

**WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND**

FINANCIAL STATEMENTS

DECEMBER 31, 2015

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND

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Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Westmoreland County, Pennsylvania
Employees' Retirement Fund
Greensburg, Pennsylvania 15601

Report on the Financial Statements

We have audited the accompanying financial statements of the Westmoreland County, Pennsylvania Employees' Retirement Fund as of and for the year ended December 31, 2015, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors' consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Westmoreland County, Pennsylvania Employees' Retirement Fund as of December 31, 2015 and changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Board of Trustees
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Adoption of GASB Statements

As described in Note 1 to the financial statements, in 2015 the Westmoreland County, Pennsylvania Employees' Retirement Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 68, "*Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*" and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*". Our opinion is not modified with respect to this matter.

Emphasis of Matter

As described in Note 2 to the financial statements, the financial statements present only the Westmoreland County, Pennsylvania Employees' Retirement Fund and do not purport to, and do not present fairly the financial position of the County of Westmoreland as of December 31, 2015, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 18, 2016, on our consideration of the Westmoreland County, Pennsylvania Employees' Retirement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Westmoreland County, Pennsylvania Employees' Retirement Fund's internal control over financial reporting and compliance.

Zelenkofske Axelrod LLC

Zelenkofske Axelrod, LLC

Pittsburgh, Pennsylvania
July 18, 2016

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2015

<u>Assets</u>	
Cash and short term investments	\$ <u>8,841,147</u>
Investments, at fair value:	
US government securities	58,536,407
Domestic corporate debt	26,897,101
Municipal bonds	727,144
Domestic corporate stock	102,312,190
Fixed income accounts	10,753,690
Mutual funds	107,736,874
Alternative investments	51,031,690
Asset backed securities	12,960,819
Mortgages	12,866,853
Exchange traded funds	<u>15,662,058</u>
Total investments	<u>399,484,826</u>
Receivables:	
Interest and dividends	<u>1,592,082</u>
Total receivables	<u>1,592,082</u>
Total assets	<u>409,918,055</u>
<u>Liabilities</u>	
Accounts payable	<u>425,946</u>
Total liabilities	<u>425,946</u>
<u>Net position</u>	
Restricted for pensions	\$ <u>409,492,109</u>

The accompanying notes are an integral part of the financial statements.

WESTMORELAND COUNTY, PENNSYLVANIA
 EMPLOYEES' RETIREMENT FUND
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2015

<u>Additions:</u>	
<u>Contributions:</u>	
Employer	\$ 6,418,453
Plan members	7,724,552
Total contributions	<u>14,143,005</u>
<u>Investment income:</u>	
Net depreciation in fair value of investments (Note 7)	(5,537,249)
Interest	2,336,913
Dividends	6,024,825
Miscellaneous investment income	133,907
	<u>2,958,396</u>
Less: Investment expense	<u>1,257,256</u>
Net investment income	<u>1,701,140</u>
Total additions	<u>15,844,145</u>
<u>Deductions:</u>	
Pension benefits	26,508,886
Death benefits	617,735
Refunds of contributions	1,136,735
Administrative expense	122,226
Total deductions	<u>28,385,582</u>
Net decrease in net position	(12,541,437)
<u>Net position restricted for pensions</u>	
Beginning of the year	<u>422,033,546</u>
End of the year	<u>\$ 409,492,109</u>

The accompanying notes are an integral part of the financial statements.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: BASIS OF FINANCIAL STATEMENTS

Plan Description

Plan administration. The Retirement Board administers the Westmoreland County, Pennsylvania Employees' Retirement Fund (the Fund), a single employer, defined benefit, public employees' retirement fund for the benefit of all personnel who are regularly employed on a full time basis by Westmoreland County (the County). The County's retirement plan was organized on January 1, 1945, and is in compliance with Act 96, as amended, of the Pennsylvania Legislature, the "County Pension Law," dated August 31, 1971.

Management of the Plan is vested in the Board, which consists of five members – three elected County Commissioners, the County Controller and the County Treasurer.

Plan Membership. For the year 2015 measurement period, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	1,173
Inactive plan members entitled to but not yet receiving benefits	122
Active plan members	1,908
Total	<u>3,203</u>

Benefits provided. Westmoreland County, Pennsylvania Employees' Pension Plan provides retirement, disability and death benefits. Retirement benefits for plan members are calculated as a percent of the member's final 3-year average salary times the member's years of service depending on class basis. Plan members with 20 years of service are eligible to retire at age 55. Plan members that have attained age 60 are eligible to retire. All plan members are eligible for disability benefits after 5 years of service if disabled while in service and unable to continue as a county employee. Disability retirement benefits are equal to 25% of final average salary at time of retirement. Death benefits for a member who dies with 10 years of service prior to retirement is the total present value of member's retirement paid in a lump sum. A plan member who leaves County service with less than 5 years of service may withdraw his or her contributions, plus any accumulated interest.

On an ad hoc basis, cost-of-living adjustments to each member's retirement allowance shall be reviewed at least once in every three years subsequent to the member's retirement date. The adjustment, should the County elect to give one, is a percentage of the change in the Consumer Price Index.

Contributions. An actuarially determined contribution is recommended by the plan actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. For the 2015 measurement period, the active member contribution rate was 9.0 percent of annual pay, and the County average contribution rate was 8.01 percent of annual payroll.

Plan members are required to contribute 9% of their annual covered salary. Per Act 96 of 1971, as amended, contribution requirements of the plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs may be financed through investment earnings.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: BASIS OF FINANCIAL STATEMENTS (CONTINUED)

Non-Intervening Military Service Credit. The County adopted a policy for the purchase of Non-Intervening Military Service Credit, effective, December 29, 2003, subject to the approval of the County Retirement Board, a member of the Retirement Fund who is a contributor, and who served actively in the armed forces of the United States, is eligible to receive full service credit for up to five (5) years of such armed forces service time; provided, that such member has at least three (3) years of County service subsequent to the military service, and provided further, that the member is not entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency.

Basis of Accounting

The Fund's financial statements are presented on the accrual basis of accounting in conformity with generally accepted accounting principles, as applicable to governmental entities.

Plan member contributions are recognized as revenues in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Adoption of Governmental Accounting Standards Board Statements

The Fund adopted the requirements of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*". The adoption of this statement had no effect on previously reported amounts.

The Fund adopted the requirements of GASB Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*". The adoption of this statement had no effect on previously reported amounts.

Pending Changes in Accounting Principals

In February 2015, the GASB issued Statement No. 72, "*Fair Value Measurement and Application*". The Fund is required to adopt statement No. 72 for its calendar year 2016 financial statements.

In June 2015, the GASB issued Statement No. 73, "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*". The Fund is required to adopt statement No. 73 for its calendar year 2016 financial statements.

In June 2015, the GASB issued Statement No. 74, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*". The Fund is required to adopt statement No. 74 for its calendar year 2017 financial statements.

In June 2015, the GASB issued Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". The Fund is required to adopt statement No. 75 for its calendar year 2018 financial statements.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 1: BASIS OF FINANCIAL STATEMENTS (CONTINUED)

In June 2015, the GASB issued Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*". The Fund is required to adopt statement No. 76 for its calendar year 2016 financial statements.

In August 2015, the GASB issued Statement No. 77, "*Tax Abatement Disclosures*". The Fund is required to adopt statement No. 77 for its calendar year 2016 financial statements.

In December 2015, the GASB issued Statement No. 78, "*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*". The Fund is required to adopt statement No. 78 for its calendar year 2016 financial statements.

In December 2015, the GASB issued Statement No. 79, "*Certain External Investment Pools and Pool Participants*". The Fund is required to adopt statement No. 79 for its calendar year 2016 financial statements.

In January 2016, the GASB issued Statement No. 80, "*Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*". The Fund is required to adopt statement No. 80 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 81, "*Irrevocable Split-Interest Agreements*". The Fund is required to adopt statement No. 81 for its calendar year 2017 financial statements.

In March 2016, the GASB issued Statement No. 82, "*Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*". The Fund is required to adopt statement No. 82 for its calendar year 2017 financial statements.

The Fund has not yet completed the various analysis required to estimate the financial statement impact of these new pronouncements.

NOTE 2: ORGANIZATION AND INVESTMENT PROGRAM

Reporting Entity

In evaluating how to define the Fund, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by GASB 61 "The Financial Reporting Entity." The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Fund is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the governing reporting entity.

Included in the reporting entity:

The Westmoreland County, Pennsylvania Employees' Retirement Fund

The funds used for the operation of the Fund are included in the reporting entity. The Westmoreland County, Pennsylvania Employees' Retirement Fund has no component units as defined above, therefore, the information contained in this report is strictly that of the Fund. However, the Fund is considered a fiduciary fund of the County of Westmoreland and is included in the County's annual financial statements.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 2: ORGANIZATION AND INVESTMENT PROGRAM (CONTINUED)

Investment Program

The trustees and custodians of the Fund are the County Commissioners, the Controller, the County Treasurer, and PNC Advisors, (the "Custodian"). The investment performance monitor (Financial Consultant) of the Fund is Gallagher Fiduciary Advisors, LLC. During the year ended December 31, 2015, the investment managers were as follows: C.S. McKee and Company as large cap value, SIT Investment Associates as large cap growth, Vanguard, and Twin Capital, as large cap core, Stewart Capital as mid cap value, Emerald Advisors as mid cap growth, Victory Advisors as small cap value, Emerald Advisors as small cap growth, Fusion Capital as global equity, C.S. McKee and Company as international equity, Corry Capital and Grosvenor as alternative, Metropolitan West and C.S. McKee and Company as fixed income.

Under agreements with the various investment managers, the investment performance monitor makes monthly reports to the custodian as to the investment and reinvestment of the assets of the Fund.

NOTE 3: CONTRIBUTIONS

The funding policy of the Westmoreland County, Pennsylvania Employees' Retirement Fund provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentages of payroll employer contribution rates are determined using the entry age actuarial funding method.

The County's annual required contributions (ARC) of \$6,418,453 were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at December 31, 2015. Employee contributions totaled \$7,724,552 for 2015.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note 9.

NOTE 4: CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of cash, cash equivalents and investments with a maturity date of twelve months or less. At December 31, 2015, cash and cash equivalents consisted of the following:

Checking	\$ 2,470,988
Cash Equivalents	6,370,159
Total	<u>\$ 8,841,147</u>

NOTE 5: DEPOSITS

Custodial Credit Risk - (For deposits) is the risk that in the event of the failure of a depository financial institution a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The fund has a policy that deposits must be held in insured depositories satisfactory to the fund and must be fully collateralized. This policy is in accordance with Act 72 of the Commonwealth of Pennsylvania, dated August 6, 1971. Act 72 permits deposits to be collateralized on pooled basis with securities held by the pledging institution.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 5: DEPOSITS (CONTINUED)

At December 31, 2015, the Fund's deposits for cash and equivalents had a carrying amount of \$8,841,147 and a bank balance of \$8,745,263 of which \$8,495,263 was collateralized as follows:

Uninsured and collateralized with securities pledged by
the financial institution on the pooled basis.

PNC Bank	\$ 2,124,709
PNC Advisors	6,370,554
Total	<u>\$ 8,495,263</u>

At December 31, 2015, \$250,000 of the Fund's bank balance was covered by Federal Depository Insurance Corporation (FDIC) insurance.

Deposits held at PNC Bank represent 28 percent of the Fund's cash and equivalents. Cash equivalents held at PNC Advisors represents 72 percent.

NOTE 6: INVESTMENTS

Custodial Credit Risk- For investments is the risk that in the event of failure of the counter party (e.g. Broker – dealer) to a transaction, a government will not be able to recover the value of its investments in collateral securities that are held in the possession of another party. All investments of the Fund are held in trust at PNC Advisors and are subject to custodial credit risk.

Interest Rate Risk- Arises from investments in debt instruments and is defined as "the risk that changes in interest rate will adversely affect the fair value of the investment". The fund has a policy that the maturities of investments held in the portfolio are at the discretion of the investment manager. However, the effective duration of the fixed income section should not exceed +/- 1.5 years of the Lehman Brothers Aggregate Index duration.

Credit Risk- Is the risk that an issuer or other counter party to an investment will not fulfill its obligation to the Fund. The Fund's policy on credit risk is as follows:

Equity Issues – There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the investment managers. Convertible bonds will be considered as an equity investment and must be rated investment grade (Baa/BBB) or better by Moody's Investment Service or Standard & Poor's.

Fixed Income Securities – Domestic bonds held in the portfolio must be rated investment grade (Baa/BBB) or better by Moody's Investment Service or Standard and Poor's.

Cash Equivalents – If commercial paper is used for short term investments, it must be of high quality, rated at least the equivalent of A-1 or P-1 by Moody's Investment Service or Standard and Poor's.

As of December 31, 2015 all of the Plan's retirement investments in cash equivalents were AAA by Standard & Poor's. All of the Plan's retirement investments in U.S. Government Securities were rated AAA by Standard & Poor's. All of the Plan's retirement investments in Municipal Bonds were rated AA by Standard & Poor's. \$1,262,037 (5%), \$2,785,507 (10%), \$12,964,190 (48%), \$9,022,891 (34%) and \$862,476 (3%) of the Plan's retirement investments in domestic corporate debt were rated AAA, AA, A, BAA and BA respectively, by Standard & Poor's.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 6: INVESTMENTS (CONTINUED)

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation policy for the 2015 measurement period:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	27-45%
International equity	10-28
Fixed income	25-35
Real estate	7-18
Cash	<u>0-10</u>
Total	<u>100%</u>

Concentrations. The following investments represent 5 percent or more of the Plan's assets at December 31, 2015:

4,359,526 shares of Advisors Inner Circle Fund, Inc., (McKee International Equity Institutional Class) which is a Registered Investment Company and represents 12.47 percent of the Plan's Assets.

258,864 shares of Vanguard Inc., (Vanguard 500 Index) which is a Registered Investment Company and represents 12.03 percent of the Plan's Assets.

24,263,700 shares of Grosvenor Institutional Partners, LTD which is a publicly traded partnership and represents 5.98 percent of the Plan's Assets.

There were no other investments in any one organization that represents 5 percent or more of plan assets.

Rate of return. For the 2015 measurement period, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.65 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

WESTMORELAND COUNTY, PENNSYLVANIA
 EMPLOYEES' RETIREMENT FUND
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2015

NOTE 6: INVESTMENTS (CONTINUED)

As of December 31, 2015, the Employees' Retirement Fund investments are as follows:

	Fair Value	Minimum Rating	No Maturity Date	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
US government securities	\$ 58,536,407	AAA	-	\$ 923,435	\$ 23,495,122	\$ 15,446,392	\$ 18,671,458
Domestic corporate debt	26,897,101	BA1	-	2,329,004	13,190,281	10,162,602	1,215,214
Municipal bonds	727,144	AA3	-	-	251,503	225,844	249,797
Domestic corporate stock	102,312,190	N/A	102,312,190	-	-	-	-
Fixed income accounts	10,753,690	N/A	-	-	10,753,690	-	-
Mutual funds	107,736,874	N/A	107,736,874	-	-	-	-
Alternative investments	51,031,690	N/A	51,031,690	-	-	-	-
Asset backed securities	12,960,819	N/A	-	-	250,100	3,649,360	9,061,359
Mortgages	12,866,853	N/A	-	-	1,045,783	1,084,406	10,736,664
Exchange traded funds	15,662,058	N/A	15,662,058	-	-	-	-
Totals	\$ 399,484,826		\$ 276,742,812	\$ 3,252,439	\$ 48,986,479	\$ 30,568,604	\$ 39,934,492

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 7: NET APPRECIATION IN FAIR VALUE OF INVESTMENTS

The net appreciation in fair value of investments is the change in the relationship between cost and fair value of the investments. For the year ended December 31, 2015, the change in the relationship between cost and fair value of investments was:

	<u>Value</u>	<u>Cost</u>	<u>(Depreciation)</u>
<u>Beginning of Year:</u>			
US Government Securities	\$ 44,514,044	\$ 44,089,176	\$ 424,868
Municipal Bonds	35,256,071	34,513,956	742,115
Domestic Corporate Debt	1,757,557	1,733,296	24,261
Domestic Corporate Stock	129,211,218	91,976,624	37,234,594
Registered Investment Companies	12,338,879	12,225,645	113,234
Partnerships/Joint Ventures	98,504,231	83,453,274	15,050,957
Asset Backed Securities	41,773,259	30,390,076	11,383,183
Mutual Funds	16,296,838	15,673,116	623,722
Mortgages	18,122,593	18,045,795	76,798
Exchange Traded Funds	4,539,208	4,615,628	(76,420)
Totals	<u>\$ 402,313,898</u>	<u>\$ 336,716,586</u>	<u>\$ 65,597,312</u>
<u>End of Year:</u>			
US Government Securities	\$ 58,536,407	\$ 58,703,206	\$ (166,799)
Domestic Corporate Debt	26,897,101	26,783,268	113,833
Municipal Bonds	727,144	728,444	(1,300)
Domestic Corporate Stock	102,312,190	81,614,900	20,697,290
Fixed Income Accounts	10,753,690	10,703,043	50,647
Mutual Funds	107,736,874	95,260,869	12,476,005
Alternative Investments	51,031,690	39,942,976	11,088,714
Asset Backed Securities	12,960,819	12,565,531	395,288
Mortgages	12,866,853	12,896,217	(29,364)
Exchange Traded Funds	15,662,058	16,638,233	(976,175)
Totals	<u>\$ 399,484,826</u>	<u>\$ 355,836,687</u>	<u>\$ 43,648,139</u>
Net Unrealized Depreciation			(21,949,173)
Net Realized Gain on Sale of Investments			16,411,924
Net Depreciation in Fair Value of Investments			<u>\$ (5,537,249)</u>

Net realized gain on sale of investments is the net gain over loss of investments sold computed as the difference between proceeds of sale and the original costs of investments sold. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the financial statements. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in investment income reported for a previous year or years as part of the reported net appreciation or depreciation for those years.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 8: NET PENSION LIABILITY

The components of the net position liability of the County for the 2015 measurement period were as follows:

Total Pension Liability	\$ 472,140,181
Plan Fiduciary Net Position	<u>409,492,109</u>
Net Pension Liability	<u>\$ 62,648,072</u>
Plan fiduciary net position as a percentage of the total pension liability	86.73%

NOTE 9: ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation for the 2015 measurement period, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2013 Annuitant and Non- Annuitant Mortality Tables for Males and Females with no projected improvement.

The actuarial assumptions used in the valuation for the 2015 measurement period were based on past experience under the plan and reasonable future expectations which represent the best estimate of anticipated experience under the plan. No experience studies have been performed in the last 10 years.

Under the Act, cost-of-living adjustments to each member's retirement allowance shall be reviewed at least once every three years subsequent to the member's retirement date. The adjustment, should the Plan elect to give one, is a percentage of the change in the Consumer Price Index. The Plan did not include an assumption for projected ad hoc postemployment benefit changes as they are not considered to be substantively automatic.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation for the 2015 measurement period (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	5.4%
International Equity	5.5
Fixed Income	1.3
Real Estate	4.5
Cash	0.0

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

NOTE 9: ACTUARIAL ASSUMPTIONS (CONTINUED)

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (i.e. no depletion date is projected to occur).

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.5 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
County's net pension liability	\$92,997,519	\$62,648,072	\$20,871,878

NOTE 10: LEGALLY REQUIRED RESERVES

At December 31, 2015, the Fund has a balance of \$118,053,004 in the Member's Annuity Reserve account. This account is the total of the contributions deducted from the salaries of the active and terminated vested members of the retirement system and the IRC 414(h)(2) pickup contributions together with the interest additions as of December 31, 2015. Since those accumulations represent the present value as of December 31, 2015 of future benefits, the reserve balance and liability are equal and this reserve is fully funded.

The Fund has a balance of \$20,598,015 in the County Annuity Reserve Account as of December 31, 2015. This balance and the amounts expected to be credited in the future, plus investment earnings, represent the reserves set aside for the payment of the County's share of the retirement allowances and this reserve is fully funded.

When a County annuity is scheduled to commence for a particular member, sufficient monies are transferred from the County annuity reserve account to the retired members' reserve account to provide for such County annuities actually entered into.

The Retired Members' Reserve Account is the account out of which monthly retirement allowances and death benefits are paid. The balance in this account was \$270,841,090 as of December 31, 2015.

NOTE 11: CONTINGENT LIABILITIES

The Westmoreland County, Pennsylvania Employees' Retirement Fund, in its normal course of business, can be named as a defendant in various lawsuits arising from the conduct of its business. As of December 31, 2015, the management and the Fund's legal counsel are unaware of any such lawsuits.

REQUIRED SUPPLEMENTARY INFORMATION

Westmoreland County, Pennsylvania
 Employees' Retirement Fund
 Schedule of Changes in the Net
 Pension Liability and Related Ratios

	<u>2015</u>	<u>2014</u>
Total pension liability		
Service cost	\$ 3,545,301	\$ 3,601,828
Interest	33,120,973	31,725,964
Changes of benefit terms	1,505,349	1,505,349
Differences between expected and actual experience	10,288,036	7,676,792
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(28,263,356)</u>	<u>(23,528,802)</u>
Net change in total pension liability	20,196,303	20,981,131
Total pension liability - beginning	451,943,878	430,962,747
Total pension liability - ending (a)	<u>\$ 472,140,181</u>	<u>\$ 451,943,878</u>
Plan fiduciary net position		
Contributions - employer	\$ 6,418,453	\$ 5,466,886
Contributions - member	7,858,459	7,942,978
Net investment income	1,567,233	17,927,995
Benefit payments, including refunds of member contributions	(28,263,356)	(23,528,802)
Administrative expense	(122,226)	(125,263)
Other	-	245,027
Net change in plan fiduciary net position	<u>(12,541,437)</u>	<u>7,928,821</u>
Plan fiduciary net position - beginning	422,033,546	414,104,725
Plan fiduciary net position - ending (b)	<u>\$ 409,492,109</u>	<u>\$ 422,033,546</u>
County's net pension liability - ending (a) - (b)	\$ 62,648,072	\$ 29,910,332
Plan fiduciary net position as a percentage of the total pension liability	86.73%	93.38%
Covered-employee payroll	\$ 80,148,609	\$ 80,665,059
County's net pension liability as a percentage of covered-employee payroll	78.2%	37.1%

This schedule is present to illustrate the requirement to information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is shown.

Westmoreland County, Pennsylvania
 Employees' Retirement Fund
 Schedule of County Contributions - Last 10 Years

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 6,418,453	\$ 5,466,886	\$ 9,964,570	\$ 8,796,356	\$ 7,955,926	\$ 7,612,781	\$ 8,345,240	\$ 2,222,551	\$ 2,990,464	\$ 4,142,359
Contributions in relation to the actuarially determined contribution	6,418,453	5,466,886	9,964,570	8,796,356	7,955,926	6,194,962	8,275,610	3,710,000	2,990,464	4,142,359
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,417,819	\$ 69,630	\$ (1,487,449)	\$ -	\$ -
Covered-employee payroll	\$ 80,148,609	\$ 80,665,059	\$ 79,578,330	\$ 77,360,215	\$ 76,147,376	\$ 75,096,281	\$ 72,160,746	\$ 68,431,674	\$ 65,647,535	\$ 66,504,724
Contributions as a percentage of covered-employee payroll	8.01%	6.78%	12.52%	11.37%	10.45%	8.25%	11.47%	5.42%	4.56%	6.23%

Notes to Schedule

Valuation date

Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	21 years
Asset valuation method	Market value adjusted for unrecognized gains and losses from prior years
Inflation	3.0%
Salary increases	3.5% average, including inflation
Investment rate of return	7.5%, net of pension plan investment expense, including inflation
Retirement age	Age 60 or 55 with 20 years' service
Mortality	2013 RP Annuitant and Non-Annuitant Mortality Tables for males and females with no projected improvement

Westmoreland County, Pennsylvania
Employees' Retirement Fund
Schedule of Investment Returns
Last 10 Fiscal Years

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	0.65%	4.91%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

Zelenkofske Axelrod LLC

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Trustees
Westmoreland County, Pennsylvania
Employees' Retirement Fund
Greensburg, Pennsylvania 15601

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Westmoreland County, Pennsylvania Employees' Retirement Fund, a fiduciary fund of the County of Westmoreland, as of and for the year ended December 31, 2015, and the related notes to the financial statements, and have issued our report thereon dated July 18, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Westmoreland County, Pennsylvania Employees' Retirement Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Westmoreland County, Pennsylvania Employees' Retirement Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Westmoreland County, Pennsylvania Employees' Retirement Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Zelenkofske Axelrod LLC

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Westmoreland County, Pennsylvania Employees' Retirement Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Zelenkofske Axelrod LLC

Zelenkofske Axelrod LLC

Pittsburgh, Pennsylvania
July 18, 2016