CITY OF ALLENTOWN AGGREGATE PENSION FUND

LEHIGH COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010

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CONTENTS

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 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, Firemen's and Officers' and Employees' Pension Plans are single-employer defined benefit pension plans locally controlled by the provisions of Articles 143, 145, and 141, respectively, of the city's codified ordinances, adopted pursuant to the Third Class City Code. Nonuniformed employees hired prior to August 5, 1981, are members of the Officers' and Employees' Pension Plan. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and nonuniformed employees, as well as Act 111 interest arbitration awards.

JACK WAGNER

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, 2009, to December 31, 2010. 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 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. The City of Allentown contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2009, which is 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, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests 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 – Partial Compliance 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 – Untimely Deposit Of State Aid

As previously noted, one of the objectives of our audit of the City of Allentown Aggregate Pension Fund was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 historical trend information over the past 10 years which indicates a continued decline of assets available to satisfy the long-term liabilities of the fund. This condition is 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. For example, the Police Pension Plan's Funded Ratio went from 103.2% as of January 1, 2000, to a ratio of 47.0% as of January 1, 2009, which is the most recent date available. Similarly, the Firemen's Pension Plan's Funded Ratio went from 117.4% as of January 1, 2000, to 55.3% as of January 1, 2009. Based on this information, and the funded ratios of the Officers' and Employees' and the Officers' and Employees' – PMRS pension plans, the Public Employee Retirement Commission issued a notification that the city is currently in Level II moderate distress status. In addition, the city's annual required contribution to the Police Pension Plan has gone from $791,507 in 2000, to $5,726,720 in 2010. Similarly, the city's annual required contribution to the Firemen's Pension Plan has gone from $30,181 in 2000 to $3,133,439 in 2010. 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 Allentown and, where appropriate, their responses have been included in the report.

June 29, 2011

JACK WAGNER
Auditor General

JACK WAGNER

AUDITOR GENERAL

Status Of Prior Audit Recommendations

Police Pension Plan

· Arbitration Award And Memorandum Of Understanding Grant Benefits Not Authorized By The Third Class City Code

A finding contained in the audit report for the period January 1, 2003, to December 31, 2004, noted an arbitration award dated July 26, 2004, covering the period January 1, 2005, through December 31, 2008, and a subsequent Memorandum of Understanding (MOU) dated July 11, 2005, between the city and The Fraternal Order of Police Queen City Lodge No. 10, contain benefit provisions which are not authorized by the Third Class City Code.

The arbitration award included an early retirement option under which police officers with a minimum of 16 years of service credit were permitted to purchase up to 4 years of additional service credit. The award also included an "Early Implementation of Benefits" provision under which officers who retired between July 26, 2004, the date of the award, and October 15, 2004, would have their pension calculated based on the applicable percentage for next highest year of service, e.g., an officer with 20 years of service would have his pension calculated based on the applicable percentage for an officer with 21 years of service, up to a maximum of 25 years. In addition, the award specified that the cost to purchase the additional 4 years of service credit for these officers would be paid by the city, rather than the officer.

Allentown City Council initially appealed the arbitration award to the Lehigh County Court of Common Pleas. However, the Court of Common Pleas ruled that City Council lacked appropriate standing to appeal the award because the Allentown City Charter provides that the mayor is appointed to act as the city's exclusive representative for collective bargaining. City Council then appealed the award to the Pennsylvania Commonwealth Court. However, that appeal was formally terminated by vote of council on July 20, 2005.

Pursuant to the MOU executed on July 11, 2005, the city agreed to provide the benefits offered under the "Early Implementation of Benefits" provision included in the arbitration award to officers who retired during the period from August 1, 2005, through September 23, 2005. It further permitted police officers who retired from August 1, 2005, to August 30, 2005, inclusive, to select any 30 day period during 2005 to be used as the basis for the calculation of their pension benefits.

In addition, because the definition of pay used to calculate pension benefits contained in the plan document includes overtime, permitting officers to select any 30 day period in 2005 to serve as the basis for their pension benefit artificially inflated the amount of those benefits which, in the majority of cases, exceeded the amount of the officer's base salary.

Status Of Prior Audit Recommendations – (Continued)

Police Pension Plan – (Continued)

In an attempt to correct the terms of the MOU, the city filed a civil action with the Court of Common Pleas of the Lehigh County Pennsylvania Civil Division. The September 5, 2006, order of the court stipulated that the annual pension benefits for police officers who retired on or after July 20, 2005, were to be reduced pursuant to the terms of the agreement. During the prior and the current audit periods the city has been in compliance with the terms of the agreement.

In our prior audit report for the period January 1, 2007, to December 31, 2008, the department recommended that the city comply with the Third Class City Code upon the expiration or renegotiation of the arbitration award. The city adopted Ordinance No. 14680, dated December 17, 2008. Ordinance No. 14680 at Section 143.14.5, **SALARY FOR PENSION PURPOSES**, states, in part:

> Effective January 1, 2009, for purposes of calculating the pensions of officers retiring after December 31, 2008, the maximum amount of overtime compensation to be included in such calculation for any retiree opting for a pension based on his/her final 30 days compensation (which shall be based upon the period of thirty (30) calendar days counting backwards from the day of retirement) shall be no greater than ten (10%) percent of the officer's base compensation for that 30 day period. By way of example, if an officer's base compensation for that 30 day period is $4,000, the maximum allowable overtime credit would be $400.

Furthermore, Ordinance No. 14680 at Section 143.18, **SERVICE INCREMENT COMPUTATION**, states, in part:

> Effective January 1, 2009, officers hired thereafter shall be entitled to a pension calculated in conformity with the provisions of the Pennsylvania Third Class City Code. Specifically, new officers hired after January 1, 2009 shall be eligible only for service increments calculated in accordance with the formula provided under Section 4303(b)(1) of the Third Class City Code, 53 P.S. §39303(b)(1).

Status Of Prior Audit Recommendations – (Continued)

Police Pension Plan – (Continued)

Finally, Ordinance No. 14680 at Section 143.18.18, **EARLY RETIREMENT OPTION**, states:

> Effective January 1, 2009, Article 143 subsection 143.18.18 Early Retirement Option shall be eliminated.

The Department of the Auditor General respectfully recognizes the city's attempt to rectify the impact of the Memorandum of Understanding. 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 excess benefits provided, however we will continue to monitor the effect of the pension plan's excess benefits prospectively. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such 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 excess benefits on the city's future state aid allocations and submit this information to the department.

Firemen's Pension Plan

- Arbitration Award And Memorandum Of Understanding Grant Benefits Not Authorized By The Third Class City Code

A finding in the prior audit report for the period January 1, 2005, to December 31, 2006, noted an arbitration award dated December 22, 2004, covering the period January 1, 2005, through December 31, 2011, and subsequent Memorandums of Understanding (MOUs) dated June 22, 2005, and September 9, 2005, between the city and Allentown Local 302 of the International Association of Firefighters, contain benefit provisions which are not authorized by the Third Class City Code.

Status Of Prior Audit Recommendations – (Continued)

Firemen's Pension Plan – (Continued)

The arbitration award includes an early retirement option under which firefighters with a minimum of 16 years of service credit are permitted to purchase up to 4 years of additional service credit. The award also included an "Early Retirement Incentive" provision under which firefighters who retired between January 1, 2005, and February 28, 2005, could apply for up to 5 years of service credit with the city assuming the liability for the cost of providing the additional service credit.

Allentown City Council initially appealed the arbitration award to the Lehigh County Court of Common Pleas. However, the Court of Common Pleas ruled that City Council lacked appropriate standing to appeal the award because the Allentown City Charter provides that the mayor is appointed to act as the city's exclusive representative for collective bargaining. City Council then appealed the award to the Pennsylvania Commonwealth Court. However, that appeal was formally terminated by vote of council on July 20, 2005.

Pursuant to the MOUs executed on June 22, 2005 and September 9, 2005, the city agreed to provide the benefits offered under the "Early Retirement Incentive" provision included in the arbitration award to firefighters who retired during the period from August 1, 2005, through September 16, 2005.

During the current audit period, the unauthorized 4 year service credit was granted to 11 firefighters which permitted some of them to qualify for an immediate retirement benefit to which they would otherwise not have been entitled and/or increased the amount of their monthly benefit. In addition, because the definition of pay used to calculate pension benefits contained in the plan document includes overtime, permitting firemen to select <u>any</u> consecutive 26 pay periods in the preceding 3 years of service to serve as the basis for their pension benefit artificially inflated the amount of those benefits which, in the majority of cases, exceeded the amount of the firefighter's base salary.

Status Of Prior Audit Recommendations – (Continued)

Firemen's Pension Plan – (Continued)

The Department of the Auditor General respectfully recognizes the city's attempt to rectify the impact of the Memorandum of Understanding. 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 excess benefits provided, however we will continue to monitor the effect of the pension plan's excess benefits prospectively. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such 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 excess benefits on the plan's future state aid allocations and submit this information to the department. We further recommend that the city comply with the Third Class City Code upon the expiration or renegotiation of the arbitration award.

Compliance With Prior Audit Recommendation

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

Police Pension Plan

· Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, plan officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required police pension plan data.

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:

Police Pension Plan

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

  City officials adopted Ordinance No. 14883 which amended the police pension plan's service-related disability benefit provision to allow for an immediate disability benefit if an officer is deemed disabled through injury or disease contracted in the line of duty; however, plan officials failed to amend the remaining plan provisions which are still not in compliance with the Third Class City Code as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

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

Firemen's Pension Plan

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

Police Pension Plan

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

Condition: As disclosed in the prior audit report, 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.). Furthermore, it was noted that the plan's governing document contained provisions that were not in compliance with the Third Class City Code. During the current audit period, the city adopted Ordinance No. 14883 to bring the plan's service-related disability benefit provision into compliance with the Third Class City Code. However, the remaining plan provisions still not in compliance with the Third Class City Code are noted below:

Provision	Plan Governing Document	Third Class City Code
Survivor's death benefit (not killed in service) after 10 years of service	Effective January 1, 2009 such pension shall be equivalent of 62.5% of the officer's salary at the time of death or 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.	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 the effective date of this amendment, 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 he been retired at the time of his death and may receive the pension the member was receiving or would have been receiving had he been retired at the time of his death.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Provision	Plan Governing Document	Third Class City Code
Refund of service increment contributions	Not provided	Service increment contributions may be withdrawn in full, without interest, 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

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.

Police Pension Plan – (Continued)

Finding No. 1 – (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.

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

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 audit report, 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 have not had the opportunity to revise the current collective bargaining agreement which expires on December 31, 2011.

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: Municipal officials agreed with the finding without exception.

Aggregate Pension Fund

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The city did not deposit the entire amount of its 2009 and 2010 state aid allocations into the aggregate pension fund within the 30 day grace period allowed by Act 205. The city received its 2009 and 2010 state aid allocations in the amounts of $3,931,913 and $3,936,803, respectively, on September 21, 2009, and September 24, 2010, respectively, but did not deposit $2,336,215 and $2,340,565 into its aggregate pension fund until December 24, 2009, and December 30, 2010, respectively.

Aggregate Pension Fund – (Continued)

Finding No. 3 – (Continued)

Criteria: Section 402(g) of Act 205 states, in part:

> . . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension fund.

Cause: The city failed to establish adequate internal control procedures to ensure the timely deposit of the 2009 and 2010 state aid allocations.

Effect: Although the state aid was deposited into the pension fund, the interest earned beyond the 30 day grace period was not deposited into the pension fund. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the city pay the aggregate pension fund the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the city for examination during our next audit of the fund.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid is deposited into the pension fund within 30 days of receipt by the municipal treasurer.

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

CITY OF ALLENTOWN 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, 2005, is as follows:

POLICE 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)	(5) Covered Payroll (c)	(6) Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-05	$ 62,621,976	$ 110,991,994	$ 48,370,018	56.4%	$ 12,808,800	377.6%
01-01-07	64,733,840	114,801,290	50,067,450	56.4%	10,126,336	494.4%
01-01-09	62,262,176	132,568,344	70,306,168	47.0%	11,384,012	617.6%

Note: The market value of the plan's assets at 01-01-09 has 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)

SCHEDULES OF FUNDING PROGRESS

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)]
01-01-05	$ 42,012,732	$ 61,631,376	$ 19,618,644	68.2%	$ 7,841,579	250.2%
01-01-07	43,525,113	64,764,292	21,239,179	67.2%	7,350,267	289.0%
01-01-09	42,706,507	77,233,681	34,527,174	55.3%	9,386,995	367.8%

Note: The market value of the plan's assets at 01-01-09 has 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)

SCHEDULES OF FUNDING PROGRESS

OFFICERS' AND EMPLOYEES' 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)]
01-01-05	$ 25,215,689	$ 28,033,347	$ 2,817,658	89.9%	$ 431,051	653.7%
01-01-07	21,982,132	25,711,360	3,729,228	85.5%	327,197	1,139.8%
01-01-09	17,238,602	23,095,953	5,857,351	74.6%	370,644	1,580.3%

Note: The market value of the plan's assets at 01-01-09 has 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.

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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 ALLENTOWN 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
2005	$ 2,812,373	100.0%
2006	3,010,528	100.0%
2007	5,841,327	100.0%
2008	6,022,935	100.0%
2009	7,115,495	100.0%
2010	5,726,720	100.0%

CITY OF ALLENTOWN 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
2005	$ 1,018,632	100.0%
2006	1,241,367	100.0%
2007	3,049,326	100.0%
2008	3,106,329	100.0%
2009	3,565,384	100.0%
2010	3,133,439	100.0%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

OFFICERS' AND EMPLOYEES' PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	None	N/A
2006	None	N/A
2007	$ 528,875	100.0%
2008	355,279	100.0%
2009	451,053	100.0%
2010	343,531	100.0%

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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	The actuarial value of assets will be limited to a maximum of 130% and a minimum of 70% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	2.4% after 19 years of retirement

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 years
Asset valuation method	The actuarial value of assets will be limited to a maximum of 130% and a minimum of 70% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	3.4%
Cost-of-living adjustments	3.0% after 19 years of service

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	The actuarial value of assets will be limited to a maximum of 130% and a minimum of 70% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

JACK WAGNER

AUDITOR GENERAL

CITY OF ALLENTOWN AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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

The Honorable Edward Pawlowski	Mayor
Mr. Michael D'Amore	Council President
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