

# LIMITED PROCEDURES ENGAGEMENT

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## South Lebanon Township Non-Uniformed Employees Pension Plan

Lebanon County, Pennsylvania  
For the Period  
January 1, 2016 to December 31, 2018

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January 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
South Lebanon Township  
Lebanon County  
Lebanon, PA 17042

We conducted a Limited Procedures Engagement (LPE) of the South Lebanon Township Non-Uniformed Employees Pension Plan for the period January 1, 2016 to December 31, 2018 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 the plan member 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, 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the South Lebanon Township Non-Uniformed Employees 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 Lebanon 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.

January 10, 2020



EUGENE A. DEPASQUALE  
Auditor General

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SOUTH LEBANON TOWNSHIP NON-UNIFORMED EMPLOYEES 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 53,827	\$ 56,548	\$ 54,744	\$ 57,536	\$ 59,550
Interest	214,028	220,823	226,098	229,400	234,512
Difference between expected and actual experience	20,041	41,567	(9,398)	(1,011)	-
Changes of assumptions	69,401	136,195	76,525	6,404	-
Benefit payments, including refunds of member contributions	(88,770)	(151,271)	(183,495)	(193,410)	(206,679)
Net Change in Total Pension Liability	<u>268,527</u>	<u>303,862</u>	<u>164,474</u>	<u>98,919</u>	<u>87,383</u>
Total Pension Liability – Beginning	3,286,484	3,555,011	3,858,873	4,023,347	4,122,266
Total Pension Liability – Ending (a)	<u>\$ 3,555,011</u>	<u>\$ 3,858,873</u>	<u>\$ 4,023,347</u>	<u>\$ 4,122,266</u>	<u>\$ 4,209,649</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 212,418	\$ 210,000	\$ 185,000	\$ 176,000	\$ 215,000
Net investment income	150,995	(23,505)	163,784	363,985	(167,042)
Benefit payments, including refunds of member contributions	(88,770)	(151,271)	(183,495)	(193,410)	(206,679)
Administrative expense	(14,218)	(22,032)	(17,607)	(14,942)	(14,567)
Net Change in Plan Fiduciary Net Position	<u>260,425</u>	<u>13,192</u>	<u>147,682</u>	<u>331,633</u>	<u>(173,288)</u>
Plan Fiduciary Net Position – Beginning	2,866,920	3,127,345	3,140,537	3,288,219	3,619,852
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,127,345</u>	<u>\$ 3,140,537</u>	<u>\$ 3,288,219</u>	<u>\$ 3,619,852</u>	<u>\$ 3,446,564</u>
Net Pension Liability – Ending (a-b)	<u>\$ 427,666</u>	<u>\$ 718,336</u>	<u>\$ 735,128</u>	<u>\$ 502,414</u>	<u>\$ 763,085</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.0%	81.4%	81.7%	87.8%	81.9%
Estimated Covered Employee Payroll	\$ 517,432	\$ 387,398	\$ 344,993	\$ 355,429	\$ 245,976
Net Pension Liability as a Percentage of Covered Employee Payroll	82.7%	185.4%	213.1%	141.4%	310.2%

SOUTH LEBANON TOWNSHIP NON-UNIFORMED EMPLOYEES 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, calculated using the discount rate of 6.25%, 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 (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net Pension Liability – 12/31/14	\$ 831,636	\$ 427,666	\$ 82,934
Net Pension Liability – 12/31/15	(a)	(a)	(a)

*Note (a) - Net Pension Liability at 12/31/15 was not provided in plan financial statements.*

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017 and 2018, calculated using the discount rate of 5.75%, 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 (4.75%)	Current Discount Rate (5.75%)	1% Increase (6.75%)
Net Pension Liability – 12/31/16	\$ 1,190,064	\$ 735,128	\$ 347,474
Net Pension Liability – 12/31/17	\$ 946,518	\$ 502,414	\$ 122,016
Net Pension Liability – 12/31/18	\$ 1,194,552	\$ 763,085	\$ 391,670

SOUTH LEBANON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
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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	\$ 184,016	\$ 212,418	\$ (28,402)	\$ 517,432	41.1%
2015	182,857	210,000	(27,143)	387,398	54.2%
2016	159,128	185,000	(25,872)	344,993	53.6%
2017	146,111	176,000	(29,889)	355,429	49.5%
2018	189,032	215,000	(25,968)	245,976	87.4%

Note: The defined benefit plan was established for new employees hired before January 1, 2015.

SCHEDULE OF INVESTMENT RETURNS

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

2014	5.27%
2015	(0.76)%
2016	5.32%
2017	11.34%
2018	(4.71)%

SOUTH LEBANON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
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 (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	\$ 2,480,243	\$ 3,165,482	\$ 685,239	78.4%
01-01-15	3,090,849	3,566,368	475,519	86.7%
01-01-17	3,418,992	4,028,740	609.748	84.9%

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 four-year averaging period. 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.



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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 LEBANON TOWNSHIP NON-UNIFORMED EMPLOYEES 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, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	5.75%
Projected salary increases *	3.50%

\* Includes inflation at 2.00%

SOUTH LEBANON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Steven Krause**  
Chairman, Board of Township Supervisors

**Ms. Jamie Yiengst**  
Township Manager

**Ms. Reba Donley**  
Assistant Township Manager

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).