

CONYNGHAM TOWNSHIP POLICE PENSION PLAN

COLUMBIA COUNTY

AUDIT REPORT

FOR THE YEARS ENDED

DECEMBER 31, 2005, 2004 AND 2003



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LEGAL CITATIONS

- Act 69 - Second Class Township Code, Act of May 1, 1933, (P.L. 103, No. 69), as amended, 53 P.S. § 65595, et seq.
- Act 205 - Municipal Pension Plan Funding Standard and Recovery Act, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.101, et seq.

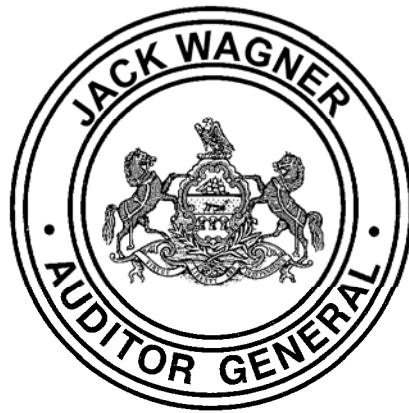
BACKGROUND

The Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act, P. L. 1005, No. 205, on December 18, 1984. Act 205 established mandatory funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Major provisions of Act 205 require:

- The filing of biennial actuarial valuation reports with the Public Employee Retirement Commission, except for distressed pension plans for which annual reporting was required through January 1, 2003;
- The actuarial funding of pension plans from state aid, members' contributions and municipal contributions, if necessary;
- The annual amount of state aid allocated to a municipality cannot exceed a plan's pension costs;
- A prior cost estimate before the adoption of any benefit plan modification; and
- The municipality to provide information contained in actuarial valuation reports to plan members or benefit recipients.

Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. If the pension plan was established after this date, the municipality must fund the plan for three full plan years before that plan is eligible to receive state aid. The Commonwealth receives funding for Act 205 through the 2 percent foreign casualty insurance premiums tax proceeds, that portion of the foreign fire insurance tax designated for paid firefighters, and investment income earned on these taxes.

Article 8, Section 10, of the Pennsylvania Constitution authorizes the Department of the Auditor General to audit the financial affairs of every Commonwealth-aided pension plan. Act 205, at Section 402(j), authorizes the Auditor General, as deemed necessary, to make an audit of every municipal pension plan in which state aid is deposited.



Independent Auditor's Report

Board of Township Supervisors
Conyngham Township
Columbia County
Wilburton, PA 17888

We have audited the accompanying statement of plan net assets (cash basis) of the Conyngham Township Police Pension Plan as of December 31, 2005, 2004 and 2003, and the related statement of changes in plan net assets (cash basis) for the years then ended. These financial statements are the responsibility of the plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

As described in Note 2, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Independent Auditor's Report – (Continued)

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Conyngham Township Police Pension Plan as of December 31, 2005, 2004 and 2003, and the changes in net assets for the years then ended, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007, on our consideration of the Conyngham Township Police Pension Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The required supplementary information (cash basis), following the notes to financial statements, is not a required part of the plan's financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of the plan's management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

February 28, 2007

JACK WAGNER
Auditor General

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
STATEMENT OF PLAN NET ASSETS – CASH BASIS
AS OF DECEMBER 31, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Cash and cash equivalents	\$ <u>11,774</u>	\$ <u>10,605</u>	\$ <u>11,690</u>
Investments, at fair value:			
Certificates of deposit	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 10.)	<u>\$ 66,774</u>	<u>\$ 65,605</u>	<u>\$ 66,690</u>

Notes to financial statements are an integral part of this report.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS - CASH BASIS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Additions:			
Investment income			
Interest	<u>\$ 1,169</u>	<u>\$ 1,119</u>	<u>\$ 1,139</u>
Deductions:			
Administrative expenses	<u>-</u>	<u>2,204</u>	<u>5</u>
Net increase (decrease)	1,169	(1,085)	1,134
Net assets held in trust for pension benefits:			
Beginning of year	<u>65,605</u>	<u>66,690</u>	<u>65,556</u>
End of year	<u><u>\$ 66,774</u></u>	<u><u>\$ 65,605</u></u>	<u><u>\$ 66,690</u></u>

Notes to financial statements are an integral part of this report.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

1. Description Of Plan

General

The Conyngham Township Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 20, adopted pursuant to Act 69. The plan is governed by the board of township supervisors which is responsible for the management of plan assets.

Plan Membership

As of December 31, the pension plan's membership consisted of:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Active employees	1	1	1
Retirees and beneficiaries currently receiving benefits	-	-	-
Terminated employees entitled to benefits but not yet receiving them	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u><u>1</u></u>	<u><u>1</u></u>	<u><u>1</u></u>

Benefit Provisions

The plan provides retirement, disability and death benefits to plan members and their beneficiaries

2. Summary Of Significant Accounting Policies

Basis Of Accounting

The plan's policy is to prepare its financial statements on the cash basis of accounting. Consequently, certain investment income, contributions and related assets are recognized when received rather than when earned, and certain benefit payments and other expenditures are recognized when paid rather than when the obligation is incurred. This differs from accounting principles generally accepted in the United States of America, which require the accrual basis of accounting.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

2. Summary Of Significant Accounting Policies – (Continued)

Valuation Of Investments

Investments are reported at fair value.

3. Contributions

Act 205 requires that annual contributions to the plan be based upon the plan's minimum municipal obligation (MMO). The MMO is based upon the plan's biennial actuarial valuation. Employees were not required to contribute to the plan for the years ended December 31, 2005, 2004 and 2003. The plan may be eligible to receive an allocation of state aid from the General Municipal Pension System State Aid Program which must be used for pension funding. Any funding requirements established by the MMO in excess of employee contributions and state aid must be paid by the municipality in accordance with Act 205.

The Conyngham Township Police Pension Plan had no contributions required or made for the years ended December 31, 2005, 2004 and 2003. The plan did not require state aid, members' contributions or municipal contributions based upon the calculation of the financial requirements of the pension plan. Since the plan's assets exceeded the present value of future benefits, the municipality was not required to calculate a minimum municipal obligation as stated in Subsection 302(b)(1) of Act 205.

Administrative expenses, including actuarial and consultant services, are funded through investment earnings.

4. Deposits And Investments

The Governmental Accounting Standards Board previously addressed certain deposit and investment risk disclosures in Statement No. 3 (GASB 3). In March 2003, GASB 3 was amended by Statement No. 40 (GASB 40) which updates the custodial credit risk disclosure requirements of GASB 3 and establishes more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The amended disclosure requirements were effective for financial statements for periods beginning after June 15, 2004.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

4. Deposits And Investments – (Continued)

Deposits

At December 31, 2005, 2004 and 2003, the balances of the plan's deposits were \$66,774, \$65,605 and \$66,690, respectively, which were covered by Federal Depository Insurance.

Investments

The plan is authorized to invest in legal investments permitted under the Pennsylvania Fiduciaries Investment Act.

At December 31, 2005, 2004 and 2003, the plan held no investments.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as required 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2001, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-01	\$ 62,612	\$ -	\$ (62,612)	N/A	\$ 19,324	(324.0%)
01-01-03	65,737	4,630	(61,107)	1,419.8%	21,070	(290.0%)
01-01-05	65,605	15,337	(50,268)	427.8%	21,660	(232.1%)

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

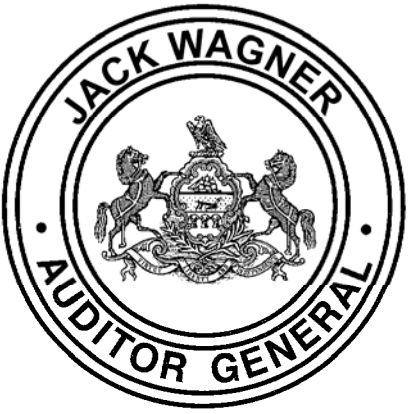
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES - CASH BASIS

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2000	None	N/A
2001	None	N/A
2002	None	N/A
2003	None	N/A
2004	None	N/A
2005	None	N/A

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2005
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	4.0%



**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With *Government Auditing Standards***

Board of Township Supervisors
Conyngham Township
Columbia County
Wilburton, PA 17888

We have audited the financial statements (cash basis) of the Conyngham Township Police Pension Plan, as of and for the years ended December 31, 2005, 2004 and 2003, and have issued our report thereon dated February 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Conyngham Township Police Pension Plan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With *Government Auditing Standards* – (Continued)**

Internal Control Over Financial Reporting – (Continued)

judgement, could adversely affect the Conyngham Township Police Pension Plan's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the following finding:

Finding – Noncompliance With Prior Audit Recommendation – Failure To
Prepare Financial Statements

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Conyngham Township Police Pension Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Conyngham Township Police Pension Plan's management and the board of township supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

February 28, 2007

JACK WAGNER
Auditor General

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Prepare Financial Statements

Condition: Municipal officials have not prepared financial statements or required notes to the financial statements for the police pension plan, in accordance with accounting principles generally accepted in the United States of America.

Criteria: Guidance for the form and content of annual financial statements and note to the financial statements can be found in Governmental Accounting Standards Board Statements No. 25 (GASB 25) and No. 3 (GASB 3), as amended by No. 40 (GASB 40).

GASB 25 establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution pension plans of state and local governmental entities.

GASB 25 requires state and local governmental entities to prepare the following financial statements for defined benefit pension plans:

- A statement of plan net assets that includes information about the plan assets, liabilities and net assets as of the end of the plan's fiscal year. This statement should be prepared on the accrual basis of accounting and should report plan investments at fair value; and
- A statement of changes in plan net assets, prepared on the accrual basis of accounting. The information in the statements should be presented in two principal sections, additions and deductions. The difference between total additions and deductions should be reported as the net increase (or decrease) for the year in plan net assets.

The notes to the financial statements for defined benefit pension plans should include the following disclosures:

- A plan description which includes:
 - Identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit pension plan and disclosure of the number of participating employers and other contributing entities;
 - Classes of employees covered (for example, police officers and nonuniformed employee(s)) and the current membership, including the number of retirees and beneficiaries currently receiving benefits, terminated members entitled to but not yet receiving benefits and current active members. If the plan is closed to new entrants, that fact should be disclosed;

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

- Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to automatic and ad hoc postretirement benefit increases and the authority under which benefit provisions are established or may be amended;
- A summary of significant accounting policies which includes:
 - Basis of accounting, including the policy with respect to the recognition in the financial statements of contributions, benefits paid and refunds paid;
 - Brief description of how the fair value of investments is determined;
- A contributions and reserves section which includes:
 - Authority under which the obligations to contribute to the plan of the plan members, employer(s) and other contributing entities are established or may be amended;
 - Funding policy, including a brief description of how the contributions of the plan members, employer(s) and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed;
 - Required contribution rates of active plan members, in accordance with the funding policy;
 - Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date;
 - The balances in the plan's legally required reserves at the reporting date. Amounts of net assets designated by the plan's board of trustees or other governing body for a specific purpose(s) also may be disclosed but should be captioned designations, rather than reserves. Also include a brief description of the purpose of each reserve and designation disclosed and whether the reserve is fully funded; and
- Information on concentrations, identifying, by amount and issuer, investments in any one issuer that represent 5 percent or more of plan net assets. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools and other pooled investments are excluded from this requirement.

GASB 25 also requires, for defined benefit pension plans, two schedules of historical trend information, which should be presented as required supplementary information immediately after the notes to the financial statements. These schedules, which should present information for each of the past six consecutive fiscal years of the plan, at a minimum, are as follows:

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

- A schedule of funding progress that includes historical trend information about the actuarially determined funded status of the plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due; and
- A schedule of employer contributions that includes historical trend information about the annual required contributions of the employer(s) (ARC) and the contributions made by the employer(s) in relation to the ARC.

In addition, the following note disclosures should accompany the schedules of required supplementary information:

- Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules; and
- Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial methods and assumptions used.

The Governmental Accounting Standards Board previously addressed certain deposit and investment risk disclosures in Statement No. 3 (GASB 3). In March 2003, GASB 3 was amended by Statement No. 40 (GASB 40) which updates the custodial credit risk disclosure requirements of GASB 3 and establishes more comprehensive disclosure requirements addressing other common deposit and investment risks of state and local governments related to credit risk, interest rate risk and foreign currency risk. The amended disclosure requirements were effective for financial statements for periods beginning after June 15, 2004.

The township is responsible for the fair presentation of the financial statements contained in this report. Although we compiled the financial statements from the books and records provided by the township, the township has accepted its responsibility for the financial statements through the management representation letter given to the department during the course of the audit.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: Because financial reporting assists in fulfilling a municipality's duty to be publicly accountable and should enable users to assess accountability, it is the opinion of this department that annual financial statements of the police pension plan, including all applicable note disclosures, must be prepared by plan officials.

Recommendation: We recommend that plan officials establish and implement procedures to ensure the preparation of annual financial statements, which include note disclosures required by GASB 25 and GASB 3, as amended by GASB 40, in accordance with accounting principles generally accepted in the United States of America.

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

CONYNGHAM TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Conyngham Township Police Pension Plan
Columbia County
P.O. Box 10
Wilburton, PA 17888

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