

**WEST WHITELAND TOWNSHIP  
NON-UNIFORMED EMPLOYEES' PENSION PLAN**

**FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

*Year Ended December 31, 2018*



*Certified Public Accountants and Business Consultants*

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
TABLE OF CONTENTS  
YEAR ENDED DECEMBER 31, 2018

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	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statement of Net Position Available for Benefits	3
Statement of Changes in Net Position Available for Benefits	4
Notes to Financial Statements	5
<b>Required Supplementary Information</b>	
Schedules of Changes in the Township's Net Non-Uniformed Employees' Pension Plan Liability and Related Ratios	10
Schedules of Township Non-Uniformed Employees' Pension Plan Contributions	11
Schedules of Township Non-Uniformed Employees' Pension Plan Investment Returns	12

## ***Independent Auditors' Report***

To the Board of Supervisors  
West Whiteland Township  
Exton, Pennsylvania

We have audited the accompanying financial statements of the West Whiteland Township Non-Uniformed Employees' Pension Plan, which comprise the statement of net position available for benefits as of December 31, 2018, and the related statement of changes in net position available for benefits for the year then ended and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

West Whiteland Township Non-Uniformed Employees' Pension Plan's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Supervisors  
West Whiteland Township  
Exton, Pennsylvania

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position available for benefits of the West Whiteland Township Non-Uniformed Employees' Pension Plan as of December 31, 2018, and the changes in its net position available for benefits for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the schedules of changes in the Township's net non-uniformed employees' pension plan liability and related ratios on page 10, schedules of Township non-uniformed employees' pension plan contributions on page 11 and schedules of Township non-uniformed employees' pension plan investment returns on page 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Maillie LLP*

West Chester, Pennsylvania  
April 23, 2019

**WEST WHITELAND TOWNSHIP  
NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
STATEMENT OF NET POSITION AVAILABLE FOR BENEFITS  
DECEMBER 31, 2018

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ASSETS	
Cash	\$ 118,297
Investments	
Corporate bonds	2,777,245
Mutual funds	<u>4,531,400</u>
TOTAL ASSETS	\$ <u><u>7,426,942</u></u>
NET POSITION	
Held in trust for pension benefits	\$ <u><u>7,426,942</u></u>

*See accompanying notes.*

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
STATEMENT OF CHANGES IN NET POSITION  
AVAILABLE FOR BENEFITS  
YEAR ENDED DECEMBER 31, 2018

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ADDITIONS	
Contributions	
Employer	\$ 135,959
Employee	109,600
TOTAL CONTRIBUTIONS	<u>245,559</u>
Investment income (loss)	
Net increase in fair value of investments	(541,325)
Interest and dividends	147,809
TOTAL INVESTMENT INCOME (LOSS)	<u>(393,516)</u>
Investment expense	(4,931)
NET INVESTMENT INCOME (LOSS)	<u>(398,447)</u>
TOTAL ADDITIONS	<u>(152,888)</u>
DEDUCTIONS	
Retiree benefits	302,344
Professional fees	8,189
TOTAL DEDUCTIONS	<u>310,533</u>
NET DECREASE	(463,421)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	
BEGINNING OF YEAR	<u>7,890,363</u>
END OF YEAR	<u>\$ 7,426,942</u>

*See accompanying notes.*

**WEST WHITELAND TOWNSHIP  
NON-UNIFORMED EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018**

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Method Used to Value Investments**

West Whiteland Township Non-Uniformed Employees' Pension Plan's (the "Plan") investments are carried at fair value as reported by the investment managers.

**NOTE B - PLAN DESCRIPTION**

**Plan Administration**

The Plan is a single-employer defined benefit pension plan that covers full-time Township employees, excluding police officers, who perform at least 1,000 hours of service in a given Plan year.

West Whiteland Township manages the Non-Uniformed Employees' Pension plan as the Employer and Trustee. The West Whiteland Township Board of Supervisors, by ordinance, created a Pension Advisory Board, which consists of seven members appointed by the Board of Supervisors. The Non-Uniformed Employees' Pension Trustee/Plan Administrator is responsible for managing, investing and monitoring the Township's Non-Uniformed Employees' Pension Fund. The Pension Advisory Board is responsible for reviewing fund performance and providing recommendations to the Board of Supervisors regarding allocation of fund investments.

**Plan Membership**

At December 31, 2018, Plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	14
Inactive plan members entitled to but not yet receiving benefits	9
Active plan members	<u>32</u>
	<u>55</u>

**Benefits Provided**

The Plan provides retirement, disability and death benefits to Plan members and their beneficiaries.

Retirement benefits vest after ten years of service to the Township. A Plan member is eligible to receive normal retirement benefits upon reaching age 65. The Plan has a provision for early retirement, where an employee who has reached age 62 and completed ten years of service may retire and receive a reduced benefit. The monthly retirement benefit is equal to 1.5% of average monthly compensation (compensation averaged over the highest three consecutive years out of the last ten years divided by 12) plus .5% of average monthly compensation in excess of \$1,000 multiplied by years of service credited.

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE B - PLAN DESCRIPTION (Continued)**

A disability pension is provided if a member suffers a disability, has completed ten years of full-time employment and is eligible for a disability pension under the Federal Social Security Act. The disability pension is payable at the member's normal retirement date provided the member has remained entitled to social security disability until normal retirement. The disability pension is equal to the accrued benefit as if employment has continued to the normal retirement date at the same compensation the member received for the calendar year immediately preceding the disability date.

If eligible for retirement at the time of death, the member's spouse will receive a 50% survivor benefit. The surviving spouse's benefit is equal to 50% of the retirement benefit the member would have been receiving if the member had been retired at the time of death and had elected the joint and 50% survivor pension option.

**Contributions**

The Township's non-uniformed employees are required to contribute a percentage of their annual compensation to the Plan. The Township is required to contribute the remaining amounts necessary to fund the Plan using the actuarial basis specified by state statute. The state also provides funds (distribution of foreign casualty insurance premium taxes) to the Township, which are used by the Township in making its regular contributions to the Plan.

Pennsylvania Act 205 of 1984 (as amended) requires that annual contributions be based upon the minimum municipal obligation ("MMO"), which is based on the Plan's biennial actuarial valuation. The MMO includes the normal cost, estimated administrative expenses and an amortization contribution of the unfunded actuarial accrued liability, less estimated member contributions, and a credit equal to 10% of the excess (if any) of the actuarial value of assets over the actuarial accrued liability. The state provides an allocation of funds, which must be used for pension funding. A financial requirement established by the MMO, which exceeds state and member contributions, must be funded by the employer. In accordance with Act 205, the Township was required to contribute \$135,959 to the Plan for the year 2018. The Township's actual contributions for the Plan year 2018 were \$135,959.

Per resolution of the Board of Supervisors, employees are required to contribute 5.0% of covered payroll. This contribution is governed by the Plan's governing ordinances. Administrative costs, which may include, but are not limited to, investment management fees and actuarial services, are charged to the Plan and funded through the MMO and/or Plan earnings.

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018

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**NOTE C - INVESTMENTS**

**Investment Policy**

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the Trustee/Board of Supervisors by a majority vote of its members. It is the policy of the Trustee/Board of Supervisors to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The Plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 2018:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity mutual funds	50%
International equity mutual funds	15%
Fixed income corporate bonds	35%
Real estate	0%
Cash	0%
	<u>100%</u>

**Concentrations**

As of December 31, 2018, the Plan had no individual investments that exceeded more than 5% of the Plan's total investments.

**Rate of Return**

For the year ended December 31, 2018, the annual money-weighted rate of return on Plan investments, net of Plan investment expense, was (5.04%). The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

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**NOTE D - NET PENSION LIABILITY OF THE TOWNSHIP**

The components of the net pension liability of the Township at December 31, 2018, were as follows:

Total pension liability	\$ 7,961,284
Plan fiduciary net position	<u>(7,426,942)</u>
NET PENSION LIABILITY	<u>\$ 534,342</u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u>93.29%</u>

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2017, to which update procedures were applied to roll the liability forward to the December 31, 2018 measurement date, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	4.5% annual increase
Investment rate of return	7.0%

Mortality rates were based on the IRS 2017 Static Combined Table for Small Plans. Incorporated into the table are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvement.

Due to the size of the Plan, there have been no experience studies used to determine Plan assumptions.

The long-term expected rate of return on Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Plan's target asset allocation as of December 31, 2018 (see the Plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity mutual funds	5.5%-7.5%
International equity mutual funds	4.5%-6.5%
Fixed income corporate bonds	1.0%-3.0%
Real estate	4.5%-6.5%
Cash	0.0%-1.0%

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
 NOTES TO FINANCIAL STATEMENTS  
 DECEMBER 31, 2018

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**NOTE D - NET PENSION LAIBILITY OF THE TOWNSHIP (Continued)**

**Discount Rate**

The discount rate is based on the long-term expected rate of return on Plan investments that are expected to be used to finance the payments of benefits. The Plan's fiduciary net position is projected to be sufficient to make projected benefit payments, and the Plan assets are expected to be invested using a strategy to achieve that return. The employer has always met the funding requirements of Pennsylvania law Act 205 of 1984. Act 205 requires full funding of the entry age normal cost plus Plan expenses, as well as amortization of the unfunded liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the Township, 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 one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease <u>(6.0%)</u>	Current Discount Rate (7.0%) <u></u>	1% Increase <u>(8.0%)</u>
Net pension liability (asset)	\$ <u>1,413,924</u>	\$ <u>534,342</u>	\$ <u>(221,285)</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
SCHEDULES OF CHANGES IN THE TOWNSHIP'S NET  
NON-UNIFORMED EMPLOYEES' PENSION PLAN  
LIABILITY AND RELATED RATIOS  
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	\$ 198,882	\$ 190,318	\$ 182,220	\$ 174,375	\$ 158,027
Interest	530,721	502,622	451,059	421,628	403,386
Changes for experience	-	19,745	-	(84,453)	-
Changes of assumptions	-	554,863	-	152,705	-
Benefit payments	(302,344)	(297,829)	(216,517)	(179,290)	(238,586)
NET CHANGE IN TOTAL PENSION LIABILITY	427,259	969,719	416,762	484,965	322,827
TOTAL PENSION LIABILITY, BEGINNING	7,534,025	6,564,306	6,147,544	5,662,579	5,339,752
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 7,961,284</u>	<u>\$ 7,534,025</u>	<u>\$ 6,564,306</u>	<u>\$ 6,147,544</u>	<u>\$ 5,662,579</u>
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 135,959	\$ 88,290	\$ 65,927	\$ 76,271	\$ 76,501
Member	109,600	101,901	96,415	94,827	87,490
Net investment income (loss)	(398,447)	1,100,351	578,647	(39,035)	428,177
Benefit payments, including refunds of member contributions	(302,344)	(297,829)	(216,517)	(179,290)	(238,586)
Administrative expense	(8,189)	(12,575)	(10,801)	(13,787)	(6,182)
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(463,421)	980,138	513,671	(61,014)	347,400
PLAN FIDUCIARY NET POSITION, BEGINNING	7,890,363	6,910,225	6,396,554	6,457,568	6,110,168
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 7,426,942</u>	<u>\$ 7,890,363</u>	<u>\$ 6,910,225</u>	<u>\$ 6,396,554</u>	<u>\$ 6,457,568</u>
TOWNSHIP'S NET PENSION LIABILITY (ASSET) ENDING (a)-(b)	<u>\$ 534,342</u>	<u>\$ (356,338)</u>	<u>\$ (345,919)</u>	<u>\$ (249,010)</u>	<u>\$ (794,989)</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	93.29%	104.73%	105.27%	104.05%	114.04%
COVERED PAYROLL	<u>\$ 2,131,614</u>	<u>\$ 2,094,143</u>	<u>\$ 1,759,223</u>	<u>\$ 1,893,115</u>	<u>\$ 1,638,392</u>
TOWNSHIP'S NET PENSION LIABILITY (ASSET) AS A PERCENTAGE OF COVERED PAYROLL	<u>25.07%</u>	<u>-17.02%</u>	<u>-19.66%</u>	<u>-13.15%</u>	<u>-48.52%</u>

**NOTES TO SCHEDULES**

Changes in assumptions. In 2017, amounts reported as changes of assumptions resulted from adjustments to the assumed investment rate of return, decreasing the rate from 7.50% to 7.25%. In 2017, the tables the mortality rates were based on were updated from the RP-2000 Healthy Annuitant Mortality Tables to the IRS 2017 Static Combined Tables for Small Plans. In 2015 amounts reported as changes of assumptions resulted from adjustments to the assumed investment rate of return, decreasing the rate from 7.50% to 7.25%.

**WEST WHITELAND TOWNSHIP  
NON-UNIFORMED EMPLOYEES' PENSION PLAN  
SCHEDULES OF TOWNSHIP NON-UNIFORMED EMPLOYEES'  
PENSION PLAN CONTRIBUTIONS  
LAST FIVE FISCAL YEARS**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ACTUARIALLY DETERMINED CONTRIBUTION	\$ 135,959	\$ 63,337	\$ 65,927	\$ 76,271	\$ 76,501
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>135,959</u>	<u>88,290</u>	<u>65,927</u>	<u>76,271</u>	<u>76,501</u>
CONTRIBUTION DEFICIENCY	<u>\$ -</u>	<u>\$ 24,953</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVERED PAYROLL	<u>\$ 2,131,614</u>	<u>\$ 2,094,143</u>	<u>\$ 1,759,223</u>	<u>\$ 1,893,115</u>	<u>\$ 1,638,392</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>6.38%</u>	<u>4.22%</u>	<u>3.75%</u>	<u>4.03%</u>	<u>4.67%</u>

**NOTES TO SCHEDULES**

Valuation date	1/1/2017	1/1/2015	1/1/2013
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level dollar, closed	Level dollar, closed	Level dollar, closed
Remaining amortization period	12 years	N/A	N/A
Asset valuation method	Smoothed market with a corridor of 80% to 120% of market value	Smoothed market with a corridor of 80% to 120% of market value	Smoothed market with a corridor of 80% to 120% of market value
Inflation	3%	3%	3%
Salary increases	4.5% annual increase	4.5% annual increase	4.5% annual increase
Investment rate of return	7.00%	7.50%	7.25%
Retirement age	Normal retirement age	Normal retirement age	Normal retirement age
Mortality	IRS 2017 Static Combined Table for Small Plans	Assumed life expectancies based on the RP-2000 Healthy Annuitant Mortality Table	Assumed life expectancies based on the RP-2000 Healthy Annuitant Mortality Table

**WEST WHITELAND TOWNSHIP**  
**NON-UNIFORMED EMPLOYEES' PENSION PLAN**  
SCHEDULES OF TOWNSHIP NON-UNIFORMED EMPLOYEES'  
PENSION PLAN INVESTMENT RETURNS  
LAST FIVE FISCAL YEARS

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	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE	<u>-5.04%</u>	<u>11.87%</u>	<u>6.28%</u>	<u>-0.55%</u>	<u>7.13%</u>