

**FIRE DEPARTMENT OF MONTGOMERY TOWNSHIP VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION**

**HEREIN REFERRED TO AS:**

**MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF  
ASSOCIATION**

**MONTGOMERY COUNTY**

**AUDIT REPORT**

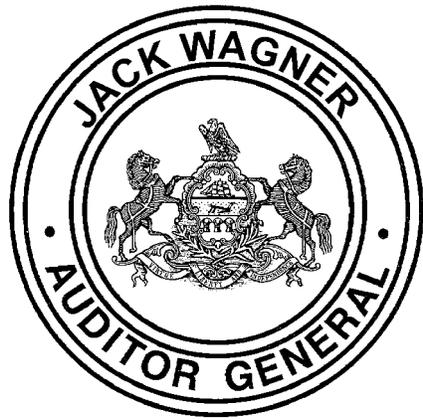
**FOR THE PERIOD**

**DECEMBER 1, 2003 TO DECEMBER 31, 2005**



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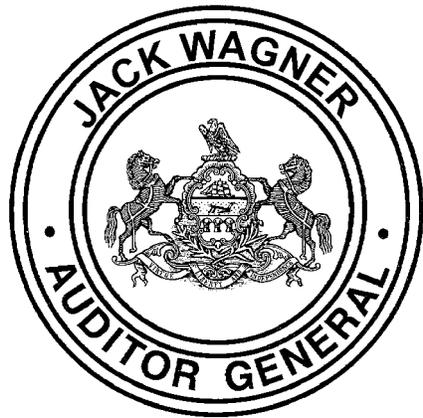
## BACKGROUND

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**

Mr. David S. Wolfe, President  
MONTGOMERY TOWNSHIP VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
Montgomery 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 Montgomery Township Volunteer Firefighters' Relief Association for the period December 1, 2003 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 Montgomery Township Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period December 1, 2003 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 September 25, 2006, on our consideration of the Montgomery Township 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.

September 25, 2006

JACK WAGNER  
Auditor General

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

ASSETS:

Cash (note 3)	\$ 86,419
Investments (note 4)	<u>200,000</u>
 Total Monetary Assets	 <u>\$ 286,419</u>

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

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH  
FOR THE PERIOD DECEMBER 1, 2003 TO DECEMBER 31, 2005

RECEIPTS:

Support:	
State aid (note 5)	\$ 633,795
Donations	15,346
Other Receipts:	
Interest income	2,200
Reimbursements	4,008
	4,008
Total Receipts	655,349

DISBURSEMENTS:

Fire Services:	
Equipment purchased	251,101
Equipment maintenance	8,965
Training expenses	30,821
Fire prevention materials	2,504
Benefit Services:	
Insurance premiums	47,451
Relief benefits	3,621
Tokens of sympathy and goodwill	331
Administrative Services:	
Office equipment and supplies	3,729
Bank service fees	220
Professional services	20,033
Dues and subscriptions	154
Other Disbursements:	
Investments purchased	200,000
	200,000
Total Disbursements	568,930
Net Increase or (Decrease) In Cash	86,419
Cash Balance, December 1, 2003	-
Cash Balance, December 31, 2005	\$ 86,419

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

MONTGOMERY TOWNSHIP 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 Montgomery Township Volunteer Firefighters' Relief Association is a charitable organization that was formed on August 3, 2003, 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 Montgomery Township Volunteer Firefighters' Relief Association is affiliated with the Fire Department of Montgomery Township.

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.

3. CASH

Cash consisted of the following at December 31, 2005:

Checking account	\$ 86,419
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Total Cash	\$ 86,419
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MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS

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

	Cost	Fair Value
Certificates of deposit	\$ 200,000	\$ 201,149
Total Investments	\$ 200,000	\$ 201,149

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 2003, 2004, and 2005, the Montgomery Township Volunteer Firefighters' Relief Association received state aid from Montgomery Township in Montgomery County.

6. RELATED PARTY SITUATIONS

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.

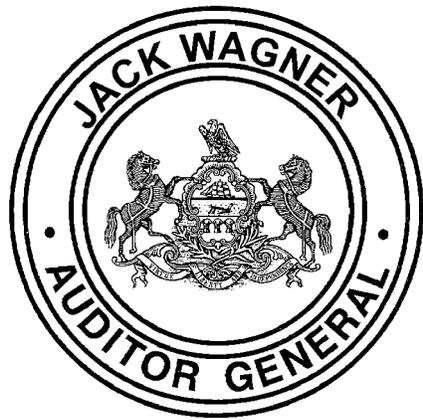
Another related party situation exists because certain officers of the relief association hold offices in the fire service organization. Also, an officer of the relief association is an immediate family member of another fire service organization officer.

The relief association membership is aware of these situations and all transactions are approved by the relief association membership.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS

7. INCOME TAX STATUS

The relief association is a not-for-profit organization that is exempt from federal income tax under Section 501 (a) of the Internal Revenue Code as an organization described under Section 501 (c)(3) of the Code.



**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***

Mr. David S. Wolfe, President  
MONTGOMERY TOWNSHIP VOLUNTEER  
FIREFIGHTERS' RELIEF ASSOCIATION  
Montgomery County

We have audited the financial statements (cash basis) of the Montgomery Township Volunteer Firefighters' Relief Association as of December 31, 2005, and for the period December 1, 2003 to December 31, 2005, and have issued our report thereon dated September 25, 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 Montgomery Township 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Montgomery Township Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the following finding:

Finding No. 2 – Inadequate Officer's Bond Coverage

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. 2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery Township 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the following finding:

Finding No. 2 – Inadequate Officer's Bond Coverage

We also noted a certain immaterial instance of noncompliance which we have reported to the management of Montgomery Township Volunteer Firefighters' Relief Association through Finding No. 1 contained in this 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.

September 25, 2006

JACK WAGNER  
Auditor General

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended \$3,038 for fire company insurance premiums which were not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(2) states:

The funds of any volunteer firefighters' relief association may be spent:

- (2) To purchase contracts of insurance which shall at the least afford financial assistance to active members of the fire service represented by the association against losses due to injury suffered in the fire service and which may also provide in the order named, (i) for payments to the widow or other dependents of a member in the event of his death, (ii) for protection of active firemen against disease, (iii) for the replacement or purchase of prosthetic devices such as visual aids, hearing aids, dentures, braces, crutches, and the like, where such devices have been lost or damaged while the owner was engaged in the fire service or where the need for such devices arises because of functional impairment attributable to participation in the fire service, (iv) for the repair or replacement if necessary of articles of clothing or pocket pagers damaged in the course of participation in the fire service, and (v) for disability incurred after service for a minimum of 20 years as a volunteer firefighter.

While the relief association may expend funds for various types of insurance coverage, to be permissible under Act 84 the insurance must be for the benefit of the relief association or its members. Here, however, the fire company insurance premiums were for the benefit and protection of the fire company, not the relief association or its members; consequently, this expenditure is not authorized under Act 84.

Cause: Relief association officials were unaware that the expenditure for the fire company insurance premiums was not authorized by Act 84.

Effect: As a result of this improper expenditure, relief association funds were not available for investment purposes or to pay for expenditures authorized by Act 84.

However, subsequent to the period under review, on October 5, 2006, the relief association was reimbursed \$3,038 for the above expenditure.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend the relief association become familiar with Act 84 at 53 P.S. § 8506(e) to aid them in determining the propriety of future expenditures. 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.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inadequate Officer's Bond Coverage

Condition: The relief association failed to maintain adequate bond coverage on the association's disbursing officer, as required by Act 84. Specifically, the bond policy in effect, during and subsequent to the audit period, was issued jointly in the name of the fire company and the relief association.

Criteria: Act 84 at 53 P.S. § 8505(c) states, in part, that:

. . . the disbursing officer, whether designated treasurer, comptroller, financial secretary, or otherwise, shall be bonded by corporate surety for the faithful performance of his duties. The amount of such bond shall be at least as great as the maximum cash balance in current funds of the association at any time during the fiscal year, and the premium on such bond shall be a proper charge against the funds of the association.

Since the relief association and fire company are separate and distinct legal entities, the relief association should maintain an officer's bond solely in the name of the relief association to ensure that there is adequate protection of relief association assets.

Cause: Relief association officials were unaware of the Act 84 provisions regarding the maintenance of officer's bond coverage.

Effect: As a result of the disbursing officer of the relief association not being adequately bonded, the association's cash assets were not adequately safeguarded.

Subsequent to the period under review, on October 3, 2006, the relief association obtained adequate officer's bond coverage.

Recommendation: We recommend the relief association continue to maintain adequate bond coverage, as required by Act 84. 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.

MONTGOMERY TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Montgomery Township Volunteer Firefighters' Relief Association Officers:

Mr. David S. Wolfe, President

Ms. Melanie Vasconez, Secretary

Mr. Eugene J. Zeiner, Treasurer

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

Mr. John B. Nagel, Secretary  
Montgomery 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](http://www.auditorgen.state.pa.us).