

COMPLIANCE AUDIT

City of Arnold Aggregate Pension Trust Fund Westmoreland County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

March 2019



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 Arnold
Westmoreland County
Arnold, PA 15068

We have conducted a compliance audit of the City of Arnold Aggregate Pension Trust Fund for the period January 1, 2016 to December 31, 2017. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and 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. To determine whether the 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 plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligations (MMOs) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plans as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plans in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plans.
- We determined whether retirement benefits calculated for the plan member who retired from the civilian employees' pension plan 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, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the 2 plan members who elected to vest in the police pension plan 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, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Arnold Aggregate 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 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Arnold Aggregate 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:

Civilian Employees' Pension Plan:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Inconsistent Pension Benefits

Civilian Employees' and Police Pension Plans:

Finding No. 3 – Untimely Deposit Of State Aid

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

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 the City of Arnold 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.

January 31, 2019



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 Arnold Aggregate Pension Trust Fund is also governed by implementing regulations adopted by the former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.
- 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.

The City of Arnold Aggregate Pension Trust Fund serves as a common administrative and investment agent for the city's police and civilian employees' defined benefit pension plans. The city's police pension plan is controlled by the provisions of Ordinance No. 6 of 1997, and the civilian employees' pension plan is controlled by the provisions of Ordinance No. 5 of 1997, as amended, adopted pursuant to Act 67. Members of the aggregate pension trust fund are also affected by the provisions of collective bargaining agreements between the city and its police officers and civilian employees.

BACKGROUND – (Continued)

The police pension plan was established December 1, 1948. Active members of the police pension plan are required to contribute 5 percent of compensation, plus a 1 dollar per month service increment contribution to the plan. As of December 31, 2017, the police pension plan had 9 active members, 3 terminated members eligible for vested benefits in the future, and 13 retirees receiving pension benefits from the plan.

As of December 31, 2017, selected police pension plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	If hired on or before January 1, 1988, age 50 with 20 years of service. If hired after January 1, 1988, age 55 with 20 years of service.
Early Retirement	None
Vesting	A member is vested after 12 years of service.

Retirement Benefit:

Monthly benefit equal to 50% of compensation, plus a service increment of 2.5% of the benefit for each whole year of service in excess of 20, up to a maximum of \$100 per month. Compensation based on the greater of rate of monthly pay at retirement or the average monthly pay over any 5 years of service.

Survivor Benefit:

Before Retirement Eligibility	25% of final average salary.
After Retirement Eligibility	100% of the benefit the participant was receiving or would have been receiving had he been retired at death.

Service Related Disability Benefit:

Monthly benefit equal to 50% of compensation.

Non-Service Related Disability Benefit:

If less than 10 years of service, 25% of compensation the participant was receiving; otherwise, 50% of compensation (See Status of Prior Audit Recommendation).

BACKGROUND – (Continued)

The civilian employees' pension plan was established January 1, 1949. Active members of the civilian employees' pension plan are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the civilian employees' pension plan had 10 active members, 1 terminated member eligible for vested benefits in the future, and 15 retirees receiving pension benefits from the plan.

As of December 31, 2017, selected civilian employees' pension plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 and 20 years of service.
Early Retirement	20 years of service, if participant makes monthly contributions.
Vesting	A member is vested after 12 years of service.

Retirement Benefit:

Monthly benefit equal to 50% of compensation.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions.
After Retirement Eligibility	50% of the benefit the participant was receiving or would have been receiving had he been retired at death.

Service Related Disability Benefit:

For participants with 10 or more years of service, 50% of compensation at date of disability.

Non-Service Related Disability Benefit:

For participants with 10 or more years of service, 50% of compensation at date of disability.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
STATUS OF PRIOR FINDING

Police Pension Plan

Status Of Prior Audit Recommendation

Data In Actuarial Valuation Report Inconsistent With The Plan's Governing Document

As disclosed in the Finding contained in our audit report for the period January 1, 2012 to December 31, 2013, City of Arnold Ordinance No. 6 of 1997, Article VI, DEATH BENEFITS, Section 6.01(b), provides, in part:

If the Participant dies, while an Employee of the Employer but not as the direct result of the performance of duties as an Employee of the Employer, a Death Benefit shall be paid...and in the case of a Participant who has completed ten (10) Years of Service or more, equal to fifty percent (50%) of the amount which is equal to fifty percent (50%) of the average Monthly Compensation of the Participant as of the Date of Death.

Furthermore, the finding disclosed, for members who have completed 10 years of service, the city had previously interpreted the plan document to provide a survivor benefit in the amount of 50 percent of the average monthly compensation of the participant as of the date of death. The city is now (beginning during the audit period the finding was issued) interpreting the plan document to indicate that a survivor benefit granted under these circumstances should only be 25 percent of the average monthly compensation of the participant as of the date of death. The city's previous interpretation of the survivor benefit provision (50 percent benefit) was included in the police pension plan's January 1, 2013 and January 1, 2015 Act 205 actuarial valuation reports. The January 1, 2017 Act 205 actuarial valuation report originally reported this 50 percent benefit until that report was revised to state the survivor benefit is 25 percent under these circumstances.

Since 2002, the city was paying a 50 percent benefit to the surviving spouse of a police officer who died after 11.77 years of service, until February 2014 when city officials reduced the surviving spouse's monthly benefit, effective March 1, 2014, to 25 percent of final average salary. The decision was grieved by the Arnold Police Department and the Wage Policy Committee on behalf of the surviving spouse and on February 13, 2015, an arbitration award restored the surviving spouse's monthly benefit to 50 percent.

The City of Arnold appealed the arbitration award in Commonwealth Court of Pennsylvania and on May 20, 2016, the court reversed the arbitration award. The Wage Policy Committee of the City of Arnold Police Department appealed this decision to the Supreme Court of Pennsylvania.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation – (Continued)

We previously recommended in the prior audit report that once a final decision had been made by the Supreme Court of Pennsylvania, city officials take appropriate action to ensure that the survivor benefit provision contained in future actuarial valuation reports is consistent with the plan's governing document.

During the current audit period, the Pennsylvania Supreme Court issued its Order and Decision dated October 18, 2017 reversing the May 20, 2016 Order of the Commonwealth Court of Pennsylvania without remand, thereby reinstating and making final the Arbitration Award dated February 13, 2015. As a result, the survivor benefit was restored to the surviving spouse in the original amount calculated in 2002 and a retroactive payment representing the previous reductions back to the date the benefit had been originally reduced by the city was paid to the surviving spouse on November 20, 2017, accordingly.

Although the city was required to continue paying (retroactively) the 50 percent benefit to this particular survivor, the city's interpretation of the plan's governing document that survivors are eligible for 25 percent under these circumstances, and reflecting this 25 percent benefit in the January 1, 2017 Act 205 actuarial valuation report, is not outside the parameters of the Third Class City Code. We recommend that the city, with assistance from its solicitor, clarify the language regarding its death benefit authorized under the provisions of the plan's governing document, if warranted, and ensure it aligns with the city's intentions and that future calculations are determined and paid consistently in accordance with the plan document for subsequent recipients of such death benefits from the pension plan.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Civilian Employees' Pension Plan

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The city certified the city solicitor and related 2017 compensation amounting to \$25,000 on the Certification Form AG 385 filed in 2018. However, the department is unable to determine whether the solicitor is a full-time employee of the city and therefore eligible for certification purposes pursuant to Act 205 based on records provided by the city. The data contained on this certification form is based on prior calendar year information. The solicitor was enrolled in the plan upon his appointment as solicitor in January 2016.

Criteria: Act 205 defines a Municipality as follows:

Any city, borough, incorporated town, township, home rule municipality, association of municipalities cooperating pursuant to the act of July 12, 1972 (P.L. 762, No. 180), referred to as the Intergovernmental Cooperation Law, or authority established by the actions of any county, city, borough, town or township or jointly by any such political subdivisions.

In addition, Act 205 defines a Municipal Employee as follows:

Any person who provides regular services for a municipality in return for compensation from the municipality.

Furthermore, Act 205 defines a Pension Plan or System as follows:

The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

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.

Section 402(j) further states, in part:

The Auditor General shall have the duty of administering the General Municipal Pension System State Aid Program. The Auditor General may promulgate rules and regulations necessary for the efficient administration of this program and may specify the form and content of any forms applicable to the program.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Although the act does not specifically define what constitutes full-time, based on past practice and Section 402(j) above, the department has promulgated that on average, a full-time employee is one who has been employed continuously by the municipality (i.e., performs services each week on a continuous and consistent basis, averaging approximately 35 hours per week and receives other fringe benefits that similar employees classified as full-time and employed by the municipality are entitled). Historically, solicitors are not considered a “full-time” employee and therefore, would not be eligible for certification purposes for the state aid program under Act 205.

Cause: The Certification Form AG 385 filed in 2018 was prepared and submitted by former city officials who considered the solicitor to be a full time employee of the city and therefore entitled to participate in the pension plan as well as for certification purposes in the determination of state aid.

Effect: Due to the lack of appropriate and substantive documentation evidencing the full-time status of the solicitor, we are unable to appropriately conclude on the eligibility and inclusion of the solicitor on the Certification Form AG 385 filed in 2018 used for state aid purposes. The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the city’s state aid allocation was based on unit value, the incorrect certification of pension data affected the city’s state aid allocation, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2018	1	\$ 4,685	\$ 4,685

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the civilian employees’ pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$4,685, plus interest, 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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 civilian employees' 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: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: The city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Civilian Employees’ Pension Plan

Finding No. 2 – Inconsistent Pension Benefits

Condition: The pension plan’s governing document, Ordinance No. 5 of 1997, as amended, contains benefit provisions that conflict with the Third Class City Code, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Third Class City Code</u>
Vesting	<p>Ordinance No. 2 of 2010:</p> <p>Vested Benefits - If a Participant’s employment terminates for a reason other than Normal Retirement or Disability and he/she has completed 12 years of Credited Service, he/she shall be eligible for a pension pursuant to the terms and conditions set forth in Article IV, Retirement Benefits, 4.03 Early Retirement.</p> <p>Early Retirement - Should any participant, after twenty years of service, be dismissed, voluntarily retired, or be in any manner deprived of his or her position or employment, before attaining the age of sixty years, upon continuing a monthly payment to the fund equal to the last amount due and paid monthly while in active service, said participant shall be entitled to the pension described in Article IV, Retirement Benefits, 4.01 Normal Retirement, notwithstanding he or she has not attained the age of sixty years at the time of his or her separation from the service of the City, but said pension shall not commence until he or she has attained the age of sixty years.</p>	<p>The portion of the base retirement benefits due the member shall be determined by applying to the base amount the percentage that the member’s years of service actually rendered bears to the years of service which would have been rendered had the member continued to be employed by the city until the member’s earliest retirement date.</p>

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Third Class City Code
Survivor Benefit	Ordinance No. 5 of 1997 provides a benefit shall be payable to the surviving spouse of a deceased Participant who was either receiving benefits under the Plan or who would have been eligible to receive a benefit if the Participant had retired on the Date of Death. The Death Benefit shall be in an amount equal to fifty percent (50%) of the benefit which would have been payable to the Participant and shall be paid until death or remarriage of the surviving spouse. Eligibility for this spousal benefit requires that the spouse was married to the Participant for at least ten (10) years on the date when the Participant benefit was accrued.	The surviving spouse of an employee who retired on pension or is killed in service on or after January 1, 1960, shall, during the surviving spouse’s lifetime or so long as the surviving spouse does not remarry, be entitled to receive a pension calculated at the rate of 50% of the pension the member was receiving or would have been entitled to receive had the member been retired at the time of the member’s death.
Disability Benefit	Ordinance No. 5 of 1997 provides that a Participant who was employed prior to January 1, 1979 and whose credited service is a minimum of twelve (12) years, and a Participant who was employed after December 31, 1978, and whose credited service is a minimum of ten (10) years, shall be entitled to receive a Disability Retirement Benefit. The amount of the Disability Retirement Benefit shall be equal to the Accrued Benefit determined as of the date Employment terminates due to Total and Permanent Disability. The amount of Disability Retirement Benefit payable to a Participant shall be reduced by the total amount of any workers’ compensation, social security or similar disability entitlement programs which the participant is eligible to receive for the same period of such disability and further reduced by twenty five percent (25%) of any earnings received from other employment or self-employment.	If any employee becomes totally and permanently disabled after 10 years of service and before attaining 60 years of age, the individual shall be entitled to a pension equal to the normal retirement benefit but without offset for Social Security benefits.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. The pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document contained benefit provisions consistent with the Third Class City Code.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies between the plan's governing document and the Third Class City Code.

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.

Civilian Employees' and Police Pension Plans

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2016, 2017, and 2018 state aid allocations into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its state aid allocations in the amounts of \$109,366, \$119,295, and \$117,110 on September 27, 2016, September 27, 2017, and September 20, 2018, respectively, but did not deposit the money into its Aggregate Pension Trust Fund until November 1, 2016, November 17, 2017, and December 10, 2018, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plan.

Cause: Plan officials were unaware of applicable Act 205 provisions.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the Aggregate Pension Trust Fund the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the city for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

CITY OF ARNOLD AGGREGATE 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, 2013, 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)
01-01-13	\$ 2,679,990	\$ 4,310,718	\$ 1,630,728	62.2%
01-01-15	3,058,113	4,242,689	1,184,576	72.1%
01-01-17	3,339,674	4,416,110	1,076,436	75.6%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing method described in Section 210 of Act 205, as amended, subject to a ceiling of 120 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.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

CIVILIAN EMPLOYEES’ 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)
01-01-13	\$ 2,423,625	\$ 3,131,716	\$ 708,091	77.4%
01-01-15	2,634,828	2,998,884	364,056	87.9%
01-01-17	2,659,883	2,917,200	257,317	91.2%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing method described in Section 210 of Act 205, as amended, subject to a ceiling of 120 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.

CITY OF ARNOLD AGGREGATE 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.

CITY OF ARNOLD AGGREGATE 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
2012	\$ 230,221	100.0%
2013	247,693	100.0%
2014	240,643	100.0%
2015	285,088	100.1%
2016	304,332	100.0%
2017	251,022	100.0%

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

CIVILIAN EMPLOYEES' PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 117,729	100.0%
2013	92,543	100.0%
2014	99,470	100.0%
2015	119,663	100.1%
2016	142,433	100.0%
2017	99,329	100.0%

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	4 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

CIVILIAN EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	Undefined
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
OBSERVATION

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

As previously disclosed to plan officials during the conduct of the prior audit engagement, the city has not prepared or maintained management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the City of Arnold Aggregate Pension Trust Fund.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected and or delayed, and investment opportunities may be lost.

The city should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the operation of the pension trust fund. This manual should be kept on file with other important trust fund documents.

CITY OF ARNOLD AGGREGATE PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Karen Peconi
Mayor

Mr. Anthony Sgalio
Council Member

Mr. Phillip McKinley
Council Member

Mr. Joseph Bia II
Council Member

Ms. Deborah Vernon
Council Member

Ms. Toni Montemurro
City Controller

Mr. Mario Bellavia
City Clerk

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