



John Keel, CPA
State Auditor

A Report on the Audit of
**The Office of the Fire Fighters' Pension
Commissioner's Fiscal Year 2010
Financial Statements**

January 18, 2011

Members of the Legislative Audit Committee:

In our audit report dated December 16, 2010, we concluded that the Office of the Fire Fighters' Pension Commissioner's (Office) basic financial statements for fiscal year 2010 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. Our procedures did not identify any material weaknesses in internal control over financial reporting or any noncompliance with laws or regulations that materially affected the financial statements. However, our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with laws and regulations. Accordingly, we do not express an opinion on the effectiveness of the Office's internal control over financial reporting or on compliance with laws and regulations.

Auditors communicated less significant issues to Office management in writing. As required by professional auditing standards, we will also communicate the results of the audit and certain matters related to the conduct of a financial statement audit to the audit committee of the Texas Emergency Services Retirement System's (System) Board of Trustees.

Pension Plan Financial Highlights

As discussed in the Office's annual financial report, the pension plans experienced an investment increase during fiscal year 2010 of \$1.9 million. This is an improvement compared to the pension plans' investment loss in fiscal year 2009 of \$3.4 million. The investment increase resulted in an overall gain of 3.79 percent in fiscal year 2010, compared to a loss of 6.00 percent in fiscal year 2009. However, the fiscal year 2010 gain was less than the 7.75 percent assumed long-term rate of return

Background Information

The Office of the Fire Fighters' Pension Commissioner (Office) administers two programs: (1) the Texas Emergency Services Retirement System (System) and (2) the Texas Local Fire Fighters' Retirement Act (TLFRA), which provide retirement, death, disability, and survivor benefits to volunteer fire and emergency medical services personnel. As of August 31, 2010, the System had 8,616 members, including 2,152 retirees and beneficiaries. The TLFRA program had 469 retirees and beneficiaries receiving benefits as of August 31, 2010. Benefits paid in fiscal year 2010 totaled \$3,125,173, which represented 97 percent of the Office's total expenses.

As of August 31, 2010, the Office held \$803,777 in cash in the State Treasury and \$53,229,538 in total investments. Investment holdings constituted 97 percent of the Office's total assets as of August 31, 2010.

Summary of Objective, Scope, and Methodology

The objective of the audit was to issue an opinion on the Office of the Fire Fighters' Pension Commissioner's (Office) fiscal year 2010 financial statements.

The audit scope covered the Office's basic financial statements for fiscal year 2010.

The audit methodology included conducting interviews; confirming investment holdings and market values; reviewing material account balances including contributions received and benefit payments made; and performing other analytical procedures.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The following staff of the State Auditor's Office performed the audit:

- Kelley Ngaide, CFE (Project Manager)
- Erin Cromleigh
- Anca Pinchas, CPA, CIDA
- Michael C. Apperley, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Assistant State Auditor)

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used for actuarial valuation purposes. As of August 31, 2010, the net assets held in trust for pension benefits totaled \$55 million.

Summary of Pension Actuarial and Contribution Information

The state law governing the System states that “The State shall contribute the amount necessary to make the pension system actuarially sound each year [see text box for definition], except that the State’s contribution may not exceed one-third of the total of all contributions by governing bodies of participating departments in a particular year.”

Definition of an Actuarially Sound Pension System

An actuarially sound pension system is a system in which the amount of contributions is sufficient to cover the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in a period that does not exceed 30 years.

The System’s fiscal year 2010 actuarial valuation states that it has an adequate contribution arrangement, assuming that the State will continue to appropriate (1) the maximum annual contribution as needed in accordance with the state law governing the System and (2) approximately \$500,000 each year to pay for part of the System’s administrative expenses. The actuarial valuation also identified that, without these expected appropriations from the State, the System would have an inadequate contribution arrangement. Table 1 lists additional information related to the System’s actuarial valuation and was obtained from unaudited actuarial valuations as of August 31, 2008, and August 31, 2010.

Table 1

Selected Information from Actuarial Valuations of the Texas Emergency Services Retirement System		
	As of August 31, 2008	As of August 31, 2010
Information Related to Unfunded Actuarial Accrued Liability		
Actuarial Accrued Liability	\$64,227,341	\$79,953,215
Actuarial Value of Assets (excludes unrecognized investment gains and losses)	\$60,987,157	\$64,113,803
Unfunded Actuarial Accrued Liability (UAAL) ^a	\$3,240,184	\$15,839,412
Required Annual Contributions to Amortize UAAL over 30 Years ^b	\$314,955	\$1,330,400
Years to Amortize the UAAL ^b	19	Infinity ^c
Information Related to Projected Contributions		
Required Contributions in the Next Fiscal Year to Fund Normal Costs	\$1,887,720	\$1,938,449
Expected Contributions (Dues) in the Next Fiscal Year	\$2,692,680	\$2,800,440
Required Annual Contributions to Amortize UAAL over 30 Years ^d	\$804,960	\$861,991
Years to Amortize the UAAL (with state appropriations)	6	30
Funded Ratio	95%	80%
^a The UAAL represents the deficit of a plan’s actuarial assets compared with its actuarial liabilities. ^b Calculated assuming no appropriations from the State. ^c “Infinity” means the UAAL will never be amortized but will increase each year. ^d Calculated assuming the System receives appropriations from the State of \$502,941 every year. Additionally, this amount is also the amount available to amortize the UAAL.		

Source: Texas Emergency Services Retirement System actuarial valuations as of August 31, 2008, and August 31, 2010.

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We appreciate the Office's cooperation during the audit. If you have any questions, please contact Lisa Collier, Assistant State Auditor, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

cc: Members of the Texas Emergency Services Retirement System Board of Trustees
Mr. Frank Torres, Chairman
Ms. Gracie G. Flores, Vice Chair
Mr. Max Patterson, Secretary
Mr. Dan Key
Mr. Ron Larson
Ms. Jenny Moore
Mr. Dennis R. Rice
Mr. Don Shipman
Mr. Stephen Williams
Ms. Sherri Walker, Commissioner, Office of the Fire Fighters' Pension Commissioner



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