



EAST HEMPFIELD TOWNSHIP

POLICE PENSION PLAN

Lancaster County

**Financial Statements
December 31, 2015**



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Legal Citations

Act 205 - Municipal Pension Plan Funding Standard and Recovery Act, act of December 18, 1984, P. L. 1005 no. 205, as amended, 53 P. S. 895.101, et. seq.

Act 600 - Police Pension Fund Act, act of May 29, 1956, P. L. (1955) 1804 no. 600, as amended, 53 P. S. 767, et. seq.

East Hempfield Township Police Pension Plan
Opening Statement

To the Governing Body of
East Hempfield Township

This report is an accumulation of data reflecting the status and activity of the East Hempfield Township Police Pension Plan as of and for the year ended December 31, 2015. These financial statements have been prepared in accordance with the reporting requirements established by the Auditor General's Office of the Commonwealth of Pennsylvania. However, this report is not and should not be considered an Audit, Review, or Compilation Report within the meanings established by the American Institute of Certified Public Accountants.

The values contained herein were obtained from several different sources, including the 2015 Annual Investment Report, the 2015 Act 205 Actuarial Valuation Report, the Plan Document, prior Financial Statements, and the Records Update Survey that East Hempfield Township provided to us earlier this year. As a result, our combined efforts have produced this report. Consequently, this report is subject to our ability to verify data as it was provided to us.

We hope this report is viewed as another valuable resource and reference document to assist the Board of Supervisors in fulfilling your fiduciary responsibilities to this pension plan in the areas of financial reporting and monitoring. Ultimately, these financial statements are the responsibility of the plan's management.

Sincerely,

Univest Municipal Pension Services

East Hempfield Township Police Pension Plan

Statement of Fiduciary Net Position as of December 31, 2015

ASSETS

Cash and Other Assets	
Checking account	\$0
Savings account	0
Trust account	0
Prepaid pension benefits (Note 6)	51,511
Total Cash and Other Assets	51,511

Receivables	
State aid	0
Municipal contributions	0
Members' contributions	10,304
Interest and dividends	0
Total Receivables	10,304

Investments	
U.S. Government obligations	0
Municipal bonds	0
Corporate bonds and notes	0
Stocks	0
Mutual funds	
Equities	5,202,216
Fixed Income	2,843,764
Real Estate	253,130
Other	0
Master trust	0
Other investments	0
Total Investments	8,299,110

Assets, at Contract Value	
Group Annuity Contract	0
Guaranteed Investment Contracts (GIC)	0
Deposit Administration Contracts (DA)	0
Total Assets at Contract Value	0

Total Assets

\$8,360,925

LIABILITIES

Payables	
Refunds	0
Accounts payable	0
Accrued expenses	0
Total Liabilities	<u>\$0</u>

NET POSITION RESTRICTED FOR PENSIONS

\$8,360,925

The Notes to the Financial Statements are an integral part of this report.

East Hempfield Township Police Pension Plan

**Statement of Changes in Fiduciary Net Position
for the Year Ended December 31, 2015**

ADDITIONS

Contributions	
State aid.....	\$266,617
Municipal contributions.....	227,864
Members' contributions.....	<u>131,471</u>
Total Contributions.....	625,952
Investment Income	
Net increase in fair value of investments.....	(83,820)
Interest income.....	0
Dividend income.....	0
Total Investment Income.....	(83,820)
Less investment expense.....	<u>(65,578)</u>
Net Investment Income.....	(149,398)
Other income.....	<u>0</u>
Total Additions.....	476,554

DEDUCTIONS

Benefits (Note 6).....	602,140
Refunds of terminated members' contributions.....	11,784
Administrative expenses.....	0
Allocated insurance premiums.....	0
Other expenses.....	<u>0</u>
Total Deductions.....	<u>613,924</u>

NET INCREASE (DECREASE) IN NET POSITION (137,370)

NET POSITION RESTRICTED FOR PENSIONS

Beginning of Year.....	<u>8,498,295</u>
End of Year.....	<u>\$8,360,925</u>

The Notes to the Financial Statements are an integral part of this report.

East Hempfield Township Police Pension Plan

Notes to the Financial Statements

1. Plan Description

A. General

The East Hempfield Township Police Pension Plan is a single-employer defined benefit pension plan that covers all full-time police officers of East Hempfield Township and which is controlled by the provisions of Ordinance No. 03-04, as amended, adopted pursuant to Act 600. The plan is governed by the Board of Township Supervisors which is responsible for the management of plan assets. The Board of Township Supervisors has appointed the Pension Board as the official body to which all related investment matters of the Fund are delegated. The Pension Board consists of 5 members, the Township Manager and Finance Director, two members chosen by a majority of the participants in the plan, and a "citizen-at-large" appointed by the Township Supervisors. The Board of Township Supervisors has delegated the authority to manage certain plan assets to TCG Investment Advisory, Inc., with Nationwide Financial as custodian.

B. Plan Membership

At December 31, 2015, pension plan membership consisted of the following:

Active plan members	32
Inactive plan members or beneficiaries currently receiving benefits	20
Inactive plan members entitled to but not yet receiving benefits	<u>2</u>
Total	54

C. Benefit Provisions as of December 31, 2015

Eligibility Requirements:

Normal Retirement - Age 50 and 25 years of service.

Early Retirement - None

Vesting - None for the first 12 years of service; thereafter, 100%. If a member dies before the pension becomes vested, the surviving spouse or minor children shall receive repayment of the member's contributions, if any, plus interest.

Retirement Benefit: The monthly pension shall be 50% of the average salary over the participant's last 36 months of employment, plus an incremental pension of \$100 per month for each completed year of service in excess of 25 years up to a maximum of \$500 per month.

Survivor Benefit: A pension benefit shall be automatically provided to a retired officer's spouse or to the spouse of an officer eligible to retire, equal to no less than 50% of the eligible pension. If no spouse, or if spouse subsequently dies, the benefit shall apply to children under age 18, or if attending college, under or attaining age 23.

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

1. Plan Description (continued)

C. Benefit Provisions (continued)

Disability Benefit:

Service-Related - The monthly disability pension benefit shall be calculated at no less than 50% of the member's salary at the time the disability was incurred. Said pension shall be reduced by any benefits received for the same injuries under the Social Security Act.

Nonservice-Related - None

Postretirement Adjustments: None

Other Benefits:

Non-Intervening Military Service Credit

Member Contributions: 5%, with interest credited at 6% per year.

D. Contributions

On December 18, 1984, Act 205 was passed into law, and is known as the "Municipal Pension Plan Funding Standard and Recovery Act". The act mandates actuarial funding standards, establishes a recovery program for financially distressed pension plans, and provides for the distribution of the tax on the premiums of foreign fire insurance companies.

The act requires minimum funding standards based on the most recent actuarial valuation report, including normal cost and administrative expense requirements and an amortization contribution of the unfunded actuarial accrued liability.

Funding Requirements

The plan's governing document provides the Township with the authority to establish and amend contribution requirements. For the year ended December 31, 2015, active members were required to contribute 5% of monthly salary to the plan, with interest credited to these contributions at 6% per year.

The pension plan may also receive an annual allocation from the General Municipal Pension System State Aid Program which must be used for pension plan funding. Any funding requirements in excess of members' contributions and state aid must be paid by the municipality in accordance with Act 205.

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

2. Summary of Significant Accounting Policies

A. Basis of Accounting

The plan's financial statements are prepared using the accrual basis of accounting. Municipal and members' contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. Valuation of Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Investments that do not have an established market are reported at estimated fair value.

3. Investments

A. Investment Policy

The Pension Board, with the assistance of TCG Investment Advisory, Inc., shall select the appropriate asset weighting percentage to be allocated to each specific asset class. Each asset class shall consist of a combination of investment options that have been made available to obtain the absolute investment objective of the fund. Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in investment funds specializing in individual issues, issuers, countries, governments or industries.

It is not expected that the Investment Policy Statement will change frequently. In particular, short term changes in the financial markets should not require an adjustment in the Investment Policy Statement. However, any changes to the asset allocation model will only be implemented in accordance with formal authorization and instructions given by the Pension Board.

As of December 31, 2015, it shall be the policy of the Pension Board to invest the fund's assets with the following allocations:

<u>Asset Class</u>	<u>Asset Weighting Range</u>	<u>Target Allocation</u>
Domestic Equity	45% - 55%	50%
International Equity	8% - 16%	12%
Fixed Income	27% - 37%	32%
Real Estate	1% - 5%	3%
Cash	1% - 5%	<u>3%</u>
Total		<u>100%</u>

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

3. Investments (continued)

A. Investment Policy (continued)

The asset allocation range established by this investment policy represents a long term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short term nature and TCG Investment Advisory, Inc. will be responsible for rebalancing the assets and ensuring that the investment funds keep divergences as brief as possible.

B. Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was -1.02 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changes in amounts actually invested.

4. Deposit and Investment Risks

A. Credit Risk and Interest Rate Risk

The plan's deposits and investments are currently governed by Title 20 of the Pennsylvania Consolidated Statutes, Chapter 73, entitled the Probate, Estates, and Fiduciaries Code, Section 7302, Fiduciaries Investments, act of June 30, 1972. This act allows the trustees of the plan to invest in securities which a prudent person of discretion and intelligence, who is seeking a reasonable income and preservation of capital, would buy.

This discretionary authority, known as the "Prudent Person Rule", permits the selection of a variety of investments, allowing for diversity in the degree of risk and liquidity. Finally, there were no deposit or investment transactions during the year that were in violation of this state statute or the policy of the plan.

Credit risk for deposits and investments is the risk that an issuer or other counterparty to an investment will not fulfill its financial obligations. Generally, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

During the year and as of December 31, 2015, the plan held no deposits and, therefore, was not subject to custodial credit risk, interest rate risk, or foreign currency risk in this area.

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

4. Deposit and Investment Risks (continued)

A. Credit Risk and Interest Rate Risk (continued)

The plan's investment policy contains a number of investment objectives including the desire to maximize long-term returns through a combination of income and capital appreciation using sound investment practices. These objectives are intended to be achieved through a well-diversified portfolio consisting entirely of mutual funds selected from among the various asset classes in accordance with recognized asset allocation theory. As for the credit risk, the plan generally invests in money market funds and bond mutual funds with credit quality ratings of at least "A" according to either the Moody's, Standard & Poor's, or Morningstar rating system with average maturities of five years or less; however, in cases where the yield spread adequately compensates for additional risk, other ratings can be purchased to achieve a higher yield performance. Finally, the plan does not invest in individual securities, commodities, futures contracts, private placements, repurchase and/or reverse repurchase agreements, securities lending transactions, or hedge funds.

During the year and at December 31, 2015, all of the plan's investments were in mutual funds under a custodial agreement with Nationwide Financial. These investments are covered by the Securities Investor Protection Corporation (SIPC). The SIPC does not protect against losses from the rise or fall in market value of the investment. It does, however, provide important protections against certain losses if a SIPC member fails financially and is unable to meet obligations to its securities customers.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. As a result, the investments held by the plan in open-end mutual funds and unallocated insurance contracts were not exposed to custodial credit risk or foreign currency risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The plan does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

4. Deposit and Investment Risks (continued)

A. Credit Risk and Interest Rate Risk (continued)

At December 31, 2015, the credit risk and interest rate risk of the plan's investments in debt securities (specifically, bond mutual funds), as measured by Morningstar, were rated as follows:

Investment	Fair Value	Average Credit Quality	Avg Eff Duration/ Avg Eff Maturity
Legg Mason W.A. CorePlus Bond	\$496,465	AAA	06.7/12.5 years
MetroWest Total Return Bond	579,446	BBB	05.0/08.2 years
PIMCO Income *	331,636	Not available	03.0/05.4 years
Prudential Total Return Bond	495,777	BBB	06.3/00.0 years
TCW Total Return Bond	743,854	BB	04.5/08.0 years
Victory Fund for Income	196,586	AAA	02.8/04.0 years
	<u>\$2,843,764</u>		

* - As of September 30, 2015, latest available.

B. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the policy of the plan that the investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the plan's overall portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in investment funds specializing in individual issues, issuers, countries, governments or industries.

Except for any holdings in the specialty sectors, not more than 5% of the total stock portfolio valued at market may be invested in the common stock of any one corporation, and not more than 25% of stock valued at market may be held in any one industry category. Also, the fixed income securities of any one issuer shall not exceed 5% of the total bond portfolio at time of purchase. This does not apply to issues of the U.S. Treasury or other federal agencies.

At December 31, 2015, all of the plan's investments were held by Nationwide Financial.

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

5. Net Pension Liability

A. The components of the net pension liability at December 31, 2015 were as follows:

Total Pension Liability	\$11,784,343
Plan Fiduciary Net Position	<u>(8,360,925)</u>
Net Pension Liability	\$ 3,423,418
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.95%

B. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions:

Inflation	3.00 percent
Salary increases	5.00 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation
Cost-of-living adjustments	None

Mortality rates were based on the RP2000 Table for Males or Females, as appropriate, termination rates were based on Scale W65, and disability rates were based on the DI378 Table for Males or Females, as appropriate.

The actuarial assumptions used in the December 31, 2015 valuation were based on the same assumptions as the actuarial experience study as of January 1, 2015.

C. Long Term Expected Rate of Return

The long term expected rate of return on pension 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 pension 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 real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 (see Note 3A) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity		International Equity	8.75%
Large Cap	8.25%	Fixed Income	5.00%
Medium Cap	8.75%	Real Estate	8.75%
Small Cap	9.00%	Cash	2.10%

East Hempfield Township Police Pension Plan

Notes to the Financial Statements (continued)

5. Net Pension Liability (continued)

D. Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent which is a change from the discount rate of 8.25 percent used to measure the total pension liability for the prior fiscal year. This discount rate is based on the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment 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 must meet the funding requirements of Act 205 on an annual basis or be subject to an interest penalty as required. Act 205 requires full funding of the entry age normal cost plus plan expenses, as well as amortization of the unfunded liability to ultimately achieve a 100% funded status.

E. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability, calculated using the discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Total pension liability	\$13,150,702	\$11,784,343	\$10,630,675
Plan fiduciary net position	<u>(8,360,925)</u>	<u>(8,360,925)</u>	<u>(8,360,925)</u>
Net pension liability	\$ 4,789,777	\$ 3,423,418	\$ 2,269,750

6. Prepaid Pension Benefits

During 2010, the pension plan's custodian changed the timing of monthly withdrawals for benefit payments from the first of the month to the date the benefit is processed. Consequently, funds for the January 2016 benefit payment were withdrawn from the plan late in December 2015, but the payment was not issued to plan retirees until after year end. Consistent with prior years, a prepaid benefit for the January 2016 payment has been included on page 2.

East Hempfield Township Police Pension Plan
Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

	2015	2014
Total pension liability		
Service cost	\$ 264,075	\$ 251,038
Interest	895,652	873,904
Changes in benefit terms	-	-
Differences between expected and actual experience	27,820	-
Changes in assumptions	-	-
Benefit payments, including refunds of member contributions	(613,924)	(511,909)
Net change in total pension liability	573,623	613,033
Total pension liability – Beginning	11,210,720	10,597,687
Total pension liability – Ending (a)	\$11,784,343	\$11,210,720
 Plan fiduciary net position		
Contributions – State Aid	\$ 266,617	\$ 255,597
Contributions – Employer	227,864	43,030
Contributions – Employee	131,471	132,010
Net investment income	(149,398)	343,769
Benefit payments, including refunds of member contributions	(613,924)	(511,909)
Administrative expenses	-	-
Other	-	3,730
Net change in plan fiduciary net position	(137,370)	266,227
Plan fiduciary net position – Beginning	8,498,295	8,232,068
Plan fiduciary net position – Ending (b)	\$ 8,360,925	\$ 8,498,295
Net pension liability – Ending (a) – (b)	\$ 3,423,418	\$ 2,712,425
 Plan fiduciary net position as a percentage of the total pension liability	70.95%	75.81%
Covered-employee payroll	\$ 2,475,000	\$ 2,450,000
Net pension liability as a percentage of covered-employee payroll	138.32%	110.71%

Refer to the Notes to the Required Supplementary Information following the Schedules of Required Supplementary Information.

East Hempfield Township Police Pension Plan
Schedules of Required Supplementary Information

SCHEDULE OF CONTRIBUTIONS

	2015	2014
Actuarially determined contribution	\$ 494,481	\$ 298,627
Contributions in relation to the actuarially determined contribution	494,481	298,627
Contribution deficiency (excess)	\$ -	\$ -
Covered-employee payroll	\$2,475,000	\$2,450,000
Contributions as a percentage of covered-employee payroll	19.98%	12.19%

Refer to the Notes to the Required Supplementary Information following the Schedules of Required Supplementary Information.

East Hempfield Township Police Pension Plan

Notes to the Required Supplementary Information

Actuarially determined contribution rates are calculated based on the plan's most recent available Act 205 actuarial valuation report. The January 1, 2013 actuarial valuation report was utilized for the 2015 Minimum Municipal Obligation calculation. The January 1, 2011 actuarial valuation report was utilized for the 2014 and 2013 Minimum Municipal Obligation calculations. The following actuarial methods and assumptions were used to determine contribution rates.

Actuarial valuation date	01/01/2015	01/01/2013	01/01/2011
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level dollar	Level dollar	Level dollar
Remaining amortization period	9 years	11 years	11 years
Asset valuation method	Market	Smoothing	Smoothing
Salary increases	5.00%	5.25%	5.25%
Investment rate of return net of pension plan expenses including inflation	8.00%	8.25%	8.25%
Disability rates	DI378	DI378	DI378
Termination rates	W65	W65	W65
Mortality	RP2000	RP2000	RRB92
Retirement age	50	50	50
Cost-of-living adjustments	None	None	None

Changes in Benefit Terms: There were no changes in benefit terms.

Changes in Assumptions: The salary projection used in the January 1, 2015 actuarial valuation was changed to 5.00% to reflect an update in salary increases, and the investment rate of return used in the January 1, 2015 actuarial valuation was changed to 8.00% to more closely estimate future experience.