

LIMITED PROCEDURES ENGAGEMENT

Girard Borough Police 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



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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 Police 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 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, 2017 and January 1, 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 Police 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

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GIRARD BOROUGH POLICE 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	\$ 47,979	\$ 39,281	\$ 49,787	\$ 59,316	\$ 48,854
Interest	177,696	172,881	158,667	152,790	148,600
Change of benefit terms	-	-	-	-	-
Difference between expected and actual experience	32,535	-	(18,103)	-	(53,455)
Changes of assumptions	-	-	457,848	-	-
Benefit payments, including refunds of member contributions	(152,827)	(151,188)	(151,428)	(102,753)	(101,280)
Net Change in Total Pension Liability	<u>105,383</u>	<u>60,974</u>	<u>496,771</u>	<u>109,353</u>	<u>42,719</u>
Total Pension Liability - Beginning	<u>2,573,320</u>	<u>2,512,346</u>	<u>2,015,575</u>	<u>1,906,222</u>	<u>1,863,503</u>
Total Pension Liability - Ending (a)	<u>\$ 2,678,703</u>	<u>\$ 2,573,320</u>	<u>\$ 2,512,346</u>	<u>\$ 2,015,575</u>	<u>\$ 1,906,222</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 53,200	\$ 49,337	\$ 55,457	\$ 40,204	\$ 35,731
Contributions - state aid	37,475	36,706	34,997	52,981	52,701
Contributions - member	14,685	14,157	12,793	12,850	13,796
Net investment income	(104,708)	232,978	98,419	(16,365)	96,460
Benefit payments, including refunds of member contributions	(152,827)	(151,188)	(151,428)	(102,753)	(101,280)
Net Change in Plan Fiduciary Net Position	<u>(152,175)</u>	<u>181,990</u>	<u>50,238</u>	<u>(13,083)</u>	<u>97,408</u>
Plan Fiduciary Net Position - Beginning	<u>1,921,181</u>	<u>1,739,191</u>	<u>1,688,953</u>	<u>1,702,036</u>	<u>1,604,628</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,769,006</u>	<u>\$ 1,921,181</u>	<u>\$ 1,739,191</u>	<u>\$ 1,688,953</u>	<u>\$ 1,702,036</u>
Net Pension Liability - Ending (a-b)	<u>\$ 909,697</u>	<u>\$ 652,139</u>	<u>\$ 773,155</u>	<u>\$ 326,622</u>	<u>\$ 204,186</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.04%	74.66%	69.23%	83.80%	89.29%
Estimated Covered Employee Payroll	\$ 298,584	\$ 288,344	\$ 272,589	\$ 295,522	\$ 300,085
Net Pension Liability as a Percentage of Covered Employee Payroll	304.67%	226.17%	283.63%	110.52%	68.04%

GIRARD BOROUGH POLICE 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	\$ 44,603	\$ 43,840	\$ 43,220	\$ 38,786	\$ 34,680
Interest	140,652	136,002	128,142	117,698	111,380
Change of benefit terms	-	-	-	-	25,006
Difference between expected and actual experience	-	(46,743)	-	42,152	-
Changes of assumptions	-	-	-	-	-
Benefit payments, including refunds of member contributions	(77,005)	(74,254)	(73,117)	(71,795)	(70,498)
Net Change in Total Pension Liability	<u>108,250</u>	<u>58,845</u>	<u>98,245</u>	<u>126,841</u>	<u>100,568</u>
Total Pension Liability - Beginning	<u>1,755,253</u>	<u>1,696,408</u>	<u>1,598,163</u>	<u>1,471,322</u>	<u>1,370,754</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,863,503</u></u>	<u><u>\$ 1,755,253</u></u>	<u><u>\$ 1,696,408</u></u>	<u><u>\$ 1,598,163</u></u>	<u><u>\$ 1,471,322</u></u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 27,710	\$ 33,700	\$ 7,370	\$ 8,130	\$ -
Contributions - state aid	56,760	49,709	61,038	46,040	41,800
Contributions - member	14,378	13,257	13,514	13,923	22,491
Net investment income	219,082	142,330	(17,900)	113,028	220,179
Benefit payments, including refunds of member contributions	(77,005)	(74,254)	(73,117)	(71,795)	(70,498)
Net Change in Plan Fiduciary Net Position	<u>240,925</u>	<u>164,742</u>	<u>(9,095)</u>	<u>109,326</u>	<u>213,972</u>
Plan Fiduciary Net Position - Beginning	<u>1,363,703</u>	<u>1,198,961</u>	<u>1,208,056</u>	<u>1,098,730</u>	<u>884,758</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,604,628</u></u>	<u><u>\$ 1,363,703</u></u>	<u><u>\$ 1,198,961</u></u>	<u><u>\$ 1,208,056</u></u>	<u><u>\$ 1,098,730</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 258,875</u></u>	<u><u>\$ 391,550</u></u>	<u><u>\$ 497,447</u></u>	<u><u>\$ 390,107</u></u>	<u><u>\$ 372,592</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.11%	77.69%	70.68%	75.59%	74.68%
Estimated Covered Employee Payroll	\$ 273,976	\$ 269,287	\$ 271,483	\$ 280,248	\$ 250,575
Net Pension Liability as a Percentage of Covered Employee Payroll	94.49%	145.40%	183.23%	139.20%	148.69%

GIRARD BOROUGH POLICE 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 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	\$ 409,190	\$ 204,186	\$ 30,244
Net Pension Liability - 01/01/16	\$ 543,386	\$ 326,622	\$ 142,702

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	\$ 1,092,565	\$ 773,155	\$ 509,859
Net Pension Liability - 01/01/18	\$ 979,301	\$ 652,139	\$ 382,453
Net Pension Liability - 01/01/19	\$ 1,249,093	\$ 909,697	\$ 629,411

GIRARD BOROUGH POLICE 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	\$ 39,682	\$ 54,170	\$ (14,488)	\$ 280,248	19.33%
2011	61,038	68,408	(7,370)	271,483	25.20%
2012	75,456	83,409	(7,953)	269,287	30.97%
2013	75,844	84,470	(8,626)	273,976	30.83%
2014	80,154	88,432	(8,278)	300,085	29.47%
2015	85,475	93,185	(7,710)	295,522	31.53%
2016	82,796	90,454	(7,658)	272,589	33.18%
2017	77,380	86,043	(8,663)	288,344	29.84%
2018	81,864	90,675	(8,811)	298,584	30.37%
2019	159,440	168,739	(9,299)	*	

* 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	(5.52%)
2017	13.60%
2016	5.91%
2015	(0.96%)
2014	6.01%
2013	15.94%
2012	11.76%
2011	(1.48%)
2010	10.30%
2009	24.97%

GIRARD 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. 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	\$ 1,702,036	\$ 1,906,222	\$ 204,186	89.3%
01-01-17	1,862,342	2,512,346	650,004	74.1%
01-01-19	1,954,656	2,678,703	724,047	73.0%

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 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.

GIRARD BOROUGH POLICE 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, closed
Remaining amortization period	9 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	5.0%
Cost-of-living adjustments	2.0%

GIRARD BOROUGH POLICE 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

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