COMPLIANCE AUDIT

Shaler Township
Non-Uniformed Pension Plan

Allegheny County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2017

October 2018

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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Board of Township Commissioners
Shaler Township
Allegheny County
Glenshaw, PA 15116

We have conducted a compliance audit of the Shaler Township Non-Uniformed Pension Plan for the period January 1, 2015 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 whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period was 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.

Shaler Township contracted with an independent certified public accounting firm for annual audits of its basic 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 Shaler 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 Shaler 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 Shaler 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.

September 7, 2018

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 Shaler 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 Shaler Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1705, as amended. The plan was established January 1, 1963. Active members are required to contribute 5 percent of their base salary to the plan. As of December 31, 2017, the plan had 16 active members, 3 terminated members eligible for vested benefits in the future, and 21 retirees receiving pension benefits from the plan.

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

Eligibility Requirements:

Normal Retirement	Age 65 and 10 years of service
Early Retirement	Age 55 and 10 years of service
Vesting	A member is 100% vested after 10 years of service (100% after 8 years of service if hired prior to January 1, 2005).

Retirement Benefit:

A monthly benefit equal to 1/12 of Average Annual Compensation multiplied by years of service (up to 40 years) and applicable benefit multiplier based upon the following schedule:
a.) Less than 25 years of service: 1.5%
b.) 25 to 30 years of service: 1.8%
c.) More years 30 years of service: 2.0%

Survivor Benefit:

Before Retirement Eligibility	A monthly benefit payable to the participant's spouse for life starting at what would have been the participant's earliest retirement date (or immediately if death occurs after Early Retirement). The survivor benefit shall be equal to 50% of the participant's accrued benefit at the date of death, reduced for early commencement if applicable.
After Retirement Eligibility	The normal form of payment is a life annuity. An actuarial equivalent joint and 50% survivor annuity is available at the election of the participant.

Service Related Disability Benefit:

After age 40 and 10 years of service and qualification for Social Security disability benefits, the accrued benefit at date of disablement reduced by worker's compensations, Social Security disability benefits, or any other disability benefit.

SHALER 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

	2014	2015
Total Pension Liability		
Service cost	$ 123,730	$ 119,986
Interest	512,852	529,604
Difference between expected and actual experience	-	(40,346)
Benefit payments, including refunds of member contributions	(372,731)	(365,399)
Net Change in Total Pension Liability	263,851	243,845
Total Pension Liability - Beginning	6,897,297	7,161.148
Total Pension Liability - Ending (a)	$ 7,161,148	$ 7,404,993
Plan Fiduciary Net Position		
Contributions - employer	$ 140,445	$ 143,882
Contributions - member	49,414	60,309
Net investment income	391,158	(64,532)
Benefit payments, including refunds of member contributions	(372,731)	(365,399)
Administrative expense	(47,682)	(48,287)
Other	22,272	(18,551)
Net Change in Plan Fiduciary Net Position	182,876	(292,578)
Plan Fiduciary Net Position - Beginning	7,288,395	7,471,271
Plan Fiduciary Net Position - Ending (b)	$ 7,471,271	$ 7,178,693
Net Pension Liability - Ending (a-b)	$ (310,123)	$ 226,300
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.33%	96.94%
Estimated Covered Employee Payroll	$ 1,120,453	$ 1,067,328
Net Pension Liability as a Percentage of Covered Employee Payroll	(27.68%)	21.20%

SHALER 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

	2016	2017
Total Pension Liability		
Service cost	$ 123,785	$ 128,105
Interest	551,506	559,828
Difference between expected and actual experience	-	(355,640)
Changes of assumptions	-	405,647
Benefit payments, including refunds of member contributions	(361,665)	(363,300)
Net Change in Total Pension Liability	313,626	374,640
Total Pension Liability - Beginning	7,404,993	7,718,619
Total Pension Liability - Ending (a)	$ 7,718,619	$ 8,093,259
Plan Fiduciary Net Position		
Contributions – employer	$ 115,961	$ 116,239
Contributions – member	52,405	52,100
Net investment income	544,991	1,035,293
Benefit payments, including refunds of member contributions	(361,665)	(363,300)
Administrative expense	(49,414)	(50,678)
Net Change in Plan Fiduciary Net Position	302,278	789,654
Plan Fiduciary Net Position - Beginning	7,178,693	7,480,971
Plan Fiduciary Net Position - Ending (b)	$ 7,480,971	$ 8,270,625
Net Pension Liability - Ending (a-b)	$ 237,648	$ (177,366)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.92%	102.19%
Estimated Covered Employee Payroll	$ 1,151,511	$ 1,121,289
Net Pension Liability as a Percentage of Covered Employee Payroll	20.64%	(15.82%)

SHALER 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 city as of December 31, 2014, 2015, and 2016, calculated using the discount rate of 7.50%, as well as what the city'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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/14	$ 418,825	$ (310,123)	$ (940,348)
Net Pension Liability - 12/31/15	$ 961,935	$ 226,300	$ (421,864)
Net Pension Liability - 12/31/16	$ 990,515	$ 237,648	$ (412,159)

In addition, the following presents the net pension liability of the township as of December 31, 2017, calculated using the discount rate of 7.25%, 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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability - 12/31/17	$ 633,858	$ (177,366)	$ (872,198)

SHALER 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	$ 61,922	$ 66,857	$ (4,935)	$ 1,382,483	4.84%
2009	51,301	66,380	(15,079)	1,382,483	4.80%
2010	83,006	84,110	(1,104)	1,302,876	6.46%
2011	84,379	156,382	(72,003)	1,302,876	12.00%
2012	82,596	101,323	(18,727)	1,101,663	9.20%
2013	130,653	131,436	(783)	1,101,663	11.93%
2014	140,445	140,445	-	1,120,453	12.53%
2015	143,882	143,882	-	1,067,328	13.48%
2016	99,869	115,961	(16,092)	1,151,511	10.07%
2017	102,293	116,239	(13,946)	1,121,289	10.37%

SCHEDULE OF INVESTMENT RETURNS

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

2017	14.11%
2016	7.63%
2015	(0.88%)
2014	5.46%

SHALER 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	$ 6,295,102	$ 6,612,300	$ 317,198	95.2%
01-01-15	7,185,721	7,120,802	(64,919)	100.9%
01-01-17	7,818,720	7,770,826	(47,894)	100.6%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 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.

SHALER 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.

SHALER TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	$ 82,596	122.7%
2013	130,653	100.0%
2014	140,445	100.0%
2015	143,883	100.0%
2016	99,869	116.1%
2017	102,293	113.6%

SHALER 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	N/A
Remaining amortization period	N/A
Asset valuation method	4-year smoothing - the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.5%

SHALER TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Mr. David W. Shutter
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