

LIMITED PROCEDURES ENGAGEMENT

Fairview Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

April 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
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Board of Township Supervisors
Fairview Township
York County
New Cumberland, PA 17070

We conducted a Limited Procedures Engagement (LPE) of the Fairview Township Non-Uniformed Pension Plan for the period January 1, 2015 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Fairview 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 Fairview 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.

April 19, 2019



EUGENE A. DEPASQUALE
Auditor General

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

The supplementary information contained on Pages 1 through 4 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	\$ 218,781	\$ 212,600
Interest	494,292	523,658
Change for experience	-	6,420
Benefit payments, including refunds of member contributions	<u>(279,181)</u>	<u>(308,415)</u>
Net Change in Total Pension Liability	433,892	434,263
Total Pension Liability – Beginning	6,982,129	7,416,021
Total Pension Liability – Ending (a)	<u>\$ 7,416,021</u>	<u>\$ 7,850,284</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 343,824	\$ 347,807
Contributions – member	35,971	35,205
Net investment income	524,961	16,381
Benefit payments, including refunds of member contributions	<u>(279,181)</u>	<u>(308,415)</u>
Administrative expense	<u>(7,600)</u>	<u>(10,000)</u>
Net Change in Plan Fiduciary Net Position	617,975	80,978
Plan Fiduciary Net Position – Beginning	7,388,381	8,006,356
Plan Fiduciary Net Position – Ending (b)	<u>\$ 8,006,356</u>	<u>\$ 8,087,334</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (590,335)</u>	<u>\$ (237,050)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	108.0%	103.0%
 Estimated Covered Employee Payroll	\$ 1,568,816	\$ 1,192,260
 Net Pension Liability as a Percentage of Covered Employee Payroll	(37.6%)	(19.9%)

FAIRVIEW 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	\$ 223,230	\$ 177,685
Interest	550,951	502,411
Difference between experience	-	(1,363,350)
Changes of assumptions	-	317,818
Benefit payments, including refunds of member contributions	(406,585)	(327,074)
Net Change in Total Pension Liability	<u>367,596</u>	<u>(692,510)</u>
Total Pension Liability – Beginning	<u>7,850,284</u>	<u>8,217,880</u>
Total Pension Liability – Ending (a)	<u><u>\$ 8,217,880</u></u>	<u><u>\$ 7,525,370</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 173,104	\$ 70,359
Contributions – member	24,599	29,569
Net investment income	510,350	1,285,276
Benefit payments, including refunds of member contributions	(406,585)	(327,074)
Administrative expense	(10,900)	-
Net Change in Plan Fiduciary Net Position	<u>290,568</u>	<u>1,058,130</u>
Plan Fiduciary Net Position – Beginning	<u>8,087,334</u>	<u>8,377,902</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 8,377,902</u></u>	<u><u>\$ 9,436,032</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ (160,022)</u></u>	<u><u>\$ (1,910,662)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.9%	125.4%
 Estimated Covered Employee Payroll	\$ 985,845	\$ 1,056,790
 Net Pension Liability as a Percentage of Covered Employee Payroll	(16.2%)	(180.8%)

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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 7.0%, 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	\$ (664,298)	\$ (237,050)	\$ (1,006,149)
Net Pension Liability – 12/31/16	\$ 777,610	\$ (160,022)	\$ (960,666)
Net Pension Liability – 12/31/17	\$ (978,684)	\$ (1,910,662)	\$ (2,688,281)

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
2009	\$ 281,259	\$ 281,260	\$ (1)		
2010	281,425	459,673	(178,248)		
2011	365,628	521,186	(155,558)		
2012	361,546	361,546	-		
2013	379,594	1,080,482	(700,888)		
2014	343,824	343,824	-	\$ 1,568,816	21.92%
2015	347,807	347,807	-	1,192,260	29.17%
2016	173,104	173,104	-	985,845	17.56%
2017	70,359	70,359	-	1,056,790	6.66%
2018	86,761	86,761	-		

* 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 years prior to 2014. In addition, due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

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

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.5%
2016	6.8%
2015	0.9%
2014	7.7%
2013	16.3%
2012	13.7%
2011	0.9%
2010	13.6%

FAIRVIEW 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	\$ 5,613,539	\$ 6,312,722	\$ 699,183	88.9%
01-01-15	8,006,356	7,422,441	(583,915)	107.9%
01-01-17	8,377,902	7,172,348	(1,205,554)	116.8%

FAIRVIEW TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
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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.

FAIRVIEW 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	Market value.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	Annual cost of living adjustment equal to CPI increase is made to retirees with a maximum total increase of 30%.

FAIRVIEW 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

Dr. Larry Cox
Chairman, Board of Township Supervisors

Mr. Donald F. Martin, III
Township Manager

Mr. Todd Graybill
Finance and Human Resources Administrator

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.