

**WARWICK TOWNSHIP
LITITZ, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 11 - PENSION PLAN

NONUNIFORMED PENSION PLAN

Plan Description

The Township currently has a single-employer defined benefit pension plan for all permanent nonuniformed employees. The nonuniformed pension plan was established as of July 13, 1988 by Warwick Township Ordinance 130 and enrolled in the Pennsylvania Municipal Retirement System (PMRS) established by the Pennsylvania Municipal Retirement Law, Act of February 1, 1974, P.L. 34, No. 15. PMRS is an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate comprehensive Annual Financial report (CAFR). The CAFR is available on the PMRS website or from the PMRS accounting office.

Eligibility Requirements and Benefits Description

All permanent employees of the Township of Warwick shall be eligible to participate in the pension plan upon the expiration of the individual's probationary status with the Township. A participant is eligible for normal retirement after attainment of age 60 and upon 5 years of service. A participant who is voluntarily or involuntarily terminated may receive an annuity under the early retirement provisions, provided the participant has earned at least ten years of service. At present there are seventeen employees covered by the plan and three retiree receiving retirement benefits.

The normal retirement pension annual benefit is determined by multiplying the years of credited service times the final average salary times one and fifty hundredth percent (1.50%). The final salary is calculated using the average annual compensation during the last three years prior to the effective date of retirement. The early retirement pension annual benefit is actuarially reduced for each year prior to normal retirement age that early retirement is elected. The pension plan also offers several death benefit options as selected by the participant. The normal retirement and early retirement pension is payable under four options. If a participant is permanently and totally disabled under a service-connected disability, the participant shall be entitled to annual disability benefits equal to one-half (1/2) of his/her final salary at the time of the total and permanent disability. For a nonservice connected disability, the participant shall be entitled to annual disability benefits equal to 30% of the final salary, provided the member has ten or more years of credited service. A participant's benefits vest upon completion of 10 years of credited service.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 11 - PENSION PLAN (Continued)

NONUNIFORMED PENSION PLAN (Continued)

Contributions and Funding Policy

The plan is funded through state allocations from the General Municipal Pension System State Aid Program, public contributions and through member contributions, which are currently not required.

"Contributions required" are estimates prepared by municipal officials. The estimated contributions may contain immaterial errors, which will not affect the long-term funding of the plan. The minimum funding requirements are based on the results of the most recent actuarial valuation report updated to reflect changes in payroll and expenses. The annual required contribution of the plan, and the annual pension cost contributed for the years ended December 31, 2004 through December 31, 2013 were as follows:

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed By:</u>		<u>Net Pension Obligation</u>
		<u>Employer</u>	<u>Others</u>	
2004	\$ 37,877	100%	0%	\$ --
2005	\$ 35,720	100%	0%	\$ --
2006	\$ 38,639	100%	0%	\$ --
2007	\$ 54,165	100%	0%	\$ --
2008	\$ 62,190	100%	0%	\$ --
2009	\$ 62,224	100%	0%	\$ --
2010	\$ 62,607	100%	0%	\$ --
2011	\$ 62,749	100%	0%	\$ --
2012	\$ 63,334	100%	0%	\$ --
2013	\$ 45,470	100%	0%	\$ --

Actuarial Valuation

An actuarial valuation was completed as of January 1, 2013 by PMRS. The actuarial cost method used was the entry age normal cost method. The following significant assumptions were used; (1) a rate of return of 5.5% on the investment of present and future assets; (2) projected salary increases of 3.0%; (3) pre-retirement life expectancies based on RP2000, with 1-year age setback for males and 5-years for females, mortality table, (4) post-retirement life expectancies based on RP2000 Sex-Distinct mortality tables; (5) retirement age 60 with 5 years of service; (6) provision for administrative expenses added to cost; (7) the amortization method for the annual funding adjustment is equal to 10% of the negative unfunded actuarial accrued liability.

The actuarial valuation as of January 1, 2013 indicates that the non-uniformed pension plan is adequately funded. The plan assets exceeded the actuarial accrued liability by \$94,740. The financial requirement of the plan was determined to be \$68,674. The financial requirement is reduced by 10% of the excess of plan assets over the actuarial accrued liability.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date.

**WARWICK TOWNSHIP
LITITZ, PENNSYLVANIA**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 11 - PENSION PLAN (Continued)

NONUNIFORMED PENSION PLAN (Continued)

Historical trend information required to be disclosed, beginning as of January 1, 2005 is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial (Liability)/ Funding Excess</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial (Liability)/ Funding Excess as a Percentage of Payroll</u>
1-1-05	\$ 998,603	\$ 868,003	\$ 130,600	115.0%	\$ 557,938	23.41%
1-1-07	\$ 1,195,763	\$ 1,135,269	\$ 60,494	105.3%	\$ 660,612	9.16%
1-1-09	\$ 1,522,586	\$ 1,469,191	\$ 53,395	103.6%	\$ 695,005	7.68%
1-1-11	\$ 1,858,185	\$ 1,773,230	\$ 84,955	104.8%	\$ 639,659	13.28%
1-1-13	\$ 2,243,727	\$ 2,148,987	\$ 94,740	104.4%	\$ 628,272	15.08%

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The normal retirement pension annual benefit is determined by multiplying the years of credited service times the final average salary times one and fifty hundredth percent (1.50%). The final salary is calculated using the average annual compensation during the last three years prior to the effective date of retirement. The early retirement pension annual benefit is actuarially reduced for each year prior to normal retirement age that early retirement is elected. The pension plan also offers several death benefit options as selected by the participant. The normal retirement and early retirement pension is payable under four options. If a participant is permanently and totally disabled under a service-connected disability, the participant shall be entitled to annual disability benefits equal to one-half (1/2) of his/her final salary at the time of the total and permanent disability. For a non-service connected disability, the participant shall be entitled to annual disability benefits equal to 30% of the final salary, provided the member has ten or more years of credited service. A participant's benefits vest upon completion of 10 years of credited service.

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**NOTES TO FINANCIAL STATEMENTS
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NOTE 11 - PENSION PLAN (Continued)

NONUNIFORMED PENSION PLAN (Continued)

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2012	\$ 63,334	100%	0%	\$ --
2013	\$ 45,470	100%	0%	\$ --
2014	\$ 48,931	100%	0%	\$ --

Actuarial Valuation

An actuarial valuation was completed as of January 1, 2013 by PMRS. The actuarial cost method used was the entry age normal cost method. The following significant assumptions were used; (1) a rate of return of 5.5% on the investment of present and future assets; (2) projected salary increases of 3.0%; (3) pre-retirement life expectancies based on RP2000, with 1-year age setback for males and 5-years for females, mortality table, (4) post-retirement life expectancies based on RP2000 Sex-Distinct mortality tables; (5) retirement age 60 with 5 years of service; (6) provision for administrative expenses added to cost; (7) the amortization method for the annual funding adjustment is equal to 10% of the negative unfunded actuarial accrued liability.

The actuarial valuation as of January 1, 2013 indicates that the non-uniformed pension plan is adequately funded. The plan assets exceeded the actuarial accrued liability by \$94,740. The financial requirement of the plan was determined to be \$68,674. The financial requirement is reduced by 10% of the excess of plan assets over the actuarial accrued liability.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date.

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**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 11 - PENSION PLAN (Continued)

NONUNIFORMED PENSION PLAN (Continued)

Historical trend information required to be disclosed, beginning as of January 1, 2005 is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial (Liability)/ Funding Excess</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial (Liability)/ Funding Excess as a Percentage of Payroll</u>
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1-1-11	\$ 1,858,185	\$ 1,773,230	\$ 84,955	104.8%	\$ 639,659	13.28%
1-1-13	\$ 2,243,727	\$ 2,148,987	\$ 94,740	104.4%	\$ 628,272	15.08%

**WARWICK TOWNSHIP
LITITZ, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 – DEFINED BENEFIT PENSION PLAN

Plan Description

The Township currently has a single-employer defined benefit pension plan for all permanent nonuniformed employees. The nonuniformed pension plan was established as of July 13, 1988 by Warwick Township Ordinance 130 and enrolled in the Pennsylvania Municipal Retirement System (PMRS) established by the Pennsylvania Municipal Retirement Law, Act of February 1, 1974, P.L. 34, No. 15. PMRS is an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate comprehensive Annual Financial report (CAFR). The CAFR is available on the PMRS website or from the PMRS accounting office.

Benefit Provisions

All permanent employees of the Township of Warwick shall be eligible to participate in the pension plan upon the expiration of the individual's probationary status with the Township. A participant is eligible for normal retirement after attainment of age 60 and upon 5 years of service. A participant who is voluntarily or involuntarily terminated may receive an annuity under the early retirement provisions, provided the participant has earned at least ten years of service.

The normal retirement pension annual benefit is determined by multiplying the years of credited service times the final average salary times one and fifty hundredth percent (1.50%). The final salary is calculated using the average annual compensation during the last three years prior to the effective date of retirement. The early retirement pension annual benefit is actuarially reduced for each year prior to normal retirement age that early retirement is elected. The pension plan also offers several death benefit options as selected by the participant. The normal retirement and early retirement pension is payable under four options. If a participant is permanently and totally disabled under a service-connected disability, the participant shall be entitled to annual disability benefits equal to one-half (1/2) of his/her final salary at the time of the total and permanent disability. For a non-service connected disability, the participant shall be entitled to annual disability benefits equal to 30% of the final salary, provided the member has ten or more years of credited service. A participant's benefits vest upon completion of 10 years of credited service.

Plan Membership

Membership of the plan consisted of the following based upon the most recent actuarial valuation date:

Active plan members	12
Retirees and beneficiaries currently receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	<u>1</u>
	<u>18</u>

Funding Policy

The plan is funded through state allocations from the General Municipal Pension System State Aid Program, public contributions and through member contributions, which are currently not required.

"Contributions required" are estimates prepared by municipal officials. The estimated contributions may contain immaterial errors, which will not affect the long-term funding of the plan. The minimum funding requirements are based on the results of the most recent actuarial valuation report updated to reflect changes in payroll and expenses. The annual required contribution of the plan, and the annual pension cost contributed for the years ended December 31, 2006 through December 31, 2015 were as follows:

**WARWICK TOWNSHIP
LITITZ, PENNSYLVANIA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2006	\$ 38,639	100%
2007	\$ 54,165	100%
2008	\$ 62,190	100%
2009	\$ 62,224	100%
2010	\$ 62,608	100%
2011	\$ 62,749	100%
2012	\$ 63,334	100%
2013	\$ 45,480	100%
2014	\$ 48,931	100%
2015	\$ 58,538	100%

Net Pension Liability

At December 31, 2015, the Township reported a liability of \$150,057 for its net pension liability. The total pension liability is based upon the January 1, 2013 actuarial valuation, with liabilities measured at December 31, 2012, rolled forward to December 31, 2013. The end of year total pension liability is based upon the January 1, 2015 actuarial valuation with liabilities measured at December 31, 2014. PMRS is required to allocate/distribute all funds to the respective participating employers for financial reporting purposes, to determine the respective employer plan fiduciary net position. PMRS has determined that net investment income or loss and administrative expenses will be allocated to the employer/municipality accounts pro-rata based on their beginning fiduciary net position balance adjusted for cash flows throughout the year. The market value investment income reflects the investment income/loss during the year net of PMRS investment income and the income/loss due to the difference between expected and actual asset values, including the impact from allocation of assets in support of underlying retiree liabilities.

Actuarial Assumptions

The actuarial assumptions are based on the PMRS Experience Study for the period covering January 1, 2005 through December 31, 2008 issued by the actuary in July 2010 as well as subsequent Board approved assumption changes, such as the decrease in regular interest to 5.5% for the January 1, 2013 actuarial valuation.

Inflation	3.5 percent
Salary increases	age related scale with merit and inflation component
Investment rate of return	5.5 percent, compounded annually, net of expenses
Post-Retirement Cost of Living Increases	3.0 percent per year, subject to plan limitations

Pre-retirement mortality rates were based on the RP-2000 with 1 year set-back for males and 5 year set-back for females. The post-retirement mortality rates were based on the sex distinct RP-2000 Combined Healthy Mortality.

Discount Rate

The discount rate used to measure the total pension liability was 5.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will continue the historical and legally required practice of contributing to the plan based on an Actuarially Determined Contribution, reflecting a payment equal to annual normal cost, the expected administrative expenses and an amount necessary to amortize the remaining unfunded actuarial liability as a level dollar amount over a closed period. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Change in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 12/31/2013	\$ 2,331,198	\$ 2,375,154	\$ (43,956)
Changes for the Year:			
Service Cost	89,403	--	89,403
Interest	130,250	--	130,250
Differences between Expected and Actual Experience	168,231	--	168,231
Contributions – Employer	--	50,242	(50,242)
Contributions – Member	--	24,241	(24,241)
PMRS Investment Income	--	125,215	(125,215)
Market Value Investment Income	--	(685)	685
Benefits Payments	(81,346)	(81,346)	--
PMRS Administrative Expense	--	(340)	340
Additional Administrative Expense	--	(4,802)	4,802
Net Changes	<u>306,538</u>	<u>112,525</u>	<u>194,013</u>
Balances at 12/31/2014	<u>\$ 2,637,736</u>	<u>\$ 2,487,679</u>	<u>\$ 150,057</u>

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

The following presents the net pension liability, calculated using the discount rate of 5.50 percent, as well as what the pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.50%) or 1-percentage-point higher (6.50%) than the current rate:

	1% Decrease 4.50%	Current Discount Rate 5.50%	1% Increase 6.50%
Total Pension Liability	\$ 2,948,378	\$ 2,637,736	\$2,371,154
Plan Fiduciary Net Position	<u>2,487,679</u>	<u>2,487,679</u>	<u>2,487,679</u>
Net Pension Liability	<u>\$ 460,699</u>	<u>\$ 150,057</u>	<u>\$ (116,525)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.4%	94.3%	104.9%

Pension Plan Fiduciary Net Position

Detailed information about PMRS's fiduciary net position is available in PMRS Comprehensive Annual Financial Report which can be found on the PMRS's website at www.pmr.state.pa.us.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Township recognized pension expense of \$58,538. The Township's financial statements are reported on the modified cash basis of accounting; therefore, deferred outflows of resources have not been reported in the government-wide financial statements. At December 31, 2015, the Township would have reported the following deferred outflows of resources related to pensions from the following sources in the government-wide financial statements:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual investment earnings	\$ 144,198
Differences between expected and actual experience	\$ 548
Contributions subsequent to the measurement date	\$ 58,538

NOTE 11 - POST EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

Other post-employment benefits (OPEB), like pensions, are exchanges of salaries and benefits for future benefits to retain employees. The Township provides certain health care benefits to retired police as required by union contracts. Medical (until age 65) and prescription benefits were provided by the Township. Types of OPEB provided were governed by the Collective Bargaining Agreement of the police. The Township has not established a separate OPEB Plan Fund and is on the pay-as-you-go basis. The defined benefits OPEB plan is included in the Township's basic financial statements.

Effective January 1, 2012, the Warwick Township police department regionalized and became a member of the Northern Lancaster County Regional Police Department. The actuarial determined liability for OPEB benefits has been transferred to the regional police department. Warwick Township has one eligible retiree with medical and prescription coverage. The cost of retirees' retirement benefits is recognized as an expenditure at the time premiums are paid. The estimated liability to provide benefits to the eligible retiree until Medicare eligible as required by the union contract as of December 31, 2015 was \$33,163.

The Township transferred a portion of those funds set aside for OPEB benefits to the Regional Police Department. The Township will continue to fund future OPEB obligations through their regular bi-monthly payments to the regional police department.

NOTE 12 - CONTINGENCIES

The Township participates in various federal and state funded grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the Township is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. The Township's management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.