COMPLIANCE AUDIT

City of Allentown
Aggregate Pension Fund
Lehigh County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2018

December 2019

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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EUGENE A. DEPASQUALE
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, 2017 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and

2. To determine if the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- We determined whether retirement benefits calculated for all 12 police officers who retired during the current audit period, and through the completion of our fieldwork procedures, and all 3 firefighters who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for the 2 police officers who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.

- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

- We determined whether the pension fund is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current audit period and through the completion of our fieldwork procedures.

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 effective internal controls to provide reasonable assurance that the City of Allentown Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures 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 Pension Benefit Calculations

<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

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit

Finding No. 5 – Cost Of Living Adjustment Not In Accordance With The Third Class City Code

Aggregate Pension Fund

Finding No. 6 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Finding No. 7 – Failure To Implement Mandatory Provisions of Act 205

Finding Nos. 1, 3, 4, and 6 contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by city officials. We are concerned by the city's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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

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. We would like to thank city officials for the cooperation extended to us during the conduct of the audit.

Eugene A. DePasquale

December 3, 2019

EUGENE A. DEPASQUALE
Auditor General

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Plan is also governed by implementing regulations adopted by the former 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 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.
- 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 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 Employees, as amended, 53 P.S. § 42001 et seq.

The City of Allentown Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 143 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers, as well as Act 111 interest arbitration awards. The plan was established March 9, 1926. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 208 active members, 4 terminated members eligible for vested benefits in the future, and 282 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected police pension plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Eligible with 20 years of service. If hired after January 1, 2009, age 50 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50.5% of pension wages the member was receiving at the date of retirement, or, if higher, 50.5% of average salary of any 5 years of service, plus a service increment of 7.5% for the first full year of service over 20 years, plus 3.0% for each of the next 4 full years of service over 21 years to a maximum of 70% of pension wages for 25 or more years of service. If hired after January 1, 2009, 50% of pension wages or, if higher, 50% of average wages of any 5 years of service, plus a service increment of $100 per month for each year of service in excess of 20 years of service to a maximum of $500 per month.

Survivor Benefit:

Benefit equals 100% of pension benefits applicable to the member for members retired on or after December 17, 1969, active members dying in the line of duty, and active members dying not in the line of duty with 10 or more years of service.

Benefit equals 50% of pension benefits applicable to the member for active members not dying in the line of duty with less than 10 years of service.

Killed In Service - 62.5% of the officer's wages or 50.5% plus a service increment which the officer would be entitled to receive at the time of death, whichever is higher.

Service Related Disability Benefit:

Benefit equals 50.5% of the member's salary at the time the disability was incurred.

BACKGROUND – (Continued)

The City of Allentown Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 145 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters, as well as Act 111 interest arbitration awards. The plan was established December 8, 1927. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 121 active members, no terminated members eligible for vested benefits in the future, and 201 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected firefighters' pension plan benefit provisions are as follows:

<u>Eligibility Requirements</u>:

Normal Retirement	Eligible with 20 years of service.
Early Retirement	None
Vesting	None

<u>Retirement Benefit</u>:

Benefit equals 50.5% of salary at time of retirement, or, if higher, 50.5% of average annual salary during any 5 years of service. A service increment of 3.5% of salary for the first full year of service and 4.0% of salary for each full year of service in excess of 20 years, with a maximum benefit of 70% after 25 years of service. The increment benefit shall not exceed 5 years of service. Minimum pension is $10,400 per year.

<u>Survivor Benefit</u>:

Benefit equals 100% of the member's retirement benefits.

<u>Service Related Disability Benefit</u>:

Benefit equals 10% of salary for less than 2 years of service, but more than 1 day of service, 20% of salary for 2 to 5 years of service, 30% of salary for 5 to 10 years of service, 40% of salary for 10 to 15 years of service, and 50% for 15 or more years of service.

BACKGROUND – (Continued)

The City of Allentown Officers' and Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Article 141 of the city's codified ordinances, adopted pursuant to the Third Class City Code. The plan is also affected by the provisions of collective bargaining agreements between the city and its non-uniformed employees. Non-uniformed employees hired prior to August 5, 1981, are members of the officers' and employees' pension plan. The plan was established May 1, 1946. Active members are required to contribute 5.5 percent of compensation to the plan. As of December 31, 2018, the plan had 1 active member, no terminated members eligible for vested benefits in the future, and 117 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected officers' and employees' pension plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 20 years of service or age 60 and 12 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of compensation, or, if higher, 50% of average compensation during any 5 years of service. Benefit is reduced for service less than 20 years at retirement. Service increment of 1/40th of basic benefit for each year in excess of 20 years if elected by member.

Survivor Benefit:

If elected by a member, a survivor benefit is payable in the amount of 50% of the pension benefit the member was receiving or would have received had he/she been retired at time of death.

Service Related Disability Benefit:

Benefit equals 50% of compensation, or, if higher, 50% of average compensation during any 5 years of service. Benefit is reduced for service less than 20 years at retirement. Service increment of 1/40th of basic benefit for each year in excess of 20 years if elected by member.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

<u>Partial Compliance With Prior Audit Recommendation</u>

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

- <u>Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid</u>

  During the current audit period, the city reimbursed $55,927 to the Commonwealth for the overpayment of state aid received in 2016 and 2017; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2018 and 2019, as further discussed in the Findings and Recommendations section of this report.

<u>Noncompliance With Prior Audit Recommendations</u>

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:

<u>Police Pension Plan</u>

- <u>Plan Provisions Not In Compliance With The Third Class City Code</u>

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

- <u>Plan Provisions Not In Compliance With The Third Class City Code</u>

- <u>Inconsistent Pension Benefit</u>

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.). As disclosed in the prior four audit reports, the plan's governing document contained provisions that are not in compliance with the Third Class City Code, as noted below:

Provision	Plan Governing Document	Third Class City Code
Survivor benefits for a surviving spouse of a retiree	In case there is no surviving spouse, or after the death of the surviving spouse, or in case of her or his remarriage, the pension and service increment 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 eighteen (18) years, after which all pension and service increment rights shall cease, with the exception that after the last child has reached the age of eighteen (18) years, then the surviving spouse who has since remarried, at this time will once again have his or her pension rights as a surviving spouse reinstated for the remainder of his/her life.	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 the spouse survives and subsequently dies or remarries, the child or children under 18 years of age of a member of the police force or a member who retires on pension who dies on or after August 1, 1963, shall, during the lifetime of the surviving spouse, even if the surviving spouse remarries, or until reaching 18 years of age in the case of a child or children, be entitled to receive a pension calculated at the rate of 50% of the pension the member was receiving or would have been receiving if the member was retired at the time of the member's death and may receive the pension the member was receiving or would have been receiving had the member been retired at the time of the member's death. The payments under paragraph (2) shall be made to a surviving spouse even if the spouse remarries or, if no spouse survives or if the individual survives and subsequently dies, to the children under 18 years of age of: (i) a member of the police force; (ii) a member retired on pension; or (iii) a member who died in service.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Provision	Plan Governing Document	Third Class City Code
Refund of service increment contributions	Not provided.	Service increment contributions shall be paid at the same time and in the same manner as retirement contributions, and 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.
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.
Credit for police cadet/para police service	Every current member of the Police Pension Fund who served as a City of Allentown Police "Cadet" or "Para Police" Officer prior to their appointment as a police officer shall be entitled to have full credit for each year or fraction thereof, not to exceed four (4) years of such service, upon payment to the Police Pension Fund of an amount equal to that which they would have paid had they been a member of the Police Pension Fund during the period of Allentown "Cadet" or "Para Police" service. All purchased Allentown "Cadet" or "Para Police" service shall be credited as "active service" for pension purposes.	Not provided.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

Criteria: As previously disclosed, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law." The court's holding was in accordance with the position taken by this Department since at least January 1995.

Cause: Municipal officials again 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 reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the benefits not in compliance with the Third Class City Code. However, providing benefits not in compliance with the Third Class City Code could result in the receipt of excess state aid in the future, and could also increase the city's required 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.

Police Pension Plan – (Continued)

Finding No. 1 – (Continued)

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: Management is aware of the ongoing finding with respect to apparent inconsistencies between certain City pension plan provisions and those permitted by the Third Class City Code. Management further acknowledges that previous City responses to this finding have questioned the legal inconsistency of such provisions. The City will abide by the provisions of its existing collective bargaining agreements and will aim through future bargaining agreements and amendments to City ordinances to harmonize the plan provisions with those of the Third Class City Code to the extent legally necessary and as quickly as possible.

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

Police Pension Plan – (Continued)

Finding No. 2 – Incorrect Pension Benefit Calculations

Condition: The city incorrectly calculated the pension calculations for five retired or vested police officers as listed in the table below:

	Date of Termination/ Retirement	Type of Calculation Error	Monthly Benefit Overpaid (Underpaid)
Officer 1*	02/10/2014	Incorrect 2009 and 2010 compensation used in calculation.	$ (47)
Officer 2**	09/15/2016	Calculation contains mathematical error.	$ (8)
Officer 3	12/05/2017	Calculation contains excess longevity, shift differential, and military time not supported by DD Form 214.	$ 863
Officer 4	12/31/2017	Calculation contains inaccurate payroll.	$ 140
Officer 5	12/03/2018	Calculation contains excess shift differential, and military time not supported by DD Form 214.	$ 1,295

* Calculation error was reported as a verbal observation in our prior audit and has not been addressed by the city.

** Calculation error was reported as a verbal observation in our prior audit and has not been addressed by the city. Officer terminated employment September 15, 2016 and will be eligible to receive vested benefit September 9, 2020.

Criteria: Article 143 of the Codified Ordinances at Section 143.14.5 states, in part:

> C. Effective January 1, 2005, the basis of the amount of the pension shall be determined by the rate of the monthly pay of the employee at the time of retirement, or the highest average annual salary which the Covered Employee received during any five (5) years of service preceding retirement, whichever is higher. During the final thirty (30) days of employment, a retiring employee shall not artificially contrive or manipulate his regular or overtime hours so as to increase the rate of pension to which he would otherwise be entitled. When the Covered Employee

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

> submits his/her letter of retirement to the City, the City shall provide the employee with an itemized list of salary for each and all years of service. Salary will include base pay, longevity, holiday pay, shift differential and overtime….

Article 143 of the Codified Ordinances at Section 143.16 states, in part:

> Effective August 23, 1999, every covered employee who has served for a period of at least twenty (20) years of continuous service, regardless of age, shall be permitted to retire and receive a pension at the rate of fifty and one half (50.5%) percent of his/her salary on the date of retirement.

Article 143 of the Codified Ordinances at Section 143.18 (B) states:

> Effective January 1, 2005, the total of pension and service increments shall represent the following percentages of salary:

21 years of service	58%
22 years of service	61%
23 years of service	64%
24 years of service	67%
25 years of service	70%

Act 67 at Section 14302 (c) states:

> Military service.--With the approval of council, a member of the police pension fund shall be entitled to have full credit for each year or fraction of a year, not to exceed five years, of the service upon the member's payment to:
> (1) the police pension fund of an amount equal to that which the member would have paid had the member been a member during the period for which credit is desired; and
> (2) the fund of an additional amount as the equivalent of the contributions of the city on account of the military service.
> To be eligible under this subsection, the member must be a contributor who served in the armed forces of the United States after September 1, 1940, and was not a member of the police pension fund prior to the military service.

Police Pension Plan – (Continued)

Finding No. 2 – (Continued)

Article 143 of the Codified Ordinances at Section 143.21 states, in part:

> Every covered employee who served in the Armed Forces of the United States subsequent to September 1, 1940, and who was not a member of the covered Police Department prior to such military service, shall be entitled to have full credit for each year or fraction thereof, not to exceed five (5) years of such service, upon his/her payment to the Police Pension Fund of an amount equal to that which he/she would have paid had he/she been a member during the period for which he/she desires credit, and his/her payment to such fund of an additional amount as the equivalent of the contributions of the CITY OF ALLENTOWN on account of such military service. All purchased military time shall be credited as "active service" for pension purposes.

Cause: Municipal officials failed to establish adequate internal control procedures to comply with verbal observations issued in the prior audit recommending that pension calculations be reviewed and revised. Furthermore, municipal officials failed to establish adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan's governing document.

Effect: The plan is not paying the proper amount of pension benefits to retirees as authorized by the plan's governing document.

Recommendation: We recommend that municipal officials adjust the retiree's pension benefits in accordance with the provisions contained in the plan's governing document.

Management's Response: Management agrees with this finding and is taking proactive steps to minimize the likelihood of incorrect pension calculations going forward. Discrete written procedures by which the City calculates beneficiary pensions are nearing completion, and they will be disseminated to all affected parties when finished. Additionally, the City has added staff for pension computation and therefore should achieve both greater accuracy and speed in the computation process.

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

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 four audit reports, certain plan provisions are not in compliance with the Third Class City Code, as noted below:

Provision	Plan Governing Document	Third Class City Code
Survivor benefits for minor children of members not killed in service	Upon the death of the surviving spouse, pension benefits shall be paid to the guardian of the deceased officer's dependent children, if any, without abatement until the youngest child reaches the age of 18 or up to 23 if enrolled in and attending a post-secondary certified education institution on a full time basis.	Not provided.
Refund of service increment contributions	Not provided.	Service increment contributions may be withdrawn in full, without interest, by persons who leave the employment of such city, subject to the same conditions by which retirement contributions may be withdrawn, or by persons who retire before becoming entitled to any service increment.

Criteria: As previously disclosed, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee* on January 24, 2001. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), "clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law." The court's holding was in accordance with the position taken by this Department since at least January 1995.

Firemen's Pension Plan – (Continued)

Finding No. 3 – (Continued)

Cause: Municipal officials again 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 reduce the amount of funds available for investment purposes or the payment of authorized benefits or administrative expenses. Since the city received its state aid allocations based on unit value during the current audit period, it did not receive excess state aid allocations attributable to the benefits not in compliance with the Third Class City Code. However, providing benefits not in compliance with the Third Class City Code could result in the receipt of excess state aid in the future, and could also increase required municipal contributions to the plan.

In addition, the failure to provide benefits mandated by the Third Class City Code could result in plan members or their beneficiaries being denied benefits to which they are statutorily entitled.

Recommendation: As noted in the prior audit report, until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. The Department seeks, therefore, to implement the decision in as equitable a fashion as possible, while paying necessary deference to the court's ruling. Accordingly, the Department will not penalize a home rule municipality for granting benefits not authorized by 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.

Firemen's Pension Plan – (Continued)

Finding No. 3 – (Continued)

Management's Response: Management is aware of the ongoing finding with respect to apparent inconsistencies between certain City pension plan provisions and those permitted by the Third Class City Code. Management further acknowledges that previous City responses to this finding have questioned the legal inconsistency of such provisions. The City will abide by the provisions of its existing collective bargaining agreements and will aim through future bargaining agreements and amendments to City ordinances to harmonize the plan provisions with those of the Third Class City Code to the extent legally necessary and as quickly as possible.

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

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit

Condition: As noted in the prior audit report, the pension plan's governing document, Article 145 of the city's codified ordinance, contains a benefit provision that conflicts with the collective bargaining agreement between the firemen and the city, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement
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.	For all employees hired after 1/1/2012, $1/40^{th}$ (2.5%) of pension benefit multiplied by the number of whole years in excess of 20 years, not to exceed $200 per month.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Firemen's Pension Plan – (Continued)

Finding No. 4 – (Continued)

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

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

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management's Response: Management agrees with this finding. The City will harmonize the appropriate provisions of the ordinances with those of the collective bargaining agreements as soon as possible.

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

Finding No. 5 – Cost Of Living Adjustment Not In Accordance With The Third Class City Code

Condition: The pension plan's governing document contains a cost of living adjustment (COLA) provision that is not authorized by the Third Class City Code. Section 145.18.3 of the city's codified ordinance states, in part:

> Any covered employee, retiring after January 1, 2005 shall be eligible to receive an annual Cost of Living Adjustment. Such adjustments shall be in conformity with a uniform scale, which shall be based on the cost of living as described below, but the sum total of the employee's pension and such allowances shall not at any time exceed one-half of the current salary being paid to Fire Fighters of the same rank held by the Firefighter prior to retirement.

During the audit period, excess COLAs were granted to six retired firefighters.

Firemen's Pension Plan – (Continued)

Finding No. 5 – (Continued)

Criteria: Section 14322.1 (b) of the Third Class City Code states:

> Increases made pursuant to this section shall be in conformity with a uniform scale, which may be based on the cost of living, but the total of the allowances shall not, at any time, exceed one-half of the current salary being paid firefighters of the highest pay grade. [Emphasis added.]

Cause: City officials believed that their methodology for calculating the cost of living adjustments was authorized by the Third Class City Code.

Effect: The plan is paying pension benefits to six retirees in excess of those authorized by the Third Class City Code. As of the date of this report, the retirees are receiving total excess benefits of $7,378 per month, which totaled approximately $190,133 from retirement until the date of this 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.

Recommendation: We recommend that the city amend the governing document to be in compliance with the Third Class City Code and ensure that future cost of living adjustments are in compliance with the Third Class City Code.

Management's Response: Management agrees with this finding and seeks to ensure that future cost-of-living calculations adhere to the provisions of the Third Class City Code.

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

Aggregate Pension Plan

Finding No. 6 – 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 Status of Prior Findings section of this report, although the city reimbursed the Commonwealth for the overpayment of state aid received in 2016 and 2017, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2018 and 2019. The city certified 2 ineligible non-uniformed employees (2 units) on the Certification Form AG 385 filed in 2018. In addition, subsequent to the current audit period, the city certified 7 ineligible non-uniformed employees (7 units) and failed to certify 1 eligible non-uniformed employee (1 unit) and 1 eligible police officer (2 units) on the Certification Form AG 385 filed in 2019. The data contained on these certification forms is based on prior calendar year information.

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 again failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality 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:

Year	Type of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2018	Non-Uniformed	2	$ 4,684	$ 9,368
2019	Police	(2)	$ 5,121	$ (10,242)
	Non-Uniformed	6	$ 5,121	30,726
			Total	$ 20,484
		Net Overpayment of State Aid		$ 29,852

Aggregate Pension Plan – (Continued)

Finding No. 6 – (Continued)

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

Recommendation: We recommend that the net overpayment of state aid, in the amount of $29,852, plus interest, 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 plans, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Management's Response: Management agrees with this finding. The City will strengthen its internal control processes to minimize the likelihood of a recurrence of a calculation error, and the City will not use pension funds to reimburse the Commonwealth for the error detected.

Auditor's Conclusion: Due to the potential withhold of state aid, the city's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension fund.

Aggregate Pension Plan – (Continued)

Finding No. 7 – Failure To Implement Mandatory Provisions Of Act 205

Condition: During the prior audit, a verbal observation was issued to plan officials notifying them of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, and recommending that the city adopt the mandatory provisions, accordingly. However, during the current engagement period, the city again failed to adopt such mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a "Professional Services Contract", as follows:

> "Professional services contract." A contract to which the municipal pension system is a party that is:
> (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
> (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

> Each municipal pension system … shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

> **Review.** Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.
>
> **Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.
>
> **Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Aggregate Pension Plan – (Continued)

Finding No. 7 – (Continued)

> **Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the processional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

> Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate procedures to ensure compliance with provisions of Act 205 as recommended in a verbal observation in the prior audit.

Effect: The city's failure to adopt the required provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the city's pension plans could result in a general lack of overall transparency of the proposed actions to be taken by plan officials relative to the awarding of future investment and advisory service contracts for the city's pension plans.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plans.

Management's Response: Management agrees with this finding. The City will encourage the pension plan governing boards to adopt written procurement procedures in accordance with the Third Class City Code.

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

CITY OF ALLENTOWN AGGREGATE PENSION FUND
POTENTIAL WITHHOLD OF STATE AID

Finding No. 6 contained in this audit report cites an overpayment of state aid to the city in the amount of $29,852, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount 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, 321 Finance Building, Harrisburg, PA 17120.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 23 through 34 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	2014	2015	2016
Total Pension Liability			
Service cost	$ 2,661,908	$ 2,856,276	$ 3,039,127
Interest	12,280,247	12,720,534	13,161,554
Difference between expected and actual experience	-	737,072	(205,379)
Changes of assumptions	-	-	7,903,467
Benefit payments, including refunds of member contributions	(10,194,574)	(10,190,293)	(10,506,610)
Net Change in Total Pension Liability	4,747,581	6,123,589	13,392,159
Total Pension Liability – Beginning	160,795,072	165,542,653	171,666,242
Total Pension Liability – Ending (a)	$ 165,542,653	$ 171,666,242	$ 185,058,401
Plan Fiduciary Net Position			
Contributions – employer	$ 2,507,471	$ 2,669,759	$ 4,216,537
Contributions – member	825,381	914,420	991,017
Net investment income	6,419,152	(701,889)	10,741,586
Benefit payments, including refunds of member contributions	(10,194,574)	(10,190,293)	(10,506,610)
Administrative expense	(10,682)	(9,673)	(9,593)
Net Change in Plan Fiduciary Net Position	(453,252)	(7,317,676)	5,432,937
Plan Fiduciary Net Position – Beginning	148,809,552	148,356,300	141,038,624
Plan Fiduciary Net Position – Ending (b)	$ 148,356,300	$ 141,038,624	$ 146,471,561
Net Pension Liability – Ending (a-b)	$ 17,186,353	$ 30,627,618	$ 38,586,840
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.62%	82.16%	79.15%
Estimated Covered Employee Payroll	$ 17,031,352	$ 17,794,000	$ 18,931,433
Net Pension Liability as a Percentage of Covered Employee Payroll	100.91%	172.12%	203.82%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

POLICE PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	2017	2018
Total Pension Liability		
Service cost	$ 3,500,391	$ 3,496,148
Interest	14,049,286	14,586,053
Difference between expected and actual experience	4,018,311	377,097
Benefit payments, including refunds of member contributions	(10,700,027)	(10,833,661)
Net Change in Total Pension Liability	10,867,961	7,625,637
Total Pension Liability – Beginning	185,058,401	195,926,362
Total Pension Liability – Ending (a)	$ 195,926,362	$ 203,551,999
Plan Fiduciary Net Position		
Contributions – employer	$ 4,341,381	$ 6,924,460
Contributions – member	931,395	988,224
Net investment income (loss)	22,256,156	(7,348,536)
Benefit payments, including refunds of member contributions	(10,700,026)	(10,833,661)
Administrative expense	(85,076)	(98,985)
Net Change in Plan Fiduciary Net Position	16,743,830	(10,368,498)
Plan Fiduciary Net Position – Beginning	146,471,561	163,215,391
Plan Fiduciary Net Position – Ending (b)	$ 163,215,391	$ 152,846,893
Net Pension Liability – Ending (a-b)	$ 32,710,971	$ 50,705,106
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.30%	75.09%
Estimated Covered Employee Payroll	$ 19,231,733	$ 19,718,764
Net Pension Liability as a Percentage of Covered Employee Payroll	170.09%	257.14%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

POLICE PENSION PLAN

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the city as of December 31, 2014 and 2015, calculated using the discount rate of 7.75%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/14	$ 38,921,016	$ 17,186,353	$ (698,851)
Net Pension Liability – 12/31/15	$ 53,251,972	$ 30,627,618	$ 11,994,186

In addition, the following presents the net pension liability of the city as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 7.50%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/16	$ 64,024,864	$ 38,586,840	$ 17,760,765
Net Pension Liability – 12/31/17	$ 59,709,405	$ 32,710,471	$ 10,603,534
Net Pension Liability – 12/31/18	$ 78,617,564	$ 50,705,106	$ 27,837,738

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

POLICE PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 7,115,495	$ 7,115,495	$ -	$13,001,025	54.73%
2010	5,726,720	5,726,720	-	13,821,650	41.43%
2011	7,338,716	7,597,844	(259,128)	13,788,954	55.10%
2012	7,324,133	8,248,725	(924,592)	14,487,385	56.94%
2013	2,276,774	86,776,774	(84,500,000)	15,293,935	567.39%
2014	2,507,471	2,507,471	-	17,031,352	14.72%
2015	2,669,759	2,669,759	-	17,794,000	15.00%
2016	4,216,537	4,216,537	-	18,931,433	22.27%
2017	4,341,381	4,341,381	-	19,231,733	22.57%
2018	6,924,460	6,924,460	-	19,718,764	35.12%

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(4.65%)
2017	15.20%
2016	7.30%
2015	(0.44%)
2014	4.51%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	2014	2015	2016
Total Pension Liability			
Service cost	$ 1,422,468	$ 1,513,683	$ 1,544,110
Interest	8,601,438	8,782,604	8,940,922
Difference between expected and actual experience	-	312,322	(502,487)
Changes of assumptions	-	-	4,219,884
Benefit payments, including refunds of member contributions	(8,075,886)	(8,104,277)	(8,113,374)
Net Change in Total Pension Liability	1,948,020	2,504,332	6,089,055
Total Pension Liability – Beginning	113,526,423	115,474,443	117,978,775
Total Pension Liability – Ending (a)	$ 115,474,443	$ 117,978,775	$ 124,067,830
Plan Fiduciary Net Position			
Contributions – employer	$ 1,355,613	$ 1,205,379	$ 2,965,478
Contributions – member	450,825	482,441	495,834
Net investment income (loss)	4,173,658	(374,539)	7,093,225
Benefit payments, including refunds of member contributions	(8,075,886)	(8,104,277)	(8,113,274)
Administrative expense	(10,682)	(9,673)	(9,592)
Net Change in Plan Fiduciary Net Position	(2,106,472)	(6,800,669)	2,431,671
Plan Fiduciary Net Position – Beginning	104,693,215	102,586,743	95,786,074
Plan Fiduciary Net Position – Ending (b)	$ 102,586,743	$ 95,786,074	$ 98,217,745
Net Pension Liability – Ending (a-b)	$ 12,887,700	$ 22,192,701	$ 25,850,085
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.84%	81.19%	79.16%
Estimated Covered Employee Payroll	$ 8,968,810	$ 9,544,000	$ 9,901,453
Net Pension Liability as a Percentage of Covered Employee Payroll	143.70%	232.53%	261.07%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIO FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	2017	2018
Total Pension Liability		
Service cost	$ 1,735,550	$ 1,789,346
Interest	9,101,734	9,292,591
Difference between expected and actual experience	(513,486)	(324,574)
Benefit payments, including refunds of member contributions	(8,011,716)	(8,032,161)
Net Change in Total Pension Liability	2,312,082	2,725,202
Total Pension Liability – Beginning	124,067,830	126,379,912
Total Pension Liability – Ending (a)	$ 126,379,912	$ 129,105,114
Plan Fiduciary Net Position		
Contributions – employer	$ 3,068,607	$ 3,714,299
Contributions – member	520,536	537,852
Net investment income (loss)	14,584,721	(4,686,690)
Benefit payments, including refunds of member contributions	(8,011,715)	(8,032,161)
Administrative expense	(85,633)	(78,361)
Net Change in Plan Fiduciary Net Position	10,076,516	(8,545,061)
Plan Fiduciary Net Position – Beginning	* 98,217,645	108,294,161
Plan Fiduciary Net Position – Ending (b)	$ 108,294,161	$ 99,749,100
Net Pension Liability – Ending (a-b)	$ 18,085,751	$ 29,356,014
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.69%	77.26%
Estimated Covered Employee Payroll	$ 10,408,858	$ 10,776,923
Net Pension Liability as a Percentage of Covered Employee Payroll	173.75%	272.40%

* The 2017 beginning balance was adjusted for a $100 valuation difference between the 2016 ending and 2017 beginning balances.

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the city as of December 31, 2014 and 2015, calculated using the discount rate of 7.75%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/14	$ 26,362,427	$ 12,887,700	$ 1,648,769
Net Pension Liability – 12/31/15	$ 35,906,334	$ 22,192,701	$ 10,735,544

In addition, the following presents the net pension liability of the city as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 7.50%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/16	$ 40,673,548	$ 25,850,085	$ 13,506,248
Net Pension Liability – 12/31/17	$ 33,084,456	$ 18,085,751	$ 5,570,979
Net Pension Liability – 12/31/18	$ 44,736,143	$ 29,356,014	$ 16,509,245

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

FIREMEN'S PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 3,565,384	$ 3,565,384	$ -	$10,179,600	35.02%
2010	3,133,439	3,133,439	-	10,475,590	29.91%
2011	4,146,949	4,293,176	(146,227)	7,558,653	56.80%
2012	4,069,771	4,583,476	(513,705)	9,755,213	46.98%
2013	1,508,323	62,708,409	(61,200,086)	8,117,293	772.53%
2014	1,345,613	1,355,613	(10,000)	8,968,810	15.11%
2015	1,205,379	1,205,379	-	9,544,000	12.63%
2016	2,965,478	2,965,478	-	9,901,453	29.95%
2017	3,068,607	3,068,607	-	10,408,858	29.48%
2018	3,714,299	3,714,299	-	10,776,923	34.47%

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(4.51%)
2017	14.80%
2016	7.10%
2015	(0.32%)
2014	4.29%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	2014	2015	2016
Total Pension Liability			
Service cost	$ 7,950	$ 8,254	$ 8,894
Interest	1,169,496	1,064,075	1,010,525
Difference between expected and actual experience	-	(434,623)	278,360
Changes of assumptions	-	-	294,664
Benefit payments, including refunds of member contributions	(2,371,674)	(2,235,966)	(2,136,355)
Net Change in Total Pension Liability	(1,194,228)	(1,598,260)	(543,912)
Total Pension Liability – Beginning	18,484,397	17,290,169	15,691,909
Total Pension Liability – Ending (a)	$ 17,290,169	$ 15,691,909	$ 15,147,997
Plan Fiduciary Net Position			
Contributions – employer	$ 103,519	$ 161,022	$ 149,540
Contributions – member	3,573	3,851	3,930
Net investment income	940,162	50,233	647,814
Benefit payments, including refunds of member contributions	(2,371,674)	(2,235,966)	(2,136,355)
Administrative expense	(10,682)	(9,673)	(9,592)
Net Change in Plan Fiduciary Net Position	(1,335,102)	(2,030,533)	(1,344,663)
Plan Fiduciary Net Position – Beginning	18,246,195	16,911,093	14,880,560
Plan Fiduciary Net Position – Ending (b)	$ 16,911,093	$ 14,880,560	$ 13,535,897
Net Pension Liability – Ending (a-b)	$ 379,076	$ 811,349	$ 1,612,100
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.81%	94.83%	89.36%
Estimated Covered Employee Payroll	$ 64,960	$ 70,000	$ 71,512
Net Pension Liability as a Percentage of Covered Employee Payroll	583.55%	1,159.07%	2,254.31%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	2017	2018
Total Pension Liability		
Service cost	$ 9,614	$ 9,983
Interest	917,538	842,606
Difference between expected and actual experience	(49,185)	(132,092)
Benefit payments, including refunds of member contributions	(2,016,648)	(1,877,646)
Net Change in Total Pension Liability	(1,138,681)	(1,157,149)
Total Pension Liability – Beginning	15,147,997	14,009,316
Total Pension Liability – Ending (a)	$ 14,009,316	$ 12,852,167
Plan Fiduciary Net Position		
Contributions – employer	$ 149,845	$ 203,427
Contributions – member	4,073	4,212
Net investment income	1,281,494	(264,012)
Benefit payments, including refunds of member contributions	(2,016,648)	(1,877,646)
Administrative expense	(68,931)	(64,142)
Net Change in Plan Fiduciary Net Position	(650,167)	(1,998,161)
Plan Fiduciary Net Position – Beginning	13,535,897	12,885,730
Plan Fiduciary Net Position – Ending (b)	$ 12,885,730	$ 10,887,569
Net Pension Liability – Ending (a-b)	$ 1,123,586	$ 1,964,598
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.98%	84.71%
Estimated Covered Employee Payroll	$ 74,062	$ 76,590
Net Pension Liability as a Percentage of Covered Employee Payroll	1,517.09%	2,565.08%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the city as of December 31, 2014 and 2015, calculated using the discount rate of 6.75%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability – 12/31/14	$ 1,432,549	$ 379,076	$ (561,615)
Net Pension Liability – 12/31/15	$ 1,752,860	$ 811,349	$ (29,798)

In addition, the following presents the net pension liability of the city as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 6.50%, as well as what the city's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net Pension Liability – 12/31/16	$ 2,524,608	$ 1,612,100	$ 798,100
Net Pension Liability – 12/31/17	$ 1,956,449	$ 1,123,586	$ 379,264
Net Pension Liability – 12/31/18	$ 2,717,505	$ 1,964,598	$ 1,291,127

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

OFFICERS' AND EMPLOYEES' PENSION PLAN

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2009	$ 451,053	$ 451,053	$ -	$ 386,999	116.55%
2010	343,531	343,531	-	314,909	109.09%
2011	514,014	532,150	(18,136)	250,324	212.58%
2012	512,669	577,431	(64,762)	250,856	230.18%
2013	81,097	4,381,097	(4,300,000)	62,491	7,010.76%
2014	103,519	103,519	-	64,960	159.36%
2015	161,022	161,022	-	70,000	230.03%
2016	149,540	149,540	-	71,512	209.11%
2017	149,845	149,845	-	74,062	202.32%
2018	203,427	203,427	-	76,590	265.61%

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(2.22%)
2017	9.50%
2016	4.80%
2015	0.67%
2014	5.99%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

POLICE PENSION PLAN

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, 2014, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-14*	$ 143,686,645	$ 160,795,072	$ 17,108,427	89.4%
01-01-15	148,553,041	166,279,725	17,726,684	89.3%
01-01-16*	150,541,282	172,087,146	21,545,864	87.5%
01-01-17	154,217,523	189,076,712	34,859,189	81.6%
01-01-18*	159,712,488	196,303,459	36,590,971	81.4%
01-01-19*	163,859,683	202,033,321	38,173,638	81.1%

* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the Municipal Pension Reporting Program and former Public Employee Retirement Commission.

Note: The market value of the plan's assets at 01-01-14 reflects the deposit of note proceeds in the amount of $84,500,000. The market values of the plan's assets at 01-01-14, 01-01-15, 01-01-16, 01-01-17, 01-01-18, and 01-01-19 have been adjusted to reflect five-year smoothing of gains and/or losses. 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)

SCHEDULE OF FUNDING PROGRESS – (Continued)

FIREMEN'S PENSION PLAN

	(1)	(2)	(3)	(4)
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)
01-01-14*	$ 101,163,582	$ 113,526,423	$ 12,362,841	89.1%
01-01-15	103,009,149	115,786,765	12,777,616	89.0%
01-01-16*	102,403,794	117,476,288	15,072,494	87.2%
01-01-17	103,743,077	123,554,344	19,811,267	84.0%
01-01-18*	106,397,272	126,055,338	19,658,066	84.4%
01-01-19*	107,080,303	127,317,052	20,236,749	84.1%

* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the Municipal Pension Reporting Program and former Public Employee Retirement Commission.

Note: The market value of the plan's assets at 01-01-14 reflects the deposit of note proceeds in the amount of $61,200,000. The market values of the plan's assets at 01-01-14, 01-01-15, 01-01-16, 01-01-17, 01-01-18, and 01-01-19 have been adjusted to reflect five-year smoothing of gains and/or losses. 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)

SCHEDULE OF FUNDING PROGRESS – (Continued)

OFFICERS' AND EMPLOYEES' PENSION PLAN

	(1)	(2)	(3)	(4)
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)
01-01-14*	$ 16,988,923	$ 18,484,397	$ 1,495,474	91.9%
01-01-15	16,260,482	16,855,546	595,064	96.5%
01-01-16*	15,112,390	15,970,269	857,879	94.6%
01-01-17	14,124,036	15,098,812	974,776	93.5%
01-01-18*	13,100,702	13,877,224	776,522	94.4%
01-01-19*	11,728,438	12,913,821	1,185,383	90.8%

* Data reported on annual actuarial valuation report prepared in addition to the reports filed biennially with the Municipal Pension Reporting Program and former Public Employee Retirement Commission.

Note: The market value of the plan's assets at 01-01-14 reflects the deposit of note proceeds in the amount of $4,300,000. The market values of the plan's assets at 01-01-14, 01-01-15, 01-01-16, 01-01-17, 01-01-18, and 01-01-19 have been adjusted to reflect five-year smoothing of gains and/or losses. 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.

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

The information presented in the 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% - 4.5%

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	3.5% - 4.5%

OFFICERS' AND EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	5-year smoothing method described in Section 3.16 of Revenue Procedure 2000-40.
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.5%

CITY OF ALLENTOWN AGGREGATE PENSION FUND
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