

**THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF THE CITY OF
READING, PENNA.**

HEREIN REFERRED TO AS:

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

BERKS COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004 TO DECEMBER 31, 2005



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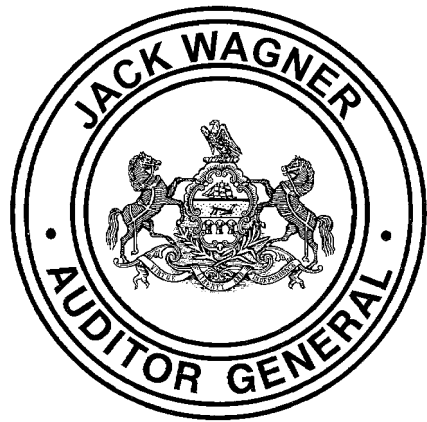
BACKGROUND

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. Ronald A. Heller, President
READING VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks 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 Reading 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 Reading 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 December 13, 2006, on our consideration of the Reading 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.

December 13, 2006

JACK WAGNER
Auditor General

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

ASSETS:

Cash (note 3)	\$ 249,380
Investments (note 4)	<u>2,852,766</u>
Total Monetary Assets	<u>\$ 3,102,146</u>

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

**READING 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)	\$	241,815
Death fund		3,532
Other Receipts:		
Investments sold		1,626,333
Interest income		166,115
Dividend income		15,850
Net realized gain or (loss) on sale of investments		11
Mortgage satisfaction and late fees		881
Reimbursements		<u>3,063</u>
Total Receipts		<u>2,057,600</u>

DISBURSEMENTS:

Fire Services:		
Equipment purchased		15,987
Equipment maintenance		284
Training expenses		45
Benefit Services:		
Insurance premiums		2,115
Death benefits		371,600
Relief benefits		150
Administrative Services:		
Office equipment and supplies		1,746
Bank and brokerage service fees		14,206
Professional services		11,037
Officer compensation and payroll taxes		85,954
Miscellaneous expenses		2,625
Other Disbursements:		
Investments purchased		<u>1,565,128</u>
Total Disbursements		<u>2,070,877</u>
Net Increase or (Decrease) In Cash	(13,277)
Cash Balance, January 1		<u>262,657</u>
Cash Balance, December 31	\$	<u>249,380</u>

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

READING 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 Reading 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 Reading Volunteer Firefighters' Relief Association is affiliated with the following 14 fire service organizations:

Friendship Fire Company No. 4
Hampden Fire Company No. 6
Junior Fire Company No. 2
Keystone Fire Company No. 1
Liberty Fire Company No. 5
Marion Fire Company No. 10
Neversink Fire Company No. 3
Oakbrook Fire Company No. 14
Rainbow Fire Company No. 1
Reading Hose Fire Company No. 1
Riverside Fire Company No. 1
Schuylkill Fire Company No. 12
Union Fire Company No. 13
Washington Fire Company No. 2

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.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 accounts	\$	84,710
Money market account		164,670
 Total Cash	 \$	 <u>249,380</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	\$ 605,000	\$ 609,888
U.S. government securities	915,043	899,494
Mutual funds	361,827	381,316
Stocks	196,543	206,074
Annuities	500,000	523,579
Mortgages *	274,353	274,353
 Total Investments	 \$ 2,852,766	 \$ 2,894,704

* Mortgages

From 1984 to 2005, the relief association granted mortgages to numerous relief association members and its affiliated fire companies. The mortgages have various interest rates from 5 to 6 percent and 10- to 15-year amortization periods. As of December 31, 2005, there were 24 outstanding mortgages with a total unamortized balance of \$274,353.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

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.

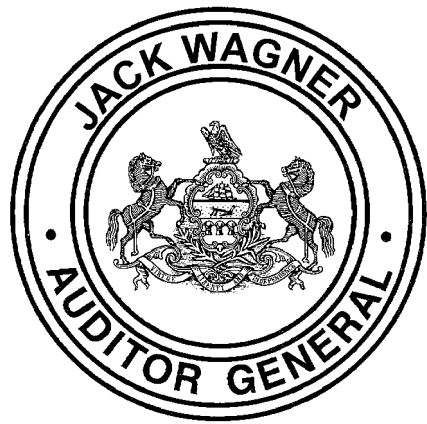
During the years 2004 and 2005, the Reading Volunteer Firefighters' Relief Association received state aid from the City of Reading in Berks County.

6. 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 certain officers of the relief association hold offices in a fire service organization. Also, an officer of the relief association is an immediate family member of another relief association and fire service organization officer.

The relief association membership is aware of these situations 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***

Mr. Ronald A. Heller, President
READING VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Berks County

We have audited the financial statements (cash basis) of the Reading 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 December 13, 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 Reading 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 Reading Volunteer Firefighters' Relief Association's ability to record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the following findings:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Administration of Mortgages

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Membership 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 above in Finding Nos. 1 and 2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reading 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. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Administration of Mortgages

**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.

December 13, 2006

JACK WAGNER
Auditor General

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inadequate Administration of Mortgages

Condition: As cited in two prior audit reports, the relief association invests a portion of its funds through mortgages granted to the relief association members. During the current audit, we again detected the following material internal control weaknesses related to the administration of these mortgages.

- Payments received were not accurately applied to the mortgagees' accounts. Specifically, the relief association was inconsistent in its method of allocating principal and interest payments for 9 of the 40 mortgages that existed during the current financial period.
- Appraisals of the properties mortgaged were not maintained.
- The relief association's mortgage policy did not define penalties for late payments of the collection procedures for delinquent accounts.

Criteria: Act 84 at 53 P.S. § 8506(c)(1) states, in part:

All, or any part of the funds of any volunteer firefighters' relief association may be invested:

In any form of investment named in the Fiduciaries Act of 1949, as amended, including first mortgages. Such first mortgages insuring repayment of loans by relief associations must provide for a minimum interest payment of three percent and not exceed eighty percent of the appraised value of the real property covered by the mortgage.

Prudent business practice dictates that payments received should be accurately applied to each mortgagee's account utilizing a consistent method to allocate principal and interest payments.

Cause: While notified of these deficiencies in two prior audit reports, the relief association failed to implement sufficient internal controls to ensure prudent administration of its investments. The relief association officials were aware of the association's ineffective controls over the administration of the mortgages and did take steps to improve various internal controls weaknesses; however, at the time of the audit there were still several internal control deficiencies that remain unresolved by the relief association.

Effect: The lack of sufficient internal controls to properly account for the mortgage payments and outstanding mortgage balances places these investments at greater risk. By not utilizing a consistent method to allocate payments received between principal and interest, the relief association may not be earning the stated interest rates on the mortgages and may be incorrectly stating the total unamortized mortgage balances.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend the relief association adopt the following internal controls related to the administration of mortgages:

- Utilize a consistent method to allocate principal and interest for payments that vary from original amortization schedules.
- Amend the mortgage program policy to define the penalties for late payments, the collection procedures for delinquent accounts, and the methodology for amortizing mortgage principal and recording interest when additional payments are made.
- Maintain documentation of the mortgaged property appraisals.

In addition, the relief association officers should consider consulting with a financial institution to assist with the proper accounting for mortgages issued by the relief association. The relief association should also consider instituting mortgage insurance to adequately insure outstanding mortgage balances. 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.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Failure to Maintain a Complete and Accurate Membership Roster

Condition: As cited in the prior audit report, the relief association officials did not maintain a current and comprehensive roster of its members. Since the prior audit, the relief association has taken steps to compile a roster of its members; however, the roster provided during the current audit still is not a comprehensive roster of all relief association members.

We were informed by the relief association management that each affiliated fire company independently keeps track of its active members. However, the relief association has not yet achieved a comprehensive list of all members of the relief association. Simply being a member of a fire company does not in itself justify or constitute membership in a relief association.

The relief association's bylaws made reference to active and honorary members. The roster provided by the relief association does contain an indication that a member's status is active. The roster provided does not include any indication of those members that may be a member in an honorary capacity.

Members also have an option of joining a special death benefit fund. However, the relief association was unable to provide a list of those members that participate in the special benefit fund.

Criteria: Relief association officials should maintain a complete and accurate listing of the relief association's membership, as identified by criteria set forth in the relief association's bylaws. A comprehensive listing of all relief association members should include the following:

- Name of each member.
- Member's mailing address.
- Date of birth.
- Date of membership.

In addition, a notation should be made on the listing identifying the respective membership classification of each member, the date of a member's resignation or death, and designation of his participation in the special death benefit fund.

As provided in the Management Guidelines for Volunteer Firefighters' Relief Associations, it is our Department's policy to require that each relief association maintain a complete and current roster of its members. The Department of the Auditor General does not require both the fire company and relief association to maintain independent rosters of relief association members.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Simply being a member of a fire company does not in itself justify membership in a relief association. To qualify for relief association membership, an individual must currently or previously have participated in the fire service. Individuals who join the affiliated fire company only in a social capacity do not qualify for relief association membership

Cause: While notified of this internal control deficiency in the prior audit report, the relief association officials have not yet achieved a comprehensive listing of the relief association members. We were informed by relief association management that the reason the roster has not been compiled is that some members of certain affiliated fire companies may belong only in a social capacity and it has been challenging to differentiate those individuals that belong in an active capacity from those that belong or have belonged solely in a social capacity.

Effect: The failure to maintain a comprehensive membership roster could result in the payment of benefits to individuals not entitled to benefits or otherwise deprives eligible relief association members from receiving unauthorized benefit payments.

Recommendation: We again recommend the relief association officials compile and maintain a complete and accurate listing of the relief association's membership. The relief association should evaluate each individual's membership status and classify members not only by the number of years served but also whether the members are considered as participating in providing fire service. For additional 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.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
COMMENTS

PRIOR AUDIT RECOMMENDATIONS

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

- Inadequate Relief Association Bylaws

By revising the relief association bylaws to meet the minimum requirements of Act 84.

- Insufficient Officer's Bond Coverage

By increasing the officer's bond coverage to an amount greater than the balance of cash assets.

READING VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Reading Volunteer Firefighters' Relief Association Officers:

Mr. Ronald A. Heller, President

Mr. Clarence M. Lerch Jr., Secretary

Ms. Deborah A. Landis, Treasurer

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

Ms. Linda A. Kelleher, City Clerk
City of Reading

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.