

**WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN**

**FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

Year Ended December 31, 2018



Certified Public Accountants and Business Consultants

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
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YEAR ENDED DECEMBER 31, 2018

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Independent Auditors' Report

To the Board of Supervisors
West Whiteland Township
Chester County, Pennsylvania

We have audited the accompanying financial statements of the West Whiteland Township Police 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 Police 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
Chester County, 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 Police 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 schedule of changes in the Township's net police pension plan liability and related ratios on page 11, schedule of Township police pension plan contributions on page 12 and schedule of Township police pension plan investment returns on page 13 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
POLICE PENSION PLAN**

**STATEMENT OF NET POSITION AVAILABLE FOR BENEFITS
DECEMBER 31, 2018**

ASSETS

Cash	\$ 519,156
Investments	
Corporate bonds	5,827,970
Mutual funds	9,520,593
Prepaid expenses	<u>46,023</u>

TOTAL ASSETS \$ 15,913,742

NET POSITION

Held in trust for pension benefits	\$ <u><u>15,913,742</u></u>
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See accompanying notes.

**WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN**

STATEMENT OF CHANGES IN NET POSITION
AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2018

ADDITIONS

Contributions

Employer

\$ 557,577

Employee

123,382

TOTAL CONTRIBUTIONS

680,959

Investment income (loss)

Net increase in fair value of investments

(1,142,982)

Interest and dividends

311,772

TOTAL INVESTMENT INCOME (LOSS)

(831,210)

Investment expense

(14,492)

NET INVESTMENT INCOME (LOSS)

(845,702)

TOTAL ADDITIONS

(164,743)

DEDUCTIONS

Retiree benefits

638,221

Professional fees

4,455

TOTAL DEDUCTIONS

642,676

NET DECREASE

(807,419)

NET POSITION HELD IN TRUST FOR PENSION BENEFITS

BEGINNING OF YEAR

16,721,161

END OF YEAR

\$ 15,913,742

See accompanying notes.

**WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method Used to Value Investments

West Whiteland Township Police Pension Plan’s (the “Plan”) investments are carried at fair value as reported by the investment managers.

NOTE B - PLAN DESCRIPTION

Plan Administration

The Township administers the Police Pension Plan--a single-employer defined benefit pension plan that provides pensions for all regular, full-time sworn police officers.

West Whiteland Township manages the Police Pension Plan as the employer and the 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 Police Pension Trustee/Plan Administrator is responsible for managing, investing and monitoring the Township’s Police 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	16 *
Inactive plan members entitled to but not yet receiving benefits	3
Active plan members	<u>23</u>
	<u><u>42</u></u>

* Includes two members in the DROP

Benefits Provided

The Plan provides retirement, disability and death benefits to Plan members and their beneficiaries. Retirement benefits vest after 12 years of service to the Township. A Plan member is eligible to receive retirement benefits after attainment of age 50 and completion of 25 years of service. Retirement benefits are equal to 50% of the member’s monthly average salary during the last 36 months of service. The Plan provides for early retirement after 20 years of service. The monthly benefit would equal the accrued benefit actuarially reduced for early commencement.

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

NOTE B - PLAN DESCRIPTION (Continued)

Any participant who is totally and permanently disabled in the line of duty shall be eligible for a disability benefit. The monthly disability benefit is equal to the greater of 50% of the officer's monthly average salary during the last 36 months immediately prior to the permanent disability, or 50% of the officer's salary at the time of disability. This benefit will be reduced by the amount of worker's compensation, social security disability and any other Township-paid disability benefit. Disability payments shall be paid monthly until the participant recovers or dies. If a disabled participant dies before he receives total disability benefits from this Plan in an amount equal to his total contributions plus credited interest as of the date of disablement, the unpaid balance will be paid to his designated beneficiary in a lump sum.

If a participant who is retired by reason of age and service or disability dies, a surviving spouse will be eligible for a survivor benefit so long as he or she does not remarry. If there is no surviving spouse, or the surviving spouse subsequently dies or remarries, then any surviving child under the age of 18 will be eligible for a survivor benefit. The survivor benefit is equal to 50% of the retirement benefit the retired participant was receiving. Aggregate survivor benefits paid to the retired participant and the beneficiaries shall not be less than the amount of total employee contributions accumulated with interest to the participant's date of retirement.

In the event of termination or discontinuance of employment with the Township before completing 12 years of full-time service for reasons other than retirement or death, each participant shall be entitled to have returned to him the total amount of all monies paid by him into the pension fund with simple interest at a rate of 4% per annum. A participant who terminates after completing 12 or more years of full-time service shall be eligible for either a cash refund of his contributions with credited interest or a deferred pension to commence on his normal retirement date equal to his accrued pension determined at his date of employment termination.

The benefit provisions of the Plan are established by Township ordinances.

Contributions

The Township's police employees are required to contribute a percentage of their annual covered salary 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.

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE B - PLAN DESCRIPTION (Continued)

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 \$557,577 to the Plan for the year 2018. The Township’s actual contributions for the Plan year 2018 were \$557,577.

Employees are required to contribute 5.0% of covered payroll. This contribution is governed by the Plan’s governing ordinances and collective bargaining agreements. 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.

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	10%
Fixed income corporate bonds	35%
Real estate	0%
Cash	5%
	<u>100%</u>

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE C - INVESTMENTS (Continued)

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.

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	\$ 18,025,558
Plan fiduciary net position	<u>(15,913,742)</u>
NET PENSION LIABILITY	<u>\$ 2,111,816</u>
 Plan fiduciary net position as a percentage of the total pension liability	 <u>88.28%</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 tables are rates for annuitants projected 7 years and rates for non-annuitants projected 15 years using Scale AA to reflect mortality improvements.

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

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE D - NET PENSION LIABILITY OF THE TOWNSHIP (Continued)

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%

Discount Rate

The discount rate is based on the long-term expected rate of return on Plan investments 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.

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2018

NOTE D - NET PENSION LIABILITY OF THE TOWNSHIP (Continued)

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%)	1% Increase <u>(8.0%)</u>
Net pension (asset) liability	\$ <u>4,220,187</u>	\$ <u>2,111,816</u>	\$ <u>363,710</u>

NOTE E - DEFERRED RETIREMENT OPTION PROGRAM

An active member who has met the eligibility requirements for normal retirement may elect to participate in the Deferred Retirement Option Program (DROP) for a period of not more than 48 months. The member's monthly pension shall be calculated as of their date of participation in the program and shall be distributed in a lump sum at retirement. As of December 31, 2018, two members have elected to participate in the DROP. The total DROP account balance is approximately \$500,626.

REQUIRED SUPPLEMENTARY INFORMATION

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET POLICE
PENSION PLAN LIABILITY AND RELATED RATIOS
LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
TOTAL PENSION LIABILITY					
Service cost	\$ 381,664	\$ 365,229	\$ 325,957	\$ 311,921	\$ 304,541
Interest	1,326,346	1,260,606	1,038,487	1,000,373	965,369
Changes for experience	-	(106,088)	-	(129,040)	-
Changes of assumptions	-	934,139	-	374,192	-
Benefit payments	<u>(638,221)</u>	<u>(636,961)</u>	<u>(715,287)</u>	<u>(617,878)</u>	<u>(573,679)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	1,069,789	1,816,925	649,157	939,568	696,231
TOTAL PENSION LIABILITY, BEGINNING	<u>16,955,769</u>	<u>15,138,844</u>	<u>14,489,687</u>	<u>13,550,119</u>	<u>12,853,888</u>
TOTAL PENSION LIABILITY, ENDING (a)	<u>\$ 18,025,558</u>	<u>\$ 16,955,769</u>	<u>\$ 15,138,844</u>	<u>\$ 14,489,687</u>	<u>\$ 13,550,119</u>
PLAN FIDUCIARY NET POSITION					
Contributions					
Employer	\$ 557,577	\$ 521,903	\$ 468,924	\$ 508,820	\$ 510,278
Member	123,382	116,507	110,706	113,955	119,013
Net investment income (loss)	(845,702)	2,269,516	1,192,538	(86,216)	869,666
Benefit payments, including refunds of member contributions	(638,221)	(636,961)	(715,287)	(617,878)	(547,500)
Administrative expense	<u>(4,455)</u>	<u>(14,135)</u>	<u>(13,920)</u>	<u>(14,371)</u>	<u>(10,222)</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	(807,419)	2,256,830	1,042,961	(95,690)	941,235
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>16,721,161</u>	<u>14,464,331</u>	<u>13,421,370</u>	<u>13,517,060</u>	<u>12,575,825</u>
PLAN FIDUCIARY NET POSITION, ENDING (b)	<u>\$ 15,913,742</u>	<u>\$ 16,721,161</u>	<u>\$ 14,464,331</u>	<u>\$ 13,421,370</u>	<u>\$ 13,517,060</u>
TOWNSHIP'S NET PENSION LIABILITY ENDING (a)-(b)	<u>\$ 2,111,816</u>	<u>\$ 234,608</u>	<u>\$ 674,513</u>	<u>\$ 1,068,317</u>	<u>\$ 33,059</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>88.28%</u>	<u>98.62%</u>	<u>95.54%</u>	<u>92.63%</u>	<u>99.76%</u>
COVERED PAYROLL	<u>\$ 2,468,966</u>	<u>\$ 2,370,791</u>	<u>\$ 2,187,955</u>	<u>\$ 2,105,036</u>	<u>\$ 2,240,563</u>
TOWNSHIP'S NET PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL	<u>85.53%</u>	<u>9.90%</u>	<u>30.83%</u>	<u>50.75%</u>	<u>1.48%</u>

NOTES TO SCHEDULE

Changes of 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
POLICE PENSION PLAN
SCHEDULE OF TOWNSHIP POLICE 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	\$ 557,577	\$ 459,349	\$ 468,924	\$ 508,820	\$ 510,278
CONTRIBUTIONS IN RELATION TO THE ACTUARIALLY DETERMINED CONTRIBUTION	<u>557,577</u>	<u>521,903</u>	<u>468,924</u>	<u>508,820</u>	<u>510,278</u>
CONTRIBUTION DEFICIENCY	<u>\$ -</u>	<u>\$ 62,554</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
COVERED PAYROLL	<u>\$ 2,468,966</u>	<u>\$ 2,370,791</u>	<u>\$ 2,187,955</u>	<u>\$ 2,105,036</u>	<u>\$ 2,240,563</u>
CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL	<u>22.58%</u>	<u>22.01%</u>	<u>21.43%</u>	<u>24.17%</u>	<u>22.77%</u>

NOTES TO SCHEDULE

Actuarially determined contribution rates are calculated by September 30 of each year for the upcoming calendar year.

Methods and assumptions used to determine contribution rates:

	1/1/2017	1/1/2015	1/1/2013
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	5 years	8 years	8 years
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%	7.25%	7.5%
Retirement age	Normal retirement age	Normal retirement age	Normal retirement age
Mortality	IRS 2017 Static Combined Table For Small Plans	Assumed life expectancies are based on the RP-2000 Healthy Annuitant Mortality Table	Assumed life expectancies are based on the RP-2000 Healthy Annuitant Mortality Table

WEST WHITELAND TOWNSHIP
POLICE PENSION PLAN
 SCHEDULE OF TOWNSHIP POLICE PENSION PLAN
 INVESTMENT RETURNS
 LAST FIVE FISCAL YEARS

	<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>11.71%</u>	<u>6.22%</u>	<u>-0.59%</u>	<u>7.06%</u>