

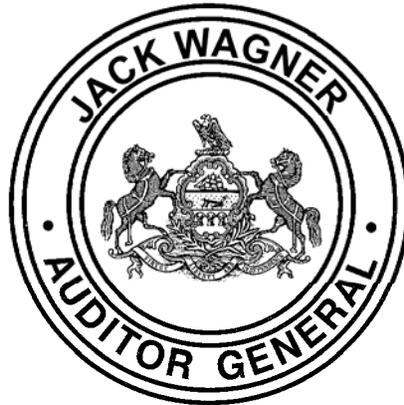
**LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN**

ADAMS COUNTY

AUDIT REPORT

FOR THE YEARS ENDED

DECEMBER 31, 2005, 2004 AND 2003



**LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN**

ADAMS COUNTY

AUDIT REPORT

FOR THE YEARS ENDED

DECEMBER 31, 2005, 2004 AND 2003

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LEGAL CITATIONS

- 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.
- 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.

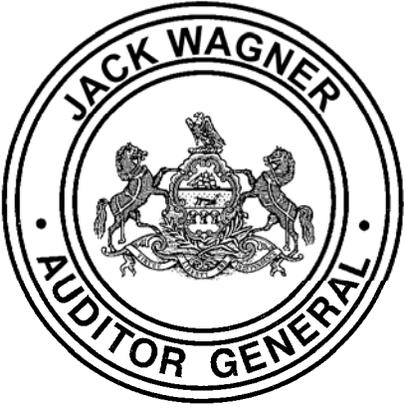
BACKGROUND

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

Latimore Township - York Springs Borough
Regional Police Commission
Adams County
York Springs, PA 17372

We have audited the accompanying statement of plan net assets of the Latimore Township - York Springs Borough Regional Police Pension Plan as of December 31, 2005, 2004 and 2003, and the related statement of changes in plan net assets 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*.

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 Latimore Township - York Springs Borough Regional Police Pension Plan as of December 31, 2005, 2004 and 2003, and the changes in net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2007, on our consideration of the Latimore Township - York Springs Borough Regional 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, 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

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Receivables:			
Employer contributions	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,612</u>
Investments, at contract value:			
Unallocated insurance contract	<u>531,203</u>	<u>524,758</u>	<u>501,226</u>
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 11.)	<u><u>\$ 531,203</u></u>	<u><u>\$ 524,758</u></u>	<u><u>\$ 504,838</u></u>

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

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Additions:			
Contributions			
State aid	\$ 11,707	\$ 11,645	\$ 11,578
Employer contributions	16,917	16,869	27,238
Employee contributions	<u>3,589</u>	<u>3,454</u>	<u>4,721</u>
Total contributions	<u>32,213</u>	<u>31,968</u>	<u>43,537</u>
Investment income			
Net appreciation in fair value of investments	16,404	25,424	63,444
Interest	<u>-</u>	<u>232</u>	<u>2,356</u>
Net investment income	<u>16,404</u>	<u>25,656</u>	<u>65,800</u>
Proceeds from cash surrendered insurance policies	<u>-</u>	<u>-</u>	<u>11,615</u>
Total additions	<u>48,617</u>	<u>57,624</u>	<u>120,952</u>
Deductions:			
Benefits	28,980	28,980	22,663
Administrative expenses	13,192	7,764	9,632
Allocated insurance premiums	-	960	-
Termination fee (Note 5)	<u>-</u>	<u>-</u>	<u>17,625</u>
Total deductions	<u>42,172</u>	<u>37,704</u>	<u>49,920</u>
Net increase	6,445	19,920	71,032
Net assets held in trust for pension benefits:			
Beginning of year	<u>524,758</u>	<u>504,838</u>	<u>433,806</u>
End of year	<u>\$ 531,203</u>	<u>\$ 524,758</u>	<u>\$ 504,838</u>

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

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

1. Description Of Plan

General

The Latimore Township - York Springs Borough Regional Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 1981-2, adopted pursuant to Act 600. The plan is governed by the regional police commission 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	2	2	2
Retirees and beneficiaries currently receiving benefits	2	2	2
Terminated employees entitled to benefits but not yet receiving them	-	-	-
Total	<u>4</u>	<u>4</u>	<u>4</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 accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

2. Summary Of Significant Accounting Policies – (Continued)

Valuation Of Investments

The pension plan's unallocated insurance contract is valued at contract value. Contract value represents contributions made under the contract, plus interest, dividends and realized and unrealized gains and losses on investments, less funds used to purchase annuities and pay administrative expenses.

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 required to contribute 5 percent of compensation 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.

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

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; therefore, disclosures in accordance with GASB 3, as amended by GASB 40, are only provided for the year ended December 31, 2005.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

4. Deposits And Investments – (Continued)

Deposits

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

Investments

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

Custodial Credit Risk

For the years ended December 31, 2004 and 2003, GASB 3 requires certain plan investments to be categorized to give an indication of the level of custodial credit risk assumed by the plan at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the plan or its agent in the plan's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the dealer bank's trust department or agent in the plan's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a counterparty or by its trust department or agent but not in the plan's name. At December 31, 2004 and 2003, the investments held by the plan were not required to be categorized per GASB 3.

At December 31, 2005, the investments held by the plan were not exposed to custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The plan has no investment policy regarding credit risk.

At December 31, 2005, the plan held \$491,000 of investments subject to the credit risk disclosure requirements of GASB 3, as amended by GASB 40; however, those investments were unrated as of that date.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

4. Deposits And Investments – (Continued)

Investments – (Continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The plan has no investment policy regarding interest rate risk.

At December 31, 2005, the interest rate risk of the plan's debt investments (including mutual funds, external investment pools and other pooled investments) is as follows:

	Fair Value	Average Maturity
Bond and Mortgage Separate Account	\$ 224,699	7.10 years
Government and High Quality Bond Separate Account	266,301	5.49 years
	\$ 491,000	

Concentration Of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The plan has no investment policy regarding concentration of credit risk.

At December 31, 2005, 2004 and 2003, all of the plan's investments were held by Principal Life Insurance Company.

5. Termination Fee

During 2003, the township converted the plan's deposit administration contract with Principal Financial Group to a flexible pension investment contract, resulting in a 5 percent termination fee in accordance with the terms of the contract.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
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	\$ 332,738	\$ 502,725	\$ 169,987	66.2%	\$ 68,406	248.5%
01-01-03	441,215	509,391	68,176	86.6%	70,113	97.2%
01-01-05	524,782	512,444	(12,338)	102.4%	72,814	(16.9%)

The amounts in the above table have been adjusted at 01/01/01 and 01/01/03, for insurance/annuity contracts maintained preretirement to fund a portion of the benefits provided by the pension plan at retirement.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
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.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2000	\$ 36,610	101.9%
2001	35,685	106.9%
2002	38,185	104.3%
2003	38,816	100.0%
2004	28,514	100.0%
2005	28,598	100.1%

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
 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	Contract value
Actuarial assumptions:	
Investment rate of return *	6.25%
Projected salary increases *	4.50%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

**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***

Latimore Township - York Springs Borough
Regional Police Commission
Adams County
York Springs, PA 17372

We have audited the financial statements of the Latimore Township - York Springs Borough Regional 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 Latimore Township - York Springs Borough Regional 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

**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)

internal control over financial reporting that, in our judgement, could adversely affect the Latimore Township - York Springs Borough Regional 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 – Restated Plan Document Not Adopted By Ordinance

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 not a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Latimore Township - York Springs Borough Regional 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 Latimore Township - York Springs Borough Regional Police Pension Plan's management and the board of commissioners, 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

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Restated Plan Document Not Adopted By Ordinance

Condition: The terms, provisions and conditions of the police pension plan were restated in a separately executed plan document with the Principal Financial Group effective January 1, 2003. However, the restated plan document has not been formally adopted by ordinance.

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund or pension annuity...(Emphasis added)

Cause: Plan officials were not aware of the need to formally adopt the restated plan document by ordinance.

Effect: The failure to properly adopt the restated plan document could result in improper or inconsistent benefits for plan members and their beneficiaries.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the restated plan document after ensuring that all provisions contained therein are in compliance with Act 600.

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

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
COMMENTS

Compliance With Prior Audit Recommendation

Plan officials complied with the prior audit recommendation concerning the following:

- Failure To Adopt Benefit Provisions Mandated By Act 30 Of 2002

The plan document was restated on January 1, 2003. The restated plan document contains the benefit provisions mandated by Act 30. However, plan officials failed to properly adopt the restated plan document by ordinance, as disclosed in the finding contained in this report.

LATIMORE TOWNSHIP - YORK SPRINGS BOROUGH REGIONAL
POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Latimore Township - York Springs Borough Regional Police Pension Plan
Adams County
P.O. Box 266
York Springs, PA 17372

Mr. Gary C. Baker Pension Administrator

Mr. Daniel Worley Chairman, Regional Police Commission

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.