

LIMITED PROCEDURES ENGAGEMENT

Forty Fort Borough Firemen's Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

August 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Forty Fort Borough
Luzerne County
Forty Fort, PA 18704

We conducted a Limited Procedures Engagement (LPE) of the Forty Fort Borough Firemen's Pension Plan for the period January 1, 2015 to December 31, 2018 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 annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the 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 the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- Whether retirement benefits calculated for plan members who retired during the engagement 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.
- Whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Forty Fort Borough Firemen's 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 borough 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.

The contents of this report were discussed with officials of Forty Fort Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

August 7, 2019



EUGENE A. DEPASQUALE
Auditor General

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FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 1 through 3 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 YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 12,909	\$ 15,231	\$ 15,916	\$ 14,693	\$ 15,354
Interest	114,464	115,967	123,772	124,431	128,034
Difference between expected and actual experience	-	(131,641)	-	(81,421)	-
Changes of assumptions	-	37,694	-	5,597	-
Benefit payments, including refunds of member contributions	(14,270)	(14,270)	(26,518)	(79,917)	(96,706)
Net Change in Total Pension Liability	<u>113,103</u>	<u>22,981</u>	<u>113,170</u>	<u>(16,617)</u>	<u>46,682</u>
Total Pension Liability – Beginning	1,629,425	1,742,528	1,765,509	1,878,679	1,862,062
Total Pension Liability – Ending (a)	<u>\$ 1,742,528</u>	<u>\$ 1,765,509</u>	<u>\$ 1,878,679</u>	<u>\$ 1,862,062</u>	<u>\$ 1,908,744</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 17,439	\$ 64,828	\$ -	\$ -	\$ -
Contributions – state aid	43,577	31,368	15,837	15,852	19,665
Contributions – member	13,137	12,991	12,493	8,553	6,758
Net investment income	93,861	356	80,800	234,042	(89,654)
Benefit payments, including refunds of member contributions	(14,270)	(14,270)	(26,518)	(79,917)	(96,706)
Administrative expense	(18,082)	(17,957)	(16,566)	(19,797)	(16,855)
Net Change in Plan Fiduciary Net Position	<u>135,662</u>	<u>77,316</u>	<u>66,046</u>	<u>158,733</u>	<u>(176,792)</u>
Plan Fiduciary Net Position – Beginning	1,536,029	1,671,691	1,749,007	1,815,053	1,973,786
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,671,691</u>	<u>\$ 1,749,007</u>	<u>\$ 1,815,053</u>	<u>\$ 1,973,786</u>	<u>\$ 1,796,994</u>
Net Pension Liability – Ending (a-b)	<u>\$ 70,837</u>	<u>\$ 16,502</u>	<u>\$ 63,626</u>	<u>\$ (111,724)</u>	<u>\$ 111,750</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.9%	99.1%	96.6%	106.0%	94.1%
Estimated Covered Employee Payroll	\$ 227,397	\$ 261,318	\$ 266,426	\$ 268,132	\$ 168,000
Net Pension Liability as a Percentage of Covered Employee Payroll	31.2%	6.3%	23.9%	(41.7%)	66.5%

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
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 (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, 2016, 2017, and 2018, calculated using the discount rate of 7.00%, 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:

	<u>1% Decrease 6.00%</u>	<u>Current Discount Rate 7.00%</u>	<u>1% Increase 8.00%</u>
Net Pension Liability – 12/31/14	\$ 232,169	\$ 70,837	\$ (66,984)
Net Pension Liability – 12/31/15	\$ 192,923	\$ 16,502	\$ (133,600)
Net Pension Liability – 12/31/16	\$ 237,276	\$ 63,626	\$ (84,234)
Net Pension Liability – 12/31/17	\$ 69,097	\$ (111,724)	\$ (266,658)
Net Pension Liability – 12/31/18	\$ 289,285	\$ 111,750	\$ (40,583)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 61,016	\$ 61,016	\$ -	\$ 227,397	26.83%
2015	96,196	96,196	-	261,318	36.81%
2016	15,837	15,837	-	266,426	5.94%
2017	15,852	15,852	-	268,132	5.91%
2018	19,665	19,665	-	168,000	11.71%

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	-4.62%
2017	12.98%
2016	4.65%
2015	-0.72%
2014	6.15%

FORTY FORT BOROUGH FIREMEN'S 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, 2013, 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)
01-01-13	\$ 1,194,497	\$ 1,525,813	\$ 331,316	78.3%
01-01-15	1,683,432	1,648,581	(34,851)	102.1%
01-01-17	1,902,703	1,802,855	(99,848)	105.5%

The amounts in the above table have been adjusted, as appropriate, for insurance/annuity contracts maintained preretirement to fund a portion of the benefits provided by the pension plan at retirement.

The market values of the plan's assets at 01-01-13 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a five-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.

FORTY FORT BOROUGH FIREMEN'S 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.

FORTY FORT BOROUGH FIREMEN'S 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, 2017
Actuarial cost method	Entry age
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	5-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	4.0% per year postretirement

FORTY FORT BOROUGH FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Governor
Commonwealth of Pennsylvania

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