CITY OF EASTON AGGREGATED PENSION TRUST FUND

NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010

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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 Easton Aggregated Pension Trust 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1178, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 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 399 - Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq.

The City of Easton Aggregated Pension Trust Fund acts as a common investment and administrative agent for the city's police, firemen's and officers' and employees' defined benefit pension plans. The police pension plan is governed by Chapter 110, Article II of the city's codified ordinances. The firemen's pension plan is governed by Chapter 110, Article V of the city's codified ordinances. The officers' and employees' pension plan is governed by Chapter 100, Article III of the city's codified ordinances for nonuniformed employees hired prior to January 1, 1979. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers, firefighters and officers and employees.

JACK WAGNER

AUDITOR GENERAL

The Honorable Mayor and City Council
City of Easton
Northampton County
Easton, PA 18042

We have conducted a compliance audit of the City of Easton Aggregated Pension Trust 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 trust 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 Easton contracted with an independent certified public accounting firm for annual audits of the City of Easton Aggregated Pension Trust Fund's 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 Easton Aggregated Pension Trust 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 Easton Aggregated Pension Trust 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:

Aggregated Pension Trust Fund

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement Of Special 2002 Ad Hoc Postretirement Adjustment

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Police Pension Plan

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inconsistent Benefit Provisions And Provision Of Pension Benefits Not In Compliance With The Third Class City Code

Firemen's Pension Plan

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Not In Compliance With The Third Class City Code

Officers' And Employees' Pension Plan

Finding No. 5 – Provision Of Benefits In Excess Of 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.

The contents of this report were discussed with officials of the City of Easton and, where appropriate, their responses have been included in the report.

November 14, 2011

JACK WAGNER
Auditor General

Partial Compliance With Prior Audit Recommendations

Aggregated Pension Trust Fund

The City of Easton has partially complied with the prior audit recommendations concerning the following:

- Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement Of Special 2002 Ad Hoc Postretirement Adjustment

  During the current audit period, the city reimbursed $3,307, plus applicable interest, to the Commonwealth for the excess reimbursement received in 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data in the years 2010 and 2011 as further discussed in the Findings and Recommendations section of this report; and

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

  During the current audit period, the city reimbursed $3,244, plus applicable interest, to the Commonwealth for the net overpayment of state aid received in the years 2008 and 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2011 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendations

The City of Easton 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

- Inconsistent Benefit Provisions And Provision Of Pension Benefits Not In Compliance With The Third Class City Code

Firemen’s Pension Plan

- Provision Of Benefits Not In Compliance With The Third Class City Code

Aggregated Pension Trust Fund

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 64 Resulting In An Excess Reimbursement Of Special 2002 Ad Hoc Postretirement Adjustment

Condition: As disclosed in the prior audit report, the city overstated the total non-employee contributions made to all pension plans on the Certification Form AG 64 filed for 2009. During the current audit period, the city reimbursed $3,307, plus applicable interest, to the Commonwealth for the excess reimbursement received in 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data in the years 2010 and 2011.

The city overstated the total non-employee contributions made to all pension plans on the Certification Forms AG 64 filed for the years 2010 and 2011.

Criteria: Section 502.1(a)(2) of Act 147 states, in part:

> The determination of the reimbursable amount of the amortization contribution requirement attributable to the special ad hoc postretirement adjustment under Chapter 4 in any year shall be calculated as the amortization contribution requirement attributable to the special ad hoc postretirement adjustments under Chapter 4 and reflected in the determination of the financial requirements of the pension plan under Chapter 3 of the Municipal Pension Plan Funding Standard and Recovery Act for the immediate prior year less the product of that amortization contribution requirement multiplied by the ratio of the amount of general municipal pension system State aid allocated to the retirement system in the immediate prior year to the total amount of municipal contributions made to the retirement system from all sources other than employee contributions in the immediate prior year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure full compliance with the prior audit recommendation.

Effect: The data submitted on the Certification Form AG 64 is used to calculate the reimbursement due the city for ad hoc postretirement adjustments granted pursuant to Chapter 4 of Act 147.

Aggregated Pension Trust Fund – (Continued)

Finding No. 1 – (Continued)

The effects of the incorrect certification of pension data on the city's reimbursements are identified below:

Year	Reimbursement Claimed	Reimbursement Due	Excess Reimbursement
2010	$ 60,401	$ 53,413	$ 6,988
2011	60,496	54,005	6,491
		Total Excess Reimbursement	$ 13,479

Recommendation: We recommend that the total excess reimbursement, in the amount of $13,479, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

In addition, we again recommend that plan officials comply with the instructions that accompany Certification Form AG 64 to assist them in accurately reporting the required pension data.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the city certified 1 ineligible firefighter (2 units) in 2008 on Certification Form AG 385. In addition, the city failed to certify 1 eligible nonuniformed employee (1 unit) in 2009 on Certification Form AG 385. During the current audit period, the city reimbursed $3,244, plus applicable interest, to the Commonwealth for the net overpayment of state aid received in the years 2008 and 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2011.

The city certified 2 ineligible police officers (4 units) and failed to certify 1 eligible nonuniformed employee (1 unit) in 2011 on Certification Form AG 385.

Aggregated Pension Trust Fund – (Continued)

Finding No. 2 – (Continued)

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

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure full compliance with the prior audit recommendation.

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 allocations were based on unit value, the incorrect certification of pension data affected the city's state aid allocations, as identified below:

Type Of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
Police	4	$ 5,596	$ 22,384
Nonuniformed	(1)	$ 5,596	(5,596)
Total Overpayment of State Aid			$ 16,788

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

Recommendation: We recommend that the overpayment of state aid, in the amount of $16,788, be returned to the Commonwealth from city funds. 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

In addition, we again recommend that plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Aggregated Pension Trust Fund – (Continued)

Finding No. 2 – (Continued)

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

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

Police Pension Plan

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Inconsistent Benefit Provisions And Provision Of Pension Benefits Not In Compliance With The Third Class City Code

Condition: As disclosed in the prior audit report, prior to January 2, 2008, the City of Easton operated pursuant to the Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq. Consequently, the city's aggregated pension trust fund was not subject to the constraints of the Third Class City Code. 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.), effective January 2, 2008. Therefore, pursuant to this change, the city's pension plans must be in compliance with the Third Class City Code for employees hired after the adoption of the home rule charter. Our audit of the police pension plan has revealed that the city is providing benefits to police officers, who were hired on or after the effective date noted above, that are not in compliance with the Third Class City Code.

In addition, the police pension plan's governing document, City Codified Ordinances at Chapter 110, Article II, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the city. The inconsistent benefit provisions and the applicable Third Class City Code provisions are illustrated below:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Minimum retirement benefit	The minimum pension payable under this section shall be $3,000 per year.	Not provided	Not provided

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Service requirement	The later of the members 50th birthday and the 20th anniversary of the date on which employment commenced.	Any covered employee may make application to retire at 20 years of service regardless of age.	A minimum service requirement of at least 20 years of continuous service for a normal retirement benefit and a minimum age of 50 years, if prescribed.
Service-related disability	A service-related disability benefit for participants with 12 or fewer years of service… regardless of age of such participant, he shall be entitled to receive such portion of pension as his service up to the date of his termination bears to 20 years of service.	Not provided	A service-related disability benefit equal to the normal monthly pension benefit, regardless of the time served.
Member's contributions	A participant is required to contribute 6% of pensionable compensation. Each participant is required to contribute $1 per month for the service increment contribution until the member has reached age 60.	Pension contributions shall be deducted at 6% of pensionable wages plus fifty cents ($.50) per week for survivor's benefits.	A member's contribution rate of up to 5% of the officer's compensation, plus service increment contributions. Service increment contributions are payable only to age 65.

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Monthly pension benefit	A participant shall receive an annual pension equal to 50% of the employee's pensionable compensation. (Pensionable compensation is defined as the annual salary plus degree pay, longevity pay, personal day buyback, holiday pay, scheduled shift differential, and acting rank pay for regularly scheduled shift of a participant on the date in question.)	Any covered employee with 20 years of service shall be entitled to 50% of pensionable compensation.	The basis of the apportionment of the pension shall be determined by the rate of the monthly pay of the member at the date of injury, death, honorable discharge, vesting under section 4302.1 or retirement, or the highest average annual salary which the member received during any five years of service preceding injury, death, honorable discharge, vesting under section 4302.1 or retirement, whichever is the higher, and except as to service increments provided for in subsection (b) of this section, shall not in any case exceed in any year one-half the annual pay of such member computed at such monthly or average annual rate, whichever is the higher.

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Service increments	The service increment shall be obtained by computing the number of whole years after 20 years of service, including credit for military service as provided in this plan, and multiplying the number of years so computed by 2.5% of pensionable compensation for each year of service to a maximum of 75% of pensionable compensation after 30 years of service. No employment after the participant has reached the age of 60 years shall be included.	Any covered employee with over 20 years of service shall be entitled to additional service increments of 2.5% of pensionable compensation for each additional year of service to a maximum of seventy-five (75%) of pensionable compensation after thirty (30) years of service.	A service increment provision, indicating that additional benefits accrue to age 65 for service exceeding the minimum required for retirement in an amount equal to 1/40th (2.5%) times the monthly pension benefit for each whole year over the minimum, not to exceed $100 per month. (Emphasis added)

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Third Class City Code
Nonservice-related disability	A participant who has not less than 15 years of service shall be eligible to receive a normal retirement benefit. If the participant has at least 12 years of service but less than 15 years of service, regardless of age of such participant, he shall be entitled to receive such portion of the normal retirement benefit as his service up to the date of termination bears to 20 years of service.	Not provided	For officers with less than 10 years of service, a pension equal to 25% of his annual compensation. For officers with more than 10 years of service, a pension equal to 50% of annual compensation.

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 including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995. Therefore, for police officers hired on or after January 2, 2008, the pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Furthermore, a governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

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

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

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

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Furthermore, as previously noted, the plan's governing document contains provisions that could result in plan members receiving pension benefits that are less than what they would be entitled to under the provisions of the Third Class City Code.

Recommendation: We again recommend that the city provide pension benefits in accordance with the Third Class City Code for all police officers who began full-time employment on or after January 2, 2008. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to police officers who began employment on or after January 2, 2008, 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, on the city's future state aid allocations and submit this information to the department.

Furthermore, to the extent that the city has failed to provide benefits which are mandated by the Third Class City Code, we again recommend that the city increase those benefits to the levels prescribed by the code at its earliest opportunity to do so.

We also recommend that municipal officials eliminate the inconsistencies between the plan's governing document and the collective bargaining agreement at their earliest opportunity to do so.

Police Pension Plan – (Continued)

Finding No. 3 – (Continued)

Special note should be taken that the department's application of *Monroeville* only to employees hired on or after January 2, 2008, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 2, 2008, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Management's Response: The non-compliance of the Third Class City Code resulted because of a referendum by the voters of the City of Easton moving from a Third Class City "Optional Charter" to a "Home Rule Charter". The city will attempt to resolve this issue of noncompliance of the provision of benefits through the collective bargaining agreement with the police union.

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

Firemen's Pension Plan

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Provision Of Benefits Not In Compliance With The Third Class City Code

Condition: As disclosed in the prior audit report, prior to January 2, 2008, the City of Easton operated pursuant to the Optional Third Class City Charter Law, Act of July 15, 1957 (P.L. 901, No. 399), as amended, 53 P.S. § 41101 et seq. Consequently, the city's aggregated pension trust fund was not subject to the constraints of the Third Class City Code. 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.), effective January 2, 2008. Therefore, pursuant to this change the city's pension plans must be in compliance with the Third Class City Code for employees hired after the adoption of the home rule charter.

Firemen's Pension Plan – (Continued)

Finding No. 4 – (Continued)

Our audit of the firemen's pension plan has revealed that the city is providing benefits to firefighters, who were hired on or after the effective date noted above, that are not in compliance with the Third Class City Code, as follows:

Benefit Provision	Governing Document	Third Class City Code
Monthly pension benefit	The greater of the compensation at the date of retirement or 1/12 of the highest average annual salary during any five years of service preceding retirement. The multiplier percentage set forth correspondent to years of service; 20 years at 50%, 21 years at 52.5%, 22 years at 55%, 23 years at 57.5%, 24 years at 60%, 25 years at 62.5%, 26 years at 65%, 27 years at 67.5%, 28 years at 70%, 29 years at 72.5%, and 30 years at 75%.	A monthly pension benefit of 50% of the higher of the monthly salary at the date of termination or the highest average annual salary during any 5 years of service.
Definition of salary	A firefighter's total gross annual compensation, including, without limitation, position salary, longevity pay, degree pay, extra-duty pay, and birthday pay.	A definition of salary as "the fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.
Member's contributions	A monthly contribution equal to 4.5% of compensation, plus an additional 1% of compensation towards the survivor benefit and an additional $1 per month for the service increment contribution.	A member's contribution rate of up to 5% of the firefighter's compensation, plus service increment contributions.

Firemen's Pension Plan – (Continued)

Finding No. 4 – (Continued)

Benefit Provision	Governing Document	Third Class City Code
Minimum pension benefit	The pension benefit of any participant who becomes entitled to a pension benefit under the plan shall not be less than $3,000 annually.	Not provided
Survivor benefit	Nonservice-related death benefits where participant has 20 or more years of service. The surviving spouse of any participant who has retired or died while in service after having served for a minimum of 20 years, shall during their lifetime receive a pension benefit of the amount which would have been payable had the firefighter been retired and 50 years of age at the time of death.	A survivor's benefit to the surviving spouse of a deceased retiree or employee equal to the amount that the member was receiving or would have been receiving if he was retired, and continuing during the spouse's life.

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 including Act 600." The court's holding was in accord with the position taken by this department since at least January 1995.

Therefore, for firefighters hired on or after January 2, 2008, the pension plan's benefit structure should be in compliance with the Third Class City Code.

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

Firemen's Pension Plan – (Continued)

Finding No. 4 – (Continued)

Effect: Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the city provide pension benefits in accordance with the Third Class City Code for all firefighters who began full-time employment on or after January 2, 2008, upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to provide benefits in excess of those authorized by the Third Class City Code to firefighters who began employment on or after January 2, 2008, 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, on the plan's future state aid allocations and submit this information to the department.

Special note should be taken that the department's application of *Monroeville* only to employees hired on or after January 2, 2008, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 2, 2008, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Management's Response: The non-compliance of the Third Class City Code resulted because of a referendum by the voters of the City of Easton moving from a Third Class City "Optional Charter" to a "Home Rule Charter". The city will attempt to resolve this issue of noncompliance of the provision of benefits through the collective bargaining agreement with the firefighter union.

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

Officers' And Employees' Pension Plan

Finding No. 5 – Provision Of Benefits In Excess Of The Third Class City Code

Condition: During the current audit period, the city adopted Ordinance No. 5299 which granted a benefit not authorized by the Third Class City Code, as follows:

Benefit	Governing Document	Third Class City Code
Early retirement	A member of the pension who has more than 30 years of service and is at least 50 years of age may purchase the years of service needed for the normal minimum age of 55 years for drawing a pension. The pension will be based on current salary at the age of retirement plus years of service worked.	If any person shall have served 20 years and voluntarily retires he shall, by continuing his contributions until the age of 55, be entitled to the above compensation.

Criteria: The pension plan's benefit structure should be in compliance with the provisions of the Third Class City Code.

Cause: Municipal officials were aware that home rule municipalities were required to restrict pension benefits to those authorized by the Third Class City Code, however, because of budgetary requirements, the excess benefit was adopted by the city.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the Third Class City Code. The retiree is receiving excess benefits of $2,414 per month, which totaled approximately $26,550 from the date of retirement through the date of this audit report.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Officers' And Employees' Pension Plan – (Continued)

Finding No. 5 – (Continued)

Recommendation: We recommend that the city comply with the Third Class City Code at its earliest opportunity to do so. 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.

Special note should be taken that the department's application of *Monroeville* only to employees hired on or after January 2, 2008, does not sanction (1) a municipality's granting excess benefits to existing or future employees when none had been granted as of January 2, 2008, or (2) a municipality's increasing excess benefits for existing or future employees beyond those that had been granted as of that date.

Management's Response: The City of Easton will correct the ordinance.

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

CITY OF EASTON AGGREGATED PENSION TRUST FUND
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite overpayments of state aid to the city in the amount of $30,267. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are corrected. Checks in this amounts of $13,479 and $16,788, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

CITY OF EASTON AGGREGATED PENSION TRUST 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. The historical information, beginning as of January 1, 2005, 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)]
01-01-05	$ 13,935,821	$ 18,630,752	$ 4,694,931	74.8%	$ 2,932,571	160.1%
01-01-07	21,007,068	22,814,818	1,807,750	92.1%	3,231,885	55.9%
01-01-09	19,483,400	25,192,009	5,708,609	77.3%	3,006,049	189.9%

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 subject to a corridor between 70 to 130 percent of the 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 EASTON AGGREGATED PENSION TRUST 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)]
01-01-05	$ 10,281,495	$ 12,248,453	$ 1,966,958	83.9%	$ 660,067	298.0%
01-01-07	11,643,036	11,683,507	40,471	99.7%	420,982	9.6%
01-01-09	9,891,444	11,610,437	1,718,993	85.2%	326,105	527.1%

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 subject to a corridor between 70 to 130 percent of the 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 EASTON AGGREGATED PENSION TRUST 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)]
01-01-05	$ 12,721,876	$ 15,171,211	$ 2,449,335	83.9%	$ 1,823,165	134.3%
01-01-07	17,060,714	17,240,727	180,013	99.0%	2,500,399	7.2%
01-01-09	16,463,283	18,209,105	1,745,822	90.4%	2,266,432	77.0%

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 subject to a corridor between 70 to 130 percent of the 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 EASTON AGGREGATED PENSION TRUST 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 EASTON AGGREGATED PENSION TRUST 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	$ 659,828	100.0%
2006	454,129	100.0%
2007	410,195	100.0%
2008	414,750	100.0%
2009	500,537	100.0%
2010	485,312	100.0%

CITY OF EASTON AGGREGATED PENSION TRUST 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	$ 26,438	100.0%
2006	51,594	100.0%
2007	58,255	100.0%
2008	60,647	100.0%
2009	54,537	100.0%
2010	43,788	100.0%

CITY OF EASTON AGGREGATED PENSION TRUST 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	$ 299,602	100.0%
2006	300,816	100.0%
2007	286,227	100.0%
2008	290,276	100.0%
2009	405,504	100.0%
2010	434,626	100.0%

CITY OF EASTON AGGREGATED PENSION TRUST 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

CITY OF EASTON AGGREGATED PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	19 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

JACK WAGNER

AUDITOR GENERAL

CITY OF EASTON AGGREGATED PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Easton Aggregated Pension Trust Fund
Northampton County
One South Third Street
Easton, PA 18042

The Honorable Salvatore J. Panto, Jr.	Mayor
Mr. Glenn Steckman	City Administrator
Mr. Chris Heagele	Director of Finance
Mr. Tony Bassil	City Controller
Mr. Thomas A. Hess	City Clerk

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