

CITY OF ERIE AGGREGATE PENSION FUND

ERIE 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.

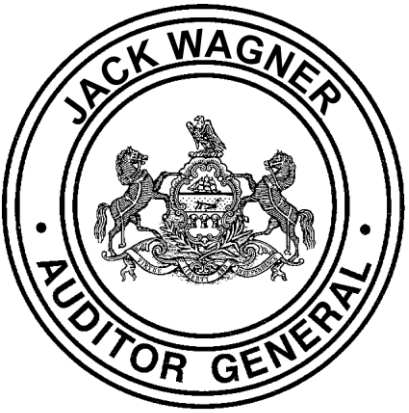
Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, 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 Erie Pension Plans are 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 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's pension plans are single-employer defined benefit pension plans locally controlled by Articles 145 (Officers' and Employees'), 147 (Police) and 149 (Firemen's) of the city's codified ordinances. The plans are also affected by the provisions of collective bargaining agreements between the city and its nonuniformed employees, police officers and firefighters.



The Honorable Mayor and City Council
City of Erie
Erie County
Erie, PA 16501

We have conducted a compliance audit of the City of Erie 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 aggregate 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 Erie contracted with an independent certified public accounting firm for annual audits of the financial statements of each of the city's pension plans, 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 Erie 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 Erie Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

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

January 31, 2012

JACK WAGNER
Auditor General

CITY OF ERIE AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

Firemen's Pension Plan

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

During the current audit period, municipal officials established adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 and accurately reported the required firemen's pension data;

Police Pension Plan

- Overpayment Of Pension Benefits

The prior audit report disclosed that a retired police officer and his ex-wife (who was receiving benefits pursuant to a Qualified Domestic Relations Order) received unauthorized cost-of-living (COLA) adjustments totaling \$11,888. This situation occurred because the plan's actuary, who calculated the COLAs, considered the two monthly benefits separately, rather than collectively, when determining the COLAs due. During the current audit period, an agreement between the city, the benefit recipients and the plan's actuary was reached whereby a portion of the benefit overpayment will be refunded through reduced monthly pension benefit payments for two years, beginning September 1, 2010. The remainder of the overpayment has been placed in an escrow account by the plan's actuary to pay the balance due to the plan at the end of the two-year repayment period; and

Police and Firemen's Pension Plans

- Incorrect Data On Certification Form AG 64 Resulting In An Overpayment Of Ad Hoc Reimbursement

Subsequent to the current audit period, the city reimbursed \$1,919 to the Commonwealth for the overpayments of ad hoc reimbursement received from 2006 through 2009.

CITY OF ERIE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS

Historical trend information about the city's pension plans 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 presented on the following pages.

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	\$ 76,055,676	\$ 89,621,649	\$ 13,565,973	84.9%	\$ 9,933,822	136.6%
01-01-07	72,616,308	94,303,724	21,687,416	77.0%	9,482,626	228.7%
01-01-09	74,279,908	99,787,719	25,507,811	74.4%	10,622,616	240.1%

Note: The market values of the plan's assets at 01-01-05 and 01-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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. These methods 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 ERIE 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)]
01-01-05	\$ 55,313,434	\$ 68,210,017	\$ 12,896,583	81.1%	\$ 9,044,102	142.6%
01-01-07	55,543,720	73,780,818	18,237,098	75.3%	8,703,019	209.5%
01-01-09	56,028,150	78,717,825	22,689,675	71.2%	7,816,966	290.3%

Note: The market values of the plan’s assets at 01-01-05 and 01-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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. These methods 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 ERIE 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)]
01-01-05	\$ 62,832,647	\$ 79,557,802	\$ 16,725,155	79.0%	\$ 16,994,645	98.4%
01-01-07	64,819,617	80,783,554	15,963,937	80.2%	15,375,042	103.8%
01-01-09	70,560,169	88,757,151	18,196,982	79.5%	16,115,917	112.9%

Note: The market values of the plan's assets at 01-01-05 and 01-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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. These methods 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 ERIE 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 ERIE 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	\$ 671,014	100.0%
2006	909,353	100.0%
2007	1,879,486	100.0%
2008	2,008,878	100.0%
2009	2,870,932	100.0%
2010	2,885,521	100.0%

CITY OF ERIE 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	\$ 1,063,001	100.0%
2006	1,170,958	100.0%
2007	1,854,954	100.0%
2008	1,903,950	100.0%
2009	2,595,678	100.0%
2010	2,669,197	100.0%

CITY OF ERIE 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	\$ 1,680,394	100.0%
2006	1,860,133	100.0%
2007	2,236,492	100.0%
2008	2,235,348	100.0%
2009	2,180,475	100.0%
2010	2,184,070	100.0%

CITY OF ERIE 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	18 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%
* Includes inflation at	3.0%
Cost-of-living adjustments	4.0%

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

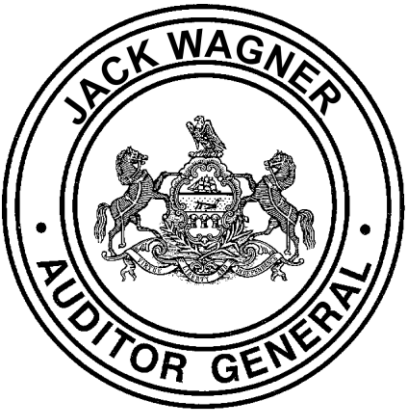
FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 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%
* Includes inflation at	3.0%
Cost-of-living adjustments	4.0%

CITY OF ERIE AGGREGATE PENSION 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, closed
Remaining amortization period	Established January 1, 1985 (18 years) Occurring after January 1, 1985 (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%
* Includes inflation at	3.0%
Cost-of-living adjustments	None assumed



CITY OF ERIE AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Erie Aggregate Pension Fund
Erie County
626 State Street
Erie, PA 16501

The Honorable Joseph E. Sinnott	Mayor
Ms. Jessica Horan-Kunco	Council Representative
Mr. Casimir J. Kwitowski	Controller
Mr. Paul Lichtenwalter	Finance Director
Mr. Gregory A. Karle, Esquire	Solicitor
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Ms. Theresa M. Pomorski	Administrative Secretary, Officer's and Employees' Pension Plan
Mr. Thomas J. Majczyk	Secretary, Firemen's Pension Plan
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