

COMPLIANCE AUDIT

City of Allentown Aggregate Pension Fund Lehigh County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

January 2018



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, 2015 to December 31, 2016. 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 total 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 5 of the 12 police officers¹ who retired during the current audit period and the 2 firefighters 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 also determined whether retirement benefits calculated for the 2 police officers who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

¹ We selected police officers randomly in order to obtain a representative selection of police officers who retired during the current audit period. While the results of the representative selections may be projected in their respective population, the characteristics present in the population may differ from the characteristics of the items selected.

- 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.

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
- Finding No. 3 – Inconsistent Pension Benefit

Aggregate Pension Fund

Finding No. 4 – Partial Compliance With Prior Audit Recommendation –
Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid

Finding No. 4 contained in this report cites an overpayment of state aid to the city and may lead to a total withholding of state aid in the future unless that finding is corrected. In addition, Finding Nos. 1, 2 and 4 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.

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 21, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	5
Findings and Recommendations:	
Police Pension Plan	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code	6
Firemen’s Pension Plan	
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code	11
Finding No. 3 – Inconsistent Pension Benefit	14
Aggregate Pension Plan	
Finding No. 4 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid	15
Potential Withhold of State Aid.....	17
Supplementary Information	18
Report Distribution List	34

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 former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.
- 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 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 Employees, as amended, 53 P.S. § 42001 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, 2016, the plan had 221 active members, 2 terminated members eligible for vested benefits in the future, and 275 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2016, 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.

BACKGROUND – (Continued)

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, 2016, the plan had 122 active members, no terminated members eligible for vested benefits in the future, and 207 retirees receiving pension benefits from the plan.

As of December 31, 2016, 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.

BACKGROUND – (Continued)

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, 2016, the plan had 1 active member, no terminated members eligible for vested benefits in the future, and 207 retirees receiving pension benefits from the plan.

As of December 31, 2016, selected officers' and employees' pension plan benefit provisions are as follows:

Eligibility Requirements:

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.

Retirement Benefit:

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 1/40th of basic benefit for each year in excess of 20 years if elected by member.

Survivor Benefit:

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.

Service Related Disability Benefit:

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 1/40th 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:

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

During the current audit period, the city reimbursed \$3,602 to the Commonwealth for the overpayment of state aid received in 2014; however, plan officials again 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 2016 and 2017, 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

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

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 three audit reports, the plan’s governing document contains provisions that are not in compliance with the Third Class City Code, as noted below:

<u>Provision</u>	<u>Plan Governing Document</u>	<u>Third Class City Code</u>
Survivor benefits for a surviving spouse of a retiree	In case there is no surviving spouse, or after the death of the surviving spouse, or in case of her or his remarriage, the pension and service increment 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 eighteen (18) years, after which all pension and service increment rights shall cease, with the exception that after the last child has reached the age of eighteen (18) years, then the surviving spouse who has since remarried, at this time will once again have his or her pension rights as a surviving spouse reinstated for the remainder of his/her life.	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 the spouse survives and subsequently dies or remarries, the child or children under 18 years of age 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 18 years of age in the case of a child or children, be entitled to receive a pension calculated at the rate of 50% of the pension the member was receiving or would have been receiving if the member was 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 payments under paragraph (2) shall be made to a surviving spouse even if the spouse remarries or, if no spouse survives or if the individual survives and subsequently dies, to the children under 18 years of age of: (i) a member of the police force; (ii) a member retired on pension; or (iii) a member who died in service.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

<u>Provision</u>	<u>Plan Governing Document</u>	<u>Third Class City Code</u>
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.
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.
Credit for police cadet/para police service	Every current member of the Police Pension Fund who served as a City of Allentown Police "Cadet" or "Para Police" Officer prior to their appointment as a police officer shall be entitled to have full credit for each year or fraction thereof, not to exceed four (4) years of such service, upon payment to the Police Pension Fund of an amount equal to that which they would have paid had they been a member of the Police Pension Fund during the period of Allentown "Cadet" or "Para Police" service. All purchased Allentown "Cadet" or "Para Police" service shall be credited as "active service" for pension purposes.	Not provided.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Criteria: As previously disclosed, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. 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 again 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

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

Refund of service increments: 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.

Survivor benefits for a surviving spouse of a retiree: Relating to surviving spouse benefits, the city opines that the plan is in compliance with Section 14303(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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Sections 14301 and 14303 of the Third Class City Code appear to be inconsistent with one another with regard as to whether the Code mandates that minor children of a deceased pensioner are to receive the benefit if the surviving spouse remarries or if as long as the surviving spouse is alive the spouse would receive the survivor benefit. Without having the benefit of the entirety of the various amendments to these sections it is impossible to make a reasoned statutory interpretation to resolve the apparent inconsistency. The City will note that Section 14301 was amended on December 12, 1994 (P.L.1033, No.140) and Section 14303 has various amendments (January 18, 1952 (1951 P.L.2105, No.596), October 22, 1955 (P.L.723, No.207), November 25, 1970 (P.L.754, No.246), October 4, 1978 (P.L.950, No.188), December 17, 1990 (P.L.715, No.178), December 12, 1994 (P.L.1033, No.140) and June 19, 2002 (P.L.442, No.65).

Nonetheless, Article 143.20 of the Police Pension Ordinance as adopted by City Council is consistent, if not identical, with the text of Section 14303 of the Third Class City Code. Therefore, until the matter is interpreted by a court of competent jurisdiction or clarified by the legislature, the City maintains that because its police pension ordinance is consistent with the language contained in Section 14303 it is in compliance with the Third Class City Code. In addition, the legislature amended and readopted the entirety of the Third Class City Code, including portions of 14301 and 14303 in 2014 and did not identify or address any such inconsistency.

Nonservice related disability benefit with more than 10 years of service: We are in agreement with this finding.

Credit for police cadet/para police service: We are in agreement with this finding.

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, given the history of the original amendment to the Third Class City Code, the clear language in section 14301, and the language in section 14303, our position remains that 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

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 three audit reports, certain plan provisions are not in compliance with the Third Class City Code, as noted below:

<u>Provision</u>	<u>Plan Governing Document</u>	<u>Third Class City Code</u>
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.

Criteria: As previously disclosed, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. 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 again failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Firemen's Pension Plan – (Continued)

Finding No. 2 – (Continued)

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.

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.

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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Firemen’s Pension Plan – (Continued)

Finding No. 2 – (Continued)

Management’s Response

Survivor benefits for minor children of members not killed in service: The collective bargaining agreement states:

In the event that an appellate court of a competent jurisdiction in the Commonwealth of Pennsylvania or Pennsylvania’s Office of the Auditor General determines that the pension benefits granted after June 26, 2002 by a city of the third class, whether operating under an optional charter adopted in accordance with the act of July 15, 1957 (P.L. 901, No. 399), known as the “Optional Third Class City Charter Law”, or under a home rule charter adopted in accordance with 53 Pa.C.S. Pt. III Subpt. E, in excess of those benefits grandfathered by the act of June 19, 2002 (P.L. 442, No. 65) are illegal benefits, the City of Allentown and the Union agree that prospectively the subject benefits will be “null and void” unless said determination are overruled by an Act of the Legislature, a subsequent appellate court decision or a reversed ruling of the Auditor General’s Office. The term “prospectively” for purposes of this section shall serve to mean those employees hired after any determination of illegal benefits is made.

The Third Class City Code should supersede inconsistent benefits for those employees hired after the above language was adopted and after the initial determination by the Auditor General.

Refund of service increments contributions: Service increment provision cited, while in contravention of the Third Class 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, Case No. 1802 C.D. 2014. See also, response to refund of service increments for police pension plan. The City will see that 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Firemen’s Pension Plan – (Continued)

Finding No. 3 – Inconsistent Pension Benefit

Condition: The pension plan’s governing document, Article 145 of the city’s codified ordinance, contains benefit provisions that conflict with the collective bargaining agreement between the firemen and the city, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
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.	For employees hired after 1/1/2012, 1/40 th (2.5%) of pension benefit multiplied by the number of whole years in excess of 20 years, not to exceed \$200 per month.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to update the plan’s governing document.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: The city agreed with the finding and will amend the governing documents (fire pension ordinance) to reflect the fire collective bargaining agreement. However, the terms of the ordinance cited were for the members retired prior to 2005. The Auditor General’s findings shall be provided to the Administration and City Council for appropriate action.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Aggregate Pension Plan

Finding No. 4 – Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, although the city reimbursed the Commonwealth for the overpayment of state aid received in 2014; plan officials again 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 2016 and 2017. The city certified 2 ineligible police officers (4 units) and 1 ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2016. In addition, subsequent to the current audit period, the city certified 1 ineligible police officers (2 units) and certified 5 ineligible non-uniformed employees (5 units) on the Certification Form AG 385 filed in 2017. 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 again 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:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2016	Police	4	\$ 4,375	\$ 17,500
	Non-Uniformed	1	4,375	4,375
			Current period	<u>\$ 21,875</u>
2017	Police	2	\$ 4,588	\$ 9,176
	Non-Uniformed	5	4,588	22,940
			Subsequent period	<u>\$ 32,116</u>
			Total Overpayment of State Aid	<u>\$ 53,991</u>

CITY OF ALLENTOWN AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Aggregate Pension Plan – (Continued)

Finding No. 4 – (Continued)

In addition, the city used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police and officers' and employees' - PMRS pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans' MMO(s) will not be fully paid. Furthermore, the city's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$53,991, plus interest, be returned to the Commonwealth. 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

In addition, if the reimbursement to the Commonwealth is made from pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
POTENTIAL WITHHOLD OF STATE AID

Finding No. 4 contained in this audit report cites an overpayment of state aid to the city in the amount of \$53,991, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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, 321 Finance Building, Harrisburg, PA 17120.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 18 through 26 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 2,661,908	\$ 2,856,276	\$ 3,039,127
Interest	12,280,247	12,720,534	13,161,554
Difference between expected and actual experience	-	737,072	(205,379)
Changes of assumptions	-	-	7,903,467
Benefit payments, including refunds of member contributions	(10,194,574)	(10,190,293)	(10,506,610)
Net Change in Total Pension Liability	<u>4,747,581</u>	<u>6,123,589</u>	<u>13,392,159</u>
Total Pension Liability - Beginning	<u>160,795,072</u>	<u>165,542,653</u>	<u>171,666,242</u>
Total Pension Liability - Ending (a)	<u>\$ 165,542,653</u>	<u>\$ 171,666,242</u>	<u>\$185,058,401</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 2,507,471	\$ 2,669,759	\$ 4,216,537
Contribution – member	825,381	914,420	991,017
Net investment income	6,419,152	(701,889)	10,741,586
Benefit payments, including refunds of member contributions	(10,194,574)	(10,190,293)	(10,506,610)
Administrative expense	(10,682)	(9,673)	(9,593)
Net Change in Plan Fiduciary Net Position	<u>(453,252)</u>	<u>(7,317,676)</u>	<u>5,432,937</u>
Plan Fiduciary Net Position - Beginning	<u>148,809,552</u>	<u>148,356,300</u>	<u>141,038,624</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 148,356,300</u>	<u>\$ 141,038,624</u>	<u>\$146,471,561</u>
Net Pension Liability - Ending (a-b)	<u>\$ 17,186,353</u>	<u>\$ 30,627,618</u>	<u>\$ 38,586,840</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.62%	82.16%	79.15%
Estimated Covered Employee Payroll	\$ 17,031,352	\$ 17,794,000	\$ 18,931,433
Net Pension Liability as a Percentage of Covered Employee Payroll	100.91%	172.12%	203.82%

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 as of December 31, 2014 and 2015, calculated using the 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 – 12/31/14	\$ 38,921,016	\$ 17,186,353	\$ (698,851)
Net Pension Liability – 12/31/15	\$ 53,251,972	\$ 30,627,618	\$ 11,994,186

The following presents the net pension liability of the city as of December 31, 2016, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/16	\$ 64,024,864	\$ 38,586,840	\$ 17,760,765

CITY OF ALLENTOWN AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

POLICE PENSION PLAN

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	\$ 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%
2015	2,669,759	2,669,759	-	17,794,000	15.00%
2016	4,216,537	4,216,537	-	18,931,433	22.27%

SCHEDULE OF INVESTMENT RETURNS

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

2016	7.30%
2015	(0.44%)
2014	4.29%

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 YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 1,422,468	\$ 1,513,683	\$ 1,544,110
Interest	8,601,438	8,782,604	8,940,922
Difference between expected and actual experience	-	312,322	(502,487)
Changes of assumptions	-	-	4,219,884
Benefit payments, including refunds of member contributions	(8,075,886)	(8,104,277)	(8,113,374)
Net Change in Total Pension Liability	<u>1,948,020</u>	<u>2,504,332</u>	<u>6,089,055</u>
Total Pension Liability - Beginning	113,526,423	115,474,443	117,978,775
Total Pension Liability - Ending (a)	<u>\$ 115,474,443</u>	<u>\$ 117,978,775</u>	<u>\$ 124,067,830</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 1,355,613	\$ 1,205,379	\$ 2,965,478
Contribution – member	450,825	482,441	495,834
Net investment income (loss)	4,173,658	(374,539)	7,093,225
Benefit payments, including refunds of member contributions	(8,075,886)	(8,104,277)	(8,113,274)
Administrative expense	(10,682)	(9,673)	(9,592)
Net Change in Plan Fiduciary Net Position	<u>(2,106,472)</u>	<u>(6,800,669)</u>	<u>2,431,671</u>
Plan Fiduciary Net Position - Beginning	104,693,215	102,586,743	95,786,074
Plan Fiduciary Net Position - Ending (b)	<u>\$ 102,586,743</u>	<u>\$ 95,786,074</u>	<u>\$ 98,217,745</u>
Net Pension Liability - Ending (a-b)	<u>\$ 12,887,700</u>	<u>\$ 22,192,701</u>	<u>\$ 25,850,085</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%	81.19%	79.16%
Estimated Covered Employee Payroll	\$ 8,968,810	\$ 9,544,000	\$ 9,901,453
Net Pension Liability as a Percentage of Covered Employee Payroll	143.69%	232.53%	261.07%

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 as of December 31, 2014 and 2015, calculated using the 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 – 12/31/14	\$ 26,362,427	\$ 12,887,700	\$ 1,648,769
Net Pension Liability – 12/31/15	\$ 35,906,334	\$ 22,192,701	\$ 10,735,544

The following presents the net pension liability of the city as of December 31, 2016, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/16	\$ 40,673,548	\$ 25,850,085	\$ 13,506,248

CITY OF ALLENTOWN AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

FIREMEN'S PENSION PLAN

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	\$ 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%
2015	1,205,379	1,205,379	-	9,544,000	12.63%
2016	2,965,478	2,965,478	-	9,901,453	29.95%

SCHEDULE OF INVESTMENT RETURNS

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

2016	7.10%
2015	(0.32%)
2014	4.29%

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 YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 7,950	\$ 8,254	\$ 8,894
Interest	1,169,496	1,064,075	1,010,525
Difference between expected and actual experience	-	(434,623)	278,360
Changes of assumptions	-	-	294,664
Benefit payments, including refunds of member contributions	<u>(2,371,674)</u>	<u>(2,235,966)</u>	<u>(2,136,355)</u>
Net Change in Total Pension Liability	<u>(1,194,228)</u>	<u>(1,598,260)</u>	<u>(543,912)</u>
Total Pension Liability - Beginning	18,484,397	17,290,169	15,691,909
Total Pension Liability - Ending (a)	<u>\$ 17,290,169</u>	<u>\$ 15,691,909</u>	<u>\$ 15,147,997</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 103,519	\$ 161,022	\$ 149,540
Contribution – member	3,573	3,851	3,930
Net investment income	940,162	50,233	647,814
Benefit payments, including refunds of member contributions	<u>(2,371,674)</u>	<u>(2,235,966)</u>	<u>(2,136,355)</u>
Administrative expense	<u>(10,682)</u>	<u>(9,673)</u>	<u>(9,592)</u>
Net Change in Plan Fiduciary Net Position	<u>(1,335,102)</u>	<u>(2,030,533)</u>	<u>(1,344,663)</u>
Plan Fiduciary Net Position - Beginning	18,246,195	16,911,093	14,880,560
Plan Fiduciary Net Position - Ending (b)	<u>\$ 16,911,093</u>	<u>\$ 14,880,560</u>	<u>\$ 13,535,897</u>
Net Pension Liability - Ending (a-b)	<u>\$ 379,076</u>	<u>\$ 811,349</u>	<u>\$ 1,612,100</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.81%	94.83%	89.36%
Estimated Covered Employee Payroll	\$ 64,960	\$ 70,000	\$ 71,512
Net Pension Liability as a Percentage of Covered Employee Payroll	583.55%	1,159.07%	2,254.31%

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 as of December 31, 2014 and 2015, calculated using the 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:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability – 12/31/14	\$ 1,432,549	\$ 379,076	(\$ 561,615)
Net Pension Liability – 12/31/15	\$ 1,752,860	\$ 811,349	(\$ 29,798)

The following presents the net pension liability of the city as of December 31, 2016, calculated using the discount rate of 6.50%, 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:

	<u>1% Decrease (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net Pension Liability – 12/31/16	\$ 2,524,608	\$ 1,612,100	\$ 798,100

CITY OF ALLENTOWN AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
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%
2015	161,022	161,022	-	70,000	230.03%
2016	149,540	149,540	-	71,512	209.11%

SCHEDULE OF INVESTMENT RETURNS

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

2016	4.80%
2015	0.67%
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, 2011, 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)
01-01-11	\$ 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%
01-01-15	148,553,041	166,279,725	17,726,684	89.3%
01-01-16*	150,541,282	172,087,146	21,545,864	87.5%
01-01-17*	154,217,523	189,076,712	34,859,189	81.6%

* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the former Public Employee Retirement Commissions.

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 reflects 5-year smoothing of gains and/or losses. The market values of the plan's assets at 01-01-11, 01-01-13, 01-01-15, 01-01-16, and 01-01-17 have been adjusted to reflect 5-year smoothing of gains and/or losses. 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)
01-01-11	\$ 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%
01-01-15	103,009,149	115,786,765	12,777,616	89.0%
01-01-16*	102,403,794	117,476,288	15,072,494	87.2%
01-01-17*	103,743,077	123,554,344	19,811,267	84.0%

* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the former Public Employee Retirement Commissions.

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 reflects 5-year smoothing of gains and/or losses. The market values of the plan’s assets at 01-01-11, 01-01-13, 01-01-15, 01-01-16, and 01-01-17 have been adjusted to reflect 5-year smoothing of gains and/or losses. 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

	(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)
01-01-11	\$ 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%
01-01-15	16,260,482	16,855,546	595,064	96.5%
01-01-16*	15,112,390	15,970,269	857,879	94.6%
01-01-17*	14,124,036	15,098,812	974,776	93.5%

* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the former Public Employee Retirement Commissions.

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 reflects 5-year smoothing of gains and/or losses. The market values of the plan’s assets at 01-01-11, 01-01-13, 01-01-15, 01-01-16, and 01-01-17 have been adjusted to reflect 5-year smoothing of gains and/or losses. 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.5% - 4.5%

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	3.5% - 4.5%

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

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	6.50%
Projected salary increases	4.5%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
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