

# LIMITED PROCEDURES ENGAGEMENT

---

## Girard Borough Administrative Employees' Pension Plan Erie County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

---

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

The Honorable Mayor and Borough Council  
Girard Borough  
Erie County  
Girard, PA 16417

We conducted a Limited Procedures Engagement (LPE) of the Girard Borough Administrative Employees' Pension Plan for the period January 1, 2016 to December 31, 2019 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 the January 1, 2017 and January 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Girard Borough Administrative Employees' 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 Girard 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.

March 6, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Supplementary Information .....	1
Report Distribution List .....	8

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 1 through 4 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  
AS OF JANUARY 1, 2019, 2018, 2017, 2016, AND 2015

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability					
Service cost	\$ 6,930	\$ 6,395	\$ 6,157	\$ 11,055	\$ 10,655
Interest	9,354	8,289	6,784	5,826	5,578
Difference between expected and actual experience	24,301	-	765	-	(13,539)
Changes of assumptions	-	-	19,663	-	-
Net Change in Total Pension Liability	<u>40,585</u>	<u>14,684</u>	<u>33,369</u>	<u>16,881</u>	<u>2,694</u>
Total Pension Liability - Beginning	<u>126,700</u>	<u>112,016</u>	<u>78,647</u>	<u>61,766</u>	<u>59,072</u>
Total Pension Liability - Ending (a)	<u><u>\$ 167,285</u></u>	<u><u>\$ 126,700</u></u>	<u><u>\$ 112,016</u></u>	<u><u>\$ 78,647</u></u>	<u><u>\$ 61,766</u></u>
Plan Fiduciary Net Position					
Contributions - employer	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions - state aid	4,684	4,588	4,375	7,842	7,745
Contributions - member	719	694	701	2,580	3,940
Net investment income	<u>(7,433)</u>	<u>15,108</u>	<u>5,666</u>	<u>(788)</u>	<u>4,527</u>
Net Change in Plan Fiduciary Net Position	<u>(2,030)</u>	<u>20,390</u>	<u>10,742</u>	<u>9,634</u>	<u>16,212</u>
Plan Fiduciary Net Position - Beginning	<u>126,694</u>	<u>106,304</u>	<u>95,562</u>	<u>85,928</u>	<u>69,716</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 124,664</u></u>	<u><u>\$ 126,694</u></u>	<u><u>\$ 106,304</u></u>	<u><u>\$ 95,562</u></u>	<u><u>\$ 85,928</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 42,621</u></u>	<u><u>\$ 6</u></u>	<u><u>\$ 5,712</u></u>	<u><u>\$ (16,915)</u></u>	<u><u>\$ (24,162)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.52%	100.00%	94.90%	121.51%	139.12%
Estimated Covered Employee Payroll	\$ 74,671	\$ 70,762	\$ 69,034	\$ 67,025	\$ 100,708
Net Pension Liability as a Percentage of Covered Employee Payroll	57.08%	0.01%	8.27%	(25.24%)	(23.99%)

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS  
AS OF JANUARY 1, 2014, 2013, 2012, 2011, AND 2010

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Pension Liability					
Service cost	\$ 10,061	\$ 9,701	\$ 7,747	\$ 7,453	\$ -
Interest	4,376	3,212	2,255	596	-
Difference between expected and actual experience	-	1,278	-	12,393	-
Changes of assumptions	-	-	-	-	-
Net Change in Total Pension Liability	<u>14,437</u>	<u>14,191</u>	<u>10,002</u>	<u>20,442</u>	<u>-</u>
Total Pension Liability - Beginning	44,635	30,444	20,442	-	-
Total Pension Liability - Ending (a)	<u>\$ 59,072</u>	<u>\$ 44,635</u>	<u>\$ 30,444</u>	<u>\$ 20,442</u>	<u>\$ -</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ -	\$ -	\$ 1,560	\$ -	\$ -
Contributions - state aid	7,769	7,152	-	1,547	-
Contributions - member	8,049	7,239	7,344	7,377	7,201
Net investment income	8,190	3,820	(373)	1,572	1,269
Net Change in Plan Fiduciary Net Position	<u>24,008</u>	<u>18,211</u>	<u>8,531</u>	<u>10,496</u>	<u>8,470</u>
Plan Fiduciary Net Position - Beginning	45,708	27,497	18,966	8,470	-
Plan Fiduciary Net Position - Ending (b)	<u>\$ 69,716</u>	<u>\$ 45,708</u>	<u>\$ 27,497</u>	<u>\$ 18,966</u>	<u>\$ 8,470</u>
Net Pension Liability - Ending (a-b)	<u>\$ (10,644)</u>	<u>\$ (1,073)</u>	<u>\$ 2,947</u>	<u>\$ 1,476</u>	<u>\$ (8,470)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	118.02%	102.40%	90.32%	92.78%	
Estimated Covered Employee Payroll	\$ 95,007	\$ 91,604	\$ 92,333	\$ 88,829	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	(11.20%)	(1.17%)	3.19%	1.66%	

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' 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 borough as of January 1, 2015 and 2016, calculated using the discount rate of 8.0%, 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 (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Net Pension Liability - 01/01/15	\$ (11,713)	\$ (24,162)	\$ (34,152)
Net Pension Liability - 01/01/16	\$ (1,064)	\$ (16,915)	\$ (29,635)

In addition, the following presents the net pension liability of the borough as of January 1, 2017, 2018 and 2019, calculated using the discount rate of 7.0%, 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 (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability - 01/01/17	\$ 26,651	\$ 5,712	\$ (11,495)
Net Pension Liability - 01/01/18	\$ 23,690	\$ 6	\$ (19,457)
Net Pension Liability - 01/01/19	\$ 72,938	\$ 42,621	\$ 17,686

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' 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
2010	\$ 1,547	\$ 1,547	\$ -	\$ 88,829	1.74%
2011	1,560	1,560	-	92,333	1.69%
2012	3,933	7,152	(3,219)	91,604	7.81%
2013	4,020	7,769	(3,749)	95,007	8.18%
2014	6,790	7,745	(955)	100,708	7.69%
2015	7,038	7,842	(804)	67,025	11.70%
2016	3,726	4,375	(649)	69,034	6.34%
2017	3,939	4,588	(649)	70,762	6.48%
2018	4,419	4,684	(265)	74,671	6.27%
2019	7,815	7,815	-	*	

\* Due to the timing of this engagement, covered-employee payroll for 2019 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.74%)
2017	13.87%
2016	5.78%
2015	(0.86%)
2014	5.99%
2013	15.28%
2012	11.01%
2011	(1.59%)
2010	12.16%
2009	35.25%



GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' 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, 2015, 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)
01-01-15	\$ 85,928	\$ 61,766	\$ (24,162)	139.1%
01-01-17	106,304	112,016	5,712	94.9%
01-01-19	126,760	167,285	40,525	75.8%

Note: The market value of the plan's assets at 01-01-19 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' 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.

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	Not disclosed

GIRARD BOROUGH ADMINISTRATIVE EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Bob Kremenik**  
Mayor

**Mr. Dennis McNally**  
Council President

**Mr. Robert Stubenbort**  
Borough Manager

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).