

# LIMITED PROCEDURES ENGAGEMENT

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## Indiana Borough Police Pension Plan Indiana County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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April 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  
Indiana Borough  
Indiana County  
Indiana, PA 15701

We conducted a Limited Procedures Engagement (LPE) of the Indiana Borough Police 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 Indiana 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 Indiana 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 26, 2020



EUGENE A. DEPASQUALE  
Auditor General

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INDIANA BOROUGH POLICE 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	\$ 307,539	\$ 334,348	\$ 350,411	\$ 352,181	\$ 369,312
Interest cost	616,872	605,052	640,096	746,476	599,112
Difference between expected and actual experience	(325,245)	-	-	(647,898)	621,758
Changes of assumptions	540,543	-	-	76,985	(252,972)
Benefit payments, including refunds of member contributions	(411,792)	(395,890)	(390,542)	(512,380)	(532,009)
Net Change in Total Pension Liability	<u>727,917</u>	<u>543,510</u>	<u>599,965</u>	<u>15,364</u>	<u>805,201</u>
Total Pension Liability - Beginning	<u>8,696,546</u>	<u>9,424,463</u>	<u>9,967,973</u>	<u>10,567,938</u>	<u>10,583,302</u>
Total Pension Liability - Ending (a)	<u><u>\$ 9,424,463</u></u>	<u><u>\$ 9,967,973</u></u>	<u><u>\$ 10,567,938</u></u>	<u><u>\$ 10,583,302</u></u>	<u><u>\$ 11,388,503</u></u>
Plan Fiduciary Net Position					
General Municipal State Aid	\$ 175,691	\$ 196,992	\$ 222,538	\$ 233,598	\$ 193,599
Municipal Contributions	22,862	61,969	30,888	29,657	-
Member Contributions	86,628	88,752	93,129	89,216	87,593
Net investment income	893,870	49,882	417,253	1,516,853	(286,886)
Benefit payments, including refunds of member contributions	(411,792)	(395,890)	(390,542)	(512,380)	(532,009)
Administrative expense	(10,395)	(9,930)	(8,267)	(11,719)	(7,642)
Net Change in Plan Fiduciary Net Position	<u>756,864</u>	<u>(8,225)</u>	<u>364,999</u>	<u>1,345,225</u>	<u>(545,345)</u>
Plan Fiduciary Net Position - Beginning	<u>8,694,727</u>	<u>9,451,591</u>	<u>9,443,366</u>	<u>9,808,365</u>	<u>11,153,590</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 9,451,591</u></u>	<u><u>\$ 9,443,366</u></u>	<u><u>\$ 9,808,365</u></u>	<u><u>\$ 11,153,590</u></u>	<u><u>\$ 10,608,245</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (27,128)</u></u>	<u><u>\$ 524,607</u></u>	<u><u>\$ 759,573</u></u>	<u><u>\$ (570,288)</u></u>	<u><u>\$ 780,258</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	100.29%	94.74%	92.81%	105.39%	93.15%
Estimated Covered Employee Payroll	\$ 1,704,165	\$ 1,777,540	\$ 1,869,168	\$ 1,700,436	\$ 1,688,658
Net Pension Liability as a Percentage of Covered Employee Payroll	(1.59%)	29.51%	40.64%	(33.54%)	46.21%

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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, 2015 and 2016, 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 - 12/31/15	\$ 1,861,909	\$ 524,607	\$ (589,896)
Net Pension Liability - 12/31/16	\$ 2,177,366	\$ 759,573	\$ (422,011)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll *</u>	<u>Contributions as a Percentage of Covered- Employee Payroll *</u>
2010	\$ 130,061	\$ 130,061	\$ -	\$1,467,618	8.86%
2011	198,750	205,130	(6,380)	1,543,915	13.29%
2012	219,068	219,068	-	1,620,541	13.52%
2013	204,027	204,027	-	1,625,081	12.56%
2014	198,553	198,553	-	1,704,165	11.65%
2015	258,961	258,961	-	1,777,540	14.57%
2016	253,426	253,426	-	1,869,168	13.59%
2017	263,255	263,255	-	1,700,436	15.48%
2018	188,869	193,599	(4,730)	1,688,658	11.47%

INDIANA BOROUGH POLICE PENSION PLAN  
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SCHEDULE OF INVESTMENT RETURNS

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

2018	(2.62%)
2017	15.74%
2016	4.47%
2015	0.53%
2014	10.44%
2013	16.89%
2012	11.39%
2011	2.31%
2010	10.81%
2009	16.55%

INDIANA BOROUGH POLICE PENSION PLAN  
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 (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	\$ 7,920,268	\$ 8,267,931	\$ 347,663	95.8%
01-01-15	9,451,591	9,424,463	(27,128)	100.3%
01-01-17	10,491,985	9,920,346	(571,639)	105.8%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have 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.



INDIANA BOROUGH POLICE PENSION PLAN  
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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.

INDIANA 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, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	2.5%

INDIANA 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 George E. Hood**  
Mayor

**Mr. Peter Broad**  
Council President

**Mr. Michael Foote**  
Borough Manager

**Ms. Nichole Sipos**  
Assistant Treasurer

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