



**CITY OF BRADFORD COMPREHENSIVE  
MUNICIPAL PENSION TRUST FUND**

**MCKEAN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2011 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and City Council  
City of Bradford  
McKean County  
Bradford, PA 16701

We have conducted a compliance audit of the City of Bradford Comprehensive Municipal Pension Trust Fund for the period January 1, 2011 to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension trust fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with each plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into each pension plan and are in accordance with each plan's provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- Whether the pension trust fund is in compliance with state regulations for distressed municipalities.

The City of Bradford contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Bradford Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our tests indicated that, in all significant respects, the City of Bradford Comprehensive Municipal Pension Trust Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However, we are extremely concerned about the funded status of the police and firemen's pension plans contained in the schedule of funding progress included in this report which indicates **the police pension plan's funded ratio is 65.0% and the firemen's pension**

**plan's funded ratio is 67.1% as of January 1, 2011**, which is the most recent date available. We encourage city officials to monitor the funding of the police and firemen's pension plans to ensure their long-term financial stability.

The contents of this report were discussed with officials of the City of Bradford and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

April 14, 2014



EUGENE A. DEPASQUALE  
Auditor General

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## BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the City of Bradford Comprehensive Municipal Pension Trust Fund is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Bradford Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 3113, as amended, to serve as a common administrative and investment agent for the city's police, non-uniformed and firemen's pension plans pursuant to the provisions of Section 607(b) of Act 205. The city's police, non-uniformed and firemen's pension plans are controlled by the provisions of Ordinance General File No. 3165, as amended, adopted pursuant to Act 317. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, non-uniformed employees and firefighters.

## **BACKGROUND – (Continued)**

### POLICE PENSION PLAN

The police pension plan was established January 1, 1911. Active members are required to contribute 5 percent of base and longevity pay, plus \$5 per month, to the plan. As of December 31, 2012, the plan had 18 active members, no terminated members eligible for vested benefits in the future and 25 retirees receiving pension benefits from the plan.

As of December 31, 2012, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Employees hired pre-1988 – 20 years of service. Employees hired post-1987 – Age 50 and 20 years of service.
Early Retirement	None
Vesting	100% after 12 years of service.

#### Retirement Benefit:

50% of final monthly pay or five-year average pay if higher, plus a service increment for each full year after 20 years, but prior to age 65, equal to 1/40<sup>th</sup> of the retirement allowance, not to exceed \$500 per month.

#### Survivor Benefit:

Before Retirement Eligibility	Employees not married: Refund of member contributions, without interest. Married employees: Before 10 years of service - 25% of compensation; With 10 years of service or more - 50% of compensation. Payable immediately.
After Retirement Eligibility	If employee was a disability retiree or the employee was hired pre-1988 - A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death. If employee was not a disability retiree or the employee was hired post-1987 - A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

**BACKGROUND – (Continued)**

POLICE PENSION PLAN – (Continued)

Disability Benefit:

Service Related	Normal Retirement Benefit payable immediately.
Non-Service Related	Before 10 years of service - 25% of compensation; with 10 years of service or more - 50% of compensation. Payable immediately.

## **BACKGROUND – (Continued)**

### NON-UNIFORMED PENSION PLAN

The non-uniformed pension plan was established December 14, 1924. Active members are required to contribute 3.5 percent of compensation on which Social Security is payable and 5 percent of compensation in excess of that on which Social Security is payable, to the plan. As of December 31, 2012, the plan had 50 active members, 2 terminated members eligible for vested benefits in the future and 37 retirees receiving pension benefits from the plan.

As of December 31, 2012, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Employees hired pre-1988 – Age 60.  Employees hired post-1987 – Age 60 and 20 years of service.
Early Retirement	None
Vesting	Employees hired pre-1988 – 0% for less than 5 years, 25% for 5 years, increasing 5% for each year up to 50% after 10 years and increasing 10% for each year over 10 years until 100% is reached after 15 years.  Employees hired post-1987 – 100% after 12 years of service.

#### Retirement Benefit:

50% of average monthly compensation during the highest 5 years, minus 40% of the primary insurance amount of Social Security paid or payable to the plan. (Members may elect to contribute 5% of compensation to the plan in order to eliminate the offset.) In addition, pre-1988 hires receive a service increment for each full year of service after 15 years, but prior to age 70, equal to 1/40<sup>th</sup> of the retirement allowance.

**BACKGROUND – (Continued)**

NON-UNIFORMED PENSION PLAN – (Continued)

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions without interest.
After Retirement Eligibility	Employees hired pre-1988 – a monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member’s death.  Employees hired post-1987 – a monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member’s death.

Disability Benefit:

After 10 years of service and before attaining age 60 – a normal retirement benefit reduced by any applicable workmen’s compensation benefits.

## **BACKGROUND – (Continued)**

### FIREMEN’S PENSION PLAN

The firemen’s pension plan was established February 26, 1931. Active members are required to contribute 5 percent of base and longevity pay, plus \$5 per month, to the plan. As of December 31, 2012, the plan had 17 active members, no terminated members eligible for vested benefits in the future and 30 retirees receiving pension benefits from the plan.

As of December 31, 2012, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	100% after 12 years of service.

#### Retirement Benefit:

50% of final monthly pay or five-year average pay if higher, plus a service increment for each full year after 20 years, but prior to age 65, equal to 1/40<sup>th</sup> of the retirement allowance, not to exceed \$500 a month.

#### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, without interest.
After Retirement Eligibility	A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member’s death.

#### Disability Benefit:

50% of the normal retirement benefit after 10 years of service and an additional 5% per year thereafter, to a maximum of 100%. Payable immediately.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plans is presented herewith as supplementary information. It is intended to help users assess the plans' funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2007, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 3,886,610	\$ 5,493,831	\$ 1,607,221	70.7%	\$ 997,528	161.1%
01-01-09	4,239,833	6,078,039	1,838,206	69.8%	1,031,219	178.3%
01-01-11	4,322,039	6,652,786	2,330,747	65.0%	947,036	246.1%

Note: The market value of the plan's assets at 01-01-07 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NON-UNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 6,251,121	\$ 8,119,924	\$ 1,868,803	77.0%	\$ 2,039,169	91.6%
01-01-09	6,762,083	8,680,475	1,918,392	77.9%	2,085,436	92.0%
01-01-11	7,011,737	8,843,395	1,831,658	79.3%	1,872,008	97.8%

Note: The market value of the plan's assets at 01-01-07 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

FIREMEN’S PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 4,851,560	\$ 7,654,583	\$ 2,803,023	63.4%	\$ 1,065,305	263.1%
01-01-09	5,407,704	8,036,977	2,629,273	67.3%	1,028,495	255.6%
01-01-11	5,666,284	8,446,467	2,780,183	67.1%	1,116,417	249.0%

Note: The market value of the plan’s assets at 01-01-07 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market values of the plan’s assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 183,313	100.4%
2008	212,210	100.2%
2009	220,564	100.0%
2010	208,623	100.1%
2011	224,714	100.0%
2012	235,930	100.1%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES – (Continued)

NON-UNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 122,762	100.9%
2008	221,622	100.4%
2009	229,218	103.1%
2010	220,612	101.1%
2011	233,676	100.0%
2012	153,823	100.0%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES – (Continued)

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 357,040	100.6%
2008	381,133	101.0%
2009	397,086	100.1%
2010	338,695	100.2%
2011	349,231	100.0%
2012	346,543	100.0%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.56%
Cost-of-living adjustments	None assumed

\* Includes inflation at 3.0%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

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\* Includes inflation at 3.0%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
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FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
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Investment rate of return	7.5%
Projected salary increases *	4.56%
Cost-of-living adjustments	None assumed

\* Includes inflation at 3.0%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

City of Bradford Comprehensive Municipal Pension Trust Fund  
McKean County  
24 Kennedy Street  
Bradford, PA 16701

The Honorable Thomas Riel	Mayor
Mr. Fred Proper	Chief Administrative Officer
Mr. Ron Orris	City Controller
Mr. John W. Peterson	City Clerk
Ms. Valerie Figula	Human Resources Director
Mr. Michael Shanks	Chief Financial Officer

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