

COMPLIANCE AUDIT

Norristown Borough Firefighters' Pension Plan

Montgomery County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

March 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Borough Council
Norristown Borough
Montgomery County
Norristown, PA 19401

We have conducted a compliance audit of the Norristown Borough Firefighters' Pension Plan for the period January 1, 2015 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 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 objective identified above. 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 whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for both of the plan 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 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, 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.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Norristown Borough contracted with an independent certified public accounting firm for annual audits of the Norristown Borough Firefighters' Pension Plan's 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 Norristown Borough Firefighters' 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 procedures indicated that, in all significant respects, the Norristown Borough Firefighters' Pension Plan 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.

The contents of this report were discussed with officials of Norristown Borough and, where appropriate, their responses have been included in the report.

March 11, 2020


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 Norristown Borough Firefighters' Pension Plan 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.

The Norristown Borough Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 05-31-2005, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its firefighters. The plan was established March 6, 1958. Active members were required to contribute 6 percent of compensation for the plan year 2015, 7 percent of compensation for the plan year 2016, and 7.5 percent of compensation for the plan years 2017 and 2018. As of December 31, 2018, the plan had 20 active members, no terminated members eligible for vested benefits in the future, and 13 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	Age 45 and 10 years of service.
Vesting	Member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 12 months average salary plus actuarial equivalent of employee contributions.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	If killed in service or if death after 10 years of service, 100% of the benefit payable. Benefit is automatic. Normal form is joint & 100% survivor.

Service Related Disability Benefit:

Severe	Benefit equals 100% of final average salary reduced by worker's compensation benefits.
Moderate	Benefit equals 50% of final average salary reduced by worker's compensation benefits and 50% of other gross earnings.

NORRISTOWN BOROUGH FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 262,056	\$ 285,130	\$ 296,524	\$ 312,686	\$ 281,284
Interest	861,549	897,037	955,198	948,062	1,014,923
Difference between expected and actual experience	(129,405)	(134,791)	59,813	(226,021)	(154,354)
Changes of assumptions	-	245,002	-	563,609	-
Benefit payments, including refunds of member contributions	(492,695)	(567,145)	(586,354)	(667,347)	(683,560)
Net Change in Total Pension Liability	501,505	725,233	725,181	930,989	458,293
Total Pension Liability - Beginning	10,709,895	11,211,400	11,936,633	12,661,814	13,592,803
Total Pension Liability - Ending (a)	<u>\$ 11,211,400</u>	<u>\$ 11,936,633</u>	<u>\$ 12,661,814</u>	<u>\$ 13,592,803</u>	<u>\$ 14,051,096</u>
Plan Fiduciary Net Position					
Contributions - Commonwealth of Pennsylvania	\$ 209,077	\$ 217,014	\$ 224,226	\$ 251,035	\$ 233,885
Contributions - municipality	238,182	492,520	481,589	449,206	502,109
Contributions - municipality pension bond	-	-	-	193,112	-
Contributions - military buyback	-	-	4,297	8,028	-
Contributions - participants	97,858	97,563	131,535	147,419	160,379
Net investment income	585,592	(65,532)	745,637	1,037,533	(509,338)
Less: Net investment income – defined annuity	(15,653)	(8,565)	(14,318)	(15,464)	(7,918)
Benefit payments, including refunds of member contributions	(492,695)	(567,145)	(586,354)	(667,347)	(683,234)
Administrative expense	(44,883)	(44,605)	(45,151)	(45,672)	(44,505)
Net Change in Plan Fiduciary Net Position	577,478	121,250	941,461	1,357,850	(348,622)
Plan Fiduciary Net Position - Beginning	7,739,444	8,316,922	8,438,172	9,379,633	10,737,483
Plan Fiduciary Net Position - Ending (b)	<u>\$ 8,316,922</u>	<u>\$ 8,438,172</u>	<u>\$ 9,379,633</u>	<u>\$ 10,737,483</u>	<u>\$ 10,388,861</u>
Net Pension Liability - Ending (a-b)	<u>\$ 2,894,478</u>	<u>\$ 3,498,461</u>	<u>\$ 3,282,181</u>	<u>\$ 2,855,320</u>	<u>\$ 3,662,235</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.18%	70.69%	74.08%	78.99%	73.94%
Estimated Covered Employee Payroll	\$ 1,824,654	\$ 1,915,886	\$ 2,041,160	\$ 2,041,398	\$ 2,136,264
Net Pension Liability as a Percentage of Covered Employee Payroll	158.63%	182.60%	160.80%	139.87%	171.43%

NORRISTOWN BOROUGH FIREFIGHTERS' 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, calculated using the discount rate of 8.25%, 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 (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Net Pension Liability - 12/31/14	\$ 4,172,066	\$ 2,894,478	\$ 1,812,099

In addition, the following presents the net pension liability of the borough as of December 31, 2015 and 2016, calculated using the discount rate of 8.00%, 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:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability - 12/31/15	\$ 4,862,728	\$ 3,498,461	\$ 2,343,905
Net Pension Liability - 12/31/16	\$ 4,703,487	\$ 3,282,181	\$ 2,080,096

Furthermore, the following presents the net pension liability of the borough as of December 31, 2017 and 2018, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability - 12/31/17	\$ 4,407,712	\$ 2,855,320	\$ 1,545,208
Net Pension Liability - 12/31/18	\$ 5,257,327	\$ 3,662,235	\$ 2,315,633

NORRISTOWN BOROUGH FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 242,045	\$ 242,045	\$ -	\$1,354,125	17.87%
2010	267,008	267,008	-	1,528,219	17.47%
2011	367,556	367,556	-	1,630,379	22.54%
2012	357,542	357,542	-	1,677,733	21.31%
2013	464,961	464,961	-	1,776,293	26.18%
2014	447,259	447,259	-	1,824,654	24.51%
2015	709,534	709,534	-	1,915,886	37.03%
2016	705,815	705,815	-	2,041,160	34.58%
2017	700,241	700,241	-	2,041,398	34.30%
2018	735,994	735,994	-	2,136,264	34.45%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.84)%
2017	11.25%
2016	8.92%
2015	(0.84)%
2014	7.68%
2013	19.19%
2012	16.67%
2011	1.43%
2010	10.63%
2009	17.97%

NORRISTOWN BOROUGH FIREFIGHTERS' 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	\$ 6,533,523	\$ 10,092,336	\$ 3,558,813	64.7%
01-01-15	8,003,327	11,456,402	3,453,075	69.9%
01-01-17	9,673,064	13,225,423	3,552,359	73.1%

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 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.

NORRISTOWN BOROUGH FIREFIGHTERS' 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.

NORRISTOWN BOROUGH FIREFIGHTERS' 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 normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	Equal to cost-of-living adjustments for Social Security benefits.

NORRISTOWN BOROUGH FIREFIGHTERS' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
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