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REPORT
HERBERT WALLACE MEMORIAL
VOLUNTEER FIRE COMPANY
DECEMBER 31, 2004 AND 2003

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7-13-05

HERBERT WALLACE MEMORIAL
VOLUNTEER FIRE COMPANY

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DECEMBER 31, 2004 AND 2003

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INDEPENDENT AUDITOR'S REPORT

April 30, 2005

Board of Directors
Herbert Wallace Memorial
Volunteer Fire Company

We have audited the accompanying statements of financial position of Herbert Wallace Memorial Volunteer Fire Company (a Louisiana nonprofit corporation) as of December 31, 2004 and 2003, and the related statements of activities, functional expenses, and cash flows for the year ended December 31, 2004, and the period from inception March 17, 2003 through December 31, 2003. These financial statements are the responsibility of Herbert Wallace Memorial Volunteer Fire Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Herbert Wallace Memorial Volunteer Fire Company as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the year ended December 31, 2004 and for the period from inception March 17, 2003 through December 31, 2003 in accordance with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2005 on our consideration of Herbert Wallace Memorial Volunteer Fire Company'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.

Duplantier, Hrapmann, Hogan & Maher, LLP

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2004 AND 2003

	<u>ASSETS</u>	
	<u>2004</u>	<u>2003</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	\$ 69,651	\$ 135,157
Accounts receivable	150	150
Total current assets	<u>69,801</u>	<u>135,307</u>
PROPERTY AND EQUIPMENT: (Note 1)		
Equipment	79,766	4,620
Furniture and fixtures	11,521	9,861
Total	<u>91,287</u>	<u>14,481</u>
Less: accumulated depreciation	<u>(15,334)</u>	<u>(752)</u>
Net property and equipment	<u>75,953</u>	<u>13,729</u>
TOTAL ASSETS	\$ <u>145,754</u>	\$ <u>149,036</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Due to Jefferson Parish (Note 1)	\$ -	\$ 296
Accounts payable	5,000	-
Accrued payroll	-	3,226
Capital lease obligation (Note 9)	1,732	-
Total current liabilities	<u>6,732</u>	<u>3,522</u>
LONG-TERM LIABILITIES:		
Capital lease obligation, net of current portion (Note 9)	<u>2,192</u>	<u>-</u>
Total long-term liabilities	<u>2,192</u>	<u>-</u>
Total liabilities	<u>8,924</u>	<u>3,522</u>
NET ASSETS:		
Unrestricted	<u>136,830</u>	<u>145,514</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>145,754</u>	\$ <u>149,036</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENTS OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2004 AND
THE PERIOD FROM INCEPTION MARCH 17, 2003 THROUGH DECEMBER 31, 2003

	<u>2004</u>	<u>2003</u>
UNRESTRICTED NET ASSETS:		
Revenues: (Note 1)		
Jefferson Parish contract	\$ 432,000	\$ 454,212
Community Service Grant	-	2,204
Jefferson Parish insurance rebate	11,093	10,275
Other revenue	<u>4,442</u>	<u>-</u>
Total revenue	<u>447,535</u>	<u>466,691</u>
EXPENSES:		
Firefighting (Pages 4 and 5)	380,869	291,289
Support services:		
Administrative and general (Pages 4 and 5)	<u>75,350</u>	<u>29,888</u>
Total expenses	<u>456,219</u>	<u>321,177</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(8,684)	145,514
Net assets - beginning of period	<u>145,514</u>	<u>-</u>
NET ASSETS - END OF PERIOD	<u>\$ 136,830</u>	<u>\$ 145,514</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Firefighting</u>	<u>Administrative And General</u>	<u>Total</u>
EXPENSES: (Note 1)			
Administrative seminars	\$ -	\$ 640	\$ 640
Advertising (Note 10)	200	-	200
Auto repairs and upkeep	13,476	-	13,476
Bank charges	-	-	-
Conventions	-	4,264	4,264
Contract labor	10,357	-	10,357
Depreciation	14,582	-	14,582
Drinks and snacks	665	-	665
Dues and fees	-	318	318
Donations	-	-	-
Flowers and gifts	-	340	340
Insurance	68,618	-	68,618
Installation banquet	1,254	-	1,254
Interest expense	292	-	292
Licenses and taxes	-	-	-
Meals	-	102	102
Meeting expenses	-	583	583
Miscellaneous	722	-	722
Office expense	-	2,867	2,867
Payroll service	671	-	671
Payroll taxes	15,429	1,161	16,590
Postage and meter	-	961	961
President's budgeted compensation	2,000	-	2,000
Printing	-	136	136
Professional services	-	32,884	32,884
Repairs - equipment, radios, trucks	6,467	-	6,467
Salaries	182,853	13,763	196,616
Signs	-	-	-
Socials	-	600	600
Station supplies	29,662	-	29,662
Telephone	-	3,007	3,007
Training and supplies	3,772	-	3,772
Travel	949	-	949
Uniforms	28,900	-	28,900
Utilities	-	13,724	13,724
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	\$ <u>380,869</u>	\$ <u>75,350</u>	\$ <u>456,219</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE PERIOD FROM INCEPTION MARCH 17, 2003 THROUGH DECEMBER 31, 2003

	<u>Firefighting</u>	<u>Administrative And General</u>	<u>Total</u>
EXPENSES: (Note 1)			
Administrative seminars	\$ -	\$ -	\$ -
Advertising (Note 10)	-	-	-
Auto repairs and upkeep	3,660	-	3,660
Bank charges	-	99	99
Conventions	-	1,496	1,496
Contract labor	28,173	-	28,173
Depreciation	752	-	752
Drinks and snacks	105	-	105
Dues and fees	-	76	76
Donations	-	200	200
Flowers and gifts	-	698	698
Insurance	59,270	-	59,270
Installation banquet	-	-	-
Interest expense	-	-	-
Licenses and taxes	5	-	5
Meals	-	52	52
Meeting expenses	-	1,636	1,636
Miscellaneous	-	-	-
Office expense	-	2,878	2,878
Payroll service	1,453	-	1,453
Payroll taxes	12,380	-	12,380
Postage and meter	-	621	621
President's budgeted compensation	-	-	-
Printing	-	302	302
Professional services	-	6,927	6,927
Repairs - equipment, radios, trucks	13,761	-	13,761
Salaries	136,587	-	136,587
Signs	2,204	-	2,204
Socials	-	1,500	1,500
Station supplies	17,609	-	17,609
Telephone	-	1,708	1,708
Training and supplies	4,349	-	4,349
Travel	-	-	-
Uniforms	10,981	-	10,981
Utilities	-	11,695	11,695
	<u>-</u>	<u>11,695</u>	<u>11,695</u>
TOTAL EXPENSES	\$ <u>291,289</u>	\$ <u>29,888</u>	\$ <u>321,177</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2004 AND
THE PERIOD FROM INCEPTION MARCH 17, 2003 THROUGH DECEMBER 31, 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (8,684)	\$ 145,514
Adjustments to reconcile increase in net assets to cash provided by operating activities:		
Depreciation	14,582	752
(Increase) decrease in accounts receivable	-	(150)
Increase (decrease) in accrued payroll	(3,226)	3,226
Increase (decrease) in accounts payable	5,000	-
Increase (decrease) in due to Jefferson Parish	(296)	296
Net cash provided by operating activities	<u>7,376</u>	<u>149,638</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment	<u>(71,534)</u>	<u>(14,481)</u>
Net cash used in investing activities	<u>(71,534)</u>	<u>(14,481)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease	<u>(1,348)</u>	<u>-</u>
Net cash used in financing activities	<u>(1,348)</u>	<u>-</u>
 INCREASE (DECREASE) IN CASH	(65,506)	135,157
Cash and cash equivalents at beginning of period	<u>135,157</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ <u>69,651</u>	\$ <u>135,157</u>
 NONCASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of capital asset with a capital lease	<u>\$ 5,272</u>	<u>\$ -</u>
 PAYMENTS DURING THE YEAR FOR:		
Interest	<u>\$ 292</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

ORGANIZATION:

Herbert Wallace Memorial Volunteer Fire Company (the fire company) began operating as a nonprofit corporation on March 17, 2003 to provide the citizens in the Seventh Fire Protection District with fire protection and related services. The fire company also responds to emergencies such as floods and hurricanes. The fire company is under a month-to-month contract with Jefferson Parish. The majority of the fire company's revenue was derived from this contract. The company operates one fire station and has fourteen paid employees and approximately twenty-seven volunteers.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the fire company's significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting and Presentation:

The financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the fire company is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the fire company is required to present a statement of cash flows. As of December 31, 2004, the fire company had only unrestricted net assets.

The statement of activities presents expenses of the fire company's operations functionally between program services for firefighting and administrative and general. Those expenses which cannot be functionally categorized are allocated among functions based upon management's estimate of usage applicable to conducting those functions.

Promises To Give:

Gifts are recognized when the donor makes a promise to give to the fire company that is, in substance, unconditional. Gifts that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the gifts are recognized. All other donor-restricted gifts are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Sources of Revenue:

Herbert Wallace Memorial Volunteer Fire Company (HW) is one of five contractual fire companies of the Seventh Fire District, Parish of Jefferson. The Seventh Fire District of the Parish of Jefferson levies an ad valorem tax on assessed property of the district. The sum of this collection is equally divided between the five contractual volunteer fire companies of the district on a monthly pro-rata basis. The monthly allocation to HW for 2004 and 2003 was \$36,000 and \$34,249, respectively.

In addition, in 2003, the Parish of Jefferson provided HW start-up costs in the amount of \$45,000 and excess funds in the amount of \$100,806 from WKB Volunteer Fire Company, the previous fire company that provided fire protection and related services for the specific area. The total received under the contract including the monthly allocation, start-up costs and excess funds was \$432,000 and \$454,212 during 2004 and 2003, respectively.

During 2003, the fire company also received a grant from the Parish in the amount of \$2,500 to be used by the station to purchase neighborhood signs for the public safety of citizens of Jefferson Parish. Of the \$2,500, HW used \$2,204 to purchase the signs. The remaining difference of \$296 was repaid to the Parish during 2004.

The fire company also participates in a fire insurance tax rebate program with Jefferson Parish. Jefferson Parish receives a rebate on the State of Louisiana's two percent (2%) fire insurance tax collected by the Commissioner of Insurance. The State of Louisiana determines the amount to be received by each fire district based on total population served. Herbert Wallace Memorial Volunteer Fire Company shares equally in the amount received by the Seventh District with each of the other four fire companies. The insurance rebate received during 2004 and 2003 was \$11,093 and \$10,275, respectively.

Property and Equipment:

HW capitalizes purchases of assets with a cost of \$500 or more. Property and equipment consists of equipment and furniture and fixtures that are carried at historical cost. All assets are depreciated over their estimated useful lives on the straight-line basis. Depreciation expense for 2004 and 2003 was \$14,582 and \$752, respectively.

Cash and Cash Equivalents:

For the purposes of reporting of cash flows, HW considers cash in operating bank accounts, demand deposits, cash on hand, and highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Deposits:

The fire company's bank deposits were fully covered by federal depository insurance and by securities pledged by the financial institution and held in the name of the fire company.

Donated Services:

Amounts have not been reflected in the financial statements for donated services because the value of these services was not readily determinable. However, a substantial number of volunteers have donated significant amounts of their time in the fire company's program services.

2. INCOME TAXES:

The fire company is exempt from income taxes under Internal Revenue Code Section 501(c)(3) as a nonprofit organization and, accordingly, the financial statements do not reflect a provision for income taxes.

3. USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. COMPENSATED ABSENCES:

The fire company has not accrued a liability for compensated absences as of December 31, 2004 and 2003. Management believes this liability would be immaterial to the financial statements.

5. EXPENSES PAID BY OTHERS:

The full-time firefighters of the fire company receive supplemental pay from the State of Louisiana under the provisions of L.R.S. 33:2002. The amount of pay received varies based on years of service. As these supplemental state funds are paid directly to the firefighters, and do not pass through the fire company, they are not included in these financial statements.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

6. FAIR VALUE OF FINANCIAL INSTRUMENTS:

Statement of Financial Accounting Standards No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure of the fair value of certain financial instruments. The book value of cash and cash equivalents, accounts receivable and accrued liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments.

7. CONCENTRATION OF CREDIT RISKS:

The fire company's income is derived primarily from a contract with Jefferson Parish to provide firefighting and rescue services.

8. USE OF ASSETS OWNED BY JEFFERSON PARISH:

The fire station and fire trucks are owned by Jefferson Parish. The fire company uses these assets as part of the contract with Jefferson Parish. All other equipment is owned by the Company.

9. CAPITAL LEASE OBLIGATIONS:

On March 1, 2004, the Company executed a financing lease-purchase agreement with Canon Financial Services, Inc. for the acquisition of a copier. The lease obligation is amortized requiring 36 payments of \$164 due the 20th of each month and includes interest of 7.5%. The Company is solely responsible for any damages to, destruction of, repairs and/or maintenance of the copier. The Company has the option to purchase the copier "as is" at each payment date with written prior notification of not less than sixty days. The total cost and accumulated depreciation recorded for the copier financed by capital lease is \$5,272 and \$967, respectively, at December 31, 2004.

Future value of minimum lease payments is as follows at December 31:

	<u>2004</u>
Future minimum lease payments	\$ 4,264
Less: Amount representing interest	<u>(340)</u>
Present value of net minimum lease payments	3,924
Less: Current portion due within one year	<u>(1,732)</u>
Long-Term Capital Lease Obligation	<u>\$ 2,192</u>

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

9. CAPITAL LEASE OBLIGATIONS:

Minimum future lease payments for each of the next three years:

	<u>Total Minimum Lease Payments</u>	<u>Interest</u>	<u>Present Value of Future Minimum Capital Lease Obligation</u>
2005	\$ 1,968	\$ 236	\$ 1,732
2006	1,968	101	1,867
2007	<u>328</u>	<u>3</u>	<u>325</u>
	<u>\$ 4,264</u>	<u>\$ 340</u>	<u>\$ 3,924</u>

10. ADVERTISING:

The Company expenses advertising costs as they are incurred. For the years ended December 31, 2004 and 2003, advertising expense was \$200 and \$-0-, respectively.



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

April 30, 2005

To the Board of Directors
Herbert Wallace Memorial
Volunteer Fire Company

We have audited the financial statements of Herbert Wallace Memorial Volunteer Fire Company (a nonprofit organization) as of December 31, 2004 and for the period from inception March 17, 2003 through December 31, 2003, and have issued our report thereon dated April 30, 2005. We conducted our audits 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.

Compliance

As part of obtaining reasonable assurance about whether Herbert Wallace Memorial Volunteer Fire Company'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 audits, 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*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered Herbert Wallace'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. 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 judgment, could adversely affect Herbert Wallace's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of current year findings as items 04-01 through 04-09.

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 an employee 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, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information and use of management, the Board and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Duplantier, Hrapmann, Hogan & Maher, LLP

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION I: SUMMARY OF AUDITOR'S RESULTS:

a. Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes x no
- Reportable condition(s) identified that are not considered to be material weakness? x yes ___ none reported
- Noncompliance material to financial statements noted? ___ yes x no

SECTION II: FINANCIAL STATEMENT FINDINGS:

INTERNAL CONTROL – REPORTABLE CONDITIONS

04-01 Board Minutes Not Signed or Approved

<u>Condition</u>	The board minutes that we reviewed were not signed nor is there indication of approval of the minutes at the next meeting. This is a repeat finding that was first noted in 2003.
<u>Criteria</u>	Minutes act as the official record of the actions approved by the Board. Normally, the minutes are prepared by the secretary of the corporation who also signs the minutes as the preparer. The minutes are then approved at the next meeting of the Board. Another officer should then sign after approval to signify such approval. Those minutes are then recognized as the official record of the meeting.
<u>Cause</u>	Lack of written procedures.
<u>Effect</u>	This could cause confusion as to the actions actually approved by the Board.
<u>Recommendation</u>	We recommend that the Board minutes be signed by the secretary upon completion and by the president upon approval.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION II: FINANCIAL STATEMENT FINDINGS: (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS (Continued)

04-01 Board Minutes Not Signed or Approved (Continued)

Management's

Action Plan We will implement procedures that require written approval of board minutes.

04-02 Board Minutes Not Recorded

Condition There are no recorded minutes for 8 of the 18 meetings held during 2004.

Criteria Written minutes should be maintained for every board and membership meeting held.

Cause Lack of official policy requiring that minutes be kept.

Effect This could cause confusion regarding actions approved by the Board.

Recommendation Establish a policy requiring that minutes be kept of every board and membership meeting.

Management's

Action Plan The Board will immediately establish a policy requiring that written minutes be made of every board and membership meeting.

04-03 Lack of Documentation Regarding Attorney's Retainer

Condition During the last half of 2004, a total of \$15,000 was paid to an attorney as part of a \$2,500 per month retainer. There was no written contract available for review to determine the services provided under such retainer. Additionally, the amount of the retainer seems unusually large for the size of the entity.

Criteria Documents should be maintained to verify the validity of all expenditures.

Cause No written policy that requires that all professional services be acquired in accordance with written contracts.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION II: FINANCIAL STATEMENT FINDINGS: (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS (Continued)

04-03 Lack of Documentation Regarding Attorney's Retainer (Continued)

Effect The Company may have overpaid for legal services. Further, the lack of a written contract is cause for the entire expenditure to be questioned.

Recommendation Management should obtain a written contract from the attorney providing services under the retainer. Further, management should reconsider the necessity of paying a retainer rather than only paying the attorney for services actually provided.

Management's
Action Plan Management will obtain information from the attorney and revisit the need for a retainer agreement.

04-04 Support for Pay Rates

Condition It was noted during our review of employee personnel files that there is a lack of documentation to support pay rates..

Criteria Authorized documentation should be maintained for each employee.

Cause There is no policy requiring maintenance of such documentation.

Effect This could cause confusion as to rates actually approved.

Recommendation We recommend that proper supporting documentation be maintained for all employee pay rates.

Management's
Action Plan We will implement procedures that require appropriate documentation of pay rates be maintained.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION II: FINANCIAL STATEMENT FINDINGS: (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS (Continued)

04-05 Outstanding Checks: Review Policy

<u>Condition</u>	It was noted during the audit that several checks had been outstanding for several months.
<u>Criteria</u>	The accounting personnel should investigate all outstanding checks on a regular basis. Stop payment notices should be sent when necessary. This practice will provide a much stronger control over cash and the bank reconciliation process.
<u>Cause</u>	Lack of written procedures.
<u>Effect</u>	This hinders the accounting personnel's ability to reflect an accurate cash balance in the financial statements.
<u>Recommendation</u>	We recommend that personnel investigate all outstanding checks on a regular basis, as described above.
<u>Management's Action Plan</u>	We will implement procedures that require that all outstanding checks be investigated on a regular basis.

4-06 Payment of Federal Unemployment Tax (FUTA)

<u>Condition</u>	It was noted that FUTA taxes in the amount of \$619 were paid during 2004.
<u>Criteria</u>	Pursuant to Internal Revenue Service guidelines, organizations exempt from federal income tax under section 501(c)(3) are also exempt from the FUTA tax.
<u>Cause</u>	The payroll is processed by a national payroll service due to lack of expertise within the fire company regarding such matters. It appears that the payroll service failed to recognize this exemption as related to the organization.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION II: FINANCIAL STATEMENT FINDINGS: (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS (Continued)

4-06 Payment of Federal Unemployment Tax (FUTA) (Continued)

<u>Effect</u>	The organization overpaid its payroll tax for 2004.
<u>Recommendation</u>	The organization should notify its payroll processor of the exemption from FUTA tax and request that the processor apply for a refund of the overpaid taxes.
<u>Management's Action Plan</u>	Management will notify the payroll processor to recover the overpaid tax and cease the payment of the tax immediately.

04-07 Continued Payment of Retainer Subsequent to Board Action to Cease

<u>Condition</u>	During the first quarter of 2005 the Company paid the salary of the newly hired Director and continued to pay the retainer to the attorney mentioned in finding 04-03.
<u>Criteria</u>	Pursuant to the action of the Board on December 2, 2004, the retainer paid to the attorney was to be reduced "to accommodate the salary of the Director."
<u>Cause</u>	There are no established procedures to ensure that the actions taken at the Board meetings are acted upon.
<u>Effect</u>	It appears that these payments to the attorney were made contrary to the will of the Board.
<u>Recommendation</u>	The Company should revisit this issue and determine whether the payments are in accordance with its wishes.
<u>Management's Action Plan</u>	The Board will discuss this issue at its next regularly scheduled meeting.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION II: FINANCIAL STATEMENT FINDINGS: (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS (Continued)

04-08 Clarification of the Company's Annual Leave Policy

<u>Condition</u>	The Company did not accrue compensated absences in accord with its written policy at December 31, 2004.
<u>Criteria</u>	Chapter 3 of the Standard Operating Policies states that "each qualified employee scheduled to work 50 or more hours per week" will earn leave. In accordance with the schedule, each such employee with one year of service would be credited with 72 hours of annual leave. The most that an employee is allowed to accumulate is 120 hours at the end of each year. Upon termination of employment for any reason, the employee is to be paid for any accumulated unused annual leave.
<u>Cause</u>	The Board has an unofficial policy that employees are not paid for their unused leave when terminated.
<u>Effect</u>	The liability for the compensated absences is not recorded at December 31, 2004.
<u>Recommendation</u>	The Board should determine its official position on this matter. Although the amount, \$3,000 as of December 31, 2004, is immaterial to the financial statements as presented, it will increase in the future. If the written policy is <i>actually the Board's official policy, then the amount would have to be recorded as a liability. If the policy is not to vest these hours and pay the employee upon separation from service, then the liability would not be recorded.</i>
<u>Management's Action Plan</u>	The Board will discuss this issue at its next regularly scheduled meeting.

04-09 Non-Payment of Social Security Tax on State Supplemental Pay

<u>Condition</u>	The Company did not pay social security taxes on the supplemental pay that the firefighters received from the state.
<u>Criteria</u>	According to the state, the local fire departments were required to pay the social security taxes for 2004.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
SCHEDULE OF CURRENT YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

SECTION II: FINANCIAL STATEMENT FINDINGS: (Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS (Continued)

04-09 Non-Payment of Social Security Tax on State Supplemental Pay (Continued)

Cause The Company was unaware of this requirement. Since the state was paying the salaries directly to the firefighters, the Company assumed the state was responsible for the social security taxes.

Effect The taxes were not paid on the supplemental pay.

Recommendation The Company should obtain advice regarding this issue from its legal advisor and its payroll service.

Management's
Action Plan The Board will seek the advice of its attorney regarding this matter.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
STATUS OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2004

03-01 Fixed Asset Inventory

Finding resolved.

03-02 Vacation and Sick Time Accrual Record Keeping

Finding resolved.

03-03 Board Meetings Not Signed or Approved

Finding not resolved and is repeated as finding 04-01.