COMPLIANCE AUDIT

City of Bradford Comprehensive Municipal Pension Trust Fund

McKean County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2018

August 2019

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

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 Bradford
McKean County
Bradford, PA 16701

We have conducted a compliance audit of the City of Bradford Comprehensive Municipal Pension Trust Fund for the period January 1, 2017 to December 31, 2018. 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension plans were 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 plans were 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 each plan's governing document and applicable laws and regulations by examining the municipality's calculation of each plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into each pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into each pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from each 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 each pension plan.

- We determined whether retirement benefits calculated for all 3 members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with each 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, 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 each plan's 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 each pension plan 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.

The City of Bradford contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2017, which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However**, we are extremely concerned about the funded status of the city's plans contained in the respective schedules of funding progress included in this report which indicate the funded ratio of the police plan is 68.0%, the non-uniformed plan is 67.8%, and the firemen's plan is 72.8% as of January 1, 2017**, which is the most recent data available. We encourage city officials to monitor the funding of the city's pension plans to ensure their long-term financial stability.

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

August 14, 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 Bradford Comprehensive Municipal 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 Bradford Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 3113, as amended, to serve as a common administrative and investment agent for the city's police, non-uniformed, and firemen's pension plans pursuant to the provisions of Section 607(b) of Act 205. The city's police, non-uniformed, and firemen's pension plans are controlled by the provisions of Ordinance General File No. 3165, as amended, adopted pursuant to Act 67, formerly Act 317. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, non-uniformed employees, and firefighters.

POLICE PENSION PLAN

The police pension plan was established January 1, 1911. Active members are required to contribute 5 percent of base and longevity pay, plus $5 per month, to the plan. As of December 31, 2018, the plan had 18 active members, 1 terminated member eligible for vested benefits in the future, and 22 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

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

Retirement Benefit:

Benefit equals 50% of final monthly pay or 5-year average pay if higher, plus a service increment for each full year after 20 years, but prior to age 65, equal to 1/40th of the retirement allowance, not to exceed $500 per month.

Survivor Benefit:

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

POLICE PENSION PLAN – (Continued)

Disability Benefit:

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

NON-UNIFORMED PENSION PLAN

The non-uniformed pension plan was established December 14, 1924. Active members are required to contribute 3.5 percent of compensation on which Social Security is payable and 5 percent of compensation in excess of that on which Social Security is payable, to the plan. As of December 31, 2018, the plan had 61 active members, no terminated members eligible for vested benefits in the future, and 40 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

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

Retirement Benefit:

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

BACKGROUND – (Continued)

NON-UNIFORMED PENSION PLAN – (Continued)

Survivor Benefit:

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

Disability Benefit:

After 10 years of service and before attaining age 60 – a normal retirement benefit reduced by any applicable Workmen's Compensation benefits.

FIREMEN'S PENSION PLAN

The firemen's pension plan was established February 26, 1931. Active members are required to contribute 5 percent of base and longevity pay, plus $5 per month, to the plan. As of December 31, 2018, the plan had 20 active members, 1 terminated member eligible for vested benefits in the future, and 27 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

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

Retirement Benefit:

Benefit equals 50% of final monthly pay or 5-year average pay if higher, plus a service increment for each full year after 20 years, but prior to age 65, equal to 1/40th of the retirement allowance, not to exceed $500 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 on the day of the member's death.

Disability Benefit:

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

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

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, 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	$ 4,261,167	$ 6,998,462	$ 2,737,295	60.9%
01-01-15	5,091,314	7,454,343	2,363,029	68.3%
01-01-17	5,558,204	8,171,871	2,613,667	68.0%

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 of gains and/or losses over a four-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 BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

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)
01-01-13	$ 6,886,867	$ 9,772,018	$ 2,885,151	70.5%
01-01-15	7,898,130	11,205,937	3,307,807	70.5%
01-01-17	8,433,561	12,444,185	4,010,624	67.8%

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 of gains and/or losses over a four-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 BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

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)
01-01-13	$ 5,549,651	$ 8,638,263	$ 3,088,612	64.2%
01-01-15	6,481,635	9,252,744	2,771,109	70.1%
01-01-17	6,925,971	9,510,889	2,584,918	72.8%

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 of gains and/or losses over a four-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 BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

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

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	$ 263,446	100.0%
2014	279,572	100.0%
2015	313,917	100.0%
2016	358,771	100.0%
2017	427,324	100.0%
2018	469,215	100.0%

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

NON-UNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	$ 157,963	100.0%
2014	162,746	101.1%
2015	249,092	100.5%
2016	344,854	101.4%
2017	406,645	100.9%
2018	524,007	100.0%

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	$ 399,409	100.0%
2014	413,474	100.0%
2015	372,380	100.0%
2016	441,381	100.0%
2017	510,502	100.0%
2018	605,184	100.0%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL 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
Remaining amortization period	13 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.35%
Projected salary increases *	4.16%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.5%

NON-UNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.35%
Projected salary increases *	4.11%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.5%

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.35%
Projected salary increases *	4.21%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.5%

CITY OF BRADFORD COMPREHENSIVE MUNICIPAL PENSION TRUST FUND
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