COMPLIANCE AUDIT

City of Allentown Aggregate Pension Fund

Lehigh County, Pennsylvania

For the Period
January 1, 2013 to December 31, 2014

January 2016

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 City Council
City of Allentown
Lehigh County
Allentown, PA 18101

We have conducted a compliance audit of the City of Allentown Aggregate Pension Fund for the period January 1, 2013 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and

2. To determine if the pension fund 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit.

- We determined 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.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- We determined whether retirement benefits calculated for all 6 police officers, 2 firefighters and 3 officer and employee plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

- We determined whether the pension fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current audit period and through the completion of our fieldwork procedures.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plans' governing documents.

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

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Allentown Aggregate Pension Fund 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 city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, 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 objectives.

The results of our procedures indicated that, in all significant respects, the City of Allentown Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Police Pension Plan

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code

Firemen's Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code

Aggregate Pension Fund

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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. Our prior audit report noted that we were extremely concerned about the funding status of the police and firemen's plans. These conditions were due, in part, to the effect of arbitration awards and memoranda of understanding granting excess pension benefits to the city's police officers and firefighters. During the current audit period, as of January 1, 2013, the police pension plan's funded ratio had declined to 40.9%, and the firemen's pension plan's funded ratio had declined to 38.5%. Based on this information, and the funded ratios of the Officers' and Employees' Pension Plan and the Officers' and Employees' - PMRS Pension Plan, the Public Employee Retirement Commission issued a notification that the city was in Level II moderate distress status.

As noted in the Comments contained in this report, in December of 2013, the city deposited $150,000,000 into the aggregated pension fund to address the respective plan's unfunded liabilities. These deposits had a dramatic effect on the individual plan's funding ratios. As of January 1, 2014, the police plan's funded ratio has increased to 89.4%, the firemen's plan funded ratio has increased to 89.1%, and the Officers' and Employees' plan funded ratio has increased from 72.5% as of January 1, 2013 to 91.9% as of January 1, 2014. These improvements in the plan's funding ratios also include the effect of the reductions in the discount rate that were reflected in the plan's January 1, 2014, actuarial valuation reports. In addition, it should be noted that due to the city's 2013 deposit, the city's annual required contribution to the police pension plan has gone from $7,115,495 in 2009 down to $2,507,471 in 2014. Similarly, the city's annual required contribution to the firemen's pension plan has gone from $3,565,384 in 2009 down to $1,345,613 in 2014, and the city's annual required contribution to the officers' and employees' pension plan has gone from $451,053 in 2009 down to $103,519 in 2014. While it should be acknowledged that the deposit of the lease proceeds, and the adoption of more conservative investment return assumptions are demonstrative of actions the city has taken action to address its pension funding crisis, we encourage city officials to continue monitoring the funding of its pension plans to ensure their long-term financial stability.

The contents of this report were discussed with officials of the City of Allentown and, where appropriate, their responses have been included in the report. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

December 4, 2015

EUGENE A. DEPASQUALE
Auditor General

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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 et seq.). 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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 City of Allentown Aggregate Pension Fund 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 including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

Act 362 - The Third Class City Code, Act of May 23, 1945 (P.L. 903, No. 362), Article XLIII-A, Optional Retirement System for Officers and Employes, as amended, 53 P.S. § 39371 et seq.

The City of Allentown Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 143 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers, as well as Act 111 interest arbitration awards. The plan was established March 9, 1926. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2014, the plan had 208 active members, no terminated members eligible for vested benefits in the future, and 278 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected police pension plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service. If hired after January 1, 2009, age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50.5% of pension wages the member was receiving at the date of retirement, or, if higher, 50.5% of average salary of any 5 years of service, plus a service increment of 7.5% for the first full year of service over 20 years, plus 3.0% for each of the next 4 full years of service over 21 years to a maximum of 70% of pension wages for 25 or more years of service. If hired after January 1, 2009, 50% of pension wages or, if higher, 50% of average wages of any 5 years of service, plus a service increment of $100 per month for each year of service in excess of 20 years of service to a maximum of $500 per month.

Survivor Benefit:

Benefit equals 100% of pension benefits applicable to the member for members retired on or after December 17, 1969, active members dying in the line of duty, and active members dying not in the line of duty with 10 or more years of service.

Benefit equals 50% of pension benefits applicable to the member for active members not dying in the line of duty with less than 10 years of service.

Killed In Service - 62.5% of the officer’s wages or 50.5% plus a service increment which the officer would be entitled to receive at the time of death, whichever is higher.

Service Related Disability Benefit:

Benefit equals 50.5% of the member’s salary at the time the disability was incurred

The City of Allentown Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 145 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters, as well as Act 111 interest arbitration awards. The plan was established December 8, 1927. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2014, the plan had 122 active members, no terminated members eligible for vested benefits in the future, and 214 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected firefighters' pension plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	None

Retirement Benefit:

Benefit equals 50.5% of salary at time of retirement, or, if higher, 50.5% of average annual salary during any 5 years of service. A service increment of 3.5% of salary for the first full year of service and 4.0% of salary for each full year of service in excess of 20 years, with a maximum benefit of 70% after 25 years of service. The increment benefit shall not exceed 5 years of service. Minimum pension is $10,400 per year.

Survivor Benefit:

Benefit equals 100% of the member's retirement benefits.

Service Related Disability Benefit:

Benefit equals 10% of salary for less than 2 years of service, but more than 1 day of service, 20% of salary for 2 to 5 years of service, 30% of salary for 5 to 10 years of service, 40% of salary for 10 to 15 years of service and 50% for 15 or more years of service.

The City of Allentown Officers' and Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 141 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. Non-uniformed employees hired prior to August 5, 1981, are members of the officers' and employees' pension plan. The plan was established May 1, 1946. Active members are required to contribute 5.5 percent of compensation to the plan. As of December 31, 2014, the plan had 1 active member, no terminated members eligible for vested benefits in the future and 157 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected officers' and employees' pension plan benefit provisions are as follows:

<u>Eligibility Requirements</u>:

Normal Retirement	Age 55 and 20 years of service or age 60 and 12 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

<u>Retirement Benefit</u>:

Benefit equals 50% of compensation, or, if higher, 50% of average compensation during any 5 years of service. Benefit is reduced for service less than 20 years at retirement. Service increment of $1/40^{th}$ of basic benefit for each year in excess of 20 years if elected by member.

<u>Survivor Benefit</u>:

If elected by a member, a survivor benefit is payable in the amount of 50% of the pension benefit the member was receiving or would have received had he/she been retired at time of death.

<u>Service Related Disability Benefit</u>:

Benefit equals 50% of compensation, or, if higher, 50% of average compensation during any 5 years of service. Benefit is reduced for service less than 20 years at retirement. Service increment of $1/40^{th}$ of basic benefit for each year in excess of 20 years if elected by member.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

The City of Allentown has partially complied with the prior audit recommendation concerning the following:

Aggregate Pension Fund

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

  During the current audit period, the city reimbursed $25,641 to the Commonwealth for the overpayment of state aid received in 2012; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2014 and 2015, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendations

The City of Allentown has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

Police Pension Plan

- Plan Provisions Not In Compliance With The Third Class City Code

Firemen's Pension Plan

- Plan Provisions Not In Compliance With The Third Class City Code

Police Pension Plan

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code

Condition: The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). As disclosed in the prior two audit reports, the plan's governing document contained provisions that are not in compliance with the Third Class City Code, as noted below:

Provision	Plan Governing Document	Third Class City Code
Refund of service increment contributions	Not provided	Service increment contributions shall be paid at the same time and in the same manner as retirement contributions, and may be withdrawn in full, without interest, by persons who leave the employment of such city, subject to the same conditions by which retirement contributions may be withdrawn, or by persons who retire before becoming entitled to any service increment.
Survivor benefits for a surviving spouse of a retiree	Upon remarriage, benefits revert to dependent children under age 18, when the last child reaches 18, they revert back to the original surviving spouse.	Pension benefit is payable during the lifetime of the surviving spouse, even if they remarry.
Nonservice-related disability benefit with more than 10 years of service	50.5% of salary and any service increment in effect on the date which the officer may be entitled to at the time of retirement.	Benefit may be 50% of annual compensation.
Minimum pension	Effective 1/1/00, each retiree or surviving spouse shall receive a minimum amount of $10,400, annually.	Not provided

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law." The court's holding was in accordance with the position taken by this Department since at least January 1995.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: The provision of benefits that are not in compliance with the Third Class City Code could increase the plan's pension costs and reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the benefits not in compliance with the Third Class City Code. However, providing benefits not in compliance with the Third Class City Code could result in the receipt of excess state aid in the future, and could also increase the city's required contributions to the plan.

In addition, the failure to provide benefits mandated by the Third Class City Code could result in plan members or their beneficiaries being denied benefits to which they are statutorily entitled.

Recommendation: As noted in the prior audit report, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court's ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by the Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, to the extent that the city is providing pension benefits in excess of those authorized by the Third Class City Code to employees who began full-time employment on or after that date, the unauthorized benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the Department.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Furthermore, we again caution city officials that the Department's application of *Monroeville* only to employees hired on or after January 24, 2001, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Finally, to the extent that the city is not providing benefits mandated by the Third Class City Code, we recommend that those benefits be adopted at the city's earliest opportunity to do so.

Management's Response: Relating to the return of service increments, the Third Class City Code provision cited is permissive and not mandatory, as it uses the term "may" as it relates to the return of increments. As the plan terms are negotiated via Act 111, the members contribute 5%, which includes the 1% service increment. If a member leaves before becoming vested, they would receive a return of service increments along with their total contribution. If a member retires before being entitled to service increments it is actually a positive benefit to the Plan that the contribution for service increments remain in the Plan pursuant to the pension ordinance.

Regarding the surviving spouse death benefits, the city opines that the plan is in compliance with Section 4303(e) of the Third Class City Code.

> (e) The spouse of a member of the police force or a member who retires on pension who dies or if no spouse survives or if such person survives and subsequently dies or remarries, then the child or children under the age of eighteen years of a member of the police force or a member who retires on pension who dies on or after August 1, 1963, shall, during the lifetime of the surviving spouse, even if the surviving spouse remarries, or until reaching the age of eighteen years in the case of a child or children, be entitled to receive a pension calculated at the rate of fifty per centum of the pension the member was receiving or would have been receiving had the member been retired at the time of the member's death and may receive the pension the member was receiving or would have been receiving had the member been retired at the time of the member's death.

The city is in agreement with the non-service disability benefit with more than 10 years of service and the minimum pension benefit provisions cited in the finding.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Auditor's Conclusion: The Third Class City Code provides that service increment contributions may be withdrawn in full by persons who retire before becoming entitled to any service increment. The permissive nature of the code section applies and gives the discretion solely to the member, rather than the city in this instance. The failure to permit retirees the ability to withdraw contributions made for the contemplation of receiving a service increment benefit that they are not ultimately eligible for would be inequitable to the affected member.

Regarding the payment of surviving spouse benefits, the code provides for the payment of benefits to surviving spouses during the course of their lifetime, with no interruption due to remarriage and then the potential resumption of benefits when there are no more eligible children under the age of 18.

Firemen's Pension Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code

Condition: The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). As disclosed in the prior two audit reports, certain plan provisions are not in compliance with the Third Class City Code, as noted below:

Provision	Plan Governing Document	Third Class City Code
Service increment	21 years of service – 3%; 22-25 years of service – 3.5%; at least 22 ½ years of service but less than 23 years of service - receive credit of 2.5 service increments.	1/40th (2.5%) of pension benefit multiplied by the number of whole years in excess of 20 years, not to exceed $100 per month. No credit for service after the employee is 65 years old. Effective June 19, 2002, the maximum payment was increased to $500 per month.
Survivor benefits for minor children of members not killed in service	Upon the death of the surviving spouse, pension benefits shall be paid to the guardian of the deceased officer's dependent children, if any, without abatement until the youngest child reaches the age of 18 or up to 23 if enrolled in and attending a post-secondary certified education institution on a full time basis.	Not provided
Refund of service increment contributions	Not provided	Service increment contributions may be withdrawn in full, without interest, by persons who leave the employment of such city, subject to the same conditions by which retirement contributions may be withdrawn, or by persons who retire before becoming entitled to any service increment.

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Provision	Plan Governing Document	Third Class City Code
Minimum pension	Effective 1/1/00, each retiree or surviving spouse shall receive a minimum amount of $10,400, annually.	Not provided

Criteria: On January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee.* Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law." The court's holding was in accordance with the position taken by this Department since at least January 1995.

Cause: Municipal officials did not have the opportunity to revise the collective bargaining agreement that expired on December 31, 2011. The most recent agreement is currently pending appeal in Common Pleas Court.

Effect: The provision of benefits that are not in compliance with the Third Class City Code could increase the plan's pension costs and reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the benefits not in compliance with the Third Class City Code. However, providing benefits not in compliance with the Third Class City Code could result in the receipt of excess state aid in the future, and could also increase required municipal contributions to the plan.

In addition, the failure to provide benefits mandated by the Third Class City Code could result in plan members or their beneficiaries being denied benefits to which they are statutorily entitled.

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

Recommendation: As noted in the prior audit report, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court's ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by Third Class City Code to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, to the extent that the city is providing pension benefits in excess of those authorized by the Third Class City Code to employees who began full-time employment on or after that date, the unauthorized benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the city's future state aid allocations and submit this information to the Department.

Furthermore, we again caution city officials that the Department's application of *Monroeville* only to employees hired on or after January 24, 2001, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 24, 2001, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Finally, to the extent that the city is not providing benefits mandated by the Third Class City Code, we recommend that those benefits be adopted at the city's earliest opportunity to do so.

Management's Response: Regarding service increments, the city states that the provision cited, while in contravention of the Third Class City Code, was in effect prior to 2002 and would therefore be grandfathered under the applicable amendments to the Third Class City Code. In addition, the service increment provision cited is superseded by subsequent amendments to the fire pension ordinance dictated by the 2005 Act 111 award. The 2012 Act 111 award remedied the inconsistencies between the Third Class City Code and the fire pension ordinance. The City was successful in Commonwealth Court to the challenge by the union of certain provisions of the 2012 Act 111 award. This final adjudication was issued on August 7, 2015. The City will see that the pension ordinance will be updated to reflect the fire collective bargaining agreement.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Aggregate Pension Fund

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the city reimbursed $25,641 to the Commonwealth for the overpayment of state aid received in 2012; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2014 and 2015. The city certified 1 ineligible police officer (2 units) and 5 ineligible non-uniformed employees (5 units) on the Certification Form AG 385 filed in 2014. In addition, the city failed to certify 6 eligible non-uniformed employees (6 units) on the Certification Form AG 385 filed in 2015. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the city's state aid allocations were based on unit value, the incorrect certification of pension data affected the city's state aid allocations, as identified below:

Year	Type Of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2014	Police	2	$ 3,873	$ 7,746
	Non-Uniformed	5	3,873	19,365
				$ 27,111
2015	Non-Uniformed	(6)	$ 3,921	(23,526)
	Total Net Overpayment of State Aid			$ 3,585

Aggregate Pension Fund – (Continued)

Finding No. 3 – (Continued)

In addition, the city used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans' MMOs will not be fully paid.

Recommendation: We recommend that the net overpayment of state aid, in the amount of $3,585, be returned to the Commonwealth from the city's general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

In addition, we again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated subsequent to the release of the audit report and during our next audit of the plan.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 15 through 20 reflect 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.

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	$ 2,661,908
Interest	12,280,247
Benefit payments, including refunds of member contributions	(10,194,574)
Net Change in Total Pension Liability	4,747,581
Total Pension Liability – Beginning	160,795,072
Total Pension Liability - Ending (a)	$ 165,542,653
Plan Fiduciary Net Position	
Contributions – employer	$ 2,507,471
Contribution – member	825,381
Net investment income	6,419,152
Benefit payments, including refunds of member contributions	(10,194,574)
Administrative expense	(10,682)
Net Change in Plan Fiduciary Net Position	(453,252)
Plan Fiduciary Net Position - Beginning	148,809,552
Plan Fiduciary Net Position - Ending (b)	$ 148,356,300
Net Pension Liability - Ending (a-b)	$ 17,186,353
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.62%
Estimated Covered Employee Payroll	$ 17,031,352
Net Pension Liability as a Percentage of Covered Employee Payroll	100.91%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

POLICE PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city, calculated using the current discount rate of 7.75%, as well as what the city'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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$ 38,921,016	$ 17,186,353	$ (698,851)

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
2005	$ 2,453,196	$ 2,812,373	$ (359,177)	$11,245,540	25.01%
2006	3,010,528	3,010,528	-	9,429,081	31.93%
2007	5,841,327	5,841,328	(1)	10,126,336	57.68%
2008	6,022,935	6,022,935	-	11,384,012	52.91%
2009	7,115,495	7,115,495	-	13,001,025	54.73%
2010	5,726,720	5,726,720	-	13,821,650	41.43%
2011	7,338,716	7,597,844	(259,128)	13,788,954	55.10%
2012	7,324,133	8,248,725	(924,592)	14,487,385	56.94%
2013	2,276,774	86,776,774	(84,500,000)	15,293,935	567.39%
2014	2,507,471	2,507,471	-	17,031,352	14.72%

SCHEDULE OF INVESTMENT RETURNS

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

2014	4.51%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	$ 1,422,468
Interest	8,601,438
Benefit payments, including refunds of member contributions	(8,075,886)
Net Change in Total Pension Liability	1,948,020
Total Pension Liability – Beginning	113,526,423
Total Pension Liability - Ending (a)	$ 115,474,443
Plan Fiduciary Net Position	
Contributions – employer	$ 1,355,613
Contribution - member	450,825
Net investment income	4,173,658
Benefit payments, including refunds of member contributions	(8,075,886)
Administrative expense	(10,682)
Net Change in Plan Fiduciary Net Position	(2,106,472)
Plan Fiduciary Net Position - Beginning	104,693,215
Plan Fiduciary Net Position - Ending (b)	$ 102,586,743
Net Pension Liability - Ending (a-b)	$ 12,887,700
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%
Estimated Covered Employee Payroll	$ 8,968,810
Net Pension Liability as a Percentage of Covered Employee Payroll	143.69%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city, calculated using the current discount rate of 7.75%, as well as what the city'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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability	$ 26,362,427	$ 12,887,700	$ 1,648,769

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
2005	$ 815,563	$ 1,018,632	$ (203,069)	$7,227,193	14.09%
2006	1,241,367	1,241,367	-	7,310,105	16.98%
2007	3,049,326	3,049,327	(1)	7,350,267	41.49%
2008	3,106,329	3,106,329	-	9,386,995	33.09%
2009	3,565,384	3,565,384	-	10,179,600	35.02%
2010	3,133,439	3,133,439	-	10,475,590	29.91%
2011	4,146,949	4,293,176	(146,227)	7,558,653	56.80%
2012	4,069,771	4,583,476	(513,705)	9,755,213	46.98%
2013	1,508,323	62,708,409	(61,200,086)	8,117,293	772.53%
2014	1,345,613	1,355,613	(10,000)	8,968,810	15.11%

SCHEDULE OF INVESTMENT RETURNS

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

2014	4.23%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	$ 7,950
Interest	1,169,496
Benefit payments, including refunds of member contributions	(2,371,674)
Net Change in Total Pension Liability	(1,194,228)
Total Pension Liability - Beginning	18,484,397
Total Pension Liability - Ending (a)	$ 17,290,169
Plan Fiduciary Net Position	
Contributions - employer	$ 103,519
Contribution - member	3,573
Net investment income	940,162
Benefit payments, including refunds of member contributions	(2,371,674)
Administrative expense	(10,682)
Net Change in Plan Fiduciary Net Position	(1,335,102)
Plan Fiduciary Net Position - Beginning	18,246,195
Plan Fiduciary Net Position - Ending (b)	$ 16,911,093
Net Pension Liability - Ending (a-b)	$ 379,076
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.81%
Estimated Covered Employee Payroll	$ 64,960
Net Pension Liability as a Percentage of Covered Employee Payroll	583.55%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the city, calculated using the current discount rate of 6.75%, as well as what the city'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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability	$ 1,432,549	$ 379,076	$ (561,615)

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
2007	$ 528,875	$ 528,875	$ -	$ 370,644	142.69%
2008	355,279	355,279	-	370,644	95.85%
2009	451,053	451,053	-	386,999	116.55%
2010	343,531	343,531	-	314,909	109.09%
2011	514,014	532,150	(18,136)	250,324	212.58%
2012	512,669	577,431	(64,762)	250,856	230.18%
2013	81,097	4,381,097	(4,300,000)	62,491	7,010.76%
2014	103,519	103,519	-	64,960	159.36%

SCHEDULE OF INVESTMENT RETURNS

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

2014	5.99%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

POLICE PENSION PLAN

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, 2009, 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)
01-01-09	$ 62,262,176	$ 132,568,344	$ 70,306,168	47.0%
01-01-11	62,355,723	142,839,885	80,484,162	43.7%
01-01-13	62,906,225	153,683,203	90,776,978	40.9%
01-01-14	143,686,645	160,795,072	17,108,427	89.4%

Note: The market value of the plan's assets at 01-01-14 reflects the deposit of note proceeds in the amount of $84,500,000, and reflect 5-year smoothing of gains and/or losses. The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses which will be limited to a maximum of 130 percent and a minimum of 70 percent of the fair 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

FIREMEN'S PENSION PLAN

	(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)
01-01-09	$ 42,706,507	$ 77,233,681	$ 34,527,174	55.3%
01-01-11	43,052,580	90,866,138	47,813,558	47.4%
01-01-13	41,080,022	106,673,257	65,593,235	38.5%
01-01-14	101,163,582	113,526,423	12,362,841	89.1%

Note: The market value of the plan's assets at 01-01-14 reflects the deposit of note proceeds in the amount of $61,200,000 and reflect 5-year smoothing of gains and/or losses. The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13, have been adjusted to reflect the smoothing of gains and/or losses which will be limited to a maximum of 130 percent and a minimum of 70 percent of the fair 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS – (Continued)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial Valuation Date	(1) Actuarial Value of Assets (a)	(2) Actuarial Accrued Liability (AAL) - Entry Age (b)	(3) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	(4) Funded Ratio (a)/(b)
01-01-09	$ 17,238,602	$ 23,095,953	$ 5,857,351	74.6%
01-01-11	16,902,051	20,896,120	3,994,069	80.9%
01-01-13	13,356,905	18,422,512	5,065,607	72.5%
01-01-14	16,988,923	18,484,397	1,495,474	91.9%

Note: The market value of the plan's assets at 01-01-14 reflects the deposit of note proceeds in the amount of $4,300,000 and reflect 5-year smoothing of gains and/or losses. The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses which will be limited to a maximum of 130 percent and a minimum of 70 percent of the fair 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14.1 years
Asset valuation method	5-year smoothing method described in Internal Revenue Procedures 2000-40, Section 3.16.
Actuarial assumptions:	
Investment rate of return	7.75%*
Projected salary increases	3.5% - 4.5%

*- The investment return assumption was decreased from 8.0% to 7.75% in order to reduce the plan's exposure to investment risk. As a result of this change, the plan's unfunded actuarial accrued liability increased by $4,650,196.

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	14.2 years
Asset valuation method	5-year smoothing method described in Internal Revenue Procedures 2000-40, Section 3.16.
Actuarial assumptions:	
Investment rate of return	7.75%*
Projected salary increases	3.5% -4.5%

*- The investment return assumption was decreased from 8.0% to 7.75% in order to reduce the plan's exposure to investment risk. As a result of this change, the plan's unfunded actuarial accrued liability increased by $2,723,008.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	5-year smoothing method described in Internal Revenue Procedures 2000-40, Section 3.16.
Actuarial assumptions:	
Investment rate of return	6.75%*
Projected salary increases	4.5%

*- The investment return assumption was decreased from 8.0% to 6.75% in order to reduce the plan's exposure to investment risk. As a result of this change, the plan's unfunded actuarial accrued liability increased by $1,190,213.

DEPOSIT FROM LEASE PROCEEDS

On August 7, 2013, the City of Allentown leased its water/sewer operations to the Lehigh County Authority. On December 4, 2013, city council adopted Ordinance No. 15106 which issued a Series AA note payable to the Restricted Pension Obligation Account in the amount of $150,000,000 bearing interest at 3.5% per year for a term not to exceed 15 years, with no penalty for early payment. Furthermore, on December 4, 2013, city council adopted Ordinance No. 15117, which authorized and directed the Series AA note of 2013 be forgiven and deemed paid in full. Consequently, $84,500,000 was deposited to the police pension plan, $4,300,000 was deposited to the officer's and employee's pension plan and $61,200,000 was deposited to the firemen's pension plan. The effect of these deposits on the individual plan's funding ratios will be reflected in the plans' January 1, 2015, actuarial valuation reports which are due to be filed with the Public Employee Retirement Commission by March 31, 2016.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

City of Allentown Aggregate Pension Plan
Lehigh County
435 Hamilton Street
Allentown, PA 18101

The Honorable Ed Pawlowski	Mayor
Mr. Ray O'Connell	Council President
Mr. Brent A. Hartzell	Director of Finance
Mr. Michael Hanlon	City Clerk
Ms. Debi Bowman	Deputy Director of Finance & Treasury

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