

# LIMITED PROCEDURES ENGAGEMENT

---

## North East Borough Non-Uniformed Pension Plan Erie County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

---

January 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  
North East Borough  
Erie County  
North East, PA 16428

We conducted a Limited Procedures Engagement (LPE) of the North East Borough Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018 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, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the North East Borough Non-Uniformed 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 North East 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.

January 14, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Supplementary Information .....	1
Report Distribution List .....	7

NORTH EAST BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 1 through 3 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	\$ 173,303	\$ 193,113	\$ 174,429	\$ 190,387	\$ 196,742
Interest	290,713	301,743	313,719	312,717	317,511
Difference between expected and actual experience	(64,926)	-	115,892	-	40,066
Changes of assumptions	-	(36,116)	114,599	-	(11,971)
Benefit payments, including refunds of member contributions	(279,081)	(151,654)	(297,171)	(657,030)	(171,513)
Net Change in Total Pension Liability	120,009	307,086	421,468	(153,926)	370,835
Total Pension Liability – Beginning	5,271,168	5,391,177	5,698,263	6,119,731	5,965,805
Total Pension Liability – Ending (a)	<u>\$ 5,391,177</u>	<u>\$ 5,698,263</u>	<u>\$ 6,119,731</u>	<u>\$ 5,965,805</u>	<u>\$ 6,336,640</u>
Plan Fiduciary Net Position					
Contributions – employer *	\$ 112,398	\$ 136,735	\$ 138,387	\$ 135,429	\$ 134,166
Contributions – PMRS assessment	-	840	860	900	900
Contributions – member	87,437	94,349	91,577	104,898	107,974
PMRS investment income	271,178	282,969	302,000	289,539	297,651
Market value investment income	(14,984)	(294,372)	129,863	665,040	(592,066)
Benefit payments, including refunds of member contributions	(279,081)	(151,654)	(297,171)	(657,030)	(171,513)
PMRS administrative expense	(820)	(840)	(840)	(860)	(860)
Additional administrative expense	(10,400)	(11,796)	(14,795)	(13,316)	(13,283)
Net Change in Plan Fiduciary Net Position	165,728	56,231	349,881	524,600	(237,031)
Plan Fiduciary Net Position – Beginning	4,913,032	5,078,760	5,134,991	5,484,872	6,009,472
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,078,760</u>	<u>\$ 5,134,991</u>	<u>\$ 5,484,872</u>	<u>\$ 6,009,472</u>	<u>\$ 5,772,441</u>
Net Pension Liability – Ending (a-b)	<u>\$ 312,417</u>	<u>\$ 563,272</u>	<u>\$ 634,859</u>	<u>\$ (43,667)</u>	<u>\$ 564,199</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.21%	90.12%	89.63%	100.73%	91.10%
Estimated Covered Employee Payroll	\$ 1,459,776	\$ 1,623,409	\$ 1,599,538	\$ 1,572,890	\$ 1,630,290
Net Pension Liability as a Percentage of Covered Employee Payroll	21.40%	34.70%	39.69%	(2.78)%	34.61%

\* Does not include admin expense.

NORTH EAST BOROUGH NON-UNIFORMED 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 December 31, 2014 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ 777,871	\$ 312,417	\$ (83,839)
Net Pension Liability – 12/31/15	\$ 1,017,306	\$ 563,272	\$ 180,522

In addition, the following presents the net pension liability of the borough as of December 31, 2016, 2017 and 2018, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability – 12/31/16	\$ 1,144,190	\$ 634,859	\$ 203,532
Net Pension Liability – 12/31/17	\$ 452,853	\$ (43,667)	\$ (464,145)
Net Pension Liability – 12/31/18	\$ 1,097,164	\$ 564,199	\$ 111,690

NORTH EAST BOROUGH NON-UNIFORMED 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
2014	\$ 112,358	\$ 112,398	\$ (40)	\$1,459,776	7.70%
2015	137,535	137,575	(40)	1,623,409	8.47%
2016	139,227	139,247	(20)	1,599,538	8.71%
2017	133,824	136,329	(2,505)	1,572,890	8.67%
2018	132,281	135,066	(2,785)	1,630,290	8.28%

NORTH EAST BOROUGH NON-UNIFORMED 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	\$ 4,630,157	\$ 4,938,874	\$ 308,717	93.7%
01-01-15	5,184,390	5,480,491	296,101	94.6%
01-01-17	5,878,134	6,119,731	241,597	96.1%



NORTH EAST BOROUGH NON-UNIFORMED 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.

NORTH EAST BOROUGH NON-UNIFORMED 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

NORTH EAST BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Steven Gregory**  
Mayor

**Mr. David Hall**  
Council President

**Ms. Denise McCumber**  
Council Vice-President

**Ms. Heather Barnett**  
Council Member

**Mr. Jeffrey Morealli**  
Council Member

**Ms. Deborah Wurst**  
Council Member

**Mr. Mike Satterthwaite**  
Council Member

**Mr. Patrick J. Gehrlein**  
Borough Manager

**Ms. Robin Steff**  
Administrative Assistant

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).