

COMPLIANCE AUDIT

Waynesburg Borough Police Pension Plan Greene County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

February 2018



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
Waynesburg Borough
Greene County
Waynesburg, PA 15370

We have conducted a compliance audit of the Waynesburg Borough Police Pension Plan for the period January 1, 2014 to December 31, 2016. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for the plan member 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, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

Waynesburg 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 Waynesburg 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 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 tests indicated that, in all significant respects, the Waynesburg 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 – Partial Compliance With Prior Audit Recommendation –
Inconsistent And Unauthorized Pension Benefits

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 Waynesburg Borough and, where appropriate, their responses have been included in the report.



EUGENE A. DEPASQUALE
Auditor General

January 23, 2018

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

The Waynesburg Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 4 of 1958, as amended, 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 March 30, 1953. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2016, the plan had 6 active members, no terminated members eligible for vested benefits in the future, and 6 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2016, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 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:

For rank and file members:

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 25 years, up to a maximum of \$500 per month. (*Refer to the Finding in this report*).

For the chief of police:

Benefit equals 50% of final 36 months average salary.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

For rank and file members:

After Retirement Eligibility A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

For the chief of police:

After Retirement Eligibility A monthly benefit equal to 100% of the pension the member was receiving or was entitled to receive on the day of the member's death (*Refer to the Finding in this report*).

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

WAYNESBURG BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendations

Waynesburg Borough has partially complied with the prior audit recommendations concerning the following:

- Inconsistent And Unauthorized Pension Benefits

The borough entered into a new agreement with the Chief of Police during 2016 covering the years 2016 through 2020 which provides a retirement benefit that is consistent with Act 600 as recommended. In addition, the separate agreement with the other non-rank and file officer expired on December 31, 2015 and was not renewed during the current audit period. However, the non-rank and file officer who retired under this agreement and began receiving pension benefits during 2015 received benefits in excess of Act 600 and the borough again failed to eliminate other inconsistent benefit provisions among the varying plan documents and ensure compliance with Act 600 as further discussed in the finding contained in this report.

- Unauthorized Provision For A Killed In Service Benefit

Borough council adopted Ordinance No. 5 of 2015 which effectively eliminates the killed in service provision from the plan document previously enacted by Ordinance No. 5 of 2009 and transfers responsibility for payment to the Commonwealth; however, it appears that the benefit may still be indirectly provided for via the survivor's benefit provision remaining in the plan's governing document (enacted separately by Ordinance No. 6 of 2009), the collective bargaining agreement (Section 7) between the borough and its police officers covering the years 2016 through 2020, the separate employment agreement with the non-rank and file officer (Section 7) and also the separately executed agreement with the Chief of Police (Section 6.5.3) covering the years 2016 through 2020 as further discussed in the finding contained in this report.

WAYNESBURG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Ordinance No. 5 of 1992, as amended, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough and separately executed agreements with non-rank and file officers of the police department which also contain provisions that are not authorized by Act 600. Although, as disclosed in the Status of Prior Findings section of this report, the borough partially complied with the recommendation by amending one of the separate agreements to ensure compliance with Act 600, the following inconsistencies and/or unauthorized benefits remain, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement – (CBA) <i>(Rank and File);</i> Lieutenant Agreement (LA) and Agreement-Chief of Police (EA)	Act 600
Survivor benefit	The spouse of a member who retires on pension or if no spouse then the child under age 18 or, if attending college, age 23 shall during the spouse’s lifetime or until reaching the age of 18 or 23 be entitled to receive a pension calculated at a rate of 50% of the pension the member was receiving at the time of death: provided, however, that if the member <u>dies as a result of illness or injury incurred in service</u> , the member’s survivors shall receive a pension calculated at the rate of 100% of the member’s highest compensation... [Emphasis Added] <i>(Ordinance No. 6 of 2009)</i>	The spouse of a member who retires on pension or if no spouse then the child under age 18 or, if attending college, age 23 shall during the spouse’s lifetime or until reaching the age of 18 or 23 be entitled to receive a pension calculated at a rate of: <i>(CBA 2016-2020)</i> 50% of the pension the member was receiving at the time of death:.... <i>(LA 2011-2015), (EA 2016-20)</i> 100% of the pension the member was receiving at the time of death:...	A lifetime survivor’s benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. <i>(Act 51 of 2009 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that was contained in Act 205, the provisions of a killed in service benefit is no longer authorized.)</i>

WAYNESBURG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement – (CBA) (Rank and File); Lieutenant Agreement (LA) and Agreement- Chief of Police (EA)</u>	<u>Act 600</u>
Survivor benefit – (Continued)		(CBA 2016-2020), (LA 2011-2015), (EA 2016-2020) ...provided, however, that if the member (Chief) <u>dies as a result of illness or injury incurred in service</u> , the member’s survivors shall receive a pension calculated at the rate of 100% of the member’s highest compensation... [Emphasis Added]	
Service increment	A retiring officer shall be paid length of service increments over and above that pension amount calculated for years of service in excess of 25 in the amount of \$20 per month for each year in excess of 25 to a maximum of \$100. (Ordinance No. 1 of 2001 not amended)	In addition to other monthly pension or retirement allowances, the police pension fund will pay monthly length of service increments of \$100 for completion of each year in excess of 25 to a maximum of \$500 per month. (Benefit provision in (CBA 2016-2020) and (LA 2011-2015) only.)	Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond 25 years for each completed year of service in excess of 25 years, not to exceed \$100 per month for each completed year of service in excess of 25 years up to a maximum of \$500 per month after 5 completed years of service in excess of 25 years. Such length of service increments may be paid in addition to other monthly pension or retirement allowances.

WAYNESBURG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	Collective Bargaining Agreement – (CBA) <i>(Rank and File)</i> ; Lieutenant Agreement (LA) and Agreement-Chief of Police (EA)	<u>Act 600</u>
Attending college definition	Not defined	Not defined	(“Attending college” shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)
Cost-of-Living Adjustment	No provision	In addition to other monthly pension or retirement allowances, each person receiving retirement benefits shall receive an annual cost-of-living increase based on the Consumer Price Index; however the benefit shall not exceed 75% of final average salary of 30% in total cost of living increases, whichever is lesser. <i>(Benefit provision the same in both (CBA) & (LA). Benefit provision not in EA 2016-2020)</i>	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. The cost of living increase shall not exceed the percentage increase in the Consumer Price Index from the year in which the police member last worked, shall not cause the total police pension benefits to exceed 75 per centum of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30 per centum. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

In addition, the actuarial valuation report form PC-201C, with a valuation date of January 1, 2015, submitted to the Public Employee Retirement Commission, reported the benefit provisions as included in the current collective bargaining agreement as well as the separately executed agreements.

WAYNESBURG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: As previously disclosed, the plan’s governing document, the collective bargaining agreement and separately executed agreements with non-rank and file officers of the police department should contain consistent benefit provisions that are in compliance with Act 600.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure that all of the varying plan documents contained consistent benefit provisions in accordance with Act 600.

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

The plan is paying pension benefits based upon 75 percent of the final average salary to a non-rank and file officer who retired in 2015, the former police chief who retired during the prior audit period and a police officer who terminated employment in 2006 and began receiving benefits in excess of those authorized by Act 600. As of the date of this report, there are 3 retirees receiving total excess benefits amounting to \$3,366 per month, which totaled approximately \$174,618 from retirement through the date of this report.

Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

We also recommend that the borough limit future benefits negotiated through collective bargaining or authorized in separately executed agreements with non-rank and file officers to those authorized by Act 600.

WAYNESBURG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation – (Continued):

To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, 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 excess benefits on the borough's future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

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

Auditor's Conclusion: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Compliance will be subject to verification through our next audit.

WAYNESBURG BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 9 and 10 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. 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
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 55,794	\$ 65,699	\$ 64,637
Interest	146,626	174,534	186,574
Difference between expected and actual experience	(351)	-	25,346
Changes of assumptions	60,454	-	(13,156)
Benefit payments, including refunds of member contributions	(118,283)	(118,283)	(162,137)
Net Change in Total Pension Liability	<u>144,240</u>	<u>121,950</u>	<u>101,264</u>
Total Pension Liability – Beginning	<u>2,369,995</u>	<u>2,514,235</u>	<u>2,636,185</u>
Total Pension Liability - Ending (a)	<u><u>\$ 2,514,235</u></u>	<u><u>\$ 2,636,185</u></u>	<u><u>\$ 2,737,449</u></u>
Plan Fiduciary Net Position			
Contributions – state aid	\$ 93,844	\$ 99,307	\$ 87,357
Net investment income	171,570	10,955	(8,932)
Benefit payments, including refunds of member contributions	(118,283)	(118,283)	(162,137)
Net Change in Plan Fiduciary Net Position	<u>147,131</u>	<u>(8,021)</u>	<u>(83,712)</u>
Plan Fiduciary Net Position – Beginning	<u>2,206,531</u>	<u>2,353,662</u>	<u>2,345,641</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,353,662</u></u>	<u><u>\$ 2,345,641</u></u>	<u><u>\$ 2,261,929</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 160,573</u></u>	<u><u>\$ 290,544</u></u>	<u><u>\$ 475,520</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.61%	88.98%	82.63%
Estimated Covered Employee Payroll	\$ 346,452	\$ 374,294	\$ 310,539
Net Pension Liability as a Percentage of Covered Employee Payroll	46.35%	77.62%	153.13%

WAYNESBURG BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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

The following presents the net pension liability of the borough as of December 31, 2014, 2015 and 2016, calculated using the discount rate of 7.0%, as well as what the borough'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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 467,399	\$ 160,573	\$ (96,387)
Net Pension Liability - 12/31/15	\$ 612,252	\$ 290,544	\$ 21,120
Net Pension Liability – 12/31/16	\$ 810,809	\$ 475,520	\$ 195,286

WAYNESBURG 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, 2011, is as follows:

	(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)
01-01-11	\$ 1,614,818	\$ 2,040,795	\$ 425,977	79.1%
01-01-13	1,962,943	2,217,071	254,128	88.5%
01-01-15	2,353,662	2,514,235	160,573	93.6%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-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.

WAYNESBURG 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.

WAYNESBURG 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
2011	\$ 120,477	100.0%
2012	113,333	100.0%
2013	110,318	100.0%
2014	93,844	100.0%
2015	99,307	100.0%
2016	87,357	100.0%

WAYNESBURG BOROUGH POLICE PENSION PLAN
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:

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	8 years
Asset valuation method	Fair value,
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	Members retiring under the current collective bargaining agreement will receive a cost-of-living adjustment in accordance with Act 600.

WAYNESBURG BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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