

**WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND**

FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND

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SARP & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

210 Toll Gate Hill Road
Greensburg, PA 15601
Telephone 724-834-2151
FAX: 724-834-5969

John F. Sarp, CPA, Managing Partner
Jared C. Ewing, CPA

Retired
Donald R. Sarp, CPA
Jerome R. Yasher, CPA

Lawrence J. Nicolette, CPA
1943 - 1991

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Westmoreland County, Pennsylvania
Employees' Retirement Fund
Greensburg, Pennsylvania 15601

We have audited the accompanying Statements of Plan Net Assets of Westmoreland County, Pennsylvania, Employees' Retirement Fund (a component fund of the County of Westmoreland) as of December 31, 2010 and 2009, and the related Statements of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of the trustees of the Westmoreland County, Pennsylvania, Employees' Retirement Fund. 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 *Governmental 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of Westmoreland County, Pennsylvania, Employees' Retirement Fund as of December 31, 2010 and 2009, and the changes in its plan net assets for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 6, 2011, on our consideration of the Westmoreland County Employees' Retirement Fund's internal control structure and on its compliance with laws and regulations. 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.



Sarp & Company
CERTIFIED PUBLIC ACCOUNTANTS

Greensburg, Pennsylvania
May 6, 2011

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
STATEMENTS OF PLAN NET ASSETS
AS OF DECEMBER 31,

	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Cash and Short Term Investments	\$ 10,264,712	\$ 10,084,557
Receivables:		
Contributions	-	-
Interest and Dividends	1,422,222	1,518,282
Total Receivables	<u>1,422,222</u>	<u>1,518,282</u>
Investments, at Fair Value:		
US Government Securities	53,257,898	48,992,523
Domestic Corporate Debt Obligations	27,395,170	29,509,388
Municipal Bonds	998,645	203,753
Domestic Common Stock	134,441,905	115,993,580
Registered Investment Companies	44,330,223	38,583,190
Mutual Funds	6,646,932	5,900,316
Partnership/Joint Ventures	35,481,086	32,697,782
Asset Backed Securities	16,074,388	15,893,034
Other	-	10
Total Investments	<u>318,626,247</u>	<u>287,773,576</u>
Total Assets	<u>330,313,181</u>	<u>299,376,415</u>
<u>Liabilities</u>		
Accounts Payable	252,888	213,494
Total Liabilities	<u>252,888</u>	<u>213,494</u>
Net Assets Held in Trust for Plan Benefits	<u>\$ 330,060,293</u>	<u>\$ 299,162,921</u>

The accompanying notes to the financial statements are an integral part of these statements.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2010</u>	<u>2009</u>
Additions:		
Contributions:		
Employer	\$ 6,194,962	\$ 8,275,610
Plan Members	7,122,087	7,033,493
	<hr/>	<hr/>
Total Contributions	13,317,049	15,309,103
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments (Note 5)	28,873,911	44,666,411
Interest	3,763,570	5,297,120
Dividends	2,700,141	3,790,223
Miscellaneous Investment Income	140,083	399,696
	<hr/>	<hr/>
	35,477,705	54,153,450
Less: Investment Expense	1,289,945	1,139,216
	<hr/>	<hr/>
Net Investment Income (Loss)	34,187,760	53,014,234
	<hr/>	<hr/>
Total Additions (Reductions)	47,504,809	68,323,337
Deductions:		
Pension Benefits	14,549,496	12,278,093
Death Benefits	946,061	1,220,504
Refunds of Contributions	1,059,431	1,145,285
Administrative Expense	52,449	50,835
	<hr/>	<hr/>
Total Deductions	16,607,437	14,694,717
	<hr/>	<hr/>
Net Increase (Decrease)	30,897,372	53,628,620
Net Assets Held in Trust for Plan Benefits:		
Beginning of the Year	299,162,921	245,534,301
	<hr/>	<hr/>
End of the Year	\$ 330,060,293	\$ 299,162,921

The accompanying notes to the financial statements are an integral part of these statements.

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1: BASIS OF FINANCIAL STATEMENTS

Basis of Accounting

The Fund's financial statements are presented on the accrual basis of accounting in conformity with generally accepted accounting principles, as applicable to governmental entities.

Plan member contributions are recognized as revenues in the period in which contributions are due. Employer contributions 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.

Method Used to Value Investments

Investments are reported at fair value. Cash equivalents and 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. Mortgages are valued on the basis of future payments and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: ORGANIZATION AND INVESTMENT PROGRAM

Organization

The Westmoreland County Employees' Retirement Fund (the "Fund") is a single employer defined benefit, public employees' retirement fund for the benefit of all personnel who are regularly employed on a full-time basis by Westmoreland County (the "County"). The County's retirement plan was organized on January 1, 1945, and is in compliance with Act 96 of the Pennsylvania Legislature, the "County Pension Law," dated August 31, 1971.

Reporting Entity

In evaluating how to define the Fund, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by GASB 14 "Defining the Reporting Entity." The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate

NOTE 2: (CONTINUED)

potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Fund is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the governing reporting entity.

Included in the reporting entity:

The Westmoreland County Employees' Retirement Fund

The funds used for the operation of the Fund are included in the reporting entity. The Westmoreland County Employees' Retirement Fund has no component units as defined above, therefore, the information contained in this report is strictly that of the Fund. However, the Fund is considered a component unit of the County of Westmoreland and is included in the County's annual financial statements.

Investment Program

The trustees and custodians of the Fund are the County Commissioners, the Controller, the County Treasurer, and PNC Bank, N.A., (the "Custodian"). The investment performance monitor of the Fund is Yanni Partners, Inc. During the year ended December 31, 2010, the investment managers were as follows: C.S. McKee and Company, Inc., as the large cap value, fixed income, and international mutual fund manager, Victory Gradison, Inc., as the small cap value fund manager, Metropolitan West Asset Management, LLC, as a fixed income fund manager, CIM Investment Management, Inc., CIM and Manning and Napier, as Core/All Cap fund managers, Marvin and Palmer Associates and SIT Investment Associates, Inc., as the large cap growth fund manager, Grosvenor Institutional Partners, and CCA Gold, as alternative fund managers, and Emerald Advisors as the small and mid capital growth manager and mid cap core manager.

Under agreements with the various investment managers, the investment manager makes monthly reports to the custodian as to the investment and reinvestment of the assets of the Fund in:

- (a) Bonds, notes and other direct obligations of the United States Government.
- (b) Obligations of the twelve Federal Land Banks.
- (c) Bonds, debentures, and other corporate obligations of any United States Corporation, providing there has been no default on the obligations of the corporation during the five years immediately preceding the purchase.
- (d) Obligations guaranteed by the Government of Canada, the Provinces of Canada, or by certain Canadian cities provided that the obligation is payable in United States currency.
- (e) Notes secured by mortgages, which are insured by the Federal Housing Commissioners or debentures that are guaranteed as to principal and interest by the Federal Housing Administration, or Agency of the United States Government.
- (f) Common and preferred stocks authorized for investment of trust funds under the laws of the State of Pennsylvania provided:
 - (1) the stocks are listed on a national securities exchange;
 - (2) payment of dividends on preferred stock is not in arrears;
 - (3) the cost of investments in stocks may not exceed 70 percent of the total invested portfolio.
- (g) Fixed income securities represented by marketable debt issues by Yankee Bonds.

NOTE 2: (CONTINUED)

The investment performance monitor reports to the trustees and advises the trustees on the Fund's investment performance.

NOTE 3: FUNDING POLICY AND CONTRIBUTIONS

The funding policy of the Westmoreland County Employees' Retirement Fund provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the aggregate actuarial funding method.

The annual required contributions (ARC) of \$7,533,685 and \$8,275,610 were made in 2010 and 2009, respectively, in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed at December 31, 2009 and 2008. Employee contributions totaled \$7,122,087 and \$7,033,493 for 2010 and 2009, respectively.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note 9.

NOTE 4: CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of cash, cash equivalents and investments with a maturity date of twelve months or less. At December 31, 2010 and 2009, cash and short-term investments consisted of the following:

	<u>2010</u>	<u>2009</u>
Checking	\$ 97,953	\$ 4,219,719
Cash Equivalents	7,002,864	3,938,519
Short-Term Investments	3,163,895	1,926,319
Total	<u>\$10,264,712</u>	<u>\$10,084,557</u>

NOTE 5: NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

The net appreciation (depreciation) in fair value of investments is the change in the relationship between cost and fair value of the investments. For the year ended December 31, 2010, the change in the relationship between cost and fair value of investments was:

	<u>Fair Value</u>	<u>Cost</u>	<u>Net Unrealized Appreciation (Depreciation)</u>
<u>Beginning of Year:</u>			
US Government Securities	\$ 48,992,523	\$ 48,645,470	\$ 347,053
Municipal Bonds	203,753	217,030	(13,277)
Domestic Corporate Debt Obligations	29,509,388	28,481,010	1,028,378
Other Fixed Income Securities	-	-	-
Domestic Common Stock	115,993,580	103,584,667	12,408,913
Registered Investment Companies	38,583,190	33,708,257	4,874,933
Partnerships/Joint Ventures	32,697,782	22,386,456	10,311,326
Asset Backed Securities	15,893,034	16,014,959	(121,925)
Mutual Funds-Fixed Income	5,900,316	5,174,016	726,300
Other	10	500	(490)
	<u>287,773,576</u>	<u>258,212,365</u>	<u>29,561,211</u>
<u>End of Year:</u>			
US Government Securities	53,257,898	52,942,793	315,105
Municipal Bonds	998,645	1,060,646	(62,001)
Domestic Corporate Debt Obligations	27,395,170	26,075,370	1,319,800
Other Fixed Income Securities	-	-	-
Domestic Common Stock	134,441,905	111,524,037	22,917,868
Registered Investment Companies	44,330,223	36,882,958	7,447,265
Partnerships/Joint Ventures	35,481,086	22,386,456	13,094,630
Asset Backed Securities	16,074,388	15,521,524	552,864
Mutual Funds-Fixed Income	6,646,932	5,114,538	1,532,394
Other	-	-	-
	<u>318,626,247</u>	<u>271,508,322</u>	<u>47,117,925</u>
Net Unrealized Appreciation (Depreciation)			17,556,714
Net Realized Gain on Sale of Investments			11,317,197
Net Appreciation (Depreciation) in Fair Value of Investments			<u>\$ 28,873,911</u>

Net realized gain on sale of investments is the net gain over loss of investments sold computed as the difference between proceeds of sale and the original costs of investments sold. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the financial statements. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in investment income reported for a previous year or years as part of the reported net appreciation or depreciation for those years.

NOTE 5: (CONTINUED)

Domestic corporate debt obligations and common stocks are all publicly traded companies.

US Government securities are government mortgage obligations, US Treasury notes, or US Treasury Bonds.

Investments in Partnerships/Joint Ventures are Hedge Fund Investments. Hedge Funds are multi-manager investment vehicles in which capital is allocated among a select group of investment managers (Portfolio Funds) in the Hedge Fund Industry. These Portfolio Funds utilize a variety of investment strategies to invest in both domestic and international markets.

Cash equivalents are investments in U.S. Government Securities, Corporate Debt Obligations, and Asset Backed Securities due within three months of year end and funds held in Black Rock Funds, an institutional money market.

The following investments represent 5 percent or more of the Plan's net assets at December 31, 2010:

3,651,584 shares of Advisors Inner Circle Fund, Inc., (McKee International Equity Institutional Class) which is a Registered Investment Company and represents 13.43 percent of the Plan's Net Assets.

23,811,562 shares of Grosvenor Institutional Partners, LTD which is a publicly traded partnership and represents 7.21 percent of the Plan's Net Assets.

There were no other investments in any one organization that represents 5 percent or more of plan net assets.

NOTE 6: DEPOSITS

Custodial Credit Risk- (For deposits) is the risk that in the event of the failure of a depository financial institution a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

The fund has a policy that deposits must be held in insured depositories satisfactory to the fund and must be fully collateralized. This policy is in accordance with Act 72 of the Commonwealth of Pennsylvania, dated August 6, 1971. Act 72 permits deposits to be collateralized on pooled basis with securities held by the pledging institution.

At December 31, 2010, the Fund's deposits for cash and equivalents had a carrying amount of \$7,100,817 and a bank balance of \$7,277,827 of which \$7,027,827 was collateralized as follows:

Uninsured and collateralized with securities pledged by the financial institution on the pooled basis.

Citizens Bank	\$ 24,963
PNC Advisors	7,002,864
Total	<u>\$7,027,827</u>

WESTMORELAND COUNTY, PENNSYLVANIA
EMPLOYEES' RETIREMENT FUND
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2010 AND 2009

NOTE 7: (CONTINUED)

As of December 31, 2010, the Fund's investments are as follows:

	Fair Value	Minimum Rating	No Maturity Date	13-24 Months	25-60 Months	More Than 60 Months
US Government Securities	\$ 53,257,898	AAA	-	\$ 5,615,158	\$ 9,014,815	\$ 38,627,925
Municipal Bonds	998,645	BAA1	-	-	-	998,645
Domestic Corporate Debt Obligations	27,395,170	BAA3	-	856,092	2,727,819	23,811,259
Domestic Common Stock	134,441,905	N/A	134,441,905	-	-	-
Registered Investment Companies	44,330,223	N/A	44,330,223	-	-	-
Partnerships/Joint Ventures	35,481,086	N/A	35,481,086	-	-	-
Asset Backed Securities	16,074,388	B2	-	81,808	1,061,246	14,931,334
Mutual Funds-Fixed Income	6,646,932	N/A	6,646,932	-	-	-
Totals	\$ 318,626,247		\$ 220,900,146	\$ 6,553,058	\$ 12,803,880	\$ 78,369,163

As of December 31, 2009, the Fund's investments are as follows:

	Fair Value	Minimum Rating	No Maturity Date	13-24 Months	25-60 Months	More Than 60 Months
US Government Securities	\$ 48,992,525	AAA	-	\$ 2,130,620	\$ 14,514,506	\$ 32,347,397
Municipal Bonds	203,753	BAA1	-	-	-	203,753
Domestic Corporate Debt Obligations	29,509,388	BAA3	-	1,804,478	6,596,309	21,108,601
Domestic Common Stock	115,993,580	N/A	115,993,580	-	-	-
Registered Investment Companies	38,583,190	N/A	38,583,190	-	-	-
Partnerships/Joint Ventures	32,697,782	N/A	32,697,782	-	-	-
Asset Backed Securities	15,893,034	B2	-	635,720	614,708	14,642,606
Mutual Funds-Fixed Income	5,900,316	N/A	5,900,316	-	-	-
Other	10	N/A	-	10	-	-
Totals	\$ 287,773,576		\$ 193,174,868	\$ 4,570,828	\$ 21,725,523	\$ 68,302,357

NOTE 6: (CONTINUED)

At December 31, 2010, \$250,000 of the Fund's bank balance was covered by Federal Depository Insurance Corporation (FDIC) insurance.

Deposits held at Citizens Bank represents 3.78 percent of the Fund's cash and equivalents. Cash equivalents held at PNC Advisors represents 96.22 percent. These deposits do not include short term investments, which are discussed in Note 4.

NOTE 7: INVESTMENTS

Custodial Credit Risk- For investments is the risk that in the event of failure of the counter party (e.g. Broker – dealer) to a transaction, a government will not be able to recover the value of its investments in collateral securities that are held in the possession of another party. All investments of the Fund are held in trust at PNC Advisors.

Interest Rate Risk- Arises from investments in debt instruments and is defined as “the risk that changes in interest rate will adversely affect the fair value of the investment”. The fund has a policy that the maturities of investments held in the portfolio are at the discretion of the investment manager. However, the effective duration of the fixed income section should not exceed +/- 1.5 years of the Lehman Brothers Aggregate Index duration.

Credit Risk- Is the risk that an issuer or other counter party to an investment will not fulfill its obligation to the Fund. The Fund's policy on credit risk is as follows:

Equity Issues – There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that prudent standards should be developed and maintained by the investment managers. Convertible bonds will be considered as an equity investment and must be rated investment grade (Baa/BBB) or better by Moody's Investment Service or Standard & Poor's.

Fixed Income Securities – Domestic bonds held in the portfolio must be rated investment grade (Baa/BBB) or better by Moody's Investment Service or Standard and Poor's.

Cash Equivalents – If commercial paper is used for short term investments, it must be of high quality, rated at least the equivalent of A-1 or P-1 by Moody's Investment Service or Standard and Poor's.

NOTE 8: CONTINGENT LIABILITIES

The Westmoreland County Employees' Retirement Fund, in its normal course of business, can be named as a defendant in various lawsuits arising from the conduct of its business. As of December 31, 2010, the management and the Fund's legal counsel are unaware of any such lawsuits.

NOTE 9: DISCLOSURE OF PENSION INFORMATION IN ACCORDANCE WITH STATEMENT NO. 25 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, AS AMENDED BY GASB STATEMENT NO. 50 PENSION DISCLOSURES

The Governmental Accounting Standards Board (GASB) issued Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans" effective for fiscal years beginning after June 15, 1996. The following information is presented in accordance with GASB No. 25, as amended.

A) Plan Description and Contribution Information
Plan Description

Westmoreland County sponsors the Westmoreland County Employees' Retirement Fund (the Fund), a single employer, defined benefit, public employees' retirement fund for the benefit of all personnel who are regularly employed on a full time basis by Westmoreland County (the County). The County's retirement plan was organized on January 1, 1945, and is in compliance with Act 96 of the Pennsylvania Legislature, the "County Pension Law," dated August 31, 1971.

A member becomes eligible for benefits at age 60 regardless of length of service, or at age 55 with 20 years of service. There are provisions for early retirement, disability pension payment, survivor's annuities, and death benefits. The Fund also provides for refunds upon application from an employee who terminates for any reason. Acceptance of refunds forfeits all rights to further benefits under the Fund.

Normal monthly retirement pension is calculated based upon a monthly average of a member's highest salary or wage including overtime and shift premium compensation for 36 months, whether or not consecutive, multiplied by a specified percentage. Such percentage is based upon the number of years' service and class of service. The maximum percentage is not limited.

Disability pension payment is calculated at 25 percent of the final average salary in effect on date of disability. A more detailed description of the Plan is available from the Plan's administrative office.

Membership in the Plan consisted of the following on December 31, 2009, the date of the latest actuarial valuation:

Retirees and Beneficiaries Receiving Benefits	841
Terminated Plan Members Entitled to but not yet Receiving Benefits	93
Active Plan Members	1,987
	<hr/>
Total	<u>2,921</u>
	<hr/>
Number of Participating Employers	<u>1</u>

Contributions: Plan members are required to contribute 9 percent of their annual covered salary. Employees may also make voluntary contributions to the Plan.

NOTE 9: (CONTINUED)

The County is required to contribute at an actuarially determined rate. Per Act 96 of 1971, as amended, contribution requirements of the Plan members and the County are established and may be amended by the General Assembly of the Commonwealth of Pennsylvania. Administrative costs may be financed through investment earnings. Cost-of-living adjustments (COLA) are provided at the discretion of the Westmoreland County Employees' Retirement Board.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Liability (AAL) Entry Age</u>	<u>Assets Over(Under) AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Excess as a Percentage of Covered Payroll</u>
1/1/08	\$321,559,812	\$317,205,668	\$ 4,354,144	101.49%	\$72,160,746	6.0 %
1/1/09	\$292,192,498	\$336,512,225	\$(44,319,727)	86.8%	\$75,096,281	(59.0)%
1/1/10	\$296,022,678	\$349,024,545	\$(53,001,867)	84.81%	\$76,147,376	(69.6)%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Annual Percentage Contributed</u>
2002	\$ -	100%
2003	\$ 3,011,403	100%
2004	\$ 4,760,998	100%
2005	\$ 5,346,980	100%
2006	\$ 4,142,359	100%
2007	\$ 2,990,464	100%
2008	\$ 2,222,551	172%
2009	\$ 8,275,610	100%
2010	\$ 7,533,685	82.23%

NOTES TO THE REQUIRED SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	12/31/09
Actuarial Cost Method	Entry Age Normal
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Investments Rate of Return *	7.50%
Projected Salary Increase *	3.50%

* Includes inflation at 3%

NOTE 10: DISCLOSURE OF PENSION INFORMATION IN ACCORDANCE WITH STATEMENT NO. 27 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

The Governmental Accounting Standards Board (GASB) issued Statement No. 27 "Accounting for Pensions by State and Local Governmental Employers" effective for fiscal years beginning after June 15, 1997.

The County's annual pension cost and dollar amount of contributions made for the plan year ended December 31, 2010 and 2009, were \$7,612,781 and \$8,275,610, and \$8,275,610 and \$6,194,962, respectively.

Annual Pension Cost and Net Pension Obligation

For the year ended December 31, 2010, the County had a net pension obligation (Asset) of \$(1,417,819), as determined by the following:

	<u>2010</u>	<u>2009</u>
Annual Required Contribution	\$7,533,685	\$ 8,275,610
Interest on Net Pension Obligation	(106,336)	(111,559)
Adjustment to Annual Required Contribution	185,432	181,189
	-----	-----
Annual Pension Cost	7,612,781	8,345,240
Contributions Made	(6,194,962)	(8,275,610)
	-----	-----
Increase (Decrease) in Net Pension Obligation	1,417,819	69,630
Net Pension Asset, Beginning of Year	(1,417,819)	(1,487,449)
Net Pension Asset, End of Year	<u>\$ -</u>	<u>\$(1,417,819)</u>

The annual required contribution for the current year was determined as part of the December 31, 2009, actuarial valuation using the aggregate actuarial cost method. The aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities. The actuarial assumptions included:

- (a) 7.50 percent investment rate of return and
 - (b) projected salary increases of 3.50 percent.
- Both (a) and (b) included an inflation component of 3 percent.

The assumptions did not include any cost of living adjustments (COLA), which are provided at the discretion of the Retirement Board. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.

NOTE 10: (CONTINUED)

Three Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset at Year End</u>
12/31/05	\$ 5,346,980	100%	\$ -
12/31/06	\$ 4,142,359	100%	\$ -
12/31/07	\$ 2,990,464	100%	\$ -
12/31/08	\$ 2,222,551	172%	\$(1,487,449)
12/31/09	\$ 8,345,240	99.16%	\$(1,417,819)
12/31/10	\$ 7,612,781	81.38%	\$ -

NOTE 11: NON-INTERVENTING MILITARY SERVICE CREDIT

The County adopted a policy for the purchase of Non-Interventing Military Service Credit, effective, December 29, 2003, subject to the approval of the County Retirement Board, a member of the Retirement Fund who is a contributor, and who served actively in the armed forces of the United States, is eligible to receive full service credit for up to five (5) years of such armed forces service time; provided, that such member has at least three (3) years of County service subsequent to the military service, and provided further, that the member is not entitled to receive, eligible to receive now or in the future, or is receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency.

NOTE 12: CHANGE IN ACTUARIAL ASSUMPTIONS

In December 31, 2009, The Retirement Board adopted the following changes in the methods used to complete the Annual Required Contribution (ARC) effective January 1, 2010.

Salary assumption: Projected salary increase changed from 4.50 percent to 3.50 percent.

Actuarial cost method changed from Aggregate to Entry Age Normal.

210 Toll Gate Hill Road
Greensburg, PA 15601
Telephone 724-834-2151
FAX: 724-834-5969

John F. Sarp, CPA, Managing Partner
Jared C. Ewing, CPA

Retired
Donald R. Sarp, CPA
Jerome R. Yasher, CPA

Lawrence J. Nicolette, CPA
1943 - 1991

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*

The Board of Trustees
Westmoreland County, Pennsylvania
Employees' Retirement Fund
Greensburg, Pennsylvania 15601

We have audited the financial statements of the Westmoreland County Employees' Retirement Fund as of and for the year ended December 31, 2010, which collectively comprise the Westmoreland County Employees' Retirement Fund's basic financial statements and have issued our report thereon dated May 6, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Westmoreland County Employees' Retirement Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Westmoreland County Employees' Retirement Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Westmoreland County Employees' Retirement Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material deficiency* is a control deficiency, or combination of control deficiencies, such that there is reasonable possibility that a material misstatement of the Westmoreland County Employees' Retirement Fund's financial statements will not be prevented or detected and corrected on a timely basis.


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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Westmoreland County Employees' Retirement Fund'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 Board of Trustees and management of the Westmoreland County Employees' Retirement Fund and is not intended to be and should not be used by anyone other than these specified parties.



Sarp & Company
CERTIFIED PUBLIC ACCOUNTANTS

Greensburg, Pennsylvania
May 6, 2011