

COMPLIANCE AUDIT

Pottstown Borough Police Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

May 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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EUGENE A. DEPASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Pottstown Borough
Montgomery County
Pottstown, PA 19464

We have conducted a compliance audit of the Pottstown Borough Police Pension Plan for the period January 1, 2011 to December 31, 2013. We also evaluated compliance with some requirements subsequent to the audit period when possible. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension plan 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- × We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- × We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- × We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- × We determined whether retirement benefits calculated for the 2 plan members who retired during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- × We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Pottstown Borough Police Pension Plan 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 borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, 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 objectives.

The results of our tests indicated that, in all significant respects, the Pottstown Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Pension Benefits In Excess Of Act 600

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 3 – Unauthorized Provision For A Killed In Service Benefit

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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.

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



EUGENE A. DEPASQUALE
Auditor General

March 12, 2015

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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 Pottstown Borough Police Pension Plan 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Pottstown Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2091 and a separately stated plan agreement, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established May 8, 1942. Active members are required to contribute 5 percent of gross compensation to the plan. As of December 31, 2013, the plan had 38 active members, 4 terminated members eligible for vested benefits in the future, and 38 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Later of Age 50 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 26 years of service, \$200 per month for each year of service in excess of 28 years of service and \$300 per month for each year of service in excess of 30 years of service.

Survivor Benefit:

Before Retirement Eligibility	Vested and non-vested pre-retirement death benefits, provided per Act 600.
After Retirement Eligibility	50% to surviving spouse or children, per Act 600.

Service Related Disability Benefit:

Benefit equals 75% of salary averaged over the last 365 days of employment offset by Social Security benefits received for the same injury, with 100% of the benefit continued to surviving spouse.

POTTSTOWN BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Pottstown Borough has complied with the prior audit recommendation concerning the following:

- Restated Plan Document Not Adopted By Ordinance

The borough enacted Ordinance No. 2091 which adopted the separately executed pension plan document.

Partial Compliance With Prior Audit Recommendation

Pottstown Borough has partially complied with the prior audit recommendation concerning the following:

- Pension Benefits In Excess Of Act 600

The borough was successful in negotiating for the discontinuance of providing unauthorized cost-of-living adjustments (COLAs) to surviving spouses of police officers hired after August 1, 2011 in the collective bargaining agreement covering the period January 1, 2011 to December 31, 2013; however, the provision in the restated plan document was not updated accordingly, and still is not in compliance with Act 600. Furthermore, the borough did not return the excess state aid received for the years 2006 and 2007 to the Commonwealth caused by the payment of the unauthorized survivor COLAs as further discussed in Finding No. 1 of this audit report.

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Benefits
In Excess Of Act 600**

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior audit recommendation by successfully negotiating for the discontinuance of providing COLAs to surviving spouses of police officers hired after August 1, 2011 through the collective bargaining agreement covering the period January 1, 2011 to December 31, 2013; however, the unauthorized survivor's COLA provision remains in the borough's restated plan document. In addition, the borough did not return the \$8,190 of excess state aid received for the years 2006 and 2007 to the Commonwealth for the payment of unauthorized survivors' COLAs as previously recommended. In addition, due to the continued payment of COLAs to surviving spouses during the current audit period, the plan's actuary determined that the borough received a \$3,320 overpayment of state aid in 2011.

Criteria: Section 5(g) (1) of Act 600 states, in part:

The ordinance or resolution establishing the police pension fund may provide for a cost of living increase for members of the police force receiving retirement benefits. (Emphasis added)

In addition, the plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits and the pension plan's benefit structure should be in compliance with the provisions of Act 600.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan's governing document was updated to reflect the surviving spouse COLA provision contained in the current collective bargaining agreement. In addition, municipal officials still contend that Act 600 authorizes COLAs for surviving spouses.

Effect: The pension plan continues to pay pension benefits to 5 survivors in excess of those authorized by Act 600. Providing unauthorized pension benefits increases the plan's pension costs and reduces the amounts of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. In addition, the borough receiving an additional \$3,320 in excess state aid during 2011 attributable to these excess benefits. Furthermore, inconsistencies between plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. Finally, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the borough reimburse the \$11,510 of excess state aid received in the years 2006, 2007 and 2011 to the Commonwealth. A check in this amount, with interest compounded annually from the date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that the borough comply with Act 600 and amend the plan's governing document to reflect the survivor's COLA provision included in the current collective bargaining agreement.

Furthermore, to the extent that the borough is contractually obligated to pay benefits to existing beneficiaries in excess of those authorized by Act 600, the borough should continue to reflect the excess benefits in the actuarial valuation reports for the plan and fund the plan in accordance with Act 205 funding standards. The plan's actuary should continue to determine the impact of the excess benefits on the borough's future state aid allocations and continue to submit this information to the Department. If it is verified that the borough received an excess state allocation, it should be reimbursed to the Commonwealth.

Management's Response: The borough's written response is summarized as follows:

This finding asserts that state aid was used to pay for COLA's for survivors of retirees for calendar year 2006, 2007, and 2011, which purportedly are benefits not permitted by Act 600. The Borough and the Police Pension Board disagree with this conclusion. As discussed, the dispute on this issue dates back a number of years. In 2004, the Pension Board received a legal opinion from its solicitor finding such benefit to be permitted. A copy of the opinion letter is attached. Borough Council, through recommendation of Pension Board, subsequently passed appropriate documentation to provide for an Ad Hoc COLA to retirees and survivors. A prior audit of the Police Pension Plan for 2003, 2004 and 2005 made no mention or finding of this Ad Hoc COLA provision provided to survivors in calendar year 2004.

When the issue was raised again by your office in 2009, the Borough and Pension Board took exception to the finding. The borough is willing to schedule a meeting with representatives of your office, including legal counsel, to discuss this issue and hopefully reach a resolution on the matter. During such a meeting, additional information on the topic can be shared, as we believe there are reasons the finding should be rescinded.

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued):

Auditor’s Conclusion: While we acknowledge the borough’s position that the survivor’s COLA benefit should not be considered an unauthorized or excess pension benefit, the fact remains that Section 5(g) of Act 600 does not provide for COLAs for surviving spouses. The previously cited language contained in Act 600 clearly limits COLAs to “members of the police force” and there is no mention of extending such COLAs to surviving spouses. Therefore, the COLAs granted to surviving spouses are considered by this Department to be benefits in excess of Act 600 provisions. As stated in the finding, the provision of COLAs to surviving spouses will continue to be deemed an unauthorized benefit and ineligible for funding with state pension aid. Therefore, based on the criteria previously cited, the finding and recommendation remain as stated.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: Borough officials certified an ineligible police officer (2 units) on the Certification Form AG 385 filed in 2013. In addition, the borough certified 3 ineligible police officers (6 units) on the Certification Form AG 385 filed in 2014. The data contained on these certification forms are based on prior calendar year information.

Criteria: The instructions on Certification Form AG 385 state, in part:

Complete PERSONNEL ROSTERS for each pension plan (Uniformed and Non-Uniformed) and return with Certification Form AG–385. Totals from the Personnel Roster MUST EQUAL totals on the Certification Form AG–385.

Furthermore, pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The borough lacked adequate internal control procedures to ensure that reporting errors were identified and corrected in a timely manner. In addition, on the Certification Form AG 385 filed in 2014, although plan officials correctly listed the 41 eligible police officers on the personnel roster which serves as support for Certification Form AG 385, the borough inadvertently reported 44 officers as the total number of police officers on the actual Certification Form used in the state aid determination.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the borough for distribution to its pension plans. Because the borough’s state aid allocation was based on unit value, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2013	2	\$ 3,884	\$ 7,768
2014	6	\$ 3,873	<u>23,238</u>
Total overpayment			<u><u>\$ 31,006</u></u>

In addition, the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid. Furthermore, the borough’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$31,006, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: It is acknowledged that incorrect information was submitted on the AG 385 form causing receipt of excess state aid which should be returned. However, it is the Borough's position that it was entitled to receive almost \$54,000 in state aid for calendar 2008 which had not been received. The borough requests this be considered a credit against amounts that need to be returned.

Auditor's Conclusion: In the prior audit report for the period January 1, 2006 to December 31, 2008, it was noted the borough received a \$6,259 underpayment of state aid in 2008, which was credited against overpayments the borough received in 2007 and 2009. Therefore, based on the criteria previously cited, the finding and recommendation remain as stated.

Finding No. 3 – Unauthorized Provision For A Killed In Service Benefit

Condition: Pottstown Borough maintains a police pension plan governed by the provisions of Act 600, as amended. Prior to the adoption of Act 51 of 2009, Act 600 contained a mandatory killed in service benefit provision; however, Act 51 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit. During the prior audit period, a verbal observation was given to plan officials notifying them of the passage of Act 51. It was recommended that plan officials review the act's implications for the police pension plan with their municipal solicitor. During the current audit period, it has been determined that the pension plan's governing document continues to provide for a killed in service benefit that is no longer authorized by Act 600.

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Article VIII, Section 802, Sub Section H, Part 4(c), of separately executed Restated Plan Document, states:

For active members killed or dying in the line of service, (a pre-retirement death) the survivor's shall be entitled to an annual benefit, paid in equal monthly installments, equal to: 100% of the member's base compensation, current longevity rate, current education incentive pay rate and current residency bonus pay rate at the time of death.

Criteria: Section 1(a) of Act 51 of 2009 states, in part:

In the event a law enforcement officer, ambulance service or rescue squad member, firefighter, certified hazardous material response team member or National Guard member dies as a result of the performance of his duties, such political subdivision, Commonwealth agency or, in the case of National Guard members, the Adjutant General, or, in the case of a member of a Commonwealth law enforcement agency, the authorized survivor or the agency head, within 90 days from the date of death, shall submit certification of such death to the Commonwealth.

In addition, Section 1(d) of Act 51 of 2009 states, in part:

. . . the Commonwealth shall, from moneys payable out of the General Fund, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the sum of \$100,000, adjusted in accordance with subsection (f) of this section, and an amount equal to the monthly salary, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, less any workers' compensation or pension or retirement benefits paid to such survivors, and shall continue such monthly payments until there is no eligible beneficiary to receive them. For the purpose of this subsection, the term "eligible beneficiary" means the surviving spouse or the child or children under the age of eighteen years or, if attending college, under the age of twenty-three years, of the firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty. When no spouse or minor children survive, a single sum of \$100,000, adjusted in accordance with subsection (f) of this section, shall be paid to the parent or parents of such firefighter, ambulance service member, rescue squad member or law enforcement officer. (Emphasis added)

POTTSTOWN BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, Section 2 of Act 51 of 2009 states:

Repeals are as follows:

- (1) The General Assembly declares that the repeals under paragraph (2) are necessary to effectuate the amendment of section 1 of the act.
- (2) The following parts of acts are repealed:
 - (i) Section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No. 600), referred to as the Municipal Police Pension Law.
 - (ii) Section 202(b)(3)(vi) and (4)(vi) of the act of December 18, 1984 (P.L.1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

Therefore, since Act 51 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that were contained in Act 205, the provision of a killed in service benefit is no longer authorized.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document is in compliance with Act 600, as amended.

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of a killed in service benefit could result in the pension plan being obligated to pay a benefit that is no longer authorized by Act 600, and would have been paid entirely by the Commonwealth absent such provision.

Recommendation: We recommend that the municipality review the plan's killed in service benefit with its solicitor in conjunction with Act 51 of 2009, and eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management's Response: It was agreed and acknowledged that the collective bargaining agreement with the police has been modified to become consistent with Act 51. Similar modifications to the plan document are being prepared and will be reviewed and approved at the next Pension Board meeting.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

POTTSTOWN BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite overpayments of state aid to the borough amounting to \$42,516. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120.

POTTSTOWN BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's 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, 2009, is as follows:

	(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)]
01-01-09	\$ 14,912,717	\$ 17,606,635	\$ 2,693,918	84.7%	\$ 3,461,228	77.8%
01-01-11	16,017,706	18,806,007	2,788,301	85.2%	3,372,242	82.7%
01-01-13	17,301,806	21,763,969	4,462,163	79.5%	3,525,744	126.6%

Note: The market value of the plan's assets at 01-01-09 has 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. This method 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.

POTTSTOWN BOROUGH POLICE PENSION PLAN
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.

POTTSTOWN BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 289,598	100.0%
2009	298,187	132.8%
2010	288,444	207.7%
2011	616,452	104.7%
2012	636,231	100.0%
2013	631,297	100.0%

POTTSTOWN BOROUGH POLICE PENSION PLAN
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:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	3.5%
Cost-of-living adjustments	Based on Philadelphia CPI - For those retired after 1/1/95 to 8/10/97, a maximum of 7.5% of final average compensation; for those retired on or after 8/11/97, a maximum of 15% of final average compensation.

POTTSTOWN BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Pottstown Borough Police Pension Plan
Montgomery County
100 East High Street
Pottstown, PA 19464

The Honorable Sharon Valentine-Thomas	Mayor
Mr. Stephen M. Toroney	Council President
Mr. Mark D. Flanders	Borough Manager
Ms. Janice E. Lee	Finance Director
Mr. Charles McClincy	Chairman, Police Pension Board

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