

# COMPLIANCE AUDIT

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

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October 2018



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**

Township Council  
Middletown Township  
Delaware County  
Lima, PA 19037

We have conducted a compliance audit of the Middletown 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.
- 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 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 all 3 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 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.

Middletown Township contracted with an independent certified public accounting firm for annual audits of the Middletown 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 Middletown 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 Middletown 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 Middletown 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.

October 4, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

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 Middletown 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 Middletown Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2009-28, as amended. The plan was established September 1, 1972. Active members are not required to contribute to the plan. As of December 31, 2017, the plan had 15 active members, 7 terminated members eligible for vested benefits in the future, and 15 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows

### Eligibility Requirements:

Normal Retirement	Age 65 and 5 years of service
Early Retirement	Age 55 and 15 years of service
Vesting	0-2 years of service = 0%; 3 years = 20%; 4 years = 40%; 5 years = 60%; 6 years = 80%; 7 or more years = 100%

### Retirement Benefit:

2.20% of average monthly pay based on highest 5 consecutive years out of the final ten years times years of service up to 15 years.

### Survivor Benefit:

If vested, present value of the accrued benefit to designated beneficiary.

MIDDLETOWN 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	\$ 82,391	\$ 68,075
Interest	240,836	251,697
Difference between expected and actual experience	-	(26,197)
Benefit payments, including refunds of member contributions	(124,334)	(151,471)
Net Change in Total Pension Liability	<u>198,893</u>	<u>142,104</u>
Total Pension Liability - Beginning	3,190,922	3,389,815
Total Pension Liability - Ending (a)	<u><u>\$ 3,389,815</u></u>	<u><u>\$ 3,531,919</u></u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 39,803	\$ 43,218
Contributions - state aid	73,581	74,496
Net investment income	186,883	26,991
Benefit payments, including refunds of member contributions	(124,334)	(151,471)
Administrative expense	(30,902)	(30,128)
Net Change in Plan Fiduciary Net Position	<u>145,031</u>	<u>(36,894)</u>
Plan Fiduciary Net Position - Beginning	3,404,431	3,549,461
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 3,549,462</u></u>	<u><u>\$ 3,512,567</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ (159,647)</u></u>	<u><u>\$ 19,352</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.71%	99.45%
 Estimated Covered Employee Payroll	\$ 1,037,255	\$ 939,871
 Net Pension Liability as a Percentage of Covered Employee Payroll	(15.39%)	2.06%



MIDDLETOWN 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	\$ 71,479	\$ 51,221
Interest	263,861	270,730
Difference between expected and actual experience	-	(200,530)
Changes of assumptions	-	158,833
Benefit payments, including refunds of member contributions	(170,503)	(193,084)
Net Change in Total Pension Liability	<u>164,837</u>	<u>87,170</u>
Total Pension Liability - Beginning	3,531,919	3,696,756
Total Pension Liability - Ending (a)	<u>\$ 3,696,756</u>	<u>\$ 3,783,926</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 10,140	\$ 7,433
Contributions - state aid	72,355	58,472
Net investment income	226,322	562,773
Benefit payments, including refunds of member contributions	(170,503)	(193,084)
Administrative expense	(23,065)	(26,722)
Net Change in Plan Fiduciary Net Position	<u>115,249</u>	<u>408,872</u>
Plan Fiduciary Net Position - Beginning	3,512,567	3,627,816
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,627,816</u>	<u>\$ 4,036,688</u>
Net Pension Liability - Ending (a-b)	<u>\$ 68,940</u>	<u>\$ (252,762)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.14%	106.68%
Estimated Covered Employee Payroll	\$ 815,636	\$ 900,679
Net Pension Liability as a Percentage of Covered Employee Payroll	8.45%	(28.06%)

MIDDLETOWN 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, and 2017, 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%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 153,090	\$ (159,647)	\$ (432,042)
Net Pension Liability - 12/31/15	\$ 338,192	\$ 19,352	\$ (258,500)
Net Pension Liability - 12/31/16	\$ 390,248	\$ 68,940	\$ (211,247)
Net Pension Liability - 12/31/17	\$ 99,919	\$ (252,762)	\$ (558,573)

MIDDLETOWN 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
2008	\$ 108,861	\$ 108,861	\$ -		
2009	110,129	110,129	-	\$ 1,055,709	10.43%
2010	112,514	112,514	-		
2011	165,858	165,858	-	1,177,107	14.09%
2012	119,040	119,040	-		
2013	111,976	111,976	-	1,048,026	10.68%
2014	113,384	113,384	-	1,037,255	10.93%
2015	117,714	117,714	-	939,871	12.52%
2016	72,495	82,495	(10,000)	815,636	10.11%
2017	55,905	65,905	(10,000)	900,679	7.32%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for even years prior to 2013.

SCHEDULE OF INVESTMENT RETURNS

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

2017	15.68%
2016	9.88%
2015	5.05%
2014	5.46%

MIDDLETOWN 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	\$ 2,960,232	\$ 2,986,539	\$ 26,307	99.1%
01-01-15	3,549,462	3,363,618	(185,844)	105.5%
01-01-17	3,627,816	3,655,059	27,243	99.3%

MIDDLETOWN 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.

MIDDLETOWN 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	15 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%
Cost-of-living adjustments	None assumed

\* Includes inflation at 3.0%

MIDDLETOWN TOWNSHIP NON-UNIFORMED PENSION PLAN  
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