

COMPLIANCE AUDIT

City of Carbondale Aggregate Pension Fund Lackawanna County, Pennsylvania For the Period January 1, 2022 to December 31, 2023

November 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and City Council
City of Carbondale
Lackawanna County
Carbondale, PA 18407

We have conducted a compliance audit of the City of Carbondale Aggregate Pension Fund for the period January 1, 2022 to December 31, 2023. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 finding contained in our prior 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 finding contained in our prior report, we inquired of city 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 plans' governing documents and applicable laws and regulations by examining the municipality's calculation of the plans' annual financial requirements and minimum municipal obligations (MMOs) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension fund as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension fund in accordance with the plans' governing documents and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plans' governing documents in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension fund.
- We determined whether retirement benefits calculated for plan members who retired subsequent to the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plans' governing documents, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipients.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022, and 2024, 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 city officials.
- 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 city officials and examination of supporting documentation for pension obligation bonds issued during the current audit period and through the completion of our fieldwork procedures.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plans' governing documents.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Carbondale Aggregate Pension Fund is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

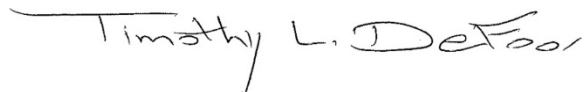
The results of our procedures indicated that, in all significant respects, the City of Carbondale Aggregate Pension Fund was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 2 – Pension Benefits In Excess Of The Third Class City Code

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information 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 Carbondale 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.



Timothy L. DeFoor
Auditor General
October 9, 2024

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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.

Annual state aid allocations are provided from a two 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 Carbondale Aggregate Pension Fund is also governed by implementing regulations 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The City of Carbondale Aggregate Pension Fund retains the assets and acts as a common investment and administrative agent for the city's police and firemen's pension plans. The police and firemen's pension plans are single-employer defined benefit pension plans locally controlled by the provisions of Chapter 27 of the city's code of ordinances, adopted pursuant to Act 67. The plans are also affected by the provisions of collective bargaining agreements between the city and its police officers and firefighters. The police pension plan was established August 7, 1950 and the firemen's pension plan was established December 19, 1949. Active members of both plans are required to contribute 5 percent to the plan.

As of December 31, 2023, the police plan had 7 active members, no terminated members eligible for vested benefits in the future, and 20 retirees receiving pension benefits from the plan.

As of December 31, 2023, the firemen's plan had 5 active members, no terminated members eligible for vested benefits in the future, and 5 retirees receiving pension benefits from the plan.

CITY OF CARBONDALE AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Findings

Firemen's Pension Plan

· Provision Of Benefits In Excess Of The Third Class City Code

As disclosed in the prior six audit reports, the collective bargaining agreement between the city and its firefighters continues to provide a cost-of-living allowance to its firefighters in excess of the restrictions found in the Third Class City Code. During the current audit, it was determined that the city has continued to provide a cost-of-living allowance in excess of the restrictions found in the Third Class City Code. The city received its state aid based on unit value during the current audit period, therefore, the city did not receive any state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess benefit on the city's future state aid allocations during subsequent audits of the plan.

Police Pension Plan

· Pension Benefits In Excess Of The Third Class City Code

As disclosed in the prior five audit reports, the plan's governing document grants benefits that are not authorized by the Third Class City Code. The city created a "one-time" Retirement Incentive Program for full-time police officers with at least 20 years of service as of February 19, 2013. The city amended the incentive program in March 2013 to include an incentive for any full-time police officer eligible for a disability pension as of March 18, 2013. Under these incentives the city is paying pension benefits to four retirees in excess of those benefits authorized by the Third Class City Code. The city again amended the incentive program in August 2016 for full-time police officers with at least 20 years of service as of July 16, 2016 and under this incentive the city is paying pension benefits to one retiree in excess of those authorized by the Third Class City Code. During the current audit, it was determined that these excess benefits are still being paid to existing retirees.

In addition, during the current audit, it was determined that during the years 2019 to 2024, the city granted similar retirement incentives to six full-time police officers with at least 20 years of service, however, the city failed to amend the incentive program to include these retirees and also failed to procure a cost estimate determining the financial impact of the retirement incentives on the pension plan. Under this incentive the city is paying pension benefits to six retirees in excess of those authorized by the Third Class City Code. The city should ensure that all pension benefit modifications are preceded by a cost estimate in accordance with Act 205 requirements and are appropriately adopted.

CITY OF CARBONDALE AGGREGATE PENSION FUND
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Findings – (Continued)

Given the city’s previously documented position on this matter and considering that the city received its state aid based on unit value during the current audit period and, therefore, did not receive any state aid attributable to the excess benefits provided, the finding will not be repeated in this audit report. The Department will, however, continue to monitor the effect of the excess benefits on the city’s future state aid allocations during subsequent audits of the plan.

Partial Compliance With Prior Audit Recommendation

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

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligations Of The Plans

The city paid the outstanding MMOs due to the police pension plan for the years 2015, 2016, 2019, and 2021, and the firemen’s pension plan for the years 2015 and 2016 in the total amount of \$39,385, plus interest, on December 8, 2022. However, city officials failed to pay the 2021 outstanding MMO due to the firemen’s pension plan, as recommended in the prior audit report, and also failed to properly determine and fully pay the MMO due to the firemen’s pension plan for the year 2023 as further discussed in Finding No. 1 in the Findings and Recommendations section of this report.

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Firemen’s Pension Plan

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the Status of Prior Findings section of this report, the city partially complied with the prior audit recommendation by depositing the outstanding minimum municipal obligations (MMOs) due to the police pension plan for the years 2015, 2016, 2019, and 2021 and to the firemen’s pension plan for the years 2015 and 2016. However, the city failed to pay the 2021 outstanding MMO due to the firemen’s pension plan in the amount of \$7,703, plus interest, as recommended in the prior audit report. Furthermore, the city did not properly determine or fully pay the MMO of the firemen’s pension plan for the year 2023, as required by Act 205. The MMO determined by the municipality understated payroll by \$126,833. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$7,750 for the year 2023.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year’s end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: When paying the outstanding MMOs as recommended in the prior finding, city officials utilized a draft version of the finding which did not include the 2021 outstanding MMO due to the firemen’s pension plan. Regarding the 2023 MMO, an employee was inadvertently omitted from the initial payroll worksheet used in assisting the preparation of the calculation.

Effect: The proper determination of the plan’s MMO ensures city officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality’s failure to fully pay the firemen’s 2021 and 2023 MMOs by the December 31, 2021 and 2023 deadlines, the municipality must add the outstanding MMO balances to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the outstanding MMOs due to the firemen’s pension plan for the years 2021 and 2023 in the total amount of \$15,453, plus interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculations must be maintained by the city for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, city officials properly determine the amount of payroll to be used in the MMO calculation and pay the full MMOs due to the city’s pension plans.

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

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

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Firemen’s Pension Plan

Finding No. 2 – Pension Benefits In Excess Of The Third Class City Code

Condition: The firemen’s pension plan’s governing document grants a benefit that is not authorized by the Third Class City Code. In an effort to reduce its fire department workforce through voluntary retirements, the city adopted File of Council No. 10 of 2023 to offer a one-time retirement incentive program for firefighters with at least 20 years of service as of January 1, 2024. Section 27-22 A (2) of File of Council No. 10 of 2023 states, in part:

(2) For purposes of determining base monthly pension compensation, the rate of such compensation shall be determined by the fire fighter’s Total Earning - for the past twenty-six (26) pay periods preceding execution of the Notice of Election to Participate in Retirement Incentive Program – plus the buy-out value of one (1) years’ worth of accrued sick, vacation and personal time. The total shall be divided by twelve (12), and then multiplied by 50% (0.50).

Pursuant to the retirement incentive program, the buy-out value of one year’s worth of accrued sick, vacation, and personal time was included in the compensation utilized in the pension benefit determination for five firefighters in 2024.

In addition, a cost estimate was not prepared to determine the effect of the pension benefit increases as required by Act 205.

Criteria: Section 14319 of the Third Class City Code defines “salary” as:

The fixed amount of compensation paid at regular, periodic intervals by the city to the member and from which pension contributions have been deducted.

In addition, Section 305(a) of Act 205 states:

Prior to the adoption of any benefit plan modification by the governing body of the municipality, the chief administrative officer of each pension plan shall provide to the governing body of the municipality a cost estimate of the effect of the proposed benefit plan modification.

Further, Section 305(b) of Act 205 states, in part:

If the pension plan is a defined benefit plan which is self-insured in whole or in part, the cost estimate shall be prepared by an approved actuary. . . .

CITY OF CARBONDALE AGGREGATE PENSION FUND
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Municipal officials did not consider the applicable provisions of the Third Class City Code when granting the retirement incentive to the remaining firefighters.

Effect: The plan is paying pension benefits to five 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 \$3,143 per month, which totaled approximately \$15,088 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 comply with the Third Class City Code. To the extent that the city is not in compliance with the Third Class City Code and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by the Third Class City Code, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may be required to determine the impact, if any, of the excess benefits on the city’s future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the city’s future state aid allocations after the submission of this information, the plan’s actuary would then be required to contact the department to verify the overpayment of state aid received. City officials would then be required to reimburse the overpayment to the Commonwealth.

We also recommend that all future benefit modifications be preceded by a cost estimate in accordance with the applicable Act 205 provisions. In addition, we recommend that plan officials ensure that the benefits provided pursuant to the retirement incentive program are properly reported on the January 1, 2025 actuarial valuation report.

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

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

CITY OF CARBONDALE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plans is presented herewith as supplementary information. It is intended to help users assess the plans' 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, 2019, is as follows:

POLICE 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)
01-01-19	\$ 7,893,527	\$ 7,516,492	\$ (377,035)	105.0%
01-01-21	8,124,631	8,577,849	453,218	94.7%
01-01-23	7,820,749	10,077,117	2,256,368	77.6%

Note: The market values of the plan's assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF CARBONDALE 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)
01-01-19	\$ 4,538,489	\$ 4,665,606	\$ 127,117	97.3%
01-01-21	4,862,956	5,109,389	246,433	95.2%
01-01-23	5,271,565	5,316,157	44,592	99.2%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CITY OF CARBONDALE 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 CARBONDALE AGGREGATE PENSION FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2018	\$ 93,253	100.0%
2019	122,148	100.0%
2020	98,752	100.0%
2021	107,731	100.0%
2022	207,827	100.0%
2023	240,733	100.0%

CITY OF CARBONDALE AGGREGATE PENSION FUND
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

FIREMEN’S PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2018	\$ 44,441	100.0%
2019	65,490	100.0%
2020	147,312	100.0%
2021	152,800	95.0%*
2022	143,633	100.0%
2023	141,094	94.5%*

* See Finding No. 1 contained in this report.

CITY OF CARBONDALE 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	Hired before 1/1/87: 1.0% per year postretirement, Hired on or after 1/1/87: None

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

FIREMEN'S PENSION PLAN

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	1 year
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	2.5% per year postretirement

CITY OF CARBONDALE AGGREGATE PENSION FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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