

# LIMITED PROCEDURES ENGAGEMENT

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## City of Farrell Police Pension Plan Mercer County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

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August 2016



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 Farrell  
Mercer County  
Farrell, PA 16121

We conducted a Limited Procedures Engagement (LPE) of the City of Farrell Police Pension Plan for the period January 1, 2014 to December 31, 2015 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 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.

- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the City of Farrell Police Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The city should continue to maintain documentation related to this pension plan.

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 plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 59.5% as of January 1, 2015**, which is the most recent data available. We encourage city officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

August 24, 2016



EUGENE A. DEPASQUALE  
Auditor General

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CITY OF FARRELL POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

The supplementary information contained on pages 1 and 2 reflect 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 YEAR ENDED DECEMBER 31, 2014

|  |    |          |
|--|----|----------|
| Total Pension Liability  |    |          |
| Interest   | \$ | 36,942   |
| Difference between expected and actual experience                          |    | 90,733   |
| Benefit payments, including refunds of member contributions                |    | (82,580) |
| Net Change in Total Pension Liability                                      |    | 45,095   |
| Total Pension Liability - Beginning  |    | 712,404  |
| Total Pension Liability - Ending (a)                                       | \$ | 757,499  |
|  |    |          |
| Plan Fiduciary Net Position  |    |          |
| Contributions – employer*  | \$ | 62,075   |
| PMRS investment income   |    | 19,238   |
| Market value investment income   |    | 59,245   |
| Benefit payments, including refunds of member contributions                |    | (82,580) |
| PMRS administrative expense  |    | (120)    |
| Additional administrative expense  |    | (738)    |
| Net Change in Plan Fiduciary Net Position                                  |    | 57,120   |
| Plan Fiduciary Net Position - Beginning                                    |    | 371,679  |
| Plan Fiduciary Net Position - Ending (b)                                   | \$ | 428,799  |
|  |    |          |
| Net Pension Liability - Ending (a-b)                                       | \$ | 328,700  |
|  |    |          |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |    | 56.6%    |
| Estimated Covered Employee Payroll   |    | N/A      |
| Net Pension Liability as a Percentage of Covered Employee Payroll          |    | N/A      |

\* Employer Contributions include \$8,821 of dividends.

CITY OF FARRELL 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 city, calculated using the discount rate of 5.5%, as well as what the city’s net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

|                       | 1% Decrease<br>(4.5%) | Current<br>Discount Rate<br>(5.5%) | 1% Increase<br>(6.5%) |
|-----------------------|-----------------------|------------------------------------|-----------------------|
| Net Pension Liability | \$ 384,908            | \$ 328,700                         | \$ 279,392            |

CITY OF FARRELL 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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-11                       | \$ 537,367                             | \$ 951,906   | \$ 414,539   | 56.5%                      |
| 01-01-13                       | 366,303                                | 755,663  | 389,360  | 48.5%                      |
| 01-01-15                       | 450,819                                | 757,499  | 306,680  | 59.5%                      |

CITY OF FARRELL 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.

CITY OF FARRELL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2010                   | \$ 16,382                    | 100.0%                 |
| 2011                   | 26,516                       | 100.0%                 |
| 2012                   | 26,496                       | 100.0%                 |
| 2013                   | 53,274                       | 100.0%                 |
| 2014                   | 53,254                       | 100.0%                 |
| 2015                   | 49,083                       | 100.0%                 |

CITY OF FARRELL 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 | 9 years  |
| Asset valuation method        | Fair value   |
| Actuarial assumptions:        |  |
| Investment rate of return     | 5.5%   |
| Projected salary increases *  | Age-related scale for merit/<br>seniority (e.g. age 30 - 6.4%;<br>age 40 - 5.0%; age 50 - 4.1%;<br>age 60 - 3.7% ... 2.0% is added<br>for each of the first 3 years of<br>service) |
| Cost-of-living adjustments    | 3.0%   |

\* Includes inflation at 3.0%

CITY OF FARRELL POLICE PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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**The Honorable Olive M. McKeithan**  
Mayor

**Mr. Robert Burich**  
Deputy Mayor

**Mr. Michael Ceci**  
City Manager

**Ms. Melissa Cannone**  
City Treasurer

**Ms. Kim Doss**  
Councilperson

**Ms. Stephanie Sheffield**  
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**Ms. Annette Morrison**  
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