

**UPPER PROVIDENCE TOWNSHIP
NON-UNIFORMED PENSION PLAN**

AUDITED FINANCIAL STATEMENT

DECEMBER 31, 2020



CYNTHIA FELZER, LEITZELL, CPA
STELLA C. ECONOMIDIS, CPA

LEITZELL & ECONOMIDIS, PC
CERTIFIED PUBLIC ACCOUNTANTS

**NON-UNIFORMED PENSION PLAN
Of UPPER PROVIDENCE TOWNSHIP**

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To the Members of Council
Upper Providence Township
Media, Pennsylvania

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the Non-Uniformed Pension Plan of Upper Providence Township, Media, Pennsylvania as of and for the year ended December 31, 2020, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

Auditor's 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, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Non-Uniformed Pension Plan of Upper Providence Township, Media, Pennsylvania, as of December 31, 2020, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that certain pension information on pages 12 through 14 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.

Leitzell & Economidis, PC

LEITZELL & ECONOMIDIS, PC
Certified Public Accountants

March 12, 2021
Media, Pennsylvania

NON UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2020

ASSETS

Mutual funds, at fair value:

Pennsylvania State Association of Boroughs (PSAB) Retirement Trust	\$ 1,906,070
Total assets	<u>1,906,070</u>

LIABILITIES

Prepaid employee contribution	937
Total liabilities	<u>937</u>

FIDUCIARY NET POSITION

Restricted - held in trust for pension benefits	<u>\$ 1,905,133</u>
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NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

NON UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2020

ADDITIONS:

Contributions:

Employer	\$ 73,146
Employees	21,832
Commonwealth of Pennsylvania	54,162
Total contributions	<u>149,140</u>

Investment income:

Interest and dividends	25,335
Net appreciation in fair value of investments	<u>155,624</u>
	180,959
Less: investment expense	(8,447)
Net investment income	<u>172,512</u>
Total additions	<u>321,652</u>

DEDUCTIONS

Deductions in net position attributed to:

Benefits and withdrawals	66,812
Administrative	4,000
Total deductions	<u>70,812</u>

Net increase 250,840

Fiduciary net position - beginning of the year 1,654,293

Fiduciary net position - end of the year \$ 1,905,133

NOTES TO FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

The Non-Uniformed Pension Plan OF Upper Providence Township is a single-employer defined benefit pension plan controlled by the provisions of Ordinance 183 adopted pursuant to Act 62 of the General Assembly of Pennsylvania. The Plan was established effective January 2, 1972. The Plan was restated by Ordinance effective January 1, 2004. The Plan is governed by the Council of Upper Providence Township, which is responsible for the management of Plan assets. The Council has delegated authority to manage certain Plan assets to the Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMRT).

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's policy is to prepare its financial statements on the accrual basis whereby revenue is recognized when earned and expenditures are recognized when incurred. Plan member contributions are recognized in the period in which the contributions are due. Employer and/or Commonwealth contributions are recognized in the period when due and a formal commitment has been made to provide the contribution. Expenditures include all costs incurred to provide administration and retirement benefits during the period. Refunds are recognized when due and payable in accordance with the terms of the Plan. Benefits are reflected in the financial statements upon payment.

Method Used to Value Investments

The Plan's investments are measured and reported at fair value and are classified according to the following hierarchy:

Level 1—Investments reflect prices quoted in active markets.

Level 2—Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3—Investments which reflect prices based on unobservable resources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

The Plan considers all investments to be Level 1.

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments are reported at fair market value. Fair market value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. Unrealized gains and/or losses due to fluctuations in market value are recorded in the financial statements. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Realized gains or losses are recorded at the time of sale. Net appreciation or depreciation in the fair value of plan investments includes both realized and unrealized gains and losses and related fees as well as investment return.

The Plan assets are managed by the Pennsylvania State Association of Boroughs in its Municipal Retirement Trust (PSABMRT) of which the Township Plan has a .5426% ownership interest.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations

At December 31, 2020, there were investments (other than U.S. Government and U.S. Government guaranteed obligations), in any one organization that represents five percent or more of net assets available for benefits ($\$1,905,133 \times .05 = \$95,257$):

Investment in PSAB Retirement Trust	<u>\$ 1,906.070</u>
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Deposits and Investments

The Governmental Accounting Standards Board, in Statements No. 3 and 40 (GASB 3 and 40), requires certain note disclosures about governmental entities' deposits with financial institutions, investments (including repurchase agreements) and reverse repurchase agreements. The disclosure required by GASB 3 and GASB 40 will provide readers with information about collateralization, credit risks and market risks.

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

The Plan held no deposits that were exposed to custodial credit risk or foreign currency risk at December 31, 2020.

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit risk is the risk that an issuer or other counter-party to an investment will not fulfill its obligations. PSABMRT is not rated by a nationally recognized statistical rating organization. However, PSABMRT has a formal investment policy requiring that any fixed income security maintained within its portfolio should be rated BBB- or higher at the time of purchase. Asset backed securities, mortgage-backed securities and collateralized mortgage obligations should be rated AAA or its equivalent at the time of purchase.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment or deposit. Investments in mutual Plans and certain investment pools are excluded from this requirement. The PSABMRT's formal investment policy states that the portfolio maintained in the Balanced Plan shall be broadly diversified by maturity with the maximum effective maturity of any single security not to exceed 30 years. For the Fixed Income Plan, the portfolio shall be limited to intermediate maturity instruments with effective maturities not to exceed 15 years.

Investments in external investment pools, in open-end mutual Plans or in unallocated insurance contracts are disclosed but not rated applicable to their underlying debt securities.

Investment disclosures are organized by investment type as follows:

Investment Type	Fair Value
PSAB Retirement Trust	\$ 1,906,070

The Plan's investments with the Pennsylvania State Association of Boroughs Municipal Retirement Trust are considered to be investments of an external investment pool. The Trust represents a pool of assets owned by over 200 municipalities within the Commonwealth of Pennsylvania. The Plan owns .5426% of the total Plan that was valued at \$351,278,907.

The Plan held no investments that were exposed to custodial credit risk, concentration of credit risk or foreign currency risk as of December 31, 2020.

The Plan's investment policy has been delegated to the PSABMRT in regard to the allocation of invested Plan assets. The investment policy is established and may be amended by the PSABMRT Board of Trustees. The PSABMRT provides two investment options—the Balanced Fund and the Fixed Income Fund. The Plan participates in the Balanced Fund, the objective of which is long-term growth and income expected to earn returns comprised of long-term capital appreciation and substantial current income. The policy of the Board is to pursue an investment strategy that reduces risk through prudent diversification among its asset classes in order to maintain a fully funded status and meet the benefit and expense obligations when due.

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE I: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Following is the Board's adopted asset allocation policy as of December 31, 2020:

Asset Class	Target Allocation
US large cap growth	12.00%
US large cap value	12.00%
US large cap core	13.00%
US small & mid cap equity	8.00%
International equity	15.00%
Fixed income	33.00%
Private real estate	7.00%
Cash	0.00%

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 10.94%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Contributions

Act 205 of 1984, *The Municipal Pension Plan Funding Standard and Recovery Act*, requires that annual contributions be based upon the minimum municipal obligations (MMO). The MMO is based upon the Plan's actuarial valuations. Employees were required to contribute 3.5% of compensation to the Plan. The Commonwealth provides an allocation of Plans that must be used for pension funding. Any financial requirements established by the MMO which exceeds the state and employee contributions must be funded by the employer in accordance with Act 205.

NOTE II: DESCRIPTION OF PLAN

Plan Membership

Employees covered by benefit terms as of December 31, 2020:

Active employees	10
Retirees, disabled members and	
beneficiaries currently receiving benefits	7
Vested terminated employees	2
	<u>19</u>

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE II: DESCRIPTION OF PLAN (continued)

Benefit Provisions

The Non-Uniformed Pension Plan's benefit provisions as of December 31, 2020 were as follows:

- Eligibility Requirements—normal retirement date shall be the member's 65th birthday with ten years of service; vesting is 100 percent after five years of service.
- Retirement Benefit—normal retirement benefit shall be equal to 50 percent of the monthly average of the highest five consecutive years of compensation out of 10 years before the date of determination. If an employee became a member after January 1, 1995, the above benefit will be reduced for service less than 25 years of service.
- Early Retirement—the earliest retirement date that a member may have is age 50, with a minimum of 25 years of service or age 55 and five years of service.
- Survivor Benefit—if an active member dies before being eligible for an immediate benefit, a lump sum equal to 12 times the accrued monthly benefit will be paid to a beneficiary. If a terminated vested member dies before being eligible for an immediate benefit, that member's beneficiary will receive a refund of the member's contributions with interest. If a participant dies after early or normal retirement age but prior to benefit commencement, the beneficiary will receive a 10-year certain benefit; a spouse of a married participant who dies after normal retirement age will receive the member's accrued benefit reduced by a joint and 100% survivor factor payable for life. After retirement, benefits, if any, are provided by optional benefit selection at retirement.
- Member Contributions—as noted above members contribute to the plan at the rate of 3.5 percent of compensation; interest rate credited to member contributions is six percent per annum compounded annually.

NOTE III: MINIMUM MUNICIPAL OBLIGATION PAYMENTS

The Township Minimum Municipal Obligation (MMO) for 2020 was \$127,308. During this period, the Township was itself required to contribute \$73,146 beyond that which it received from the Commonwealth relative to Act 205 of 1984, *The Municipal Pension Plan Funding Standard and Recovery Act*.

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE IV: NET PENSION LIABILITY OF UPPER PROVIDENCE TOWNSHIP

The components of the net pension liability of the Township at December 31, 2020 were as follows:

Total pension liability	\$ 2,097,527
Plan fiduciary net position	<u>1,905,133</u>
Township's net pension liability	<u>\$ 192,394</u>

Plan fiduciary net position as a percent of the total pension liability: 90.83%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2019; update procedures were used to roll forward to the Plan's year ending December 31, 2020 using the following actuarial assumptions applied to all periods in the measurement:

Inflation	2.25 percent
Salary increases	4.5 percent
Investment rate of return	7.5 percent per annum

Mortality rates for healthy lives were based on the RP-2000 Combined Mortality Tables, with Scale AA projected to 2017.

Long term expected rate of return

The long-term expected rate of return on pension plan investments was determined by using an asset allocation study conducted by the Plan's investment management consultant in December 2020. Best estimate ranges were developed of expected future real rates of return for each major assets class (net of pension plan investment expense and inflation). The 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 adding estimated inflation. The long-term rate of return on assets (including inflation) is expected to be approximately 6.9 percent per year. The total long term expected real rates of return excludes the inflation expectation of 2.25% and averages 4.9%.

**NON-UNIFORMED PENSION PLAN
OF UPPER PROVIDENCE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2020**

NOTE IV: NET PENSION LIABILITY OF UPPER PROVIDENCE TOWNSHIP
(continued)

Discount rate

The discount rate used to measure the total pension liability was 7.50% per year, compounded annually. Based on the Plan's current target investment allocation and the associated long-term expected investment returns, the Plan's long-term returns may be less than its actuarial discount rate assumption used to determine the pension liability potentially resulting in future increased total and net pension liabilities. Plan management is discussing variables concerning the actuarial assumed investment rate of return going forward.

Sensitivity of the net pension liability to changes in the discount rate

Following presents the net pension liability of the Township if calculated using different discount rates as presented by actuarial determination (unaudited):

	1% Decrease 6.50%	Current Rate 7.50%	1% Increase 8.50%
Net pension liability	\$365,487	\$192,394	\$41,217

NOTE V. SIGNIFICANT UNCERTAINTY

As a result of the COVID-19 outbreak in the United States of America, certain economic uncertainties have arisen including the volatility of the stock market. This event has resulted in a risk of decline of market value of the investments in the Pension Plan. The ultimate financial impact of the economic and market conditions is unknown at this time.

NOTE VI. SUBSEQUENT EVENTS

Trustees of the Plan have evaluated subsequent events through March 12, 2021, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

NON-UNIFORMED PENSION PLAN OF UPPER PROVIDENCE TOWNSHIP
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020
(UNAUDITED)

**SCHEDULE OF CHANGES IN UPPER PROVIDENCE TOWNSHIP'S
NET PENSION LIABILITY AND RELATED RATIOS**

	2014	2015	2016	2017	2018	2019	2020
Total Pension Liability							
Service cost	\$ 55,790	\$ 66,846	\$ 69,854	\$ 79,891	\$ 63,486	\$ 67,946	\$ 71,004
Interest	78,182	95,558	104,933	118,420	131,171	137,767	148,870
Changes in benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	-	13,891	-	40,730	-	(53,772)	-
Changes in assumptions	-	117,619	-	4,348	-	-	-
Benefit payments	(35,840)	(44,985)	(35,840)	(37,637)	(54,818)	(59,981)	(66,812)
Net change in total pension liability	98,132	248,929	138,947	206,752	159,839	91,960	152,862
Total pension liability - beginning	1,000,106	1,098,238	1,347,167	1,486,114	1,692,866	1,852,705	1,944,665
Total pension liability - ending	<u>\$1,098,238</u>	<u>\$1,347,167</u>	<u>\$1,486,114</u>	<u>\$1,692,866</u>	<u>\$1,852,705</u>	<u>\$1,944,665</u>	<u>\$2,097,527</u>
Plan Fiduciary Net Position							
Contributions - Township and state aid	\$ 59,856	\$ 57,634	\$ 82,301	\$ 87,867	\$ 139,889	\$ 143,321	\$ 127,308
Contributions - employee	17,104	18,112	19,893	17,748	19,345	22,815	21,832
Net investment income	56,350	(11,770)	48,191	147,080	(86,285)	220,544	180,958
Benefit payments	(35,840)	(44,985)	(35,840)	(37,637)	(54,818)	(59,981)	(66,812)
Administrative expense	(19,725)	(17,200)	(10,247)	(13,324)	(10,370)	(15,134)	(12,447)
Net change in fiduciary net position	77,745	1,791	104,298	201,734	27,781	311,565	250,839
Plan fiduciary net position - beginning	929,400	1,007,145	1,008,936	1,113,234	1,314,968	1,342,729	1,654,294
Plan fiduciary net position - ending	<u>\$1,007,145</u>	<u>\$1,008,936</u>	<u>\$1,113,234</u>	<u>\$1,314,968</u>	<u>\$1,342,729</u>	<u>\$1,654,294</u>	<u>\$1,905,133</u>
Upper Providence Township net pension liability	<u>\$ 91,083</u>	<u>\$ 338,231</u>	<u>\$ 372,880</u>	<u>\$ 377,898</u>	<u>\$ 509,976</u>	<u>\$ 290,371</u>	<u>\$ 192,394</u>
Plan fiduciary net position as a percentage of total pension liability	91.70%	74.89%	74.90%	77.67%	72.47%	85.07%	90.83%
Covered employee payroll	\$458,503	\$494,964	\$518,978	\$573,330	\$620,000	\$552,484	\$659,926
Plan net pension liability as a percentage of covered employee payroll	19.87%	68.33%	71.85%	65.91%	98.10%	52.56%	29.29%

NON-UNIFORMED PENSION PLAN OF UPPER PROVIDENCE TOWNSHIP

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020
(UNAUDITED)

SCHEDULE OF TOWNSHIP CONTRIBUTIONS

	Actuarially determined contribution	Contributions in relation to actuarially determined contribution	Contribution excess (deficiency)	Covered employee payroll	Contributions as a percentage of covered payroll
2011	\$ 61,565	\$ 61,565	\$ -	\$ 412,652	14.92%
2012	\$ 59,920	\$ 59,920	\$ -	\$ 384,867	15.57%
2013	\$ 57,758	\$ 57,758	\$ -	\$ 470,911	12.27%
2014	\$ 59,856	\$ 59,856	\$ -	\$ 458,503	13.05%
2015	\$ 57,634	\$ 57,634	\$ -	\$ 494,964	11.64%
2016	\$ 82,301	\$ 82,301	\$ -	\$ 518,978	15.86%
2017	\$ 87,867	\$ 87,867	\$ -	\$ 573,330	15.33%
2018	\$ 139,889	\$ 139,889	\$ -	\$ 520,000	26.90%
2019	\$ 143,320	\$ 143,320	\$ -	\$ 552,484	25.94%
2020	\$ 143,320	\$ 143,320	\$ -	\$ 552,484	25.94%
2020	\$ 127,308	\$ 127,308	\$ -	\$ 656,926	19.38%

SCHEDULE OF INVESTMENT RETURNS

	2014	2015	2016	2017	2018	2019	2020
Annual money-weighted rate of return net of investment expense	6.16%	-0.67%	4.78%	13.21%	-5.04%	16.43%	10.94%

NON-UNIFORMED PENSION PLAN OF UPPER PROVIDENCE TOWNSHIP

REQUIRED SUPPLEMENTARY INFORMATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2020

(UNAUDITED)

The plan employs Beyer-Barber Company as its actuary. The following information is provided by the actuary and is unaudited.

ITEM	RESPONSE
Date of most recent valuation	January 1, 2019
Actuarial cost method used	Entry age
Asset Valuation Method	Asset smoothing per Section 210(a) of Act 44
Remaining amortization period	Six years
Amortization method	Level dollar