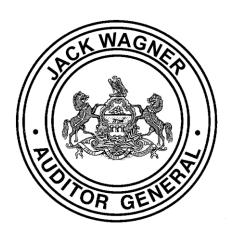
PHILIPSBURG BOROUGH POLICE PENSION PLAN CENTRE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010



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BACKGROUND

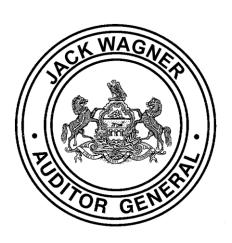
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. 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 Philipsburg Borough 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 581 The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 53 P.S. § 46131 et seq.
- Act 600 Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Philipsburg Borough Police Pension Plan is a single-employer defined benefit pension plan. Benefits for police officers hired prior to April 28, 1996, are governed by the provisions of Ordinance No. 920, as amended, adopted pursuant to Act 581. Benefits for police officers hired after April 28, 1996, are controlled by the provisions of Ordinance No. 969, as amended, adopted pursuant to Act 600. The plan has not had any active members since April 1, 2004.



The Honorable Mayor and Borough Council Philipsburg Borough Centre County Philipsburg, PA 16866

We have conducted a compliance audit of the Philipsburg Borough Police Pension Plan for the period January 1, 2009, to December 31, 2010. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 this objective.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Philipsburg Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objective.

The results of our tests indicated that, in all significant respects, the Philipsburg Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Philipsburg Borough and, where appropriate, their responses have been included in the report.

January 27, 2012

JACK WAGNER Auditor General

PHILIPSBURG BOROUGH 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. The historical information, beginning as of January 1, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
						Unfunded
			Unfunded			(Assets in
		Actuarial	(Assets in			Excess of)
		Accrued	Excess of)			Actuarial
	Actuarial	Liability	Actuarial			Accrued
Actuarial	Value of	(AAL) -	Accrued	Funded	Covered	Liability as a %
Valuation	Assets	Entry Age	Liability	Ratio	Payroll	of Payroll
Date	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b-a)/(c)]
01-01-05	\$ 555,327	\$ 444,109	\$ (111,218)	125.0%	None	N/A
01-01-07	547,856	445,619	(102,237)	122.9%	None	N/A
01-01-09	466,838	442,723	(24,115)	105.4%	None	N/A

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

PHILIPSBURG BOROUGH 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.

PHILIPSBURG BOROUGH POLICE PENSION PLAN SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A

PHILIPSBURG BOROUGH 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, 2009

Actuarial cost method Entry age normal

Amortization method N/A

Remaining amortization period N/A

Asset valuation method Fair value - 5 year smoothing

Actuarial assumptions:

Investment rate of return * 6.0%

Projected salary increases * 4.0%

* Includes inflation at Not disclosed

Cost-of-living adjustments None assumed

PHILIPSBURG BOROUGH POLICE PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett Governor Commonwealth of Pennsylvania

Philipsburg Borough Police Pension Plan Centre County 4 North Centre Street Philipsburg, PA 16866

The Honorable John Streno Mayor

Mr. Michael Wilks Council President

Mr. Jan McDonald Borough Manager

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.