



COMMONWEALTH OF PENNSYLVANIA
Department of the Auditor General

**THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
UPPER DUBLIN TOWNSHIP**

HEREIN REFERRED TO AS:

**UPPER DUBLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF
ASSOCIATION**

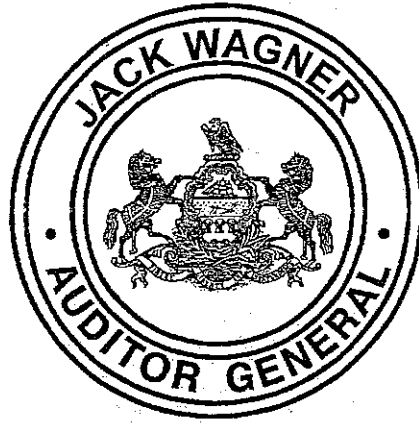
MONTGOMERY COUNTY

AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2001 TO DECEMBER 31, 2004





**THE VOLUNTEER FIREMEN'S RELIEF ASSOCIATION OF
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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 8, Section 10 of the Pennsylvania Constitution, as implemented by Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343), and the Volunteer Firefighters' Relief Association Act, Act of June 11, 1968, (P.L. 149), 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 financial affairs of volunteer firefighters' relief associations to determine that funds received under Chapter 7 of the Act of December 18, 1984, (P.L. 1005, No. 205), are properly expended.

The state constitution requires this department to conduct its audits 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 of 1968 requires that the relief association be governed in accordance with bylaws, which establish the association's operating procedures. Act 84 of 1968 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, as well as outlining 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.



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

Independent Auditor's Report

Mr. John Reilley, President
UPPER DUBLIN TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Montgomery 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 Upper Dublin Township Volunteer Firefighters' Relief Association for the period January 1, 2001 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 of America. 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 Upper Dublin Township Volunteer Firefighters' Relief Association as of December 31, 2004, and the cash receipts, disbursements, and changes in cash for the period January 1, 2001 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 May 25, 2005, on our consideration of the Upper Dublin Township Volunteer Firefighters' Relief Association's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

May 25, 2005


JACK WAGNER
Auditor General

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

ASSETS:

Cash (note 3)	\$ 58,112
Investments (note 4)	<u>1,742,017</u>
Total Monetary Assets	<u>\$ 1,800,129</u>

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

UPPER DUBLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
 FOR THE PERIOD JANUARY 1, 2001 TO DECEMBER 31, 2004

RECEIPTS:

Support:		
State aid (note 5)	\$	865,294
Other Receipts:		
Investments sold		1,933,635
Interest income		1,230
Dividend income		210,065
Net realized gain or (loss) on sale of investments	(195,142)
Insurance claims for relief benefits		10,176
Proceeds from life insurance policies		237,452
Reimbursements		<u>4,539</u>
Total Receipts		<u>3,067,249</u>

DISBURSEMENTS:

Benefit Services:		
Insurance premiums (note 6)		737,733
Death benefits		96,370
Relief benefits		10,063
Service disability benefits		151,600
Administrative Services:		
Office equipment and supplies		419
Bank and brokerage service fees		505
Professional services		12,875
Officer compensation		900
Miscellaneous expenses		187
Other Disbursements:		
Investments purchased		1,976,367
Income reinvested		<u>74,253</u>
Total Disbursements		<u>3,061,272</u>

Net Increase or (Decrease) In Cash	5,977
Cash Balance, January 1	<u>52,135</u>
Cash Balance, December 31	<u>\$ 58,112</u>

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

UPPER DUBLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

Pursuant to the Act of June 11, 1968, (P.L. 149, No. 84), as amended, the Upper Dublin Township 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 Upper Dublin Township Volunteer Firefighters' Relief Association is affiliated with the Fort Washington 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, 2004:

Checking accounts	\$	4,909
Money market accounts		<u>53,203</u>
Total Cash	\$	<u>58,112</u>

UPPER DUBLIN TOWNSHIP 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	\$ 1,742,017	\$ 1,713,100
Total Investments	\$ 1,742,017	\$ 1,713,100

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 2001, 2002, 2003, and 2004, the Upper Dublin Township Volunteer Firefighters' Relief Association received state aid from Upper Dublin Township in Montgomery County.

6. ALLOCATED LIFE INSURANCE CONTRACTS

During the period January 1, 2001 to December 31, 2004, payments to purchase allocated life insurance contracts totaled \$701,467. The remaining insurance payments of \$36,266 represent premiums of accident and health insurance and the officer's bond. As of December 31, 2004, the volunteer firefighters' relief association owned 197 allocated insurance contracts with a total contract value of \$819,108. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay death benefits. Consequently, allocated contracts are excluded from the relief association's assets and therefore will not appear on the Statement Of Monetary Assets Arising From Cash Transactions.

UPPER DUBLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
NOTES TO FINANCIAL STATEMENTS

7. RELATED PARTY SITUATION

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.

The relief association membership is aware of this situation 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 income taxes under Section 501 (a) of the Internal Revenue Code as an organization described under Section 501 (c)(4) of the Code.



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

**Report On Compliance And On Internal Control Over Financial Reporting
Based On An Audit Of Financial Statements Performed In Accordance With
*Government Auditing Standards***

Mr. John Reilley, President
UPPER DUBLIN TOWNSHIP VOLUNTEER
FIREFIGHTERS' RELIEF ASSOCIATION
Montgomery County

We have audited the financial statements (cash basis) of the Upper Dublin Township Volunteer Firefighters' Relief Association as of December 31, 2004 and for the period January 1, 2001 to December 31, 2004, and have issued our report thereon dated May 25, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

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*.

Compliance

As part of obtaining reasonable assurance about whether the Upper Dublin Township Volunteer Firefighters' Relief Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Report On Compliance And On Internal Control Over Financial Reporting
Based On An Audit Of Financial Statements Performed In Accordance With
Government Auditing Standards (Continued)**

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Upper Dublin Township Volunteer Firefighters' Relief Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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.

May 25, 2005



JACK WAGNER
Auditor General

UPPER DUBLIN TOWNSHIP 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, and cash equivalents.

As observed in Note 3 and 4 of the VFRA's financial statements, the VFRA had \$961,515 (fair value) or 54% of the VFRA's cash and investments in stock mutual funds.

The VFRA should periodically review its specific needs and goals and ensure that its investments are properly 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).

UPPER DUBLIN TOWNSHIP VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATION
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Upper Dublin Township Volunteer Firefighters' Relief Association Officers:

Mr. John Reilley, President

Mr. Richard Martindale, Secretary

Mr. Ralph N. Jennings Jr., Treasurer

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

Mr. Paul Leonard, Secretary
Upper Dublin 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.auditor.gen.state.pa.us.