

LIMITED PROCEDURES ENGAGEMENT

Indiana Borough Non-Uniformed Management Pension Plan

Indiana County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2018

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 Non-Uniformed Management 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018 (*Defined Contribution features*), are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018 (*Defined Contribution features*), are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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.
- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.


Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Indiana Borough Non-Uniformed Management 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 30, 2020


EUGENE A. DEPASQUALE
Auditor General

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INDIANA BOROUGH NON-UNIFORMED MANAGEMENT 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
DEFINED BENEFIT
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	\$ 61,210	\$ 40,840	\$ 42,328	\$ 47,654	\$ 49,397
Interest	180,043	152,195	139,387	262,759	275,107
Difference between expected and actual experience	17,573	-	-	(233,027)	(343,896)
Changes of assumptions	132,229	-	-	155,723	(18,418)
Benefit payments, including refunds of member contributions	(132,669)	(124,748)	(130,197)	(133,242)	(124,361)
Net Change in Total Pension Liability	<u>258,386</u>	<u>68,287</u>	<u>51,518</u>	<u>99,867</u>	<u>(162,171)</u>
Total Pension Liability - Beginning	<u>2,555,434</u>	<u>2,813,820</u>	<u>2,882,107</u>	<u>2,933,625</u>	<u>3,033,492</u>
Total Pension Liability - Ending (a)	<u><u>\$ 2,813,820</u></u>	<u><u>\$ 2,882,107</u></u>	<u><u>\$ 2,933,625</u></u>	<u><u>\$ 3,033,492</u></u>	<u><u>\$ 2,871,321</u></u>
Plan Fiduciary Net Position					
General Municipal State Aid	\$ 42,802	\$ 55,842	\$ 73,800	\$ 77,600	\$ 43,972
Municipal Contributions	137,166	127,974	52,987	46,617	-
Member Contributions	21,522	21,940	21,662	22,584	23,983
Net investment income	223,086	12,803	116,347	402,651	(82,194)
Benefit payments, including refunds of member contributions	(132,669)	(124,748)	(130,197)	(133,242)	(124,361)
Administrative expense	(8,505)	(10,854)	(7,481)	(8,191)	(8,388)
Net Change in Plan Fiduciary Net Position	<u>283,402</u>	<u>82,957</u>	<u>127,118</u>	<u>408,019</u>	<u>(146,988)</u>
Plan Fiduciary Net Position - Beginning	<u>2,162,316</u>	<u>2,445,718</u>	<u>2,528,675</u>	<u>2,655,793</u>	<u>3,063,812</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,445,718</u></u>	<u><u>\$ 2,528,675</u></u>	<u><u>\$ 2,655,793</u></u>	<u><u>\$ 3,063,812</u></u>	<u><u>\$ 2,916,824</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 368,102</u></u>	<u><u>\$ 353,432</u></u>	<u><u>\$ 277,832</u></u>	<u><u>\$ (30,320)</u></u>	<u><u>\$ (45,503)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.92%	87.74%	90.53%	101.0%	101.58%
Estimated Covered Employee Payroll	\$ 430,435	\$ 442,798	\$ 438,042	\$ 451,312	\$ 479,652
Net Pension Liability as a Percentage of Covered Employee Payroll	85.52%	79.82%	63.43%	(6.72%)	-9.49%

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Sensitivity of the Net Pension Liability to Changes in the Discount Rate – Defined Benefit

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:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability - 12/31/15	\$ 651,372	\$ 353,432	\$ 98,131
Net Pension Liability - 12/31/16	\$ 581,098	\$ 277,832	\$ 17,967

SCHEDULE OF CONTRIBUTIONS
 DEFINED BENEFIT

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ 160,242	\$ 160,242	\$ -	\$ 397,458	40.32%
2011	143,170	147,766	(4,596)	413,310	35.75%
2012	150,391	150,391	-	432,353	34.78%
2013	181,230	181,230	-	406,173	44.62%
2014	179,968	179,968	-	430,435	41.81%
2015	183,816	183,816	-	442,798	41.51%
2016	126,787	126,787	-	438,042	28.94%
2017	124,217	124,217	-	451,312	27.52%
2018	42,891	43,972	(1,081)	479,652	9.17%

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SCHEDULE OF INVESTMENT RETURNS
DEFINED BENEFIT

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

2018	(2.79%)
2017	15.39%
2016	4.67%
2015	0.53%
2014	10.46%
2013	17.20%
2012	10.79%
2011	1.31%
2010	11.56%
2009	20.14%

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SCHEDULE OF FUNDING PROGRESS
 DEFINED BENEFIT

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	\$ 1,824,408	\$ 2,461,971	\$ 637,563	74.1%
01-01-15	2,445,718	2,813,820	368,102	86.9%
01-01-17	2,829,265	2,970,819	141,554	95.2%

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. These methods 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.

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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.

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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	Level dollar
Remaining amortization period	5 years
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	4.0%

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
DEFINED CONTRIBUTION

Year Ended December 31	State Aid	Employer Contributions
2013	None	None
2014	None	\$ 2,984
2015	\$ 3,921	1,882
2016	None	6,855
2017	None	16,086
2018	\$ 19,270	205

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
COMMENTS

The Indiana Borough Non-Uniformed Management Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 2005-08, as amended. The plan provides defined benefit and defined contribution options for its members. The plan was established January 1, 1976. Borough non-uniformed management employees hired prior to January 1, 2005 participate in the plan's defined benefit option. Borough non-uniformed management employees hired subsequent to January 1, 2005 are mandated to participate in the defined contribution option. At December 31 2018, the plan had 12 active members in total; 8 members who participate in the defined benefit option and 4 members who participate in the defined contribution option.

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT 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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