

**FAIRFIELD HOSE COMPANY FIREFIGHTERS RELIEF ASSOCIATION OF THE
COMMONWEALTH OF PENNSYLVANIA**

HEREIN REFERRED TO AS:

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

ERIE COUNTY

AUDIT REPORT

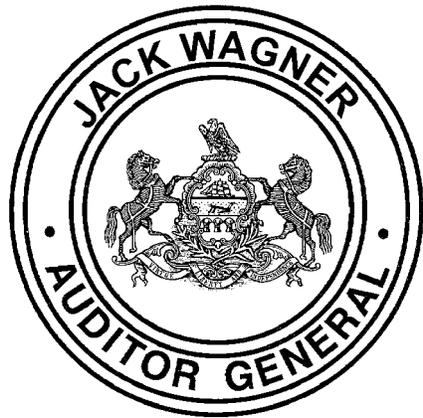
FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2005



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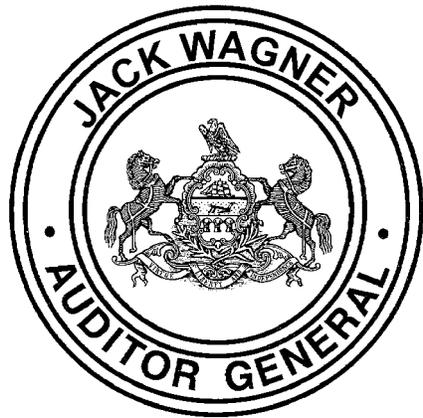
BACKGROUND

This audit report is a public record, which must be available for examination by all interested citizens and volunteer firefighters' relief association (VFRA) members.

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149, No. 84), as amended, 53 P.S. § 8501 et seq. (commonly referred to as Act 84), the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended 53 P.S. § 895.701 et seq. (commonly referred to as Act 205), are properly expended.

This department conducts its audits of volunteer firefighters' relief associations in accordance with generally accepted auditing standards. Representations contained in the accompanying financial statements are the responsibility of the relief association's management. This department's responsibility for those statements is confined solely to an expression of our opinion as to the fairness of management's representation of the financial statements taken as a whole.

Act 84 requires that the relief association be governed in accordance with bylaws, which establish the association's operating procedures. Act 84 provides that the primary purpose of a relief association is to afford financial protection to volunteer firefighters against misfortunes suffered during fire service participation. To fulfill this purpose, Act 84 authorizes specific types of expenditures and outlines appropriate relief association investment options. Within the parameters established by Act 84, it is the responsibility of the volunteer firefighters' relief association to choose investments in a proper and prudent manner.



Independent Auditor's Report

Ms. Amanda Couse, President
FAIRFIELD VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Erie County

We have audited the accompanying Statement of Monetary Assets Arising From Cash Transactions as of December 31, 2005, and the related Statement of Cash Receipts, Disbursements, and Changes in Cash of the Fairfield Volunteer Firefighters' Relief Association for the period January 1, 2004 to December 31, 2005. These financial statements are the responsibility of the relief association'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 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 is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations 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)

As described in Note 2, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the monetary assets arising from cash transactions of the Fairfield Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period January 1, 2004 to December 31, 2005, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2006, on our consideration of the Fairfield Volunteer Firefighters' Relief Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

April 19, 2006

JACK WAGNER
Auditor General

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATEMENT OF MONETARY ASSETS ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2005

ASSETS:

Cash (note 3)	\$ 206,032
Investments (note 4)	<u>98,951</u>
Total Monetary Assets	<u>\$ 304,983</u>

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

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
FOR THE PERIOD JANUARY 1, 2004 TO DECEMBER 31, 2005

RECEIPTS:

Support:		
State aid (note 5)	\$	62,435
Other Receipts:		
Investments sold		14,753
Interest income		3,430
Dividend income		4,553
Reimbursements		<u>292</u>
Total Receipts		<u>85,463</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased and maintained		22,940
Training expenses		5,586
Benefit Services:		
Insurance premiums		7,080
Relief benefits		3,059
Administrative Services:		
Bank service fees		124
Other Disbursements:		
Income reinvested		<u>1,640</u>
Total Disbursements		<u>40,429</u>
Net Increase or (Decrease) In Cash		45,034
Cash Balance, January 1		<u>160,998</u>
Cash Balance, December 31	\$	<u><u>206,032</u></u>

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

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Pursuant to the Act of June 11, 1968, (P.L. 149, No. 84), as amended, the Fairfield Volunteer Firefighters' Relief Association is a charitable organization that was formed to afford financial protection to volunteer firefighters and to encourage individuals within the community to participate in volunteer fire service.

Act 84 governs the overall operation of the volunteer firefighters' relief association. The relief association's bylaws regulate the specific procedures by which the association assets are managed.

The Fairfield Volunteer Firefighters' Relief Association is affiliated with the Fairfield Hose Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The relief association's records are maintained on a cash basis, and the statement of cash receipts and disbursements reflect only cash received and disbursed. Therefore, receivables and payables, long-lived assets, accrued income and expenses, and depreciation, which would otherwise be recognized under accounting principles generally accepted in the United States of America (GAAP) and which may be material in amount, are not recognized in the accompanying financial statements.
- B. Fixed assets are recognized as expenditures at the time of purchase, rather than being capitalized and depreciated over their estimated useful lives.
- C. The relief association did not adopt Statement of Financial Accounting Standard (SFAS) No. 117 since they do not follow GAAP.
- D. The nature of the relief association's monetary assets is considered to be unrestricted.
- E. All investments of the relief association are carried at their original cost to the association, rather than the fair value.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. CASH

Cash consisted of the following at December 31, 2005:

Checking account	\$	1,641
Savings account		36,359
Money market account		168,032
Total Cash	\$	206,032

4. INVESTMENTS

The investments held by the relief association as of December 31, 2005, consisted of the following:

	Cost	Fair Value
Certificates of deposit	\$ 57,044	\$ 57,708
Loan to fire company *	41,907	41,907
Total Investments	\$ 98,951	\$ 99,615

* Loan to Fire Company

On June 9, 2003, the relief association made a loan to Fairfield Hose Company in the amount of \$57,000. On April 5, 2004, the outstanding balance due on the loan was refinanced. The refinanced loan has an interest rate of three percent and a seven-year amortization period. As of December 31, 2005, the outstanding balance due on the loan was \$41,907.

5. STATE AID

Chapter 7 of the Act of December 18, 1984, (P.L. 1005, No. 205), as amended, sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the relief association of the fire department or departments, which is or are recognized as providing service to the municipality.

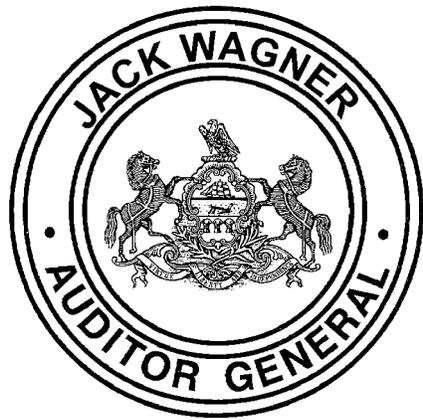
During the years 2004 and 2005, the Fairfield Volunteer Firefighters' Relief Association received state aid from Harborcreek Township in Erie County.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

6. RELATED PARTY SITUATION

A related party situation exists because the volunteer firefighters' relief association is affiliated with the fire service organization disclosed in Note 1. The relief association is a distinct separate legal entity that was established primarily for the purpose of affording financial protection to the volunteer firefighters against the consequences of misfortune suffered as a result of their participation in the fire service.

The relief association membership is aware of this situation and all transactions are approved by the relief association membership.



**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***

Ms. Amanda Couse, President
FAIRFIELD VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Erie County

We have audited the financial statements (cash basis) of the Fairfield Volunteer Firefighters' Relief Association as of December 31, 2005, and for the period January 1, 2004 to December 31, 2005, and have issued our report thereon dated April 19, 2006. 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 is mandated by state statute to calculate state aid provided to volunteer firefighters' relief associations and to audit volunteer firefighters' relief associations 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 Fairfield Volunteer Firefighters' Relief Association'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 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

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)

financial reporting that, in our judgement, could adversely affect Fairfield Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the following findings:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Comply with Terms of Loan Agreement

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 association officers 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 consider the reportable condition described in Finding No. 1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairfield Volunteer Firefighters' Relief Association'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 or other matters that are required to be reported under *Government Auditing Standards*.

We are concerned in light of the relief association's failure to correct previously reported audit findings. The relief association management should strive to implement the recommendations and corrective actions noted in this audit report.

**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)**

This report is intended solely for the information and use of the relief association's members and management, and the officials of the municipalities that grant the foreign fire insurance tax monies to the volunteer firefighters' relief association. It is not intended to be and should not be used by anyone other than these specified parties.

April 19, 2006

JACK WAGNER
Auditor General

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the two prior audit reports, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a listing of relief association owned equipment was provided, it did not accurately identify equipment owned by the relief association. Specifically, the list of equipment that was provided did not contain dates of purchase or unit costs to accurately identify the equipment owned. As such, it was impossible to determine if all items purchased during the audit period had been accurately recorded.

Criteria: The relief association should establish adequate internal control procedures to ensure the maintenance of a cumulative equipment roster of all items purchased by the relief association in order to provide an effective accounting control over the relief association's fixed assets. A cumulative roster of all relief association equipment should include the following:

- Type of equipment purchased.
- Date of purchase.
- Unit cost.
- Serial number, if applicable.
- Current location of item.
- Final disposition of sold or damaged equipment.
- Notation of the annual inventory.

Cause: While notified in the prior two audit reports of the necessity to maintain a cumulative equipment roster, relief association officials neglected to establish adequate internal control procedures over fixed assets to include a detailed roster of all equipment owned by the association.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases.

Recommendation: We once again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented.

FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Comply With Terms of Loan Agreement

Condition: As cited in the prior audit report, the relief association made a \$57,000 unsecured loan to the Fairfield Hose Company. In addition to being unsecured, the payments due on the loan were not collected on a timely basis, and the loan was not amortized with at least a three percent interest rate. While the relief association partially complied with the prior audit recommendation by securing the loan and amortizing it with a three percent interest rate, the relief association did not timely collect all monthly payments due on the loan. Currently, the loan is \$1,273 in arrears representing delinquent interest due on the loan.

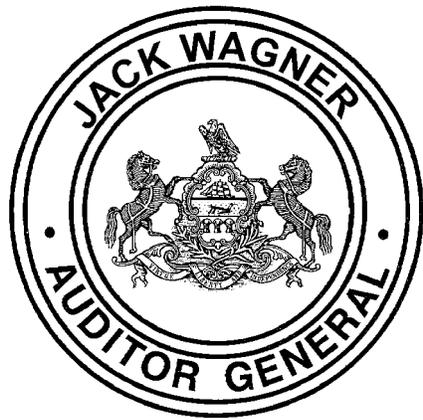
Criteria:The terms of the loan agreement state that payments of \$717 will be due on a monthly basis.

Cause: While notified of this deficiency in the prior audit report, the relief association failed to establish adequate internal control procedures to ensure all loan payments would be timely collected.

Effect: Due to the relief association not receiving the scheduled loan payments, funds were unavailable for general operating expenses or for investment purposes. In addition, the receipt of late payments precludes the relief association from earning the stated interest rate on the loan. Furthermore, not aggressively pursuing delinquent payments increases the likelihood they will be uncollectible.

Recommendation: We again recommend the relief association collect \$1,273 in delinquent interest and ensure future payments are received in accordance with the amortization schedule. If such action is not taken, we recommend that the loan be immediately liquidated. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.



FAIRFIELD VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Fairfield Volunteer Firefighters' Relief Association Officers:

Ms. Amanda Couse, President

Ms. Jenelle Pohl, Secretary

Ms. Victoria Bell, Treasurer

Reports were also distributed to each municipality, which allocated foreign fire insurance tax monies to this relief association.

Ms. Donna L. Mindek, Secretary
Harborcreek Township

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, 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.