

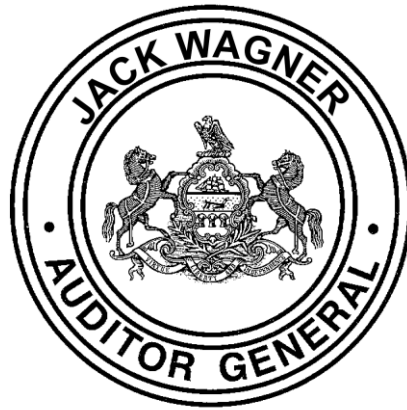
CITY OF HAZLETON AGGREGATE PENSION FUND

LUZERNE 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 Hazleton 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.

The City of Hazleton Aggregate Pension Fund serves as a common investment and administrative agent for the city's police and paid firemen's pension plans.

The City of Hazleton Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1949, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers.

The City of Hazleton Paid Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1913, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters.



The Honorable Mayor and City Council
City of Hazleton
Luzerne County
Hazleton, PA 18201

We have conducted a compliance audit of the City of Hazleton 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 objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. The City of Hazleton contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Hazleton 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the City of Hazleton 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. However, we are extremely concerned about the historical trend information contained in the respective schedules of funding progress included in this report. For example, the Police Pension Plan's Funded Ratio went from 66.2% as of January 1, 2005, to a ratio of 49.1% as of January 1, 2009, which is the most recent date available. Similarly, the Paid Firemen's Pension Plan's Funded Ratio went from 79.3% as of January 1, 2005, to 45.5% as of January 1, 2009. In addition, the city's annual required contribution to the Police Pension Plan has gone from \$865,850 in 2005, to \$2,041,542 in 2010. Similarly, the city's annual required contribution to the Paid Firemen's Pension Plan has gone from \$296,414 in 2005 to \$1,167,215 in 2010. These changes in the plans' funded status and the increase in the city's required contributions to the plans are 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 and the adoption of Act 44 of 2009, which amended Act 205 and mandated that if a municipality assesses or utilizes the special municipal tax increase to fund other post-employment benefits, the cost of those benefits shall be subject to the actuarial funding and reporting standards of this act. We therefore 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 Hazleton and, where appropriate, their responses have been included in the report.

December 27, 2011

JACK WAGNER
Auditor General

CITY OF HAZLETON AGGREGATE PENSION FUND
STATUS OF PRIOR AUDIT RECOMMENDATION

Status Of Prior Audit Recommendation

· Improper Expenditure Of Special Municipal Taxing Authority Funds

As initially disclosed in the prior audit report for the period January 1, 2003, to December 31, 2004, the city used \$166,466 of special municipal pension tax proceeds in 2003 to buy back unused vacation and sick leave from employees who accepted an early retirement incentive offered by the city. On December 17, 2009, a settlement agreement was signed between the City of Hazleton and the Department of the Auditor General. The agreement stated, in part, that the city agreed to deposit monies to the pension plans representing the adjusted value of funds paid from the Act 205 Special Municipal Pension Tax Account in the form of leave buybacks in increments of \$3,750 per month, beginning in December of 2009 and ending on or before December 31, 2013. The city made an accelerated final payment of \$94,148 in November of 2011 to fully reimburse the pension plans and satisfy the terms of the agreement.

CITY OF HAZLETON 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. 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	\$ 10,556,004	\$ 15,949,926	\$ 5,393,922	66.2%	\$ 1,174,680	459.2%
01-01-07	12,199,911	17,482,036	5,282,125	69.8%	1,678,067	314.8%
01-01-09	13,051,913	26,587,647	13,535,734	49.1%	2,153,014	628.7%

Note 1: The market values of the plan's assets at 01-01-05, 01-01-07 and 01-01-09, have 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.

Note 2: The increase in the plan's actuarial accrued liability at January 1, 2009, was due, in part, to the cost of post-employment benefits included in the plan's actuarial valuation report pursuant to Act 44 of 2009.

CITY OF HAZLETON AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

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:

PAID 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	\$ 8,547,961	\$ 10,780,199	\$ 2,232,238	79.3%	\$ 905,945	246.4%
01-01-07	9,005,811	11,928,222	2,922,411	75.5%	955,534	305.8%
01-01-09	8,058,703	17,693,566	9,634,863	45.5%	1,046,563	920.6%

Note 1: The market values of the plan’s assets at 01-01-05, 01-01-07 and 01-01-09, have 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.

Note 2: The increase in the plan’s actuarial accrued liability at January 1, 2009, was due, in part, to the cost of post-employment benefits included in the plan’s actuarial valuation report pursuant to Act 44 of 2009.

CITY OF HAZLETON 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 HAZLETON 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	\$ 865,850	100.0%
2006	1,030,295	114.6%
2007	1,078,538	100.0%
2008	1,155,549	119.5%
2009	1,152,628	100.0%
2010	2,041,542	100.0%

CITY OF HAZLETON AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

PAID FIREMEN'S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 296,414	100.0%
2006	385,955	138.9%
2007	380,765	100.0%
2008	381,312	159.0%
2009	531,056	100.0%
2010	1,167,215	100.0%

CITY OF HAZLETON 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
Remaining amortization period	13 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0%

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

PAID FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	22 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0%

CITY OF HAZLETON AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Hazleton Aggregate Pension Fund
Luzerne County
40 North Church Street
Hazleton, PA 18201

The Honorable Joseph Yannuzzi	Mayor
Mr. James Perry	Council President
Ms. Mary Ellen Lieb	Acting Director of Administration
Mr. Greg Steber	Secretary, Paid Firemen's Pension Plan
Mr. Edward McAlarney	Treasurer, Police Pension Plan

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.