 244,282	$ 31,945

FRANCONIA 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
2014	$ 113,577	$ 113,577	$ -	$1,186,612	9.57%
2015	109,504	109,504	-	1,313,266	8.34%
2016	100,856	100,856	-	1,149,770	8.77%
2017	117,237	117,237	-	1,149,350	10.20%
2018	117,600	117,600	-	1,157,455	10.16%
2019	101,846	101,846	-	*	

* Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.10%)
2017	12.04%
2016	7.84%
2015	(1.72%)
2014	5.35%

FRANCONIA 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	$ 1,389,208	$ 1,765,363	$ 376,155	78.7%
01-01-15	1,629,108	2,122,839	493,731	76.7%
01-01-17	1,739,016	1,914,042	175,026	90.9%

Note: The market values of the plan's assets at 01-01-15 and 01-01-17 are valued using the smoothing method described in Section 210 of Act 205, as amended. 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.

FRANCONIA 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.

FRANCONIA 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	6 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

FRANCONIA TOWNSHIP NON-UNIFORMED PENSION PLAN
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