

LIMITED PROCEDURES ENGAGEMENT

South Buffalo Township Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

August 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
South Buffalo Township
Armstrong County
Freeport, PA 16229

We conducted a Limited Procedures Engagement (LPE) of the South Buffalo Township Non-Uniformed Pension Plan for the period January 1, 2015 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.
- 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.
- 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 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 South Buffalo 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 South Buffalo 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.

August 16, 2018



EUGENE A. DEPASQUALE
Auditor General

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SOUTH BUFFALO 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	\$ 12,233	\$ 10,575
Interest	22,921	25,872
Difference between expected and actual experience	-	2,229
Changes of assumptions	-	10,122
Benefit payments, including refunds of member contributions	-	(13,002)
Net Change in Total Pension Liability	<u>35,154</u>	<u>35,796</u>
Total Pension Liability - Beginning	293,385	328,539
Total Pension Liability - Ending (a)	<u>\$ 328,539</u>	<u>\$ 364,335</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 422	\$ 991
Contributions – state aid	17,867	17,883
Net investment income	18,102	(2,152)
Benefit payments, including refunds of member contributions	-	(13,002)
Administrative expense	(3,504)	(7,086)
Net Change in Plan Fiduciary Net Position	<u>32,887</u>	<u>(3,366)</u>
Plan Fiduciary Net Position - Beginning	300,316	333,203
Plan Fiduciary Net Position - Ending (b)	<u>\$ 333,203</u>	<u>\$ 329,837</u>
Net Pension Liability - Ending (a-b)	<u>\$ (4,664)</u>	<u>\$ 34,498</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.4%	90.5%
Estimated Covered Employee Payroll	\$ 159,188	\$ 166,470
Net Pension Liability as a Percentage of Covered Employee Payroll	(2.9%)	20.7%

SOUTH BUFFALO 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	\$ 11,104	\$ 5,826
Interest	27,603	30,241
Change of benefit terms	-	19,521
Changes of assumptions	-	1,365
Benefit payments, including refunds of member contributions	(14,809)	(23,472)
Net Change in Total Pension Liability	<u>23,898</u>	<u>33,481</u>
Total Pension Liability - Beginning	364,335	388,233
Total Pension Liability - Ending (a)	<u>\$ 388,233</u>	<u>\$ 421,714</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 793	\$ -
Contributions – state aid	17,410	18,080
Net investment income	15,261	44,222
Benefit payments, including refunds of member contributions	(14,809)	(23,472)
Administrative expense	(4,275)	(7,399)
Net Change in Plan Fiduciary Net Position	<u>14,380</u>	<u>31,431</u>
Plan Fiduciary Net Position - Beginning	329,837	344,217
Plan Fiduciary Net Position - Ending (b)	<u>\$ 344,217</u>	<u>\$ 375,648</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 44,016</u>	<u>\$ 46,066</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.7%	89.1%
 Estimated Covered Employee Payroll	\$ 130,086	\$ 128,736
 Net Pension Liability as a Percentage of Covered Employee Payroll	33.8%	35.8%

SOUTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN
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 (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, 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%)
Net Pension Liability - 12/31/15	\$ 75,336	\$ 34,498	\$ (707)
Net Pension Liability - 12/31/16	\$ 86,256	\$ 44,016	\$ 7,495
Net Pension Liability - 12/31/17	\$ 87,088	\$ 44,066	\$ 10,272

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.85%
2016	4.63%
2015	(0.66%)
2014	6.05%

SOUTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN
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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	\$ 252,406	\$ 261,266	\$ 8,860	96.6%
01-01-15	333,203	340,890	7,687	97.8%
01-01-17	344,217	409,119	64,902	84.1%

SOUTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN
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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.

SOUTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
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SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 14,527	100.0%
2013	14,848	101.9%
2014	18,289	100.0%
2015	18,874	100.0%
2016	18,203	100.0%
2017	18,080	100.0%

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

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	8 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

SOUTH BUFFALO 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. Joseph Charlton
Chairman, Board of Township Supervisors

Ms. Michele Brestensky
Secretary

This report is a matter of public record and is available online at 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.