

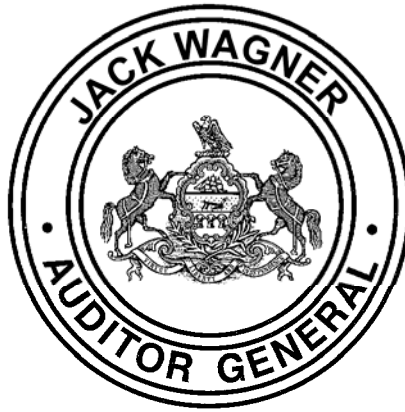
JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN

MERCER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003, TO DECEMBER 19, 2005



JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN

MERCER COUNTY

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Jefferson/Clark Regional Police Commission
Mercer County
Mercer, PA 16137

We have conducted a compliance audit of the Jefferson/Clark Regional Police Pension Plan for the period January 1, 2003, to December 19, 2005. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of the audit were:

1. To determine if commission officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. In 2005, the regional police commission elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

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*.

The results of our tests indicated that, in all significant respects, the Jefferson/Clark Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The contents of this report were discussed with officials of the Jefferson/Clark Regional Police Commission and, where appropriate, their responses have been included in the report.

June 8, 2006

JACK WAGNER
Auditor General

BACKGROUND

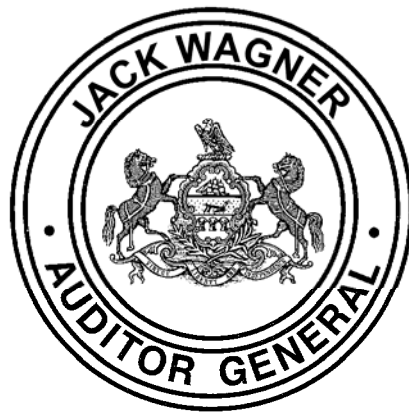
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 53 P.S. §895.101, et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Jefferson/Clark Regional Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956, (P.L. (1955) 1804, No. 600), as amended, 53 P.S. § 767, et seq.

The Jefferson/Clark Regional Police Pension Plan was a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1-02, adopted pursuant to Act 600. As further discussed later in this report, the plan was terminated in 2005.



JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
AUDIT REPORT

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the audit were:

1. To determine if commission officials took appropriate corrective action to address the findings contained in our prior audit report for the period January 1, 2001, to December 31, 2002, dated March 27, 2003; and
2. To determine if the Jefferson/Clark Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The scope of the audit covered the period January 1, 2003, to December 19, 2005.

Regional police commission officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Jefferson/Clark Regional Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the commission's internal control structure as it relates to the commission's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 1

The first objective of the audit was to determine if commission officials took appropriate corrective action to address the findings contained in our prior audit report for the period January 1, 2001, to December 31, 2002, dated March 27, 2003. Our audit conclusions are presented below.

Compliance With Prior Audit Recommendations

The Jefferson/Clark Regional Police Commission has complied with the prior audit recommendations concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

Commission officials paid the 2002 minimum municipal obligation due to the regional police plan, with interest, on May 12, 2003; and

- Failure To Prepare Financial Statements

Commission officials established and implemented procedures to ensure the preparation of annual financial statements in accordance with accounting principles generally accepted in the United States of America.

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
AUDIT REPORT

CONCLUSIONS - OBJECTIVE NO. 2

The second objective of the audit was to determine if the Jefferson/Clark Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Our audit conclusions are presented below.

Our tests indicated that, in all significant respects, the Jefferson/Clark Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, 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	\$ 214,752	\$ 188,420	\$ (26,332)	114.0%	\$ 47,438	(55.5%)
01-01-03	248,144	240,430	(7,714)	103.2%	52,785	(14.6%)
01-01-05	294,098	308,028	13,930	95.5%	53,329	26.1%

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
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.

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2001	\$ 9,057	100.0%
2002	8,259	100.0%
2003	8,650	124.5%
2004	10,446	100.0%
2005	12,416	100.0%

Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since the pension plan was established in 2001, six years of data were not available.

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
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	Level dollar
Remaining amortization period	6 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	5.5%
Projected salary increases *	4.0%
* Includes inflation at	None assumed
Cost-of-living adjustments	None assumed

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN COMMENTS

Termination Of The Pension Plan

On October 4, 2005, Clark Borough Council voted to withdraw from the Jefferson/Clark Regional Police Department effective January 1, 2006. A retirement annuity was purchased to fund the retirement benefits for one of the members of the plan. On December 19, 2005, the remaining plan assets were transferred to the newly established Jefferson Township Police Pension Plan.

JEFFERSON/CLARK REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Jefferson/Clark Regional Police Pension Plan
Mercer County
7407 Lamor Road
Mercer, PA 16137

Mr. Richard Brandes Chairman, Regional Police Commission

Ms. Robin Snyder Secretary, Jefferson Township

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.