



**EAST HEMPFIELD TOWNSHIP
NON-UNIFORMED CASH BALANCE PENSION PLAN**

Lancaster County

**Financial Statements
December 31, 2020**



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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 41 - The act of March 30, 1988, P. L. 312 no. 41, 53 P. S. 65515.

Act 69 - Second Class Township Code, act of May 1, 1933, P. L. 103 no. 69, as amended, 53 P. S. 65595, et. seq.



East Hempfield Township Non-Uniformed Cash Balance 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 Non-Uniformed Cash Balance Pension Plan as of and for the year ended December 31, 2020. 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 2020 Annual Investment Report, the 2019 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,

Girard Pension Services

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Statement of Fiduciary Net Position as of December 31, 2020

ASSETS

Cash and Other Assets	
Checking account.....	\$0
Savings account.....	0
Trust account.....	0
Prepaid pension benefits.....	<u>0</u>
Total Cash and Other Assets.....	0
Receivables	
State aid	0
Municipal contributions.....	15,556
Members' contributions	0
Interest and dividends	<u>0</u>
Total Receivables.....	15,556
Investments	
U.S. Government obligations	0
Municipal bonds	0
Corporate bonds and notes.....	0
Stocks.....	0
Mutual funds	
Equities	194,350
Fixed Income.....	103,278
Real Estate.....	3,051
Other	0
Master trust	0
Other investments	<u>0</u>
Total Investments.....	300,679
Assets, at Contract Value	
Group Annuity Contract.....	0
Guaranteed Investment Contracts (GIC)	0
Deposit Administration Contracts (DA)	<u>0</u>
Total Assets at Contract Value	0
Total Assets	\$316,235

LIABILITIES

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

NET POSITION RESTRICTED FOR PENSIONS **\$316,235**

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

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Statement of Changes in Fiduciary Net Position for the Year Ended December 31, 2020

ADDITIONS

Contributions	
State aid	\$46,763
Municipal contributions.....	15,557
Members' contributions	<u>0</u>
Total Contributions	62,320
Investment Income	
Net increase in fair value of investments	46,298
Interest income	0
Dividend income	<u>0</u>
Total Investment Income.....	46,298
Less investment expense	<u>(1,695)</u>
Net Investment Income	44,603
Other income.....	<u>0</u>
Total Additions	106,923

DEDUCTIONS

Benefits (Note 6)	0
Refunds of terminated members' contributions.....	0
Administrative expenses	0
Forfeiture refunded to Township	0
Other expenses	<u>0</u>
Total Deductions	<u>0</u>

NET INCREASE (DECREASE) IN NET POSITION 106,923

NET POSITION RESTRICTED FOR PENSIONS

Beginning of Year.....	<u>209,312</u>
End of Year	\$316,235

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

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Notes to the Financial Statements

1. Plan Description

A. General

The East Hempfield Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan that covers all full-time non-uniformed employees of East Hempfield Township hired on or after January 1, 2011 and which is controlled by the provisions of Ordinance No. 2011-08, as amended, adopted pursuant to Act 69. 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 Supervisors and one other active non-managerial plan participant chosen by a majority of the current participants in the plan. The Board of Township Supervisors has delegated the authority to manage certain plan assets to Girard Pension Services, LLC., with Nationwide Financial as custodian.

B. Plan Membership

At December 31, 2020, pension plan membership consisted of the following:

Active plan members.....	19
Inactive plan members or beneficiaries currently receiving benefits.....	0
Inactive plan members entitled to but not yet receiving benefits.....	0
Total	19

C. Benefit Provisions as of December 31, 2020

Eligibility Requirements:

Normal Retirement - Age 60 and 5 years of service.

Early Retirement - None

Vesting - 20% for each completed year of service, 100% vested after 5 years.

Retirement Benefit: The fair market value of the member's cash balance retirement account at the time of retirement.

Survivor Benefit: The vested fair market value of the member's cash balance retirement account at the time of death.

Disability Benefit:

Service-Related - None

Nonservice-Related - None

Member Contributions: None

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Notes to the Financial Statements (continued)

1. Plan Description (continued)

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, 2020, active members were neither required nor permitted to contribute to the plan. The municipality is required to contribute seven percent (7%) of their total compensation, at least annually.

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.

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.

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Notes to the Financial Statements (continued)

3. Investments

A. Investment Policy

The Pension Board, with the assistance of Girard Pension Services, LLC., 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, 2020, 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	38% - 48%	43%
International Equity	14% - 24%	19%
Fixed Income	27% - 37%	32%
Real Estate	1% - 5%	3%
Cash	1% - 5%	<u>3%</u>
Total		<u>100%</u>

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 Girard Pension Services, LLC. 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, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 17.37 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changes in amounts actually invested.

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Notes to the Financial Statements (continued)

3. Investments (continued)

C. Fair Value Measurements

Generally accepted accounting principles in accordance with GASB Statement No. 72 define fair value, describe a framework for measuring fair value, and require disclosure about fair value measurements. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. The established framework includes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level input that is significant to the fair value measurement of the asset or liability. Classification of assets and liabilities within the hierarchy considers the markets in which the assets and liabilities are traded and reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy and those investments included in each are as follows:

Level 1 - Represented by quoted prices available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities and mutual funds.

Level 2 - Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states, and political subdivisions and certain corporate, asset backed securities, swap agreements, and life insurance contracts.

Level 3 - Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and those with internally developed values.

The following is a description of the valuation methodologies used for instruments measured at fair value on the statement of net position, as well as the general classifications of such instruments pursuant to the valuation hierarchy.

East Hempfield Township Non-Uniformed Cash Balance Pension Plan

Notes to the Financial Statements (continued)

3. Investments (continued)

C. Fair Value Measurements (continued)

Mutual Funds

Mutual funds listed on a national market or exchange are purchased by Nationwide on a daily basis. Investors (the Township) then purchase units of investments through Nationwide. These units are made up of a portion of the pools of mutual funds held by Nationwide. The unit value is determined by the price of the underlying mutual funds and other factors which are recalculated daily. These mutual funds as presented on the Statement of Plan Net Assets are accounted for at fair value on a recurring basis as of December 31, 2020 at Level 2.

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, 2020, 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 Non-Uniformed Cash Balance 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, 2020, 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 Non-Uniformed Cash Balance 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, 2020, 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
Diamond Hill Corporate Credit	\$ 11,953	B	03.1/00.0 years
Doubleline Core Fixed Income	14,870	BB	04.8/06.6 years
Guggenheim Total Return	20,900	BB	07.5/11.6 years
Janus Henderson Multi-Sector	11,946	B	03.5/05.2 years
PGIM Total Return Bond	17,868	BB	06.9/00.0 years
Principal Short Term Income *	7,900	BBB	01.9/02.4 years
Voya Intermediate Bond	17,841	BBB	06.2/07.4 years
	<u>\$ 103,278</u>		

* Principal Short Term Income ratings as of February 28, 2021.

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, 2020, all of the plan's investments were held by Nationwide Financial.