

DUNMORE BOROUGH POLICE PENSION PLAN

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Dunmore Borough Police Pension Plan is also governed by implementing regulations adopted by the 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Dunmore Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2 of 1951, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers.



The Honorable Mayor and Borough Council
Dunmore Borough
Lackawanna County
Dunmore, PA 18512

We have conducted a compliance audit of the Dunmore Borough Police Pension Plan for the period January 1, 2007, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above. Dunmore Borough contracted with an independent certified public accounting firm for annual audits of its basic 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 Dunmore Borough Police 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 objectives, and assessed whether those significant controls were properly designed and implemented.

Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Dunmore Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Improper Adjustment To Survivor’s Pension Benefit
- Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Appoint A Chief Administrative Officer
- Finding No. 5 – Noncompliance With Prior Audit Recommendation – Unauthorized Pension Benefits
- Finding No. 6 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information 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 58.0% as of January 1, 2007, which is the most recent date available. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

February 19, 2010

JACK WAGNER
Auditor General

DUNMORE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

Dunmore Borough has partially complied with the prior audit recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The borough paid the minimum municipal obligation (MMO) due to the police pension plan for the year 2005, plus applicable interest. However, the borough did not establish adequate internal control procedures to ensure that the 2009 MMO was fully paid in accordance with Act 205 requirements, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendations

Dunmore Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Plan Not In Compliance With Act 600 Provisions
- Failure To Adopt Benefit Provisions Mandated By Act 30
- Improper Adjustment To Survivor's Pension Benefit
- Failure To Appoint A Chief Administrative Officer
- Unauthorized Pension Benefits

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document includes benefit provisions awarded through collective bargaining which are contrary to Act 600. The inconsistencies between the governing document and Act 600 are as follows:

Provision	Governing Document	Act 600
Member contribution rate	One percent (1%)	Where members do not participate in Social Security - 5% to 8%. May be reduced annually by ordinance or resolution.
Interest on refunds of terminated member contributions	Not provided	Refunds of moneys paid are to include all interest earned by such moneys while in the police pension fund.
Retirement benefit	For officers who retire on or before December 31, 1992, - 80% of base pay during the last full year of service; For officers who retire on or after January 1, 1993, - 70% of base pay, longevity and rank differential during the last full year of service.	Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last 60 nor less than the last 36 months of employment.
Fund to be charged for pension payments	For retirement benefits calculated at 80%; - 70% from the police pension fund and 10% from the general fund.	Payments made under the provisions of this act shall not be a charge on any other fund in the treasury of any borough, town, township or regional police department, or under its control, save the police pension fund.
Cost-of-living increases	Does not limit total benefits to 75% of the salary used for computing retirement benefits.	Limits total benefits to 75% of the salary used for computing retirement benefits.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Provision	Governing Document	Act 600
Credit for intervening military service	Not provided	Provided for members who were employed for at least 6 months prior to their military service and who return to employment within 6 months after separation from military service.
Mandatory retirement age	70 years	Not provided
Early retirement benefit	No minimum period of service is listed. Benefit is the projected retirement benefit multiplied by the quotient of the number of years of service completed divided by the number of years of service which would have been completed at normal retirement.	20 years of service required. Benefit is the actuarial equivalent of the gross pension amount calculated using the monthly average salary during the appropriate period prior to termination multiplied by the quotient of the number of years of service completed divided by the number of years of service which would have been completed at normal retirement.
Contributions by and eligibility of terminated members	Members dismissed for any reason with 25 years of service, but not having reached age 55 may continue to contribute to the plan until normal retirement age, at which time they are entitled to a pension.	Not provided
Retirement incentive	Members who retire when first eligible for normal retirement receive \$100 per month in addition to the normal retirement allowance.	Not provided

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, although the plan's governing document provides for a normal retirement benefit at age 55 with 25 years of service in accordance with Act 600 provisions, the 1993-94 collective bargaining agreement provides for officers to retire at age 50 with 20 years of service.

In addition, a side agreement to the 1992 Dunmore Police Collective Bargaining Agreement provides for pensions calculated based on base pay, longevity pay, rank differential and 50 percent of severance pay.

Regarding refunds of members' contributions, the 1995 Dunmore Police Collective Bargaining Agreement properly provides for payment of interest on these refunds; however, this provision of the agreement has not been officially incorporated into the plan's governing document.

Regarding the fund to be charged for pension payments, the 1995 Dunmore Police Collective Bargaining Agreement provides for the payment of all benefits found to be unauthorized from the borough's general fund.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the pension plan's benefit structure should be in compliance with the provisions of Act 600, as amended.

Cause: The inconsistent and/or unauthorized benefit provisions occurred as a result of collective bargaining between the borough and the police association. In addition, municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Ten retired members of the plan are currently receiving pension benefit payments in excess of those authorized by Act 600.

Providing unauthorized benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the borough received its state aid allocations based on unit value during the audit period, the borough did not receive excess state aid allocations attributable to the unauthorized benefits provided. However, the plan's actuary determined that the increased costs to the pension plan as a result of the unauthorized pension benefits provided resulted in a \$923,243 increase in the plan's actuarial accrued liability. Beginning January 1, 2003, this increased liability is being amortized over a ten-year period, resulting in annual amortization contributions of \$127,399.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the borough comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with the Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may be required to determine the impact, if any, of the excess benefits on the plan’s future state aid allocations and submit this information to the Department.

Management’s Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30

Condition: As disclosed in the prior audit report, Act 600 was amended by Act 30 on April 17, 2002, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Survivor’s benefit	The surviving spouse of a member who dies subsequent to retiring on pension, or if subsequently the spouse dies or remarries, then the child or children under the age of 18, shall during his/her lifetime or as long as she/he does not remarry, be entitled to receive 50% of the pension the member was receiving or would have been receiving had he been retired at the time of death.	A lifetime survivor’s benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. (“Attending college” shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Benefit Provision	Governing Document	Act 600 (as amended)
Pre-vesting death benefit	None provided	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of 18 years, or, if attending college, under or attaining the age of 23 years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member's investment in the pension fund, unless the member has designated another beneficiary for this purpose.
Service-related disability benefit	50% of the average monthly salary during the last 36 months of employment.	The benefit must be in conformity with a uniform scale and fixed by the plan's governing document at no less than 50% of the member's salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

Criteria: The police pension plan's benefit structure should be in compliance with Act 600, as amended by Act 30.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into compliance with Act 600, as amended, by Act 30, at their earliest opportunity to do so.

Management's Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Improper Adjustment To Survivor's Pension Benefit

Condition: As disclosed in the prior audit report, on October 1, 2004, municipal officials improperly recalculated the pension benefit due to the surviving spouse of a police officer who retired on December 31, 1988, and died on September 24, 1999. This improperly revised calculation determined that the surviving spouse was due \$192 more per month and \$54,984 in back payments. The revised benefit calculation included payments the police officer had received in 1988 pursuant to arbitration awards granting back pay for time worked in the years 1980 through 1985. However, only compensation earned in the officer's last 36 months of employment is authorized to be included in the officer's pension benefit calculation and, therefore, in his spouse's survivor benefit.

Criteria: Section 1(a)(4) of Act 600 states, in part:

The surviving spouse of a member of the police force or a member who retires on pension who dies. . . shall during her lifetime . . . be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving. . . at the time of his death.

Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

Furthermore, in *Czekanski v. Ford City Borough*, 611 A.2d 791, 148 Pa.Cmwlth. 417, (Pa.Cmwlth 1992), Commonwealth Court concluded that a back pay settlement award *received* within the 36 months immediately preceding retirement was properly excluded from the calculation of a police officer's pension benefit because the back pay was not *earned* during that period.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Municipal officials felt the additional compensation from the arbitration awards reported on the member’s 1988 W-2 form should have been included in his original pension benefit calculation. In addition, municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Providing unauthorized benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the borough received its state aid allocations based on unit value during the audit period, the borough did not receive excess state aid allocations attributable to the unauthorized benefits provided. However, the provision of unauthorized pension benefits could result in the receipt of excess state aid in the future, and also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the surviving spouse’s pension benefit be adjusted prospectively to the originally determined amount. In addition, all improper payments made from the pension plan will be deemed ineligible for funding with state pension aid. Accordingly, the pension plan’s actuary may be required to determine the impact, if any, of the improper payments on the plan’s future state aid allocations and submit this information to the department.

Management’s Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Failure To Appoint A Chief Administrative Officer

Condition: As disclosed in the prior audit report, municipal officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and/or delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and/or pension plan, we again recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

Management's Response: Municipal officials will respond to the finding upon receipt of the audit report.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Noncompliance With Prior Audit Recommendation – Unauthorized Pension Benefits

Condition: As disclosed in the prior audit report, on January 1, 2006, two police officers were granted unauthorized pension benefits. The police officers were given credit for part-time service in order to complete the requirement of 20 years of service to qualify for normal retirement benefits. As noted in Finding No. 1, the plan's governing document and prior collective bargaining agreements contain unauthorized benefit provisions that exceed Act 600 guidelines.

Criteria: Act 600 at Section 3, states, in part:

Each ordinance or resolution establishing a police pension fund shall prescribe a minimum period of total service in the aggregate of twenty-five years in the same borough, town, township or regional police department and shall fix the age of the members of the force at fifty-five years, or, if an actuarial study of the cost shows that such reduction in age is feasible, may fix the age of the members of the force at fifty years.

The 1993-94 collective bargaining agreement provides for officers to retire at age 50 with 20 years of service. However, File of Council 3 of 1992 contains a provision for early retirement (see Finding No. 1 for details). This document sets no minimum period of service but does establish a formula to determine the fraction of the pension benefits to be paid. In addition, it does not provide for an early retirement benefit to be determined and received in the same manner as a normal retirement benefit.

Furthermore, Act 600 does not authorize the crediting of part-time service in pension benefit determinations.

Cause: Borough officials believed that a member may be granted service credit for part-time years of service. In addition, borough officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Providing unauthorized benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the borough received its state aid allocations based on unit value during the audit period, the borough did not receive excess state aid allocations attributable to the unauthorized benefits provided. However, the provision of unauthorized pension benefits could result in the receipt of excess state aid in the future, and also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We again recommend that the borough review the pension benefit determinations with the borough solicitor to determine whether the retirees' pension benefits should be adjusted prospectively. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with the Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the plan's future state aid allocations and submit this information to the Department.

Management's Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 6 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, the municipality did not fully pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2005, as required by Act 205. During the audit period, the borough paid the MMO due to the police pension plan for the year 2005, plus applicable interest. However, the borough did not fully pay the 2009 MMO that was due to the plan in accordance with Act 205 requirements. The borough had an unpaid MMO balance of \$375,583 for the year 2009.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

DUNMORE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Furthermore, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Plan officials did not comply with the Act 205 requirements because general fund monies were not available to fully pay the 2009 MMO due to the plan.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the year 2009, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we again recommend that plan officials establish adequate internal control procedures to ensure that the MMO is paid in accordance with Act 205 requirements.

Management's Response: Subsequent to the audit period, the borough deposited \$375,583 into the pension to pay the outstanding 2009 MMO due to the plan.

Auditor's Conclusion: Based on the management response, the borough has partially complied with the finding recommendation. The borough must still pay the interest due to the plan in accordance with Section 302(e) of Act 205. Full compliance will be evaluated during our next audit of the plan.

DUNMORE BOROUGH 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 2,566,120	\$ 5,089,231	\$ 2,523,111	50.4%	\$ 389,255	648.2%
01-01-05	3,938,973	5,345,942	1,406,969	73.7%	723,318	194.5%
01-01-07	3,696,420	6,368,435	2,672,015	58.0%	711,369	375.6%

Note 1 - The market values of the plan's assets at 01-01-03 and 01-01-05 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

Note 2 - The actuarial value of assets at 01-01-05 includes bond proceeds deposited in 2004.

DUNMORE BOROUGH 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

DUNMORE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 301,582	100.0%
2004	142,973	100.0%
2005	162,942	100.0%
2006	179,422	100.0%
2007	262,513	100.0%
2008	267,693	100.0%

DUNMORE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	6.0%
Cost-of-living adjustments	3.0%

DUNMORE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Dunmore Borough Police Pension Plan
Lackawanna County
400 South Blakely Street
Dunmore, PA 18512

The Honorable Patrick W. Loughney Mayor

Mr. Timothy Burke Council President

Ms. Denise Muraca Treasurer

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