

SCHUYLKILL TOWNSHIP
NON-UNIFORMED PENSION PLAN
FINANCIAL STATEMENTS
DECEMBER 31, 2019

Date Prepared: February 26, 2020

The accompanying financial statements and notes were prepared based upon information provided by the municipality, its financial institution(s), and actuary. The Statement of Fiduciary Net Position was prepared as of December 31, 2019. The Statement of Changes in Fiduciary Net Position was prepared for the year ended December 31, 2019. The financial statements and notes should not be considered an Audit, Review, or Compilation Report as defined by the American Institute of Certified Public Accountants.

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SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

FINANCIAL STATEMENTS

DECEMBER 31, 2019

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SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

**Statement of Fiduciary Net Position
as of December 31, 2019**

| <u>ASSETS</u> | <u>2019</u> |
|---------------------------------|--------------------|
| Cash and short-term investments | 102,603 |
| Receivables: | |
| Prepaid Pension Payments | 2,424 |
| Investments, at fair value: | |
| Exchange Traded Funds | 2,493,044 |
| TOTAL ASSETS | 2,598,072 |

| | |
|---|------------------|
| Net Position Restricted for Pensions | 2,598,072 |
|---|------------------|

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

**Statement of Changes in Fiduciary Net Position
for the year ended December 31, 2019**

| <u>ADDITIONS</u> | <u>2019</u> |
|---|--------------------|
| Contributions: | |
| Employer | 33,346 |
| Employee | 32,205 |
| Commonwealth | 0 |
| | <hr/> |
| Total Contributions | 65,551 |
| Investment Income: | |
| Net appreciation (depreciation) in fair value of investments | 394,564 |
| Interest Income | 183 |
| Dividend Income | 57,090 |
| | <hr/> |
| Total Investment Income | 451,837 |
| Less Investment Expenses | (9,249) |
| | <hr/> |
| Net Investment Income | 442,587 |
| TOTAL ADDITIONS | 508,139 |
| <u>DEDUCTIONS</u> | |
| Pension Payments | 28,995 |
| Administrative Expenses | 8,200 |
| Refund of Members Contributions | 9,921 |
| | <hr/> |
| TOTAL DEDUCTIONS | 47,116 |
| Net Increase in Net Position | 461,023 |
| Net Position Restricted for Pensions: | |
| Beginning of Year 2019 | 2,137,050 |
| End of Year 2019 | 2,598,072 |

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 1 – PLAN DESCRIPTION

Plan Administration

The Schuylkill Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan covering the full-time non-uniformed employees. The Plan was established by resolution effective January 1, 1981, as amended. The Plan is governed by the Board of Township Supervisors. The Board of Township Supervisors has delegated the authority to manage Plan assets to CBIZ-InR Advisory Services, LLC.

Plan Membership

As of December 31, 2019, membership consisted of:

| | |
|--|-----------|
| Inactive Plan Members Currently Receiving Benefits | 3 |
| Inactive Plan Members Entitled to but not yet Receiving Benefits | 3 |
| Active Plan Members | <u>10</u> |
| TOTAL | 16 |

Benefits Provided

The following is a summary of the Plan benefit provisions:

- **Eligibility Requirements:**
 - Normal Retirement: Age 62 with 10 years of service.
 - Early Retirement: None.
 - Vesting: 100% upon immediate participation.

- **Retirement Benefit:** 1.625% of the final average monthly compensation during the last three years of calendar years of employment plus a service increment of an additional \$100 per month for the completion of 26 or more years of service up to a maximum of \$500 per month.

- **Survivor Benefit:** Upon the death of an active vested member who is eligible for retirement on the date of death, but who is not retired, the surviving spouse or children under the age of 18 will be entitled to 50% of the accrued retirement benefit which the member would have been receiving at the time of death.

- **Disability Benefit Service & Non-Service Related:** None.

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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- Post Retirement Adjustments: Annual cost of living increases (Max. 4% per year). The aggregate of the cost of living increase shall not exceed 30% of the initial benefit.

 - Members Contributions:
 - Amount or Rate: 5%
 - Interest Rate Credited to Member Contributions: 4%

Contributions and Funding Policy

Act 205 of 1984, the Municipal Pension Plan Funding Standard and Recovery Act, initiated actuarial funding requirements for Pennsylvania municipal pension plans. Under Act 205 provisions, a municipal budget must provide for the full payment of the minimum municipal obligation (MMO) to each employee pension fund of the municipality. Act 189 of 1990 amended Act 205 and redefined the calculation used to determine the MMO to employee pension funds. The MMO is now defined as the total financial requirements to the pension fund, less funding adjustments and estimated member contributions.

As a condition of participation, full-time employees are required to contribute 5% of compensation to the Plan. This contribution is governed by the Plan’s resolutions. In accordance with Act 205, as amended, the Township was required to contribute to the Plan for the year 2019 as shown in the exhibit below:

Financial Requirement and Minimum Municipal Obligation Budget for 2019:

| | |
|---|------------------|
| Total Annual Payroll | \$ 574,342 |
| Normal Cost as a Percentage of Payroll | 14.60% |
| Total Normal Cost | \$ 83,854 |
| Estimated Administrative Expenses | \$ 6,000 |
| <Less Funding Adjustment | <\$ 27,790> |
| Estimated Members’ Contributions | <\$ 28,718> |
| Minimum Municipal Obligation | \$ 33,346 |
| <Less Actual State Aid Deposited into Plan> | <\$ 0> |
| REQUIRED MUNICIPAL OBLIGATION | \$ 33,346 |

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

Three Year Funding Trend

| <u>Year Ended December 31</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|-----------------------------------|--|--|-----------------------------------|
| 2017 | 45,079 | 100% | 0 |
| 2018 | 41,472 | 100% | 0 |
| 2019 | 33,346 | 100% | 0 |

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Plan pension payments and member/employer contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

Expenses

Investment expenses consist of investment management, custodial fees, and other significant investment related costs. Administrative expenses consist of consulting, actuarial, legal, and accounting services, along with any other significant Plan related costs. The above expenses are allowable pension Plan expenditures in accordance with Act 205 and may be funded with Plan assets.

Adoption of Accounting Standards

GASB Statement 40, Deposit and Investment Risk Disclosures, was effective for periods beginning after June 15, 2004. GASB Statement 67, Financial Reporting for Pension Plans, was effective for fiscal years beginning after June 15, 2013. The Plan has adopted GASB 40 in previous financial statements and GASB 67 beginning with the 2014 financial statements.

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

NOTE 3 – INVESTMENTS

The deposits and investments of the Plan are held separately from those of the Township and are under the control of the Plan’s Board of Supervisors.

Investment Policy Summary

The Plan’s investment policy in regard to the allocation of invested assets is established and may be amended by the Township Board of Supervisors and Pension Board. The objective of the investment strategy is to reduce risk while maximizing returns through the prudent diversification of the portfolio in order to maintain a fully funded status and meet the benefit and expense obligations when due. The Plan’s formal Investment Policy Statement which is revised periodically provides more comprehensive details on investment strategy and authorized investments.

The Plan’s investment policy establishes the following target allocation across asset classes:

| <u>Asset Class</u> | <u>Target</u> | <u>Long Term Expected Real Rate of Return</u> |
|---------------------------|----------------------|--|
| Equities | 70% | 5.78% |
| Fixed Income | 27% | 1.35% |
| Cash | 3% | <u>-0.31%</u> |
| Total Net Blended Return | | 4.00%* |

*- Excludes 2.25% inflation assumption.

Long Term Expected Rate of Return (Including Inflation) 6.25%

The long-term expected rate of return on the Plan’s investments was determined using an asset allocation study conducted by the Plan’s investment management consultant in December 2019 in which best-estimate ranges of expected future real rates of return (net of pension plan investment expense and inflation) were developed for each major asset class. These ranges were 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 or arithmetic real rates of return for each major asset class included in the Plan’s target asset allocation as of December 31, 2019 are listed in the table above.

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

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December 31, 2019

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a Plan's investment in a single issuer. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The Plan does have a formal investment policy that addresses concentration of credit risk. As of December 31, 2019, no investment in any one organization represented five percent (5%) or more of the Plan's fiduciary net position.

Rate of Return

For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 20.88 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits and Investments

The Plan's deposits and investments are governed by Title 20 of the Pennsylvania Consolidated Statutes, Chapter 73 Municipalities Investments, Section 7302.

Deposits

The Plan does not have a formal deposit policy that addresses custodial credit risk or foreign currency risk, however, the Plan held no deposits that were exposed to custodial credit risk or foreign currency risk as of December 31, 2019. As of December 31, 2019, the carrying amount of the Plan's bank balance was \$53,890. The bank balance is categorized as follows:

| | |
|--|-------------------------|
| Insured, or collateralized with securities held by the Plan or by its agent in the Plan's name | \$ 53,890 |
| Collateralized with securities held by the pledging financial institution | \$ 0 |
| Collateralized with securities held by the pledging financial institution's trust department or agent but not in the pension plan's name | \$ 0 |
| Uninsured and uncollateralized | <u>\$ 0</u> |
| TOTAL BANK BALANCE | <u>\$ 53,890</u> |

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

Investments

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan does not have a formal investment policy that addresses credit risk. The credit risk of a debt instrument as measured by a Nationally Recognized Statistical Rating Organization (NRSRO). (Morningstar for bond mutual funds or Moody's for bonds and mortgages) is as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Quality</u> |
|-------------------------------|--------------------------|-----------------------|
| Exchange Traded Bond Fund | \$130,675 | AAA |
| Exchange Traded Bond Fund | \$317,578 | AA |
| Exchange Traded Bond Fund | \$125,777 | A |
| Exchange Traded Bond Fund | \$ 65,940 | BBB |
| Money Market Fund | <u>\$ 48,714</u> | Not Rated |
| TOTAL | <u>\$688,684</u> | |

Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Plan does not have a formal investment policy that addresses custodial credit risk, however, the Plan held no investments that were exposed to custodial credit risk at December 31, 2019.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan does not have a formal investment policy that addresses foreign currency risk, however, the Plan held no investments that were exposed to foreign currency risk as of December 31, 2019.

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment or a deposit. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. 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. As of December 31, 2019 the Plan's investment balance exposed to interest rate risk was as follows:

| <u>Investment Type</u> | <u>Investment Maturities (in Years)</u> | | | | |
|----------------------------|---|-------------------------|--------------------|-------------------------|------------------------|
| | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1 - 5</u> | <u>6 - 10</u> | <u>Greater Than 10</u> |
| Exchange Traded Bond Funds | \$639,970 | \$130,675 | \$ 0 | \$509,295 | \$ 0 |
| TOTAL | <u>\$639,970</u> | <u>\$130,675</u> | <u>\$ 0</u> | <u>\$509,295</u> | <u>\$ 0</u> |

NOTE 4 – PENSION LIABILITY

Net Pension Liability

The components of the net pension liability of the Plan as of December 31, 2019 were as follows:

| | |
|--|--------------|
| Total Pension Liability (TPL) | \$2,089,394 |
| Plan Fiduciary Net Position | \$2,598,072 |
| Net Pension Liability (NPL) | (\$ 508,678) |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 124.3% |

Update procedures were used to roll forward to the plan's fiscal year ending December 31, 2019. The total pension liability was determined as part of an actuarial valuation at January 1, 2019 and rolled forward to December 31, 2019.

Actuarial Assumptions

An actuarial valuation of the total pension liability is performed biennially. This report was based upon the Plan's actuarial assumptions, asset valuation method, and cost method as described below:

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

| | |
|-------------------------------|--|
| Actuarial Valuation Date | January 1, 2019 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Dollar |
| Remaining Amortization Period | N/A |
| Asset Valuation Method | Market value |
| Assumptions: | |
| Inflation | 2.25% |
| Salary Increases | 5.50% |
| Investment Rate of Return | 7.00% (Net of pension plan investment expense including inflation) |
| Retirement Age | 62 |

Mortality rates were based on the RP-2000 Mortality Table projected to 2017 using Scale AA.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that municipal contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based upon the Plan's current target investment allocation and the associated long-term expected investment returns for its asset classes, the Plan's long-term returns may be less than its actuarial discount rate assumption used to determine its pension liability. This may result in future increased total and net pension liability.

Net Pension Liability Sensitivity

The following is a sensitivity analysis of the net pension liability to changes in the discount rate. The table below presents the net pension liability calculated using the discount rate of 7.00% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.00%) or 1 percentage point higher (8.00%) than the current rate.

| | 1% Decrease 6.00% | Current Discount Rate 7.00% | 1% Increase 8.00% |
|-----------------------|----------------------|--------------------------------|----------------------|
| Net Pension Liability | (\$252,477) | (\$508,678) | (\$728,119) |

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 – RECONCILIATION OF MEMBERS’ CONTRIBUTIONS

| | |
|---|-------------------------|
| Members’ Contributions Deposited for 2019 | \$32,205 |
| <Less Members’ Contributions Deducted from Members’ Salaries> | <u><\$32,205></u> |
| Irreconcilable | \$ 0 |

NOTE 6 – RECONCILIATION OF PENSION PAYMENTS

| | |
|----------------------------------|-------------------------|
| Pensions Paid from Plan for 2019 | \$28,995 |
| <Less Pensioner Register> | <u><\$28,995></u> |
| Irreconcilable | \$ 0 |

SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN
SCHEDULE OF CHANGES IN PLAN'S NET PENSION LIABILITY AND RELATED RATIOS
Last 10 Fiscal Years*

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Total Pension Liability | | | | | | |
| Service Cost | \$ 68,181 | \$ 72,138 | \$ 76,106 | \$ 87,628 | \$ 92,448 | \$ 88,759 |
| Interest | 92,614 | 104,855 | 115,779 | 118,120 | 130,838 | 137,962 |
| Changes of Benefit Terms | - | - | - | - | - | - |
| Differences Between Expected and Actual Experience | - | (10,097) | - | (148,578) | - | (83,900) |
| Changes of Assumptions | - | 44,083 | - | 6,020 | - | - |
| Benefit Payments, Including Refunds of Member Contributions | (23,865) | (23,865) | (25,941) | (28,874) | (28,914) | (38,916) |
| Net Change in Total Pension Liability | 136,930 | 187,114 | 165,944 | 34,316 | 194,372 | 103,905 |
| Total Pension Liability - Beginning | 1,266,813 | 1,403,743 | 1,590,857 | 1,756,801 | 1,791,117 | 1,985,489 |
| Total Pension Liability - Ending | \$ 1,403,743 | \$ 1,590,857 | \$ 1,756,801 | \$ 1,791,117 | \$ 1,985,489 | \$ 2,089,394 |
| Plan Fiduciary Net Position | | | | | | |
| Contributions - Employer | \$ 5,886 | \$ 6,235 | \$ 8,022 | \$ - | \$ - | \$ 33,346 |
| Contributions - State Aid | 27,109 | 27,446 | 24,066 | 45,883 | 41,472 | - |
| Contributions - Member | 22,049 | 26,822 | 30,012 | 33,840 | 30,808 | 32,205 |
| Net Investment Income | 100,469 | (20,118) | 137,768 | 309,846 | (145,657) | 442,587 |
| Benefit Payments, Including Refunds of Member Contributions | (23,865) | (23,865) | (25,941) | (28,874) | (28,914) | (38,916) |
| Administrative Expense | (3,500) | (7,300) | (4,300) | (7,700) | (5,800) | (8,200) |
| Net Change in Plan Fiduciary Net Position | 128,148 | 9,220 | 169,627 | 352,995 | (108,091) | 461,022 |
| Plan Net Position - Beginning | 1,585,151 | 1,713,299 | 1,722,519 | 1,892,146 | 2,245,141 | 2,137,050 |
| Plan Net Position - Ending | \$ 1,713,299 | \$ 1,722,519 | \$ 1,892,146 | \$ 2,245,141 | \$ 2,137,050 | \$ 2,598,072 |
| Plan's Net Pension Liability | \$ (309,556) | \$ (131,662) | \$ (135,345) | \$ (454,024) | \$ (151,561) | \$ (508,678) |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 122.1% | 108.3% | 107.7% | 125.3% | 107.6% | 124.3% |
| Covered Employee Payroll | \$ 423,754 | \$ 430,332 | \$ 499,958 | \$ 619,034 | \$ 658,986 | \$ 574,342 |
| Plan's Net Pension Liability as a Percentage of Covered Employee Payroll | -73.1% | -30.6% | -27.1% | -73.3% | -23.0% | -88.6% |

Notes to schedules:

Assumption Changes - In 2015, the mortality assumption was changed from the RP-2000 Table to the RP-2000 Table projected to 2015 using Scale AA. In 2017, the mortality assumption was changed from the RP-2000 Table projected to 2015 to the RP-2000 Table projected to 2017 using Scale AA.

Benefit Changes - None.

* This schedule will be presented on a prospective basis.

**SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS
Last 10 Fiscal Years***

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Actuarially determined contribution | \$32,995 | \$33,681 | \$32,088 | \$45,079 | \$41,472 | \$33,346 |
| Contributions made | <u>\$32,995</u> | <u>\$33,681</u> | <u>\$32,088</u> | <u>\$45,883</u> | <u>\$41,472</u> | <u>\$33,346</u> |
| Contribution deficiency (excess) | \$0 | \$0 | \$0 | (\$804) | \$0 | \$0 |
| Covered-employee payroll | \$423,754 | \$430,332 | \$499,958 | \$619,034 | \$658,986 | \$574,342 |
| Contributions as a percentage of covered-employee payroll | 7.79% | 7.83% | 6.42% | 7.41% | 6.29% | 5.81% |

* This schedule will be presented on a prospective basis.

**SCHUYLKILL TOWNSHIP NON-UNIFORMED PENSION PLAN
SCHEDULE OF INVESTMENT RETURNS
Last 10 Fiscal Years***

| | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| Annual money-weighted rate of return, net of investment expense | 7.11% | -1.21% | 8.07% | 16.45% | -6.52% | 20.88% |

* This schedule will be presented on a prospective basis.