COMPLIANCE AUDIT

City of Johnstown Comprehensive Municipal Pension Trust Fund

Cambria County, Pennsylvania

For the Period
January 1, 2013 to December 31, 2014

December 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 City Council
City of Johnstown
Cambria County
Johnstown, PA 15901

We have conducted a compliance audit of the City of Johnstown Comprehensive Municipal Pension Trust Fund for the period January 1, 2013 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that 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 municipal 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 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 municipal pension trust fund 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 municipal pension trust fund as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the municipal pension trust fund 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 municipal pension trust fund.

- We determined whether retirement benefits calculated for all 20 of the fund members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 and applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for all 5 of the fund members who elected to vest during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document and applicable laws and regulations by recalculating the amount of the pension benefit due and comparing these amounts to supporting documentation evidencing amounts determined.

- We determined whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014, in accordance with Act 205 and whether selected information provided on this report 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 refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations by testing 7 of 12 of the refunds disbursed to plan members during the current audit period.

- We determined whether the municipal pension trust fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

The City of Johnstown 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 Johnstown 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 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 procedures indicated that, in all significant respects, the City of Johnstown Comprehensive Municipal Pension Trust Fund 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:

<u>Police, Firemen's and Non-Uniformed Pension Plans</u>:

Finding No. 1 – Failure To Implement Act 44 Mandatory Distressed Provisions

<u>Firemen's Pension Plan:</u>

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Provision of Benefits In Excess Of The Third Class City Code

As previously noted, one of the objectives of our audit of the City of Johnstown Comprehensive Municipal Pension Trust Fund was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 historical trend information contained in the respective schedules of funding progress included in this report which indicates **the police pension plan's funded ratio is 51.4%, the firemen's pension plan funded ratio is 31.6%, the non-uniformed pension plan's funded ratio is 54.1%, and the Bureau of Sewage pension plan's funded ratio is 55.3%, as of January 1, 2013, which is the most recent data available. Based on aggregated funded levels of the city's plans, the Public Employee Retirement Commission issued a notification that the city is currently in Level III severe distress status.** We encourage city officials to monitor the funding of its pension plans to ensure their long-term financial stability.

As noted in Finding No. 1 contained in this report, the City of Johnstown has failed to comply with the mandatory Level III distress remedies contained in Act 205, as amended by Act 44 of 2009. Regardless of the available remedies pursuant to Act 205 that the city is required to implement, given the current funded status of its municipal pension fund, the city should consider all available options in the development of a strategic plan to deal with its pension funding crisis. City officials must realize that there are no short-term fixes and that they must make fiscally responsible decisions as both fund fiduciaries and city officials that will benefit the City of Johnstown and its taxpayers to ensure the city's pension fund has adequate resources to meet current and future benefit obligations to the city's hard-working police officers, firefighters, and non-uniformed employees.

The contents of this report were discussed with officials of the City of Johnstown 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.

November 13, 2015

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

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 firemen 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 Johnstown 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

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 Johnstown Comprehensive Municipal Pension Trust Fund is the aggregation of the City's municipal pension plans pursuant to Section 607(b) of Act 205. The police pension plan, firemen's pension plan, non-uniformed pension plan and Bureau of Sewage pension plan are locally controlled by the provisions of Ordinances Nos. 3785 (police), 2752 (firemen), 4440 (non-uniformed) and 4443 (sewage), as amended. The plans are also affected by the provisions of separately executed collective bargaining agreements between the city and its police officers, firemen, non-uniformed employees and bureau of sewage employees.

The police pension plan was established December 29, 1959. Active members are required to contribute 5 percent of pay plus $5 per month on longevity pay. As of December 31, 2014, the plan had 41 active members, 4 terminated members eligible for vested benefits in the future, and 85 retirees receiving pension benefits from the plan.

The firemen's plan was established on June 17, 1948. Active members are required to contribute 5 percent of pay plus $5 per month on longevity pay. As of December 31, 2014, the plan had 34 active members, 2 terminated members eligible for vested benefits in the future, and 72 retirees receiving pension benefits from the plan.

The non-uniformed plan was established January 1, 1971. Active members hired post 1988 are required to contribute 2.25 percent of salary to the plan and members hired pre 1988 are required to contribute 3.5 percent of salary to the plan. As of December 31, 2014, the non-uniformed pension plan had 48 active members, 2 terminated members eligible for vested benefits in the future, and 73 retirees receiving pension benefits from the plan.

The Bureau of Sewage plan was established January 1, 1971. During the year 2013 active members were required to contribute 2.25 percent of salary. On June 19, 2013, the City adopted Resolution No. 9615 which terminated its agreement with the Johnstown Redevelopment Authority effective December 31, 2013. That agreement provided for the City to hire the employees of the Bureau of Sewage as city employees. Therefore effective January 1, 2014, the plan had no active members, 5 terminated employees eligible for vested benefits in the future and 18 retirees receiving pension benefits from the plan.

POLICE PENSION PLAN

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 plus 1 day and 25 years of service. If hired between January 1, 1989 and January 1, 2010, age 50 plus 1 day, and 20 years of service. If hired prior to January 1, 1989, 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

A monthly benefit equal to 50% of monthly average of highest 5 years of pay, or if hired prior to January 1, 2010, a monthly benefit equal to 50% of the greater of, final monthly pay or monthly average of highest 5 years of pay, plus a monthly service increment of 1/40 of pension for each year of service completed in excess of 25 years (20 years if hired prior to January 1, 2010), excluding service beyond age 65. Maximum service increment is $500. Minimum total benefit is $400 per 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 until death or remarriage, at which time the benefit will be divided equally among the participant's children under age 18.

Service Related Disability Benefit:

Upon total and permanent disablement after 10 years of service the participant will receive the pension entitlement.

Non-Service Related Disability Benefit:

Upon total and permanent disablement after 15 years of service the participant will receive the pension entitlement.

FIREMEN'S PENSION PLAN

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Completion of 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

BACKGROUND – (Continued)

Retirement Benefit:

A monthly benefit equal to 50% of the greater of final monthly base and longevity pay or monthly base and longevity pay averaged over the of highest 5 years, plus a monthly service increment of 1/40 of pension for each year of service completed in excess of 20 years, excluding service beyond age 65. Maximum service increment is $500.

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. If surviving spouse dies, the benefit will be paid to the participant's children under age 18, if any.

Service Related Disability Benefit:

Normal retirement benefit is payable.

Non-Service Related Disability Benefit:

If a participant is totally and permanently disabled after 15 years of service the normal retirement benefit is payable.

NON-UNIFORMED PENSION PLAN

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

BACKGROUND – (Continued)

Retirement Benefit:

Benefit equals 50% of the greater of final 24 months average total salary or highest 60-month average of total salary, less 40% of primary Social Security benefit for employees hired before January 1, 1988; or 50% of primary Social Security benefit for employees hired on or after January 1, 1988. Employees who retire after age 55 will receive an additional 1% of average salary for each year of service in excess of 20 years, up to a maximum increment of 20% of salary.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, without interest.
After Retirement Eligibility	The retirement benefits payable as a life annuity.

Service Related Disability Benefit:

Upon total and permanent disablement after the completion of 10 years of service a participant will receive the retirement benefit with no offset for Social Security benefits.

Non-Service Related Disability Benefit:

Same as service related.

BUREAU OF SEWAGE PENSION PLAN

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Age 60 and 15 years of service.
Vesting	Participants hired prior to January 1, 1988 - 50% after 5 years of service, 75% after 10 years of service and 100% after 15 years of service. Participants hired on or after January 1, 1988 - 100% after 15 years of service.

Retirement Benefit:

For participants hired before January 1, 1988; a monthly benefit of 1% average compensation (final 60 months) plus 1/2 of 1 percent of average compensation in excess of $1,000, multiplied by years and completed months of service to a maximum of 40 years. For participants hired on or after January 1, 1988; a monthly benefit equal to 1 percent of average compensation multiplied by years of service to a maximum of 40 years.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, without interest.
After Retirement Eligibility	Life annuity or participant may select at retirement an actuarial equivalent of the normal form.

Service Related Disability Benefit:

Side fund accumulated reserves are payable upon permanent incapacity to perform duties of employment.

Non-Service Related Disability Benefit:

Same as service related.

Police Pension Plan

Compliance With Prior Audit Recommendation

The City of Johnstown has complied with the prior audit recommendation concerning the following:

· Provisions Of Benefits In Excess Of The Third Class City Code

  The collective bargaining agreement between the city and its police officers, covering the period January 1, 2014, to December 31, 2016, provides that for employees hired after March 10, 2010, normal retirement eligibility shall require age 50 with 25 years of service. This benefit provision is also included in the plan's actuarial valuation report dated January 1, 2013. Therefore, this will also change the vesting provision for those employees hired after March 10, 2010. City officials were notified through a verbal observation during our exit conference held at the city offices on September 16, 2015, that this benefit should be adopted by an amending plan ordinance to ensure consistency with the collective bargaining agreement.

Firemen's Pension Plan

Noncompliance With Prior Audit Recommendation

The City of Johnstown has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

· Provision Of Benefits In Excess Of The Third Class City Code

Police, Firemen's and Non-Uniformed Pension Plans

Finding No. 1 – Failure To Implement Act 44 Mandatory Distressed Provisions

Condition: Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

Based on the funded ratios of the city's pension plans as of January 1, 2011, the Public Employee Retirement Commission (PERC) issued a notification in 2012 that the city was in Level III severe distress status. Furthermore, based on the funded ratios of the city's plans at January 1, 2013, PERC issued another notification in 2014 that the city remained in Level III severe distress status.

Included with the determination notices, PERC sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan's Chief Administrative Officer and returned to PERC. Through the date of this audit report, the city had not returned the completed form to PERC.

One of the mandatory remedies for Level III is the establishment of revised benefit plans for newly hired employees. We note that the city did amend the normal retirement eligibility provision for police officers hired after March 10, 2010, to age 50 and 25 years of service; however, there have been no other revised benefit provisions adopted by the city for the police pension plan. In addition, there was no establishment of a revised benefit plan for newly hired firefighters or non-uniformed employees to reduce pension costs and to ensure the long-term financial stability of the city's pension plans.

We also note that the city had drafted a recovery plan Pursuant to the Municipalities Financial Recovery Act. The plan provided for improvements of the administration of the pension plans; however, the recovery plan has not been implemented, nor has it been submitted to PERC.

Police, Firemen's and Non-Uniformed Pension Plans – (Continued)

Finding No. 1 – (Continued)

Criteria: Act 205, amended by Act 44, at Section 606(b), states:

> Recovery program level III.
>
> (b) Mandatory remedies. Any municipality to which level III of the recovery program applies shall utilize the following remedies:
>
> (1) The aggregation of trust funds pursuant to section 607(b).
>
> (2) The establishment of a revised benefit plan for newly hired municipal employees pursuant to section 607(e).
>
> (3) The preparation, submission and implementation of a plan for improvement of the administration of the pension plan or plans pursuant to section 607(i).

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that all of the mandatory distress remedies have been implemented.

Effect: The municipality is not in compliance with the Act 44 mandatory distress remedy provisions applicable to Level III which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We recommend that municipal officials comply with the outstanding Level III distress remedies regarding the establishment of revised benefit plans for all newly hired municipal employees and the preparation of a plan for the improvement of the administration of its pension plans.

Furthermore, we recommend that municipal officials contact PERC for guidance in the implementation of the mandatory distress remedies applicable to Level III pursuant to Act 44 of 2009.

Management's Response: Municipal officials agreed with the finding without exception.

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

Firemen's Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits In Excess Of The Third Class City Code

Condition: As disclosed in the prior audit report, the city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). Our audit of the firemen's pension plan has determined that the city continues to provide benefits to its firemen in excess of the restrictions found in the Third Class City Code. The specific inconsistency is as follows:

Benefit	Governing Document/Collective Bargaining Agreement (CBA)	Third Class City Code
Survivor's Benefit	Ordinance No. 4928 dated January 14, 2004, states a member who is active or who is eligible to receive or is receiving pension benefits dies, the spouse of the deceased member, or, if no spouse survives or if the spouse survives and subsequently dies or remarries, then the children, under age eighteen of the deceased member, shall, during the spouse's lifetime or so long as the spouse does not remarry, in the case of the spouse, or until reaching age eighteen, in the case of children, receive a monthly pension equal to fifty percent of the amount which the member was receiving or would have received prior to his or her death.	Upon the death of a member who retires on pension or is killed in the service on or after January 1, 1960, or who dies in the service on or after January 1, 1968, payments as hereinafter provided shall be made to the member's surviving spouse during the life of the spouse. (Emphasis added)

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Benefit	Governing Document/Collective Bargaining Agreement (CBA)	Third Class City Code
Vesting Benefit	Ordinance No 4928 dated January 14 2004, and the collective bargaining agreement provide after 12 years of service, but before reaching 20 years of service, a benefit upon reaching age 50 will be determined utilizing a fraction with the years of service as the numerator and 20 as the denominator.	The portion of the base retirement benefits due to the member shall be determined by applying to the base amount the percentage that his or her years of service actually rendered bears to the years of service which would have been rendered <u>had the member continued to be employed by the department until his or her minimum retirement date</u>. (Emphasis added)

Therefore, the Third Class City Code does not authorize survivor benefits for minors under 18 years of age and provides for a lifetime benefit to be paid to a surviving spouse, even if remarried. Furthermore, the Third Class City Code dictates that a vested benefit must be determined based on the number of years required for a superannuation retirement, which would be age 50 and 20 years of service. The vesting provision contained in the plan's governing document and CBA could result in the payment of a vested pension benefit greater than what is authorized by the Third Class City Code.

<u>Criteria</u>: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995. As noted in the "Department Of The Auditor General Municipal Pension Bulletin No. 2001-01", dated July 1, 2001, the Department's application of Monroeville did not apply to home rule municipalities that had granted benefits not authorized by the Third Class City Code to existing retirees or individuals who began full-time employment before January 24, 2001 (the date Monroeville was issued). However, the Department's application of Monroeville applied to those individuals who began full-time employment on or after January 24, 2001.

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Special note should be taken that the Department's application of Monroeville only to employees hired on or after January 24, 2001, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality's increasing excess benefits for existing or future employees beyond those which had been granted as of that date.

Cause: City officials failed to establish adequate internal controls to ensure compliance with the prior audit recommendation.

Effect: The provision of excess benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Although the city did not receive any excess state aid allocations during the current audit period attributable to the excess benefits provided, the provision of excess benefits could result in the receipt of excess state aid in the future and could increase required municipal contributions to the plan.

Recommendation: We again recommend that the city restrict pension benefits to those authorized by the Third Class City Code for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the Department.

Management's Response: City officials agreed with the finding without exception. In a letter dated September 16, 2015, city officials stated they are working with the collective bargaining unit to initiate new retirement plans that comply with the Third Class City Code. Although the city proposed an alternative plan for new hires during prior contract negotiations, the city's proposal was not accepted by the bargaining unit for the January 1, 2015 to December 31, 2017 contract.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

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

The supplementary information contained on Pages 13 through 25 reflect the implementation of GASB Statement No. 67, *Financial Reporting for Municipal Pension Trust Funds*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
POLICE PENSION PLAN

Total Pension Liability		
Service cost	$	572,085
Interest		2,587,918
Benefit payments, including refunds of member contributions		(2,338,317)
Net Change in Total Pension Liability		821,686
Total Pension Liability – Beginning		17,344,042
Total Pension Liability - Ending (a)	$	18,165,728
Plan Fiduciary Net Position		
General Municipal State Aid	$	233,600
Contributions – employer		649,300
Contribution – member		95,325
Net investment income		629,788
Benefit payments, including refunds of member contributions		(1,173,829)
Administrative expense		(6,244)
Net Change in Plan Fiduciary Net Position		427,940
Plan Fiduciary Net Position - Beginning		10,178,626
Plan Fiduciary Net Position - Ending (b)	$	10,606,566
Net Pension Liability - Ending (a-b)	$	7,559,162
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		58.39%
Estimated Covered Employee Payroll (12-31-12)	$	2,066,063
Net Pension Liability as a Percentage of Covered Employee Payroll		365.87%

Police Pension Plan - (Continued)

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

The following presents the net pension liability of the city, calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	$ 9,503,147	$ 7,559,162	$ 5,920,006

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FIREMEN'S PENSION PLAN

Total Pension Liability		
Service cost	$	556,859
Interest		2,430,867
Benefit payments, including refunds of member contributions		(2,486,903)
Net Change in Total Pension Liability		500,823
Total Pension Liability – Beginning		16,422,548
Total Pension Liability - Ending (a)	$	16,923,371
Plan Fiduciary Net Position		
General Municipal State Aid	$	378,593
Contributions – employer		1,013,123
Contribution – member		119,257
Net investment income		388,326
Benefit payments, including refunds of member contributions		(1,239,707)
Administrative expense		(5,844)
Other		847
Net Change in Plan Fiduciary Net Position		654,595
Plan Fiduciary Net Position – Beginning		5,885,432
Plan Fiduciary Net Position - Ending (b)	$	6,540,027
Net Pension Liability - Ending (a-b)	$	10,383,344
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		38.64%
Estimated Covered Employee Payroll (12-31-12)	$	1,977,003
Net Pension Liability as a Percentage of Covered Employee Payroll		525.21%

Firemen's Pension Plan - (Continued)

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

The following presents the net pension liability of the city, calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	$ 12,259,678	$ 10,383,344	$ 8,806,287

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
NON-UNIFORMED PENSION PLAN

Total Pension Liability		
Service cost	$	328,658
Interest		1,667,567
Benefit payments, including refunds of member contributions		(1,798,716)
Net Change in Total Pension Liability		197,509
Total Pension Liability – Beginning		11,333,536
Total Pension Liability - Ending (a)	$	11,531,045
Plan Fiduciary Net Position		
General Municipal State Aid	$	153,048
Contributions – employer		404,228
Contribution – member		41,516
Net investment income		408,132
Benefit payments, including refunds of member contributions		(929,943)
Administrative expense		(5,602)
Net Change in Plan Fiduciary Net Position		71,379
Plan Fiduciary Net Position - Beginning		6,806,689
Plan Fiduciary Net Position - Ending (b)	$	6,878,068
Net Pension Liability - Ending (a-b)	$	4,652,977
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		59.65%
Estimated Covered Employee Payroll (12-31-12)	$	1,775,989
Net Pension Liability as a Percentage of Covered Employee Payroll		261.99%

Non-Uniformed Pension Plan – (Continued)

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

The following presents the net pension liability of the city, calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	$ 5,711,146	$ 4,652,977	$ 3,737,005

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
BUREAU OF SEWAGE PENSION PLAN

Total Pension Liability		
Interest	$	129,986
Benefit payments, including refunds of member contributions		(177,979)
Net Change in Total Pension Liability		(47,993)
Total Pension Liability – Beginning		1,820,530
Total Pension Liability - Ending (a)	$	1,772,537
Plan Fiduciary Net Position		
General Municipal State Aid	$	40,276
Contributions – employer		110,559
Contribution – member		774
Net investment income		90,580
Benefit payments, including refunds of member contributions		(177,979)
Administrative expense		(5,850)
Other		2,566
Net Change in Plan Fiduciary Net Position		60,926
Plan Fiduciary Net Position - Beginning		1,464,595
Plan Fiduciary Net Position - Ending (b)	$	1,525,521
Net Pension Liability - Ending (a-b)	$	247,016
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		86.06%
Estimated Covered Employee Payroll (12-31-12)	$	818,198
Net Pension Liability as a Percentage of Covered Employee Payroll		30.19%

Bureau of Sewage Pension Plan - (Continued)

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

The following presents the net pension liability of the city, calculated using the discount rate of 7.5%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	$ 403,207	$ 247,016	$ 112,283

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

SCHEDULE OF CONTRIBUTIONS

POLICE PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 959,259	$ 959,377	$ (118)	$ -	
2008	973,574	973,574	0	2,286,757	42.6%
2009	956,983	956,983	0		
2010	895,678	895,678	0	1,932,255	46.4%
2011	909,847	730,186	179,661		
2012	916,630	734,159	182,471	2,066,063	35.5%
2013	1,030,554	831,410	199,144		
2014	1,097,366	882,900	214,466	2,353,089	37.5%

For 2011, 2012, 2013 and 2014, the contribution deficiency reflects the 25 percent reduction of the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities.

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

SCHEDULE OF CONTRIBUTIONS

FIREMEN'S PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 864,637	$ 864,747	$ 0		
2008	933,861	933,861	0	$1,969,482	47.4%
2009	981,837	981,837	0		
2010	1,154,902	1,154,902	0	1,935,422	59.7%
2011	1,182,841	938,509	244,332		
2012	1,133,790	899,390	234,400	1,977,003	45.5%
2013	1,249,794	986,205	263,589		
2014	1,391,716	1,391,716	0	1,919,853	72.5%

For 2011, 2012 and 2013, the contribution deficiency reflects the 25 percent reduction of the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities.

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

SCHEDULE OF CONTRIBUTIONS

NON-UNIFORMED PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 464,286	$ 464,344	$ (58)		
2008	480,867	480,867	0	$1,927,105	25.0%
2009	474,230	470,225	4,005		
2010	465,121	465,121	0	1,594,905	29.2%
2011	402,979	332,403	70,576		
2012	463,524	382,308	81,216	1,775,989	21.5%
2013	626,597	516,712	109,885		
2014	685,877	557,276	128,601	1,877,318	29.7%

For 2011, 2012, 2013 and 2014, the contribution deficiency reflects the 25 percent reduction of the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

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

SCHEDULE OF CONTRIBUTIONS

BUREAU OF SEWAGE PENSION PLAN

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 111,015	$ 111,027	$ (12)		
2008	105,244	105,244	0	$692,720	15.2%
2009	113,332	113,332	0		
2010	92,149	92,149	0	802,316	11.5%
2011	91,103	91,103	0		
2012	96,693	96,693	0	818,198	11.8%
2013	139,693	139,963	(270)		
2014	150,835	150,835	0	0	N/A

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

SCHEDULE OF INVESTMENT RETURNS

COMPREHENSIVE MUNICIPAL PENSION TRUST FUND

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2014	7.16%

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)
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)
01-01-09	$ 8,476,376	$ 15,637,754	$ 7,161,378	54.2%
01-01-11	8,932,609	17,128,946	8,196,337	52.1%
01-01-13	8,914,258	17,344,042	8,429,784	51.4%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

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

SCHEDULE OF FUNDING PROGRESS – (Continued)

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:

FIREMEN'S PENSION PLAN

	(1)	(2)	(3)	(4)
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)
01-01-09	$ 4,804,658	$ 13,982,728	$ 9,178,070	34.4%
01-01-11	5,283,656	15,686,268	10,402,612	33.7%
01-01-13	5,182,741	16,422,546	11,239,805	31.6%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

SCHEDULE OF FUNDING PROGRESS – (Continued)

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:

NON-UNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)
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)
01-01-09	$ 6,415,808	$ 10,271,309	$ 3,855,501	62.5%
01-01-11	6,415,222	11,266,453	4,851,231	56.9%
01-01-13	6,132,396	11,333,536	5,201,140	54.1%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

SCHEDULE OF FUNDING PROGRESS – (Continued)

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:

BUREAU OF SEWAGE PENSION PLAN

	(1)	(2)	(3)	(4)
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)
01-01-09	1,275,978	1,985,789	709,811	64.3%
01-01-11	1,282,825	2,227,223	944,398	57.6%
01-01-13	1,285,460	2,322,851	1,037,391	55.3%

Note: The market value of the plan's assets at 01-01-09, 01-01-11 and 01-01-13, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

CITY OF JOHNSTOWN 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.

POLICE PENSION PLAN

The information presented in the 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 closed
Remaining amortization period	21 years (aggregated)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

FIREMEN'S PENSION PLAN

The information presented in the 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 closed
Remaining amortization period	17 years (aggregated)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

NON-UNIFORMED PENSION PLAN

The information presented in the 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 closed
Remaining amortization period	26 years (aggregated)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

BUREAU OF SEWAGE PENSION PLAN

The information presented in the 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 closed
Remaining amortization period	19 years (aggregated)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

CITY OF JOHNSTOWN COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Johnstown Comprehensive Municipal Pension Trust Fund
Cambria County
401 Main Street
Johnstown, PA 15901

The Honorable Frank J. Janakovic	Mayor
Mr. Carlos J. Gunby	City Manager
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