

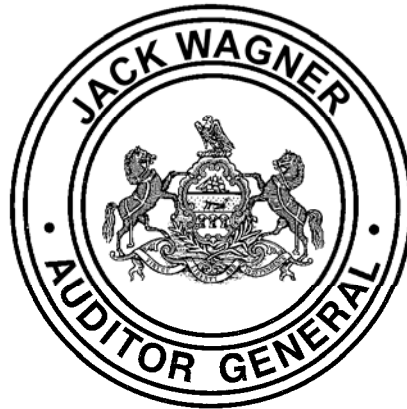
WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN

INDIANA COUNTY

AUDIT REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2005



WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN

INDIANA 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.

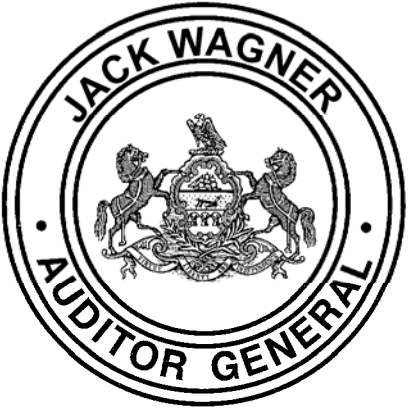
BACKGROUND

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
West Mahoning Township
Indiana County
Smicksburg, PA 16256

We have audited the accompanying statement of plan net assets of the West Mahoning Township Nonuniformed Pension Plan as of December 31, 2005, and the related statement of changes in plan net assets for the year 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.

The accompanying notes to financial statements do not contain the 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 West Mahoning Township Nonuniformed Pension Plan as of December 31, 2005, and the changes in net assets for the year 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 March 10, 2006, on our consideration of the West Mahoning 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.

March 10, 2006

JACK WAGNER
Auditor General

WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2005

Assets:

Cash and cash equivalents	<u>\$ 4,237</u>
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Receivables:

Interest and dividends	<u>29</u>
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Investments, at fair value:

Mutual funds	<u>12,578</u>
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Net assets held in trust for pension
benefits

<u><u>\$ 16,844</u></u>

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

WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

Additions:	
Contributions	
State aid	<u>\$ 3,220</u>
Investment income	
Net appreciation in fair value of investments	586
Interest	57
Dividends	<u>308</u>
Net investment income	<u>951</u>
Net increase	4,171
Net assets held in trust for pension benefits:	
Beginning of year	<u>12,673</u>
End of year	<u>\$ 16,844</u>

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

WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
NOTES TO FINANCIAL STATEMENTS

1. Description Of Plan

General

The West Mahoning Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan controlled by the provisions of Ordinance No. 2002-03. The plan is governed by the board of township supervisors which is responsible for the management of plan assets. The board of township supervisors has delegated the authority to manage certain plan assets to First Commonwealth Trust Company.

Plan Membership

As of December 31, 2005, the pension plan's membership consisted of:

Active employees	3
Retirees and beneficiaries currently receiving benefits	-
Terminated employees entitled to benefits but not yet receiving them	_____ -
Total	<u> 3</u>

Benefit Provisions

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

Funding Policy

Active members are not required to contribute to the plan. The municipality is required to contribute 8 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.

WEST MAHONING 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. Short-term investments are reported at cost, which approximates 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, all of the plan's investments were held by First Commonwealth Trust Company.

**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
West Mahoning Township
Indiana County
Smicksburg, PA 16256

We have audited the financial statements of the West Mahoning Township Nonuniformed Pension Plan, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 10, 2006. In our report, our opinion was qualified because the notes to financial statements do not contain the information required in accordance with GASB 3, as amended by GASB 40. 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*.

Compliance

As part of obtaining reasonable assurance about whether the West Mahoning 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*.

**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 - (Continued)

However, we noted a certain immaterial instance of noncompliance which we have reported to the management of the West Mahoning 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 West Mahoning 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 West Mahoning 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 - Failure To Fund Members' Accounts

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

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, we believe that neither of the reportable conditions described above is a material weakness.

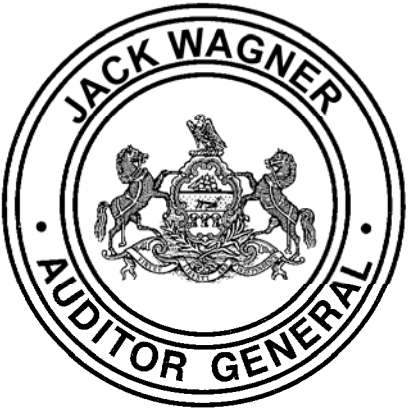
This report is intended solely for the information and use of the West Mahoning Township Nonuniformed Pension Plan's management and the board of township supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

March 10, 2006

JACK WAGNER
Auditor General

WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
SCHEDULE OF FINDINGS

Type of Finding C = Compliance, IC = Internal Control	Finding Titles	Page
C/IC	Finding No. 1 - Failure To Fund Members' Accounts	13
IC	Finding No. 2 - Failure To Prepare Required Notes To The Financial Statements	13



WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Failure To Fund Members' Accounts

Condition: In 2005, the township did not fully fund the accounts of eligible plan members.

Criteria: The plan's governing document, Ordinance No. 2002-03, sets the municipal contribution rate at 8 percent of compensation for each plan participant.

Cause: Township officials deposited the entire \$3,220 of 2005 state aid into the accounts of eligible plan members. However, the contributions required to fund the plan for 2005 totaled \$3,660, leaving a \$440 shortfall in the members' accounts.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Due to the township's failure to properly fund the referenced members' accounts, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the additional contributions due to the members' accounts for the year 2005, in the total amount of \$440, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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

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

Condition: Plan officials have not prepared required notes to the financial statements for the nonuniformed 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 disclosures can be found in GASB 25 and GASB 3, as amended by GASB 40.

WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

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 the notes to the financial statements for defined contribution pension plans to include the following disclosures:

- A plan description which includes:
 - Identification of the plan as a defined contribution plan and disclosure of the number of participating employers and other contributing entities;
 - Classes of employees covered (for example, police officers, nonuniformed employees) and the total current membership;
 - Brief description of plan provisions and the authority under which they are established or may be amended;
 - Contribution requirements (for example, the contribution rates in dollars or as a percentage of salary) of the plan members, employer(s) and other contributing entities and the authority under which the requirements are established or may be amended;

- A summary of significant accounting policies which includes:
 - Basis of accounting;
 - Fair value of plan assets (unless plan assets are reported at fair value);
 - A brief description of how the fair value is determined; 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.

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.

WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

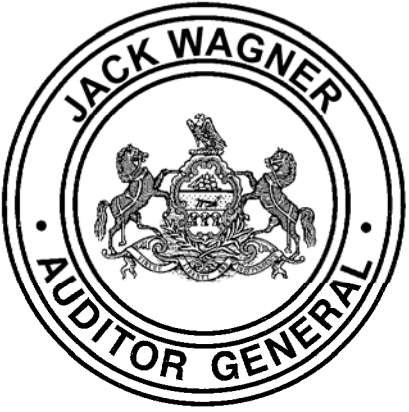
The township is responsible for the fair presentation of the notes to the financial statements contained in this report. Although we compiled the notes to the financial statements from the books and records provided by the township, the township has accepted its responsibility for the financial statements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

Cause: Plan officials were unaware of the financial reporting requirements contained in GASB 25 and GASB 3, as amended by GASB 40, regarding defined contribution pension plans.

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 nonuniformed pension plan, including 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.



WEST MAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

West Mahoning Township Nonuniformed Pension Plan
Indiana County
P. O. Box 88
Smicksburg, PA 16256

Mr. Kenneth Lightner Chairman, Board of Township Supervisors

Ms. Nancy Holmes 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.