

CITY OF SCRANTON AGGREGATE PENSION FUND

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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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.

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

In addition to Act 205, the City of Scranton 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1178, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 400 - Second Class A Cities Pension Act, Act of September 23, 1959 (P.L. 970, No. 400), as amended, 53 P.S. § 30551 et seq.

The City of Scranton Police, Firemen's and Nonuniformed Pension Plans are single-employer defined benefit pension plans locally controlled by the provisions of Chapter 99 of the Code of the City of Scranton, adopted pursuant to Act 177. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and nonuniformed employees.



The Honorable Mayor and City Council
City of Scranton
Lackawanna County
Scranton, PA 18503

We have conducted a compliance audit of the City of Scranton Aggregate Pension Fund for the period January 1, 2007, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension 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 objective identified above. The City of Scranton 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 Scranton 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 objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our tests indicated that, in all significant respects, the City of Scranton Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it. However, we are extremely concerned about the funded status of the city's pension plans contained in the schedules of funding progress included in this report. For example, the firemen's plan's funded ratio is 50.0%, the nonuniformed plan's funded ratio is 39.4% and the police plan's funded ratio is 66.7% as of January 1, 2007, which is the most recent date available. We encourage city officials to monitor 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 Scranton and, where appropriate, their responses have been included in the report.

December 22, 2009

JACK WAGNER
Auditor General

CITY OF SCRANTON AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

FIREMEN'S PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 25,945,416	\$ 75,535,426	\$ 49,590,010	34.3%	\$ 4,833,264	1,026.0%
01-01-05	30,083,378	67,678,929	37,595,551	44.5%	5,955,465	631.3%
01-01-07	32,569,581	65,113,943	32,544,362	50.0%	5,785,293	562.5%

CITY OF SCRANTON AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NONUNIFORMED PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 4,573,674	\$ 8,371,444	\$ 3,797,770	54.6%	\$ 5,296,284	71.7%
01-01-05	4,286,131	10,259,212	5,973,081	41.8%	4,997,027	119.5%
01-01-07	4,155,357	10,552,330	6,396,973	39.4%	5,315,947	120.3%

CITY OF SCRANTON AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 34,958,891	\$ 61,062,272	\$ 26,103,381	57.3%	\$ 5,578,090	468.0%
01-01-05	38,594,923	60,538,073	21,943,150	63.8%	6,574,028	333.8%
01-01-07	40,317,435	60,404,883	20,087,448	66.7%	6,319,358	317.9%

CITY OF SCRANTON 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.

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

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 3,801,487	100.0%
2004	3,435,767	100.0%
2005	3,551,933	100.0%
2006	2,617,984	100.0%
2007	2,748,583	100.0%
2008	1,642,144	100.0%

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

NONUNIFORMED PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 120,229	100.0%
2004	297,532	100.0%
2005	314,212	100.0%
2006	663,698	100.0%
2007	670,284	100.0%
2008	787,378	100.0%

CITY OF SCRANTON AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 345,504	100.0%
2004	1,356,535	100.0%
2005	1,378,746	100.0%
2006	1,412,879	100.0%
2007	1,444,724	100.0%
2008	921,851	100.0%

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

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	8 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

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

NONUNIFORMED PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

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

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	4 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF SCRANTON AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

City of Scranton Aggregate Pension Fund
Lackawanna County
340 North Washington Avenue
Scranton, PA 18503

The Honorable Christopher A. Doherty	Mayor
Mr. Robert E. McGoff	Council President
Mr. Stuart Renda	Business Administrator
Ms. Kathleen McGinn	Secretary, Aggregate Pension Fund
Mr. Brian Scott	Secretary, Firemen's Pension Plan
Ms. Lisa Auer	Secretary, Nonuniformed Pension Plan
Mr. John O'Shea	Secretary, Police Pension Plan
Ms. Kay Garvey	City Clerk
Ms. Roseann Novembrino	City Controller
Ms. Mary T. Gardier-Paterson	City Solicitor

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