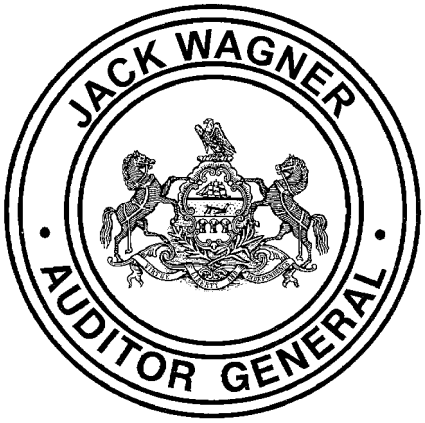


HORSHAM VOLUNTEER FIRE COMPANY NO. 1 RELIEF ASSOCIATION

HEREIN REFERRED TO AS:

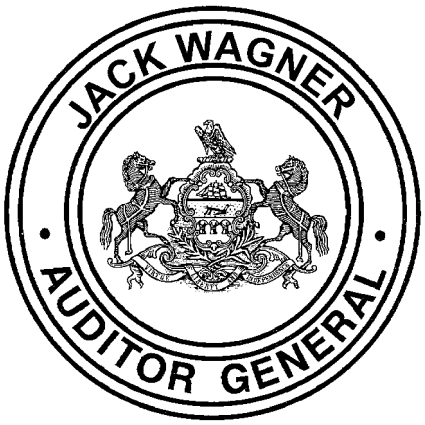
HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

MONTGOMERY COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2005


JACK WAGNER
AUDITOR GENERAL

CONTENTS

Background 1

Independent Auditor's Report 3

Statement of Monetary Assets Arising From Cash Transactions 5

Statement of Cash Receipts, Disbursements, and Changes in Cash 6

Notes to Financial Statements 7

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 11

Findings and Recommendations:

Finding No. 1 – Unauthorized Expenditure 14

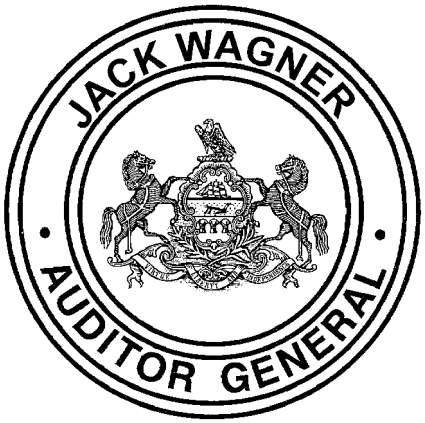
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Duplicate Payments Made for Equipment Maintenance 15

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster 16

Observation 18

Comment 19

Report Distribution List 21


JACK WAGNER
AUDITOR GENERAL

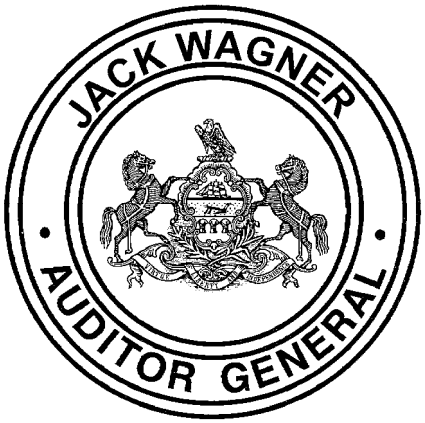
BACKGROUND

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.


JACK WAGNER
AUDITOR GENERAL

Independent Auditor's Report

Mrs. Linda M. Greenberg, President
HORSHAM 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 Horsham Volunteer Firefighters' Relief Association for the period January 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 Horsham Volunteer Firefighters' Relief Association as of December 31, 2005, and the cash receipts, disbursements, and changes in cash for the period January 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 March 23, 2006, on our consideration of the Horsham 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.

March 23, 2006

JACK WAGNER
Auditor General

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

ASSETS:

Cash (note 3)	$	274,309
Investments (note 4)		334,866
Total Monetary Assets	$	609,175

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

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

RECEIPTS:		
Support:		
State aid (note 5)	$	700,809
Contribution		1,650
Other Receipts:		
Investments sold		109,649
Interest income		11,575
Dividend income		21,386
Net realized gain or (loss) on sale of investments	(	6,450)
Reimbursements		17,784
Total Receipts		856,403
DISBURSEMENTS:		
Fire Services:		
Equipment purchased		359,540
Equipment maintenance		63,140
Training expenses		33,125
Fire prevention materials		31,237
Benefit Services:		
Insurance premiums		176,462
Relief benefits		11,547
Tokens of sympathy and goodwill		1,356
Administrative Services:		
Office equipment and supplies		521
Brokerage service fees		1,074
Professional services		2,900
Dues and subscriptions		1,410
Other Disbursements:		
Investments purchased		176,155
Income reinvested		25,806
Total Disbursements		884,273
Net Increase or (Decrease) In Cash	(	27,870)
Cash Balance, January 1 (note 6)		302,179
Cash Balance, December 31	$	274,309

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

HORSHAM 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 Horsham 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 Horsham Volunteer Firefighters' Relief Association is affiliated with Horsham Volunteer Fire Company No. 1.

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	$	18,643
Money market account		255,577
Brokerage cash account		89
Total Cash	$	274,309

4. INVESTMENTS

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

	Cost	Fair Value
Certificates of deposit	$ 148,641	$ 150,802
Mutual funds	186,225	173,336
Total Investments	$ 334,866	$ 324,138

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 Horsham Volunteer Firefighters' Relief Association received state aid from Horsham Township in Montgomery County.

6. ADJUSTMENT TO BEGINNING CASH BALANCE

Four checks totaling $964 which were drawn in the prior financial period and remained outstanding as of December 31, 2002, were subsequently voided during this financial period. As a result, the beginning balance, as of January 1, 2003, was increased to $302,179.

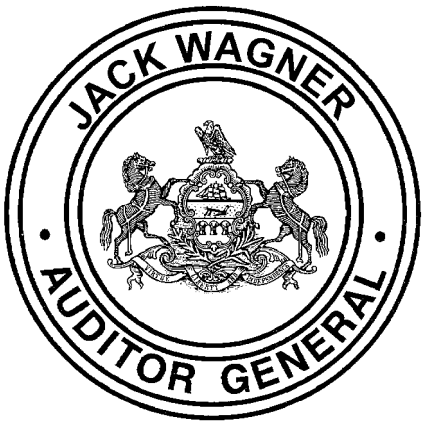
7. RELATED PARTY SITUATIONS

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.

7. RELATED PARTY SITUATIONS – (Continued)

Another related party situation exists because certain officers of the relief association hold offices in the affiliated fire service organization. Also, 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.


JACK WAGNER
AUDITOR GENERAL

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*

Mrs. Linda M. Greenberg, President
HORSHAM VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Montgomery County

We have audited the financial statements (cash basis) of the Horsham Volunteer Firefighters' Relief Association as of December 31, 2005, and for the period January 1, 2003 to December 31, 2005, and have issued our report thereon dated March 23, 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 Horsham 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

financial reporting that, in our judgement, could adversely affect Horsham 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. 2 – Noncompliance With Prior Audit Recommendation – Duplicate Payments Made for Equipment Maintenance

Finding No.3 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

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 conditions described in Finding Nos. 2 and 3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Horsham 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*.

However, we noted a certain immaterial instance of noncompliance that we have reported to the management of Horsham Volunteer Firefighters' Relief Association through Finding No. 1 contained in this report.

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.

March 23, 2006

JACK WAGNER
Auditor General

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Expenditure

Condition: The relief association expended $1,875 for paramedic courses and a state paramedic certification examination which is not authorized by Act 84.

While a majority of the total training expenses paid by the relief association were for authorized training, the expenditure for the paramedic training and certification is not considered authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(10) states:

> The funds of any volunteer firefighters' relief association may be spent:
>
> (10) To pay reasonable expenses actually and necessarily incurred for attending bona fide firefighters' training schools.

Since the Department of Auditor General is legislatively prohibited from giving per-audit advice, an interagency agreement with the Department of Community and Economic Development (DCED) had been established whereby the DCED provided interpretation of Act 84 of 1968, "the Volunteer Firefighters' Relief Association Act." Paramedic training and expenditures related to paramedic certification have been deemed by DCED to not qualify under Act 84.

Cause: Relief association officials were unaware that the expenditure for the paramedic courses and state certification examination 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 June 23, 2006, the relief association received reimbursement in the amount of $1,875 for the unauthorized expenditure noted above.

Recommendation: We recommend the relief association officials 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 above recommendation.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Duplicate Payments Made for Equipment Maintenance

Condition: As cited in the prior audit report, the relief association made three erroneous duplicate payments totaling $5,186. The duplicate payments were for maintenance and testing of safeguard equipment and are considered unauthorized disbursements because no goods or services were received for the payments. Since the prior audit report, the relief association has not aggressively pursued recovery of these duplicate payments. The following table details the three duplicate payments that remain outstanding:

Date of Original Payment	Amount	Date of Duplicate Payment	Amount
11/24/02	$ 4,119	12/02/02	$ 4,119
12/02/02	945	01/21/03	945
12/02/02	122	01/21/03	122
		Total duplicate payments	$ 5,186

Criteria: Adequate accounting and internal control procedures require sufficient measures to prevent duplicate payments of invoices. In addition, anytime a relief association makes an erroneous duplicate payment, it should aggressively pursue recovery of the duplicate payment.

Cause: While notified of these erroneous duplicate payments in the prior audit report, the relief association did not aggressively pursue recovery of these duplicate payments.

Effect: As a result of the relief association's failure to recover these duplicate payments, the relief association was unable to use these funds for other general operating expenses or for investment purposes.

Recommendation: We recommend the relief association immediately pursue legal action to recover the duplicate payments totaling $5,186. Such action could consist of filing a claim with the Pennsylvania Attorney General's Bureau of Consumer Protection, consulting with the municipal solicitor, and/or involving the local police. In addition, the relief association should establish accounting and internal control procedures to monitor future relief association 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 and indicated they will take action to comply with the recommendation above.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure to Maintain a Complete and Accurate Equipment Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a complete and accurate roster of equipment owned by the relief association. While a roster of relief association owned equipment was provided, it was incomplete and did not accurately identify equipment owned by the relief association. Specifically, the roster of equipment that was provided did not contain dates of purchase, unit costs and names of suppliers. As such, it was impossible to determine if all items purchased during the audit period had been accurately recorded. In addition, the equipment identified on the roster provided appears to be commingled with equipment owned by the fire company since some of the items on the roster were unauthorized in nature. Also, there was no indication that the relief association performed an annual inventory of equipment to account for the relief association fixed assets.

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 of this condition in the prior audit report, relief association officials neglected to establish adequate internal control procedures over fixed assets to include the maintenance of a cumulative equipment roster and the performance of an annual equipment inventory.

Effect: The failure to properly record equipment purchases in a detailed equipment roster prevents officials from effectively monitoring the relief association's equipment purchases. In addition, the failure to maintain a detailed equipment roster and perform an annual equipment inventory prevents adequate accountability and safeguarding of relief association assets.

Finding No. 3 – (Continued)

Recommendation: We again recommend the relief association officials maintain a cumulative roster of all relief association owned equipment. Furthermore, the relief association should ensure it performs an annual inventory of all operable equipment and that the inventory be sufficiently documented. 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 and indicated they will take action to comply with the recommendation.

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
OBSERVATION

Observation – Diversification of Investments

Within the parameters established by the Volunteer Firefighters' Relief Association Act[1], 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 $173,336 (fair value) or 29% of the VFRA's cash and investments in mutual funds.

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.

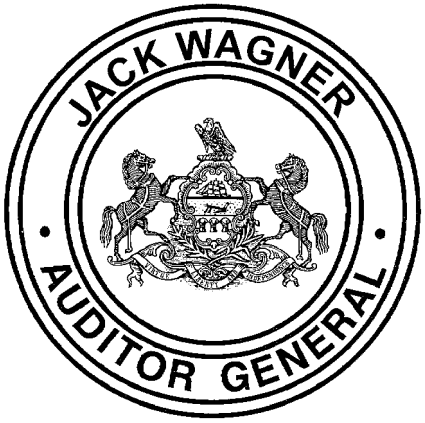
[2] 20 Pa. C.S.A. § 7204(a) (Supp. 2005).

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
COMMENT

PRIOR AUDIT RECOMMENDATION

Failure to Obtain a Pennsylvania Sales Tax Exemption Number

The relief association has complied with the prior audit recommendation by obtaining a state sales tax exemption number and furnishing the number to all vendors from which the relief association purchases equipment.


JACK WAGNER
AUDITOR GENERAL

HORSHAM VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Horsham Volunteer Firefighters' Relief Association Officers:

Mrs. Linda M. Greenberg, President

Ms. Cathy Heger, Secretary

Mr. Michael R. DeLucia, Treasurer

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

Mr. Michael J. McGee, Secretary
Horsham 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.