

**VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE BOROUGH OF
DUNMORE**

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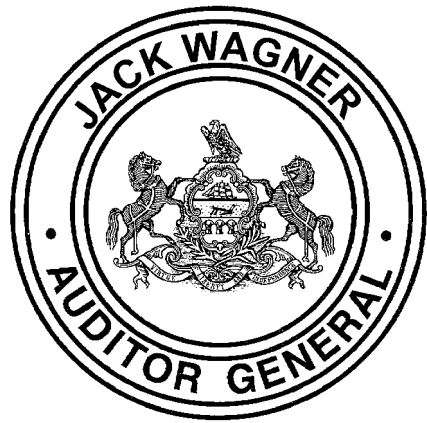
DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

LACKAWANNA COUNTY

AUDIT REPORT

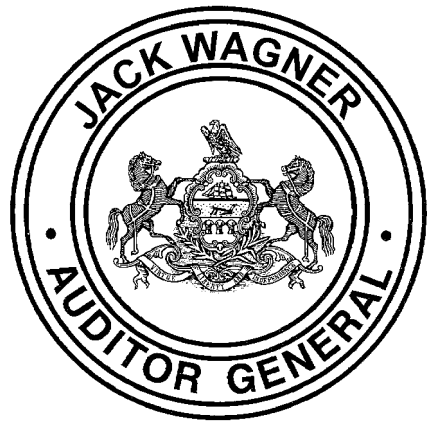
FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2005



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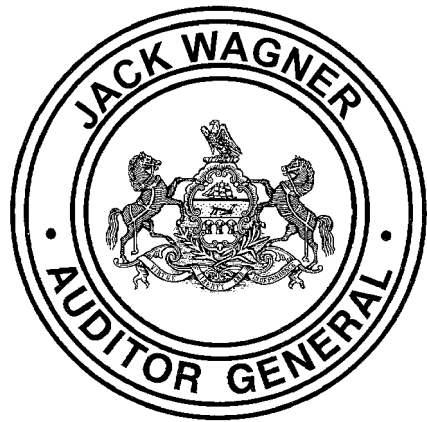
BACKGROUND

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

Mr. Benjamin Mastro, President
DUNMORE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lackawanna 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 Dunmore 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 Dunmore 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 September 29, 2006, on our consideration of the Dunmore 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 29, 2006

JACK WAGNER
Auditor General

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

ASSETS:

Cash (note 3)	\$ 45,819
Investments (note 4)	<u>468,099</u>
Total Monetary Assets	<u>\$ 513,918</u>

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

DUNMORE 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)	\$	32,588
Other Receipts:		
Investments sold		114,053
Interest income		17,019
Dividend income		85,874
Reimbursements		32
Proceeds from bank line of credit (note 6)		<u>18,000</u>
Total Receipts		<u>267,566</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		29,033
Training expenses		150
Benefit Services:		
Insurance premiums		8,236
Death benefits		62,000
Administrative Services:		
Office equipment and supplies		96
Bank service fees		56
Professional services		1,735
Officer compensation		6,713
Miscellaneous expenses		512
Other Disbursements:		
Investments purchased		20,000
Income reinvested		85,874
Principal payments on bank line of credit (note 6)		18,000
Interest payments on bank line of credit (note 6)		<u>456</u>
Total Disbursements		<u>232,861</u>
Net Increase or (Decrease) In Cash		34,705
Cash Balance, January 1		<u>11,114</u>
Cash Balance, December 31	\$	<u><u>45,819</u></u>

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

DUNMORE 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 Dunmore 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 Dunmore Volunteer Firefighters' Relief Association is affiliated with the following fire service organizations:

Eclipse Hose Company
Electric Hose Company
Independent Hose Company
Neptune 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.

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

3. CASH

Cash consisted of the following at December 31, 2005:

Checking account	\$	1,044
Money market account		44,775
 Total Cash	 \$	 <u>45,819</u>

4. INVESTMENTS

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

	Cost	Fair Value
Certificates of deposit	\$ 118,462	\$ 137,328
Stocks *	349,637	3,006,524
 Total Investments	 <u>\$ 468,099</u>	 <u>\$ 3,143,852</u>

* Fair Value - Stocks

The relief association purchased stocks from First National Community Bank and Fidelity Deposit & Discount Bank from 1929 to 2005. The significant increase in the fair value over cost is primarily the result of the length of time that the stocks have been held.

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 Dunmore Volunteer Firefighters' Relief Association received state aid from Dunmore Borough in Lackawanna County.

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

6. BANK LINE OF CREDIT

On February 3, 2004, the relief association entered into an agreement with First National Community Bank whereby this financial institution extended a \$25,000 line of credit to the relief association to pay death benefits. The line of credit had an interest rate which was 2 percent above the relief association's certificate of deposit with First National Community Bank, which was pledged as collateral. The relief association borrowed \$18,000 on the line of credit. The line of credit was fully liquidated on August 26, 2004.

7. RELATED PARTY SITUATIONS

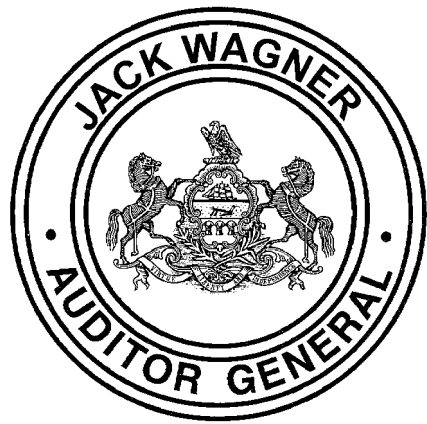
A related party situation exists because the volunteer firefighters' relief association is affiliated with the fire service organizations disclosed in Note 1. The relief association is a distinct separate legal entity that was established primarily for the purpose of affording financial protection to 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 an officer of the relief association is an immediate family member of a fire service organization officer.

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

8. 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. Benjamin Mastro, President
DUNMORE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Lackawanna County

We have audited the financial statements (cash basis) of the Dunmore 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 September 29, 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 Dunmore 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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

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)

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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Dunmore 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*.

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 29, 2006

JACK WAGNER
Auditor General

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act¹, it is the responsibility of the volunteer firefighters' relief association to invest its funds in a proper and prudent manner.

As these investments typically provide an income stream to the relief association for annual operations, it is generally sensible not to invest all VFRA money in one asset or asset class that places the principal at risk. In fact, state law requires VFRA's to "reasonably diversify investments, unless the [VFRA] reasonably determines that it is in the interest of the beneficiaries not to diversify..."².

By diversifying investments, the VFRA can help preserve capital, increase liquidity and decrease volatility. Diversification means spreading one's money among different investments; asset allocation diversifies total investments among different investment classes, such as stocks, bonds, government securities, and cash equivalents.

As observed in Notes 3 and 4 of the VFRA's financial statements, the VFRA had \$3,006,524 (fair value) or 94% of the VFRA's cash and investments in stocks.

The VFRA management should periodically review its specific cash needs and investment goals and ensure that its investments are allocated and diversified to prudently meet those needs and goals.

¹ 53 P.S. § 8506(c)(1997). This provision incorporates the "prudent investor rule" of the Probate, Estates, and Fiduciaries Code, 20 Pa. C.S.A. §7201 et seq.

² 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
COMMENTS

PRIOR AUDIT RECOMMENDATIONS

The relief association has complied with the following prior audit recommendations:

- Related Party Situation

By adopting internal control procedures to ensure that any related party situation and/or transactions are voted on by the membership and documented in the minutes of the meeting.

- Failure to Perform Annual Equipment Inventory

By performing and documenting an inventory of all operable equipment owned.

DUNMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Dunmore Volunteer Firefighters' Relief Association Officers:

Mr. Benjamin Mastro, President

Mr. Joseph Ehnot, Secretary

Mr. Thomas Cummings, Treasurer

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

Mr. Joseph W. Loftus, Secretary
Dunmore Borough

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.