

MAYOR AND COUNCIL  
OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN

FOR THE YEAR ENDED DECEMBER 31, 2018

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
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## INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the City Council,  
and Finance Director  
City of Dalton, Georgia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Mayor and Council of the City of Dalton Employees' Pension Plan (Pension Plan), a fiduciary fund of the City of Dalton, Georgia, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Pension Plan's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Mayor and Council of the City of Dalton Employees' Pension Plan as of December 31, 2018, and the change in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the supplementary information presented on pages 14 through 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 3, 2019, on our consideration of the Mayor and Council of the City of Dalton Employees' Pension Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mayor and Council of the City of Dalton Employees' Pension Plan's internal control over financial reporting and compliance.

*Estes & Walcott*

Dalton, Georgia  
July 3, 2019

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
STATEMENT OF FIDUCIARY NET POSITION  
DECEMBER 31, 2018

	<u>2018</u>
<u>ASSETS</u>	
Cash	\$ 788,132
Investments at fair market value:	
Metlife Core Bond Index Fund	32,316,735
MetLife Equity Index Fund	14,710,139
MetLife Goldman Sachs Fund	10,596,494
Vanguard Institutional Index Fund	27,468,203
Vanguard Small Cap Index Fund	10,624,030
Vanguard Total Bond Market Index Fund	5,116,411
Contributions receivable	<u>286,582</u>
Total assets	<u>101,906,726</u>
 <u>LIABILITIES</u>	
Accounts payable	<u>2,876</u>
 <u>NET POSITION</u>	
Net position restricted for pension benefits	<u>\$ 101,903,850</u>

The accompanying notes are an integral part of these financial statements.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
DECEMBER 31, 2018

	<u>2018</u>
<u>ADDITIONS</u>	
Contributions:	
Employer	\$ 7,311,443
Plan members	<u>688,300</u>
Total contributions	<u>7,999,743</u>
 Investment income:	
Net increase (decrease) in fair value of investments	\$ (5,259,351)
Interest and dividends	<u>2,379,675</u>
Total investment income	(2,879,676)
Less investment expense	<u>(179,557)</u>
Net investment earnings	<u>(3,059,233)</u>
Total additions	<u>4,940,510</u>
 <u>DEDUCTIONS</u>	
Pension benefits paid	7,440,532
Administrative expenses	<u>49,401</u>
Total deductions	<u>7,489,933</u>
Change in net position	(2,549,423)
Net position beginning of year	<u>104,453,273</u>
Net position end of year	<u>\$ 101,903,850</u>

The accompanying notes are an integral part of these financial statements.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1. Description of the Pension Plan

The following description of the Mayor and Council of the City of Dalton Employees' Pension Plan (Pension Plan), as amended, provides only general information. Participants should refer to the Pension Plan agreement for a more complete description of the Pension Plan's provisions.

General-

The financial statements presented are only for the Mayor and Council of the City of Dalton Employees' Pension Plan, and are not intended to present the basic financial statements of the City of Dalton, Georgia (City). The Pension Plan was established to provide retirement benefits for eligible employees. The Pension Plan is a defined benefit single employer public employee retirement system. The Pension Plan is subject to the minimum funding standards of the Public Retirement Systems Standards Law (Georgia Code Section 47-20-10). The Pension Plan is subject to the provisions of Section 401(a) and 501(a) of the Internal Revenue Code. The Mayor and Council of the City of Dalton serve as the Pension Plan administrator.

Eligibility-

All full-time employees of a participating employer who were hired prior to July 1, 2002 were eligible to participate in the Pension Plan after completing six months of service as a covered employee, except that the Mayor, Councilmembers, Commissioners, and Authority Members are not eligible to participate in the Pension Plan. Participating employers include: the City, including the Public Safety Commission, the Water, Light, and Sinking Fund Commission (WLSF Commission), and the Recreation Commission; the Northwest Georgia Trade and Convention Center Authority; the Dalton-Whitfield Convention and Visitors Bureau; and the Dalton Whitfield Regional Solid Waste Management Authority (DWRSWMA). Employees who began work after July 1, 2002 are eligible for participation in a separate defined contribution plan. The Pension Plan provides pension benefits, early retirement benefits, and death benefits.

Pension benefits-

Benefits fully vest after ten years of service. Normal retirement benefits are available to employees of any age after thirty years of service. Employees who retire at the normal retirement date are entitled to monthly pension payments for the remainder of their lives equal to .15% of their average monthly compensation, multiplied by their years of credited service for which they were employed by a participating employer of the Pension Plan. These benefit payments are subject to a discretionary annual cost-of-living adjustment as determined and approved on an annual basis by the Mayor and Council of the City of Dalton. The participant's average monthly compensation is equal to the average of the participant's highest 36 consecutive basic monthly earnings during their last 120 months of employment; basic monthly earnings are equal to total compensation for a calendar year, excluding lump sum payments for severance and unused sick and vacation leave, and are deemed to be earned uniformly throughout each calendar year. Annual compensation is limited to \$200,000 per year (as indexed) for this calculation, pursuant to IRC section 401(a)(17).

Normal retirement benefits are available for participants who have reached any age with at least 30 years of service, age 55 with at least 25 years of service, or age 65 with at least 5 years of service.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
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Note 1. Description of the Pension Plan - continued

Monthly pension benefits will be paid as a life annuity to the participant, with 120 payments guaranteed. Pension Plan provisions include early retirement benefits whereby an employee may terminate his employment with the City after accumulating 15 years of service and reaching the age of 50 or after accumulating 10 years of service and reaching the age of 55. The pension benefits are reduced by .5% for each month by which the participant's early retirement age precedes his normal retirement age.

Death benefits-

Pension provisions include death benefits whereby the surviving spouse is entitled to receive annually an amount equal to 55% of the employee's pension benefit at the time of death (commencing after 120 payments of the full benefit amount have been received). The surviving spouse may receive death benefits for life.

Changes-

The benefit terms of the Pension Plan have not changed from the prior measurement date.

Participants-

The number of participants in each category listed below is as of January 1, 2019, the latest actuarial valuation.

Actively employed participants	211
Average age	49.8 years
Average service	21.6 years
Total annualized compensation for the prior year	\$ 13,290,833
Total expected compensation for the current	\$ 13,722,784
Participants receiving a benefit	
Service retirees	292
Beneficiaries	63
Inactive participants - deferred; vested	18

Funding policy-

In accordance with the most recent actuarial report, the Pension Plan's funding policy for employers should be increased from 49.2% of covered payroll (at the valuation date of January 1, 2018, which determines the contribution for the 2019 year) to 56.8% of covered payroll (at the valuation date of January 1, 2019, which determines the contribution for the 2020 year) to adequately fund the Pension Plan's ongoing costs and an amortization of the unfunded actuarial accrued liability over a 10-year period with level dollar payments. The employers are currently funding at 50.9% of covered payroll, which exceeds the 46.5% rate specified in the actuarial report at the valuation date of January 1, 2017, which determined the contribution for the 2018 year.



MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 1. Description of the Pension Plan - continued

Employees are required to pay 5% of their pensionable earnings to the Pension Plan. A participant (or their eligible beneficiary) who terminates their employment for any reason and who is not otherwise entitled to a monthly benefit will receive a refund of their contributions accumulated with interest at the rate of 3% per annum beginning as of the end of the year during which the contribution was made. All other participants may choose to receive a refund of their contributions accumulated with interest in lieu of receiving any additional benefits under the Pension Plan. The funding policy of the Pension Plan is established and may be amended by the Mayor and the Council.

Note 2. Summary of significant accounting policies

The accounting and reporting policies of the Pension Plan conform to generally accepted accounting principles. The following is a summary of the more significant policies.

Basis of accounting-

The accompanying financial statements are prepared on the accrual basis of accounting. Employer and member contributions are recognized in the period that the contributions are due.

Cash-

Cash consists primarily of the payment fund account managed by Metropolitan Life. This account records Pension Plan contributions, benefit payments, administrative fees, and investment transfers. Interest is distributed monthly based on average balances.

Investment valuation and income recognition-

All contributions to the Pension Plan, less any administrative expenses paid out of the Pension Plan, are invested with Metropolitan Life Insurance Company and Vanguard. The Pension Plan's investments are valued at fair value. The value of the assets is determined in accordance with applicable laws and regulations. The value of any assets not publicly traded will reflect prevailing interest rates and prices of publicly traded securities of similar quality. There are no investments in loans or leases with parties related to the Pension Plan. Investment income is recognized as earned by the Pension Plan. The net appreciation (depreciation) in the fair value of investments held by the Pension Plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the statement of fiduciary net position. Benefits and refunds of the Pension Plan are recognized when due and payable in accordance with the terms of the Pension Plan.

Estimates-

The preparation of financial statements in conformity with generally accepted accounting principles requires the Pension Plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
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Note 2. Summary of significant accounting policies - continued

Subsequent events-

Management has evaluated subsequent events through July 3, 2019, the date the financial statements were available to be issued.

Note 3. Investments

In general, the cash and investments held by the Pension Plan are exempt from the City's investment and cash management policies, including the requirement that the deposits be federally insured. The Pension Plan has its own investment policy. The assets of the Pension Plan are invested in an immediate participation contract with Metropolitan Life Insurance Company and in mutual funds with Vanguard. The Pension Plan investments follow State of Georgia Code Sections 47-20-82, 47-20-83, and 47-20-84 for authorized investments.

The Pension Plan investment policy limits investment in equity securities to 55% (book value – cost) of total asset value. Investments in international equities and derivative investments are prohibited. The investment manager is restricted from using financial leverage or engaging in short sale techniques. Domestic equities must be traded on the New York or American Stock Exchange, NASDAQ system, or any other major exchange and single securities may not comprise more than 5% (market value) of the investment's equity mix. Domestic fixed income shall be of investment grade quality and the average credit quality of the Pension Plan's fixed income assets should be rated A or higher as rated by Standard & Poor's or Moody's rating services.

The Pension Plan's policy in regard to the allocation of invested assets is established and may be amended by the Pension Board by a majority vote. The Board has full power to invest or reinvest Pension Plan assets in any kind of property which the Pension Board deems proper. It is the policy of the Pension Board to pursue an investment strategy which reduces risk through prudent diversification of the portfolio. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class for the investments of the Pension Plan is as follows:

Investment Category	Allocation	Expcted Long Term Real Return
US large cap stocks	40%	6.00% per annum
US small cap stocks	15%	6.75% per annum
US fixed income	45%	2.00% per annum
Total or weighted arithmetic average	100%	4.31% per annum

For the year ended December 31, 2018, the annual money-weighted rate of return on the Pension Plan's investments, net of Pension Plan investment expense, was -2.93%. The money-weighted rate of return expressed investment performance, net of investment expense, adjusted for the changing amounts actually invested.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
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Note 3. Investments - continued

The Pension Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

The Pension Plan has the following recurring fair value measurements as of December 31, 2018:

- Cash in the amount of \$788,132 is presented in the financial statements and is reported at cost or amortized cost and is not subject to fair value hierarchy measurement.
- Investments in index and other mutual funds in the amount of \$43,208,644 are valued based on quoted prices in active markets for identical assets (level 1).
- Investments in index and other mutual funds in the amount of \$57,623,368 are valued based on observable market data and valuations of similar instruments (level 2).
- No investment securities are valued using level 3 inputs.

Each investment category listed represents 5% or more of the Pension Plan's fiduciary net position.

All of the Pension Plan investments are subject to credit risk. The values presented for the investments represent fair value. None of the investments are publicly rated for credit quality.

Note 4. Tax status

An Internal Revenue Service determination letter has not been obtained. However, the Pension Plan administrator and the Pension Plan's tax counsel believe that the Pension Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

Note 5. Pension Plan administrative expenses

Certain administrative functions are performed by employees of the City and the WLSF Commission. No such employee receives compensation from the Pension Plan. The Pension Plan sponsor has paid certain administration expenses of the Pension Plan during the year ended December 31, 2018.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 6. Net pension liability

The components of the net pension liability of the participating employers at December 31, 2018 is as follows:

Total pension liability		\$ 138,472,674
Pension Plan fiduciary net position		101,903,850
Net pension liability		\$ 36,568,824
Pension Plan fiduciary net position as a percentage of total pension liability		74%

The following actuarial assumptions used in the January 1, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2018 through December 31, 2018:

Actuarial Assumptions

Discount rate:	6.81% per annum (2.50% per annum is attributable to long term inflation); this rate was used to discount all future benefit payments.
Investment return:	6.81% per year
Salary increases:	3.25% per year
Cost of living increase:	None assumed
Mortality basis:	Sex-distinct rates set forth in the RP-2000 Combined Mortality Table, with full generational improvements in mortality using Schedule AA.
Retirement:	Retirement is assumed to occur at normal retirement age.
Other decrements:	Assumed employment termination is based on age and ranges from 23.00% at age 20 to 4.00% at age 55. Assumed disability is based on age and gender and ranges from 0.04% for males and 0.02% for females at age 20 to 2.24% for males and 1.27% for females at age 65.
Non-investment expenses:	\$50,000 per year
Future contributions:	Contributions from the employer and employees are assumed to be made as legally required.
Changes:	Since the prior measurement date, the assumed increase in future salaries was decreased from 4.00% per year to 3.25% per year and the mortality basis was changed from a 2015 projection of the RP-2000 Moratlity Table for annuitants to the RP-2000 Combined Mortality Table with full generational improvements in morality using Scale AA.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 6. Net pension liability - continued

Discount rate - The discount rate used to measure the total pension liability was 6.81%. There has been no change to the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employees and the participating employers make their contributions at the actuarially determined rates. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Pension Plan investments of 6.81% was applied to all periods of projected benefit payments to determine the total pension liability.

The net pension liability is based on the measurement date of December 31, 2018. The components of the net pension liability as of the Pension Plan's year end were as follows:

	Total Pension Liability	Pension Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2017	\$ 133,000,312	\$ 104,453,266	\$ 28,547,046
Changes for the year:			
Service cost	1,453,620	-	1,453,620
Interest	8,904,957	-	8,904,957
Differences between expected and actual experience	(798,265)	-	(798,265)
Contributions - employer	-	7,311,443	(7,311,443)
Contributions - employee	-	688,300	(688,300)
Net investment income	-	(3,057,726)	3,057,726
Benefit payments, including refunds of employee contributions	(7,440,532)	(7,440,532)	-
Administrative expenses	-	(50,901)	50,901
Assumption changes	3,352,582	-	3,352,582
Net changes	5,472,362	(2,549,416)	8,021,778
Balance at December 31, 2018	<u>\$ 138,472,674</u>	<u>\$ 101,903,850</u>	<u>\$ 36,568,824</u>

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 6. Net pension liability - continued

The following represents the net pension liability as of the measurement date and the Pension Plan's year end, December 31, 2018, calculated using the discount rate of 6.81%, as well as what the net pension liability would be using a discount rate that is 1% lower or 1% higher than the current rate:

	Discount Rate Minus 1.00%	Discount Rate 6.81%	Discount Rate Plus 1.00%
Total pension liability	\$ 153,761,494	\$ 138,472,674	\$ 125,660,633
Plan fiduciary net position	<u>101,903,850</u>	<u>101,903,850</u>	<u>101,903,850</u>
Net pension liability	<u>\$ 51,857,644</u>	<u>\$ 36,568,824</u>	<u>\$ 23,756,783</u>

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions – For the year ended December 31, 2018, the participating employers of the Pension Plan recognized pension expense of \$6,074,260. At December 31, 2018, the participating employers reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Balance as of December 31, 2017	\$ 2,881,228	\$ 5,362,957
Change due to:		
Amortization payments	(5,802,441)	(2,319,069)
Investment gain/loss	10,188,016	-
Demographic gain/loss	-	798,265
Assumption changes	<u>3,352,582</u>	<u>-</u>
Total change	7,738,157	(1,520,804)
Balance as of December 31, 2018	<u>\$ 10,619,385</u>	<u>\$ 3,842,153</u>

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018

Note 6. Net pension liability - continued

The above amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Outflows Recognized to Expense
2019	\$ 4,500,788	\$ 1,575,686	\$ 2,925,102
2020	2,043,390	1,214,692	828,698
2021	2,037,603	1,051,775	985,828
2022	2,037,604	-	2,037,604
2023	-	-	-

The deferred outflows of resources, net pension liability, and deferred inflows of resources were allocated and reported in the financial statements of the Pension Plan's employers, which include the City, the WLSF Commission, and the DWRSWMA, a joint venture with Whitfield County, Georgia. The allocations were as follows:

	Deferred Outflows of Resources	Net Pension Liability	Deferred Inflows of Resources
City governmental activities	\$ 4,731,208	\$ 15,501,816	\$ 1,644,690
WLSF Commission	5,422,000	19,129,000	2,015,000
City municipal golf course	92,937	299,267	37,836
DWRSWMA	373,240	1,638,741	144,627
	<u>\$ 10,619,385</u>	<u>\$ 36,568,824</u>	<u>\$ 3,842,153</u>

Additional information is presented as required supplementary information, which immediately follows these notes to the financial statements.

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REQUIRED SUPPLEMENTAL INFORMATION

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MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
REQUIRED SUPPLEMENTAL INFORMATION  
DECEMBER 31, 2018

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total pension liability:				
Service cost	\$ 1,743,901	\$ 1,652,021	\$ 1,592,733	\$ 1,453,620
Expected interest growth	8,238,500	8,495,017	8,713,989	8,904,957
Demographic experience	(1,273,686)	216,267	(54,192)	(798,265)
Assumption changes	1,890,054	-	-	3,352,582
Benefit payments and refunds	<u>(6,513,889)</u>	<u>(6,904,562)</u>	<u>(7,133,475)</u>	<u>(7,440,532)</u>
Net change in total pension liability	4,084,880	3,458,743	3,119,055	5,472,362
Total pension liability - beginning (a)	<u>122,337,634</u>	<u>126,422,514</u>	<u>129,881,257</u>	<u>133,000,312</u>
Total pension liability - ending (c)	<u>\$ 126,422,514</u>	<u>\$ 129,881,257</u>	<u>\$ 133,000,312</u>	<u>\$ 138,472,674</u>
Plan fiduciary net position:				
Employer contributions	\$ 7,099,703	\$ 6,841,734	\$ 7,225,029	\$ 7,311,443
Plan member contributions	784,871	769,249	727,343	688,300
Net investment earnings	190,355	6,615,507	11,557,213	(3,059,233)
Benefit payments and refunds	(6,513,889)	(6,904,562)	(7,133,475)	(7,440,532)
Administrative expenses	<u>(59,780)</u>	<u>(42,929)</u>	<u>(57,739)</u>	<u>(49,401)</u>
Net change in plan fiduciary net position	1,501,260	7,278,999	12,318,371	(2,549,423)
Plan fiduciary net position - beginning (b)	<u>83,354,643</u>	<u>84,855,903</u>	<u>92,134,902</u>	<u>104,453,273</u>
Plan fiduciary net position - ending (d)	<u>\$ 84,855,903</u>	<u>\$ 92,134,902</u>	<u>\$ 104,453,273</u>	<u>\$ 101,903,850</u>
Net pension liability - beginning (a) - (b)	<u>\$ 38,982,991</u>	<u>\$ 41,566,611</u>	<u>\$ 37,746,355</u>	<u>\$ 28,547,039</u>
Net pension liability - ending (c) - (d)	<u>\$ 41,566,611</u>	<u>\$ 37,746,355</u>	<u>\$ 28,547,039</u>	<u>\$ 36,568,824</u>
Plan fiduciary net position as a percentage of total pension liability	67%	71%	79%	74%
Covered payroll	\$ 16,758,095	\$ 15,756,935	\$ 15,113,517	\$ 14,091,077
Net pension liability as a percentage of covered payroll	248%	240%	189%	260%

Note: 2015 was the first year that data was measured in accordance with GASB 68.

Note: Only four years of information are presented in the schedule above; ten years of information will be presented as it becomes available.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
REQUIRED SUPPLEMENTAL INFORMATION  
DECEMBER 31, 2018

SCHEDULE OF FUNDING PROGRESS

Measurement Date	Total Pension Liability	Fiduciary Net Position	Net Pension Liability	Funded Percentage	Covered Payroll	Liability as a Percentage of Covered Payroll
01/01/2010	\$ 90,051,325	\$ 55,261,296	\$ 34,790,029	61%	\$ 21,418,412	162%
01/01/2011	94,177,910	60,426,552	33,751,358	64%	21,461,361	157%
01/01/2012	96,181,160	61,883,573	34,297,587	64%	19,632,308	175%
01/01/2013	103,250,126	66,758,929	36,491,197	65%	17,874,717	204%
12/31/2013	118,614,630	75,640,022	42,974,608	64%	17,324,713	248%
12/31/2014	122,337,631	83,354,743	38,982,888	68%	17,324,713	225%
12/31/2015	126,422,514	84,855,903	41,566,611	67%	16,758,095	248%
12/31/2016	129,881,257	92,134,902	37,746,355	71%	15,756,935	240%
12/31/2017	133,000,312	104,453,266	28,547,046	79%	15,113,517	189%
12/31/2018	138,472,674	101,903,850	36,568,824	74%	14,091,077	260%

Note: 2015 was the first year that data was measured in accordance with GASB 68.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
REQUIRED SUPPLEMENTAL INFORMATION  
DECEMBER 31, 2018

SCHEDULE OF ACTUARIALLY DETERMINED CONTRIBUTIONS

Year End	Actuarially Determined Contribution (1)	Contributions Recognized by the Plan (2)	Difference Between (1) and (2)	Covered Payroll	Contributions as a % of Covered Payroll
12/31/2009	\$ 3,214,925	\$ 3,214,925	\$ -	\$ 23,258,581	14%
12/31/2010	3,657,993	3,657,993	-	21,418,412	17%
12/31/2011	3,977,435	3,977,435	-	21,461,361	19%
12/31/2012	4,220,538	4,220,538	-	19,632,308	21%
12/31/2013	4,374,373	4,374,373	-	17,874,717	24%
12/31/2014	6,789,929	6,789,929	-	17,324,713	39%
12/31/2015	7,099,703	7,099,703	-	16,758,095	42%
12/31/2016	6,657,107	6,841,734	(184,627)	15,756,935	43%
12/31/2017	7,409,656	7,225,029	184,627	15,113,517	48%
12/31/2018	7,311,443	7,311,443	-	14,091,077	52%

Note: 2015 was the first year that data was measured in accordance with GASB 68.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
REQUIRED SUPPLEMENTAL INFORMATION  
DECEMBER 31, 2018

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SCHEDULE OF INVESTMENT RETURNS

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	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	0.24%	7.74%	12.72%	-2.93%

Note: 2015 was the first year that data was measured in accordance with GASB 68.

Note: Only four years of information are presented in the schedule above; ten years of information will be presented as it becomes available.

MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
REQUIRED SUPPLEMENTAL INFORMATION  
DECEMBER 31, 2018

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Employers reporting date:	December 31, 2018
Measurement date:	December 31, 2018
Actuarial valuation date:	January 1, 2018
Actuarial cost method:	Entry age normal cost method
Amortization method:	The unfunded actuarial accrued liability is amortized over a ten year period with level dollar payments
Asset method:	The actuarial value of assets is equal to the market value of assets
Interest (discount) rate:	6.81% per annum
Salary increases:	Pension Plan compensation is assumed to increase at the rate of 3.25% per annum, unless actual Pension Plan compensation is known for a prior Pension Plan year.
Changes in assumptions:	Since the prior measurement date, the assumed increase in future salaries was decreased from 4.00% per year to 3.25% per year and the mortality basis was changed from a 2015 projection of the RP-2000 Mortality Table for annuitants to the RP-2000 Combined Mortality Table with full generational improvements in mortality using Scale AA.

Note: 2015 is the first year that data has been measured in accordance with GASB 68.

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SPECIAL REPORTS

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor, Members of the City Council,  
and Finance Director  
City of Dalton, Georgia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Mayor and Council of the City of Dalton Employees' Pension Plan, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Mayor and Council of the City of Dalton Employees' Pension Plan's basic financial statements, and have issued our report thereon dated July 3, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Mayor and Council of the City of Dalton Employees' Pension Plan's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mayor and Council of the City of Dalton Employees' Pension Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mayor and Council of the City of Dalton Employees' Pension Plan's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2018-001

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Mayor and Council of the City of Dalton Employees' Pension Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Mayor and Council of the City of Dalton Employees' Pension Plan's Response to Findings**

The Mayor and Council of the City of Dalton Employees' Pension Plan's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Mayor and Council of the City of Dalton Employees' Pension Plan's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Estes & Walcott*

Dalton, Georgia  
July 3, 2019



MAYOR AND COUNCIL OF THE CITY OF DALTON  
EMPLOYEES' PENSION PLAN  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

Findings – Financial Statement Audit

2018-001 Condition: Twelve 2018 retirees were errantly excluded from the list of retirees utilized in the actuarial valuation, four deceased retirees were errantly included on the list of retirees utilized in the actuarial valuation, and two retiree beneficiaries were errantly excluded from the list of retirees utilized in the actuarial valuation.

Effect: The actuarial valuation was based upon inaccurate participant count information.

Recommendation: City of Dalton and WLSF Commission human resources personnel should review and confirm active and retired participant lists at the end of each year to verify correct information is sent to the actuary.

View of responsible officials and planned corrective actions: We agree with the finding. We will verify that the current year active and retired participant lists are correct and review and confirm the active and retired participant lists submitted to the actuary in the future.