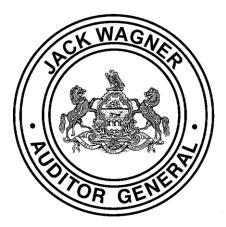
NEW MORGAN BOROUGH NONUNIFORMED PENSION PLAN

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2011



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BERKS COUNTY

COMPLIANCE AUDIT REPORT

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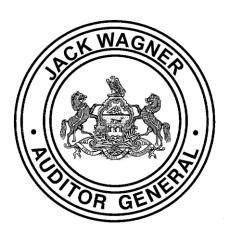
BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 <u>et seq</u>.). 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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the New Morgan Borough Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The New Morgan Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 05-2008. The plan was established to provide pension benefits for the borough manager.



The Honorable Mayor and Borough Council New Morgan Borough Berks County Morgantown, PA 19543

We have conducted a compliance audit of the New Morgan Borough Nonuniformed Pension Plan for the period January 1, 2010, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.

New Morgan Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the New Morgan Borough Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our tests indicated that, in all significant respects, the New Morgan Borough Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 New Morgan Borough and, where appropriate, their responses have been included in the report.

October 31, 2012

JACK WAGNER Auditor General

NEW MORGAN BOROUGH NONUNIFORMED 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, 2007, is as follows:

| | (1) | (2) | (3) | (4) | (5) | (6) |
|-----------|-----------|-----------|------------|---------|-----------|------------------|
| | | | | | | Unfunded |
| | | | Unfunded | | | (Assets in |
| | | Actuarial | (Assets in | | | Excess of) |
| | | Accrued | Excess of) | | | Actuarial |
| | Actuarial | Liability | Actuarial | | | Accrued |
| Actuarial | Value of | (AAL) - | Accrued | Funded | Covered | Liability as a % |
| Valuation | Assets | Entry Age | Liability | Ratio | Payroll | of Payroll |
| Date | (a) | (b) | (b) - (a) | (a)/(b) | (c) | [(b-a)/(c)] |
| 01-01-07 | \$ - | \$- | \$ - | N/A | \$ 84,000 | 0.0% |
| 01-01-09 | 59,564 | 59,265 | (299) | 100.5% | 92,644 | (0.3%) |
| 01-01-11 | 122,730 | 132,624 | 9,894 | 92.5% | 95,727 | 10.3% |

NEW MORGAN BOROUGH NONUNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

NEW MORGAN BOROUGH NONUNIFORMED PENSION PLAN SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2007 | \$ 21,176 | 236.1% |
| 2008 | 23,185 | 194.1% |
| 2009 | 23,347 | 100.0% |
| 2010 | 24,514 | 112.8% |
| 2011 | 29,759 | 100.0% |

Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

NEW MORGAN BOROUGH NONUNIFORMED PENSION PLAN SUPPLEMENTARY INFORMATION NOTES TO SUPPLEMENTARY SCHEDULES (UNAUDITED)

The information presented in the required 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, 2011 |
|-------------------------------|------------------|
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 1 year |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return * | 6.5% |
| Projected salary increases * | 5.0% |
| * Includes inflation at | Not disclosed |
| Cost-of-living adjustments | None assumed |

NEW MORGAN BOROUGH NONUNIFORMED PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett Governor Commonwealth of Pennsylvania

New Morgan Borough Nonuniformed Pension Plan Berks County 75 Grace Boulevard, Building D Morgantown, PA 19543

| The Honorable Dena Geunes | Mayor |
|---------------------------|------------------------------|
| Mr. Richard Venezia | Council President |
| Ms. Carolyn Williams | Chief Administrative Officer |

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.