

LIMITED PROCEDURES ENGAGEMENT

Liberty Township Non-Uniformed Pension Plan McKean County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

December 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
Liberty Township
McKean County
Port Allegany, PA 16743

We conducted a Limited Procedures Engagement (LPE) of the Liberty 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.

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

December 20, 2018



EUGENE A. DEPASQUALE
Auditor General

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LIBERTY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Liberty Township has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the township returned \$308 to the Commonwealth for the excess state aid received in 2013.

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

The supplementary information contained on Pages 2 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	\$ 9,941	\$ 9,985
Interest	16,605	16,582
Change of benefit terms	-	-
Difference between expected and actual experience	(7,181)	-
Changes of assumptions	-	(399)
Benefit payments, including refunds of member contributions	<u>(19,828)</u>	<u>(19,828)</u>
Net Change in Total Pension Liability	(463)	6,340
Total Pension Liability – Beginning	<u>301,752</u>	<u>301,289</u>
Total Pension Liability – Ending (a)	<u><u>\$ 301,289</u></u>	<u><u>\$ 307,629</u></u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 21,833	\$ 15,048
Contributions – PMRS assessment	-	160
Contributions – member	4,100	4,183
PMRS investment income	12,314	14,466
Market value investment income	21,872	(12,644)
Benefit payments, including refunds of member contributions	(19,828)	(19,828)
PMRS administrative expense	(160)	(160)
Additional administrative expense	<u>(472)</u>	<u>(603)</u>
Net Change in Plan Fiduciary Net Position	39,659	622
Plan Fiduciary Net Position – Beginning	<u>225,544</u>	<u>265,203</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 265,203</u></u>	<u><u>\$ 265,825</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 36,086</u></u>	<u><u>\$ 41,804</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.02%	86.41%
Estimated Covered Employee Payroll	\$ 105,392	\$ 104,584
Net Pension Liability as a Percentage of Covered Employee Payroll	34.24%	39.97%

* The 2015 employer contribution does not include \$160 administrative expense.

LIBERTY 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	\$ 8,955	\$ 11,600
Interest	16,741	16,094
Change of benefit terms	-	-
Difference between expected and actual experience	(7,408)	-
Changes of assumptions	7,777	-
Benefit payments, including refunds of member contributions	<u>(24,738)</u>	<u>(28,385)</u>
Net Change in Total Pension Liability	1,327	(691)
Total Pension Liability – Beginning	<u>307,629</u>	<u>308,956</u>
Total Pension Liability – Ending (a)	<u><u>\$ 308,956</u></u>	<u><u>\$ 308,265</u></u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 14,744	\$ 13,710
Contributions – PMRS assessment	180	200
Contributions – member	3,963	4,832
PMRS investment income	15,216	14,617
Market value investment income	3,809	33,666
Benefit payments, including refunds of member contributions	(24,738)	(28,385)
PMRS administrative expense	(160)	(160)
Additional administrative expense	<u>(745)</u>	<u>(672)</u>
Net Change in Plan Fiduciary Net Position	12,269	37,808
Plan Fiduciary Net Position – Beginning	<u>265,825</u>	<u>278,094</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 278,094</u></u>	<u><u>\$ 315,902</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 30,862</u></u>	<u><u>\$ (7,637)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.01%	102.48%
Estimated Covered Employee Payroll	\$ 99,081	\$ 122,723
Net Pension Liability as a Percentage of Covered Employee Payroll	31.15%	(6.22%)

* The 2016 employer contribution does not include \$180 administrative expense. The 2017 contribution does not include \$160 administrative expense and includes \$105 interest earned in 2016.

LIBERTY 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 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 69,046	\$ 36,086	\$ 8,249
Net Pension Liability - 12/31/15	\$ 75,789	\$ 41,804	\$ 13,189

The following presents the net pension liability of the township as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 65,606	\$ 30,862	\$ 1,654
Net Pension Liability - 12/31/17	\$ 27,029	\$ (7,637)	\$ (36,779)

LIBERTY 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	\$ 243,481	\$ 295,934	\$ 52,453	82.3%
01-01-15	273,501	301,289	27,788	90.8%
01-01-17	302,369	308,956	6,587	97.9%

LIBERTY 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.

LIBERTY 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	\$ 12,734	100.2%
2013	8,998	108.6%
2014	10,215	213.7%
2015	15,208	100.0%
2016	14,904	100.1%
2017	13,123	104.9%

LIBERTY 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, closed
Remaining amortization period	2 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

LIBERTY 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. Richard Brown
Chairman, Board of Township Supervisors

Ms. Lucinda Speeth
Secretary/Treasurer

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.