CITY OF ALLENTOWN AGGREGATE PENSION FUND

LEHIGH COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

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

In addition to Act 205, the City of 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, 2007, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 plan 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 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 an internal control structure 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. To assist us in planning and performing our audit, we obtained an understanding of the city's internal control structure as it relates to the city's compliance with those requirements. 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:

<u>Police Pension Plan</u>

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

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

<u>Firemen's Pension Plan</u>

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Plan Provisions Not In Compliance With The Third Class City Code

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 contained in the respective schedules of funding progress included in this report which indicate 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 83.4% as of January 1, 2003, to a ratio of 56.4% as of January 1, 2007, which is the most recent date available. Similarly, the Firemen's Pension Plan's Funded Ratio went from 92.3% as of January 1, 2003, to 67.2% as of January 1, 2007. In addition, the city's annual required contribution to the Police Pension Plan has gone from $1,244,249 in 2003, to $6,022,935 in 2008. Similarly, the city's annual required contribution to the Firemen's Pension Plan has gone from $419,298 in 2003 to $3,106,329 in 2008. 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.

July 28, 2009

JACK WAGNER
Auditor General

CITY OF ALLENTOWN AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendation

Police Pension Plan

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

A finding 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 includes an early retirement option under which police officers with a minimum of 16 years of service credit are permitted to purchase up to four 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 four 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 Recommendation – (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 current audit period, it was determined that the city has been in compliance with the terms of the agreement.

During the current audit period, the unauthorized service credit was granted to 38 police officers, which permitted some officers 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.

Although our Department respectfully recognizes the city's attempt to rectify the impact of the Memorandum of Understanding, we will continue to monitor the pension plan's benefit provisions prospectively. We further recommend that the city comply with the Third Class City Code upon the expiration or renegotiation of the arbitration award. 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.

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 Recommendation – (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 four 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 five 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 yr. service credit was granted to 6 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 officer's base salary.

Although our Department respectfully recognizes the city's attempt to rectify the impact of the Memorandums of Understanding, we will continue to monitor the pension plan's benefit provisions prospectively. We further recommend that the city comply with the Third Class City Code upon the expiration or renegotiation of the arbitration award. 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.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

Police Pension Plan

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

Firemen's Pension Plan

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

Police Pension Plan

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

Condition: The city adopted a home rule charter pursuant to the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2901 et seq. (previously 53 P.S. § 1-101 et seq.). During the audit period, City council adopted Ordinance No. 14680 to bring the service increment provision into compliance with the Third Class City Code for officers hired after January 1, 2009. However, as disclosed in the prior audit report, certain plan provisions are not in compliance with the Third Class City Code, as follows:

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.
Service-related disability benefit	Must have served continuously for a period of 5 years. Officer must be physically or mentally incapacitated, through injury received or disease contracted in the actual performance of duty.	Any police officer who becomes totally disabled due to injuries sustained in the line of duty shall be deemed to be fully vested in the police pension fund, regardless of the actual number of years of credited service, and shall be eligible for immediate retirement benefits.
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.

Finding No. 1 – (Continued)

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.
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 accord with the position taken by this department since at least January 1995.

Finding No. 1 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure 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 reduces 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 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 officials agreed with the finding without exception.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The city failed to certify 1 eligible police officer (2 units) and understated payroll by $26,252 and failed to certify 1 eligible member of the officers' and employees' – PMRS pension plan (1 unit) and understated payroll by $30,623 in 2008 on Certification Form AG 385.

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

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

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

Type Of Plan	Units Understated	Unit Value	State Aid Underpayment
Police	2	$ 3,186	$ 6,372
Officers' and Employees' - PMRS	1	3,186	3,186
		Total Underpayment of State Aid	$ 9,558

Although the city will be reimbursed for the underpayment of state aid due to the city's certification errors, the full amount of the 2008 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension plan data.

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

Firemen's Pension Plan

Finding No. 3 – 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 follows:

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
Minimum pension	Effective 1/1/00, each retiree or surviving spouse shall receive a minimum amount of $10,400, annually.	Not provided

Finding No. 3 – (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 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: 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 accord with the position taken by this department since at least January 1995.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure 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 reduces 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 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.

Finding No. 3 – (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.

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, 2003, is as follows:

POLICE PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	$ 61,509,524	$ 73,777,267	$ 12,267,743	83.4%	$11,245,540	109.1%
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%

Note: The market value of the plan's assets at 01-01-03 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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 – (Continued)

FIREMEN'S PENSION PLAN

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	$ 44,135,042	$ 47,822,940	$ 3,687,898	92.3%	$ 7,227,193	51.0%
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%

Note: The market value of the plan's assets at 01-01-03 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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 – (Continued)

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)]
01-01-03	$ 31,333,904	$ 30,797,310	$ (536,594)	101.7%	$ 470,781	(114.0%)
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%

Note: The market value of the plan's assets at 01-01-03 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

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
2003	$ 1,244,249	100.0%
2004	2,567,421	100.0%
2005	2,812,373	100.0%
2006	3,010,528	100.0%
2007	5,841,327	100.0%
2008	6,022,935	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
2003	$ 419,298	100.0%
2004	933,503	100.0%
2005	1,018,632	100.0%
2006	1,241,367	100.0%
2007	3,049,326	100.0%
2008	3,106,329	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
2003	None	N/A
2004	None	N/A
2005	None	N/A
2006	None	N/A
2007	$ 528,875	100.0%
2008	355,279	100.0%

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

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

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	2.4% after 19 years of retirement

CITY OF ALLENTOWN AGGREGATE PENSION FUND
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FIREMEN’S PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% after 19 years of retirement

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
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OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value
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 Edward G. Rendell
Governor
Commonwealth of Pennsylvania

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

The Honorable Edward Pawlowski	Mayor
Mr. Michael D'Amore	Council President
Mr. Lawrence F. Hilliard	Director of Finance
Mr. Michael P. Hanlon	City Clerk

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