

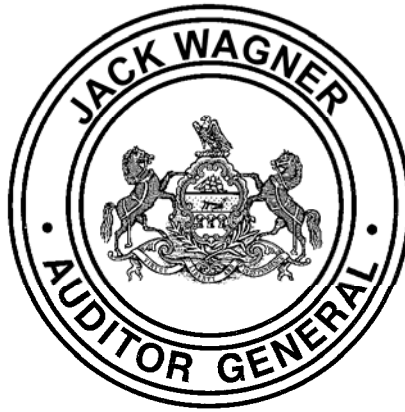
MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN

YORK COUNTY

AUDIT REPORT

FOR THE YEARS ENDED

DECEMBER 31, 2005, 2004 AND 2003



MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN

YORK COUNTY

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LEGAL CITATION

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.

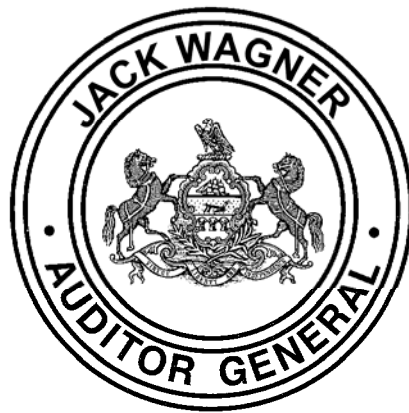
BACKGROUND

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
Manheim Township
York County
Glenville, PA 17329

We have audited the accompanying statement of plan net assets of the Manheim Township Nonuniformed 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 *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)

The Governmental Accounting Standards Board 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.

For the year ended December 31, 2005, the accompanying notes to financial statements do not contain the complete information required in accordance with GASB 3, as amended by GASB 40. It is the opinion of this department that the disclosure of this information is required by accounting principles generally accepted in the United States of America.

In our opinion, except for the omission of the notes to financial statements disclosures discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the net assets of the Manheim Township Nonuniformed 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 June 29, 2006 on our consideration of the Manheim Township Nonuniformed Pension Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

June 29, 2006

JACK WAGNER
Auditor General

MANHEIM TOWNSHIP NONUNIFORMED 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:			
Cash and cash equivalents	\$ 15,274	\$ 5,720	\$ 2,317
Receivables:			
Employee contributions	375	375	350
Interest and dividends	<u>720</u>	<u>444</u>	<u>381</u>
Total receivables	<u>1,095</u>	<u>819</u>	<u>731</u>
Investments, at fair value:			
U.S. Government securities	64,258	40,123	35,189
Mutual funds	<u>58,279</u>	<u>73,277</u>	<u>60,165</u>
Total investments	<u>122,537</u>	<u>113,400</u>	<u>95,354</u>
Net assets held in trust for pension benefits	<u>\$ 138,906</u>	<u>\$ 119,939</u>	<u>\$ 98,402</u>

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

MANHEIM TOWNSHIP NONUNIFORMED 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	\$ 8,728	\$ 10,657	\$ 12,274
Employer contributions	4,641	2,494	1,306
Employee contributions	<u>1,300</u>	<u>1,325</u>	<u>1,300</u>
Total contributions	<u>14,669</u>	<u>14,476</u>	<u>14,880</u>
Investment income			
Net appreciation in fair value of investments	433	4,337	7,121
Interest	2,362	1,621	1,280
Dividends	<u>2,585</u>	<u>1,967</u>	<u>1,864</u>
Net investment income	<u>5,380</u>	<u>7,925</u>	<u>10,265</u>
Total additions	<u>20,049</u>	<u>22,401</u>	<u>25,145</u>
Deductions:			
Administrative expenses	<u>1,082</u>	<u>864</u>	<u>1,289</u>
Net increase	18,967	21,537	23,856
Net assets held in trust for pension benefits:			
Beginning of year	<u>119,939</u>	<u>98,402</u>	<u>74,546</u>
End of year	<u><u>\$ 138,906</u></u>	<u><u>\$ 119,939</u></u>	<u><u>\$ 98,402</u></u>

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

MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

1. Description Of Plan

General

The Manheim Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan controlled by the provisions of Resolution No. 262, as amended. 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	5	4	5
Retirees and beneficiaries currently receiving benefits	-	-	-
Terminated employees entitled to benefits but not yet receiving them	<u>1</u>	<u>1</u>	<u>-</u>
Total	<u><u>6</u></u>	<u><u>5</u></u>	<u><u>5</u></u>

Benefit Provisions

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

Funding Policy

Active members are not required to contribute to the plan but may make voluntary contributions. The municipality is required to contribute 6 percent of compensation.

The pension plan may also be eligible for an annual allocation from the General Municipal Pension System State Aid Program which must be used to reduce or eliminate the required municipal contribution.

MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

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.

Valuation Of Investments

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

3. Concentrations: Investments That Represent 5 Percent Or More Of Net Assets Available For Benefits

At December 31, 2005, 2004 and 2003, no investment, in any one organization, represented 5 percent or more of net assets available for benefits.

4. Deposits And Investments

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.

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, 2005, 2004 and 2003, the investments held by the plan were not required to be categorized per GASB 3.

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

Board of Township Supervisors
Manheim Township
York County
Glenville, PA 17329

We have audited the financial statements of the Manheim Township Nonuniformed Pension Plan, as of and for the years ended December 31, 2005, 2004 and 2003, and have issued our report thereon dated June 29, 2006. In our report, our opinion was qualified because the notes to financial statements do not contain the complete information required in accordance with GASB 3, as amended by GASB 40, for the year ended December 31, 2005. 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*.

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

Compliance

As part of obtaining reasonable assurance about whether the Manheim Township Nonuniformed Pension Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

However, we noted a certain immaterial instance of noncompliance which we have reported to the management of the Manheim Township Nonuniformed Pension Plan which is listed on the schedule of findings following this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Manheim Township Nonuniformed 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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 judgement, could adversely affect the Manheim Township Nonuniformed Pension Plan's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the following findings:

- | | |
|-----------------|---|
| Finding No. 1 - | Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan |
| Finding No. 2 - | Failure To Prepare Adequate Notes To The Financial Statements |

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

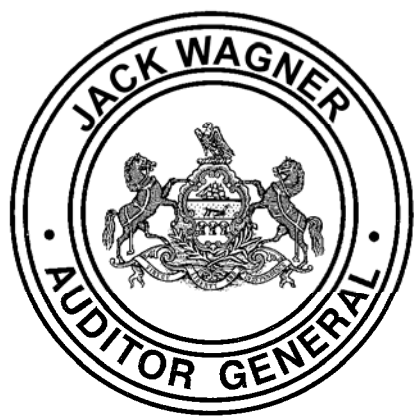
Internal Control Over Financial Reporting – (Continued)

A material weakness is a 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 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, of the reportable conditions described above, we consider Finding No. 2 to be a material weakness.

This report is intended solely for the information and use of the Manheim Township Nonuniformed 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.

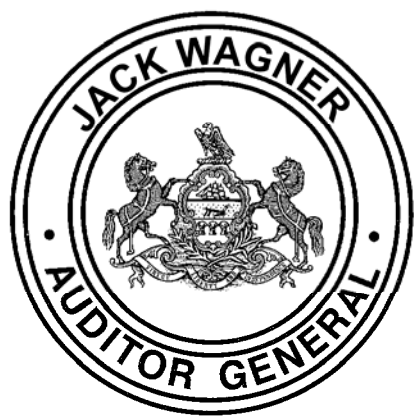
June 29, 2006

JACK WAGNER
Auditor General



MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
SCHEDULE OF FINDINGS

Type of Finding C = Compliance, IC = Internal Control	Finding Titles	Page
C/IC	Finding No. 1 - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan	15
IC	Finding No. 2 - Failure To Prepare Adequate Notes To The Financial Statements	16



MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in accordance with the plan's governing document. The plan's governing document, Resolution No. 383, sets the municipal contribution rate as follows:

...the contribution of Manheim Township to its employees pension plan for the year 2002 is fixed at six (6%) percent and...said contribution shall remain in effect until such time as the Board of Supervisors shall modify same...

During the period January 1, 2003, to December 31, 2005, the township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in the amount of \$3,352 as illustrated below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Actual municipal pension costs	\$ 12,977	\$ 11,487	\$ 12,284	\$ 36,748
State aid allocation	<u>(12,274)</u>	<u>(10,657)</u>	<u>(8,728)</u>	<u>(31,659)</u>
Municipal contributions required to fund plan	703	830	3,556	5,089
Actual municipal contributions	<u>(1,306)</u>	<u>(2,494)</u>	<u>(4,641)</u>	<u>(8,441)</u>
Excess municipal contributions	<u>\$ 603</u>	<u>\$ 1,664</u>	<u>\$ 1,085</u>	<u>\$ 3,352</u>

Criteria: Municipal contributions and state aid allocations to the plan should be restricted to the amounts prescribed in the plan's governing document. Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: The township allocated funds to the members' accounts in excess of the defined contribution percentage rate contained in the plan's governing document. By making excess municipal contributions, plan members received additional benefits beyond those outlined in the plan's governing document.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the excess municipal contributions maintained in the members' accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the pension plan's defined contribution costs. This would eliminate overfunding of the pension plan.

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

Finding No. 2 - Failure To Prepare Adequate Notes To The Financial Statements

Condition: 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). For the year ended December 31, 2005, the accompanying notes to financial statements do not contain all of the information required in accordance with GASB 3, as amended by GASB 40.

Criteria: GASB 3, as amended by GASB 40, requires disclosure of common deposit and investment risks of state and local governments related to credit risk (including custodial credit risk and concentrations of 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.

MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Cause: Plan officials were unaware of the requirements of GASB 3, as amended by GASB 40, regarding deposit and investment disclosures.

Effect: Since the accompanying notes to the financial statements do not contain all of the disclosures required by GASB 3, the financial statements do not provide users with complete information about the credit and market risks associated with the plan's deposits and investments.

Recommendation: We recommend that plan officials establish and implement procedures to ensure the preparation of annual financial statements, which include all of the note disclosures required by 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.

MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
COMMENTS

Compliance With Prior Audit Recommendation

The township complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The township returned the excess state aid, with interest, during the current audit period.

MANHEIM TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Manheim Township Nonuniformed Pension Plan
York County
5191 Wool Mill Road
Glenville, PA 17329

Mr. Larry Miller Chairman, Board of Township Supervisors

Ms. Michelle Hershey Chief Administrative Officer

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.