



**THE NEEDMORE VOLUNTEER FIREMAN'S RELIEF ASSOCIATION OF
NEEDMORE, FULTON COUNTY PENNSYLVANIA**

HEREIN REFERRED TO AS:

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION

FULTON COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2003 TO DECEMBER 31, 2004



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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. Denver Kerns Jr., President
NEEDMORE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Fulton County

We have audited the accompanying Statement Of Monetary Assets Arising From Cash Transactions as of December 31, 2004, and the related Statement Of Cash Receipts, Disbursements, And Changes In Cash of the Needmore Volunteer Firefighters' Relief Association for the period January 1, 2003 to December 31, 2004. 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 Needmore Volunteer Firefighters' Relief Association as of December 31, 2004, and the cash receipts, disbursements, and changes in cash for the period January 1, 2003 to December 31, 2004, on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005, on our consideration of the Needmore 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 6, 2005

JACK WAGNER
Auditor General

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATEMENT OF MONETARY ASSETS ARISING FROM CASH TRANSACTIONS
DECEMBER 31, 2004

ASSETS:

Cash (note 3)	\$ 21,817
Investments (note 4)	<u>40,339</u>
Total Monetary Assets	<u>\$ 62,156</u>

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

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
FOR THE PERIOD JANUARY 1, 2003 TO DECEMBER 31, 2004

RECEIPTS:

Support:		
State aid (note 5)	\$	53,382
Other Receipts:		
Investments sold		26,675
Interest income		1,811
Dividend income		2,684
Reimbursements		3,184
		<hr/>
Total Receipts		87,736

DISBURSEMENTS:

Fire Services:		
Equipment purchased		18,777
Equipment maintenance		5,575
Training expenses		2,522
Benefit Services:		
Insurance premiums		10,406
Relief benefits		245
Tokens of sympathy and goodwill		55
Administrative Services:		
Office equipment and supplies		248
Bank service fees		192
Professional services		200
Miscellaneous expenses		561
Rental expense		2,400
Other Disbursements:		
Investments purchased		36,749
Income reinvested		2,684
Principal payments on purchase agreement (note 6)		5,181
Interest payments on purchase agreement (note 6)		3,275
		<hr/>
Total Disbursements		89,070
Net Increase or (Decrease) In Cash	(1,334)
Cash Balance, January 1		<hr/> 23,151
Cash Balance, December 31	\$	<hr/> 21,817

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

NEEDMORE 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 Needmore 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 Needmore Volunteer Firefighters' Relief Association is affiliated with the Needmore Volunteer Fire 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.

3. CASH

Cash consisted of the following at December 31, 2004:

Checking account	\$ 1,817
Uncashed checks on hand*	<u>20,000</u>
Total Cash	<u>\$ 21,817</u>

* Checks deposited January 10, 2005

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

4. INVESTMENTS

The investments held by the relief association as of December 31, 2004, consisted of the following:

	Cost	Fair Value
Mutual funds	\$ 40,339	\$ 40,349
Total Investments	\$ 40,339	\$ 40,349

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 and 2004, the Needmore Volunteer Firefighters' Relief Association received state aid from the following municipalities:

Municipality	County
Belfast Township	Fulton
Bethel Township	Fulton
Brush Creek Township	Fulton
Licking Creek Township	Fulton
Thompson Township	Fulton
Union Township	Fulton

However, the 2004 state aid allocations from Bethel Township, Brush Creek Township, Licking Creek Township, Thompson Township, and Union Township in amounts totaling \$20,000 were not deposited until January 2005.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

6. PURCHASE AGREEMENT

On November 1, 2001, the relief association entered into a \$50,385 agreement with Needmore Volunteer Fire Company to purchase safety equipment on a vehicle titled in the name of the fire company. This purchase agreement has an interest rate of 3.80 percent and matures on November 2016. The outstanding principal balance, as of December 31, 2004, was \$42,230.

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.

Another related party situation exists because certain officers of the relief association hold offices in the fire service organization. Also, certain officers of the relief association are immediate family members of other relief association and fire service organization officers.

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. Denver Kerns Jr., President
NEEDMORE VOLUNTEER FIREFIGHTERS'
RELIEF ASSOCIATION
Fulton County

We have audited the financial statements (cash basis) of the Needmore Volunteer Firefighters' Relief Association as of December 31, 2004, and for the period January 1, 2003 to December 31, 2004, and have issued our report thereon dated December 6, 2005. 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 Needmore 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 Needmore 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. 1 – Untimely Deposit of State Aid

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 believe the reportable condition described in Finding No. 1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Needmore 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 Needmore Volunteer Firefighters' Relief Association through Finding No. 2 contained in this report.

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 6, 2005

JACK WAGNER
Auditor General

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit of State Aid

Condition: The 2004 state aid was not deposited into the volunteer firefighters' relief association in a timely manner. The detail of the receipt and deposit of state aid is as follows:

<u>Year</u>	<u>Municipality</u>	<u>Amount</u>	<u>Date Municipality Distributed Aid</u>	<u>Deposit Date</u>
2004	Bethel Township	\$ 6,966.98	10/12/04	01/10/05
2004	Brush Creek Township	2,061.24	10/29/04	01/10/05
2004	Licking Creek Township	2,461.53	10/14/04	01/10/05
2004	Thompson Township	5,286.27	10/08/04	01/10/05
2004	Union Township	3,223.99	10/04/04	01/10/05

Criteria: The foreign fire insurance tax allocations were distributed to the municipal treasurers who forwarded this state aid to the volunteer firefighters' relief association on various dates in October which was within 60 days of receipt, as required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205). Upon receipt of the state aid allocations, the relief association should ensure the funds are deposited in a timely manner.

Cause: The relief association failed to establish internal control procedures, which require that all income received be recorded and deposited in a timely manner. The relief association officials acknowledged that they had received the municipal checks within the 60 days required by Section 706 (b)(2) of the Act of December 18, 1984, (P.L. 1005, No. 205) but were held by officials of the relief association and not deposited in a timely manner.

Effect: As a result of the untimely deposits, funds were not available to pay general operating expenses or available for investment purposes. In addition, an untimely deposit of receipts can lead to a greater risk that funds could be lost or misappropriated.

Recommendation: We recommend the relief association officials adopt internal control procedures to ensure the timely deposit of all income received. 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.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Unauthorized Expenditure

Condition: During the current financial period, the relief association expended \$523 for the development of the fire company website which is not authorized by Act 84.

Criteria: Act 84 at 53 P.S. § 8506(e)(1 and 16) states:

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

- (1) To pay for such normal and reasonable running expenses as may be appropriate to the businesslike conduct of its affairs including legal fees and including but not by way of limitation the rental or purchase of offices, the payment of reasonable compensation of any needed employees, and the purchase of office equipment and supplies.

- (16) To purchase fire prevention materials for public distribution.

Since the Department of the Auditor General is legislatively prohibited from giving pre-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." The DCED has determined that the relief association may expend funds for website development as long as the website promotes fire safety programs, training, and education. However, the website in question did not contain any of these features. Consequently, the expenditure is not considered authorized under Act 84.

Cause: Relief association officials were unaware that the aforementioned expenditure 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.

Recommendation: We recommend the relief association be reimbursed \$523 for the unauthorized expenditure and that 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 recommendation.

NEEDMORE 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 Note 3 and 4 of the VFRA's financial statements, the VFRA had \$40,349 (fair value) or 65% 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).

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
COMMENTS

PRIOR AUDIT RECOMMENDATIONS

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

- Unauthorized Expenditures

By receiving reimbursement of \$720 for advanced life support training, which was considered unauthorized.

- Failure to Maintain a Complete and Accurate Equipment Roster

By maintaining a cumulative roster of all equipment owned.

NEEDMORE VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Needmore Volunteer Firefighters' Relief Association Officers:

Mr. Denver Kerns Jr., President

Ms. Mary L. Hann, Secretary

Ms. Karen M. Kelly, Treasurer

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

Ms. Paula Shives, Secretary
Belfast Township

Ms. Joan Swope, Secretary
Licking Creek Township

Ms. Donna Jean Lynch, Secretary
Bethel Township

Mr. D. Gene Mellott, Secretary
Thompson Township

Ms. Helen L. Layton, Secretary
Brush Creek Township

Ms. Carolyn M. Wills, Secretary
Union 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.