

REPORT

HERBERT WALLACE MEMORIAL
VOLUNTEER FIRE COMPANY

DECEMBER 31, 2006 AND 2005

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 8/15/07

HERBERT WALLACE MEMORIAL
VOLUNTEER FIRE COMPANY

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INDEPENDENT AUDITOR'S REPORT

June 22, 2007

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, 2006 and 2005, and the related statements of activities, functional expenses and cash flows for the years then ended. 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 audits.

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, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended 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 June 22, 2007 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 grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of our 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 audits.

Duplantier, Hrapmann, Hogan & Maher, LLP

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2006 AND 2005

	<u>ASSETS</u>	
	<u>2006</u>	<u>2005</u>
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	\$ 56,859	\$ 116,824
Accounts receivable	<u>65,015</u>	<u>428</u>
Total current assets	<u>121,874</u>	<u>117,252</u>
PROPERTY AND EQUIPMENT: (Note 1)		
Equipment	91,564	86,122
Furniture and fixtures	<u>12,168</u>	<u>12,168</u>
Total	<u>103,732</u>	<u>98,290</u>
Less: accumulated depreciation	<u>(52,761)</u>	<u>(33,850)</u>
Net property and equipment	<u>50,971</u>	<u>64,440</u>
TOTAL ASSETS	\$ <u>172,845</u>	\$ <u>181,692</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Capital lease obligation (Note 9)	\$ <u>325</u>	\$ <u>1,867</u>
Total current liabilities	<u>325</u>	<u>1,867</u>
LONG-TERM LIABILITIES:		
Capital lease obligation, net of current portion (Note 9)	<u>-</u>	<u>326</u>
Total long-term liabilities	<u>-</u>	<u>326</u>
Total liabilities	<u>325</u>	<u>2,193</u>
NET ASSETS:		
Unrestricted	<u>172,520</u>	<u>179,499</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>172,845</u>	\$ <u>181,692</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
UNRESTRICTED NET ASSETS:		
Revenues: (Note 1)		
Jefferson Parish contract	\$ 504,000	\$ 504,000
Insurance proceeds (Note 11)	23,017	19,334
Jefferson Parish insurance rebate	13,664	11,720
Other revenue	<u>6,772</u>	<u>9,141</u>
Total revenue	<u>547,453</u>	<u>544,195</u>
EXPENSES:		
Firefighting (Pages 4 and 5)	510,704	419,063
Support services:		
Administrative and general (Pages 4 and 5)	<u>43,728</u>	<u>82,463</u>
Total expenses	<u>554,432</u>	<u>501,526</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(6,979)	42,669
Net assets - beginning of period	<u>179,499</u>	<u>136,830</u>
NET ASSETS - END OF PERIOD	\$ <u>172,520</u>	\$ <u>179,499</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Firefighting</u>	<u>Administrative And General</u>	<u>Total</u>
EXPENSES: (Note 1)			
Auto repairs and upkeep	\$ 21,279	\$ -	\$ 21,279
Conventions	-	1,026	1,026
Depreciation	18,912	-	18,912
Drinks and snacks	3,731	-	3,731
Dues and fees	-	158	158
Donations	-	75	75
Flowers and gifts	-	1,304	1,304
Insurance	101,317	-	101,317
Installation banquet	-	-	-
Interest expense	-	101	101
Meeting expenses	-	1,006	1,006
Miscellaneous	628	29	657
Office expense	-	4,799	4,799
Payroll service	3,342	-	3,342
Payroll taxes	25,537	-	25,537
Postage and meter	-	1,084	1,084
President's budgeted compensation	-	-	-
Professional services	-	11,135	11,135
Repairs - equipment, radios, trucks	28,169	-	28,169
Salaries	295,275	-	295,275
Socials	-	4,300	4,300
Station supplies	7,256	-	7,256
Telephone	-	1,925	1,925
Training and supplies	194	-	194
Uniforms	5,064	-	5,064
Utilities	-	16,786	16,786
	<u> </u>	<u> </u>	<u> </u>
TOTAL EXPENSES	<u>\$ 510,704</u>	<u>\$ 43,728</u>	<u>\$ 554,432</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Firefighting</u>	<u>Administrative And General</u>	<u>Total</u>
EXPENSES: (Note 1)			
Auto repairs and upkeep	\$ 6,498	\$ -	\$ 6,498
Conventions	-	1,579	1,579
Depreciation	18,515	-	18,515
Drinks and snacks	2,231	-	2,231
Dues and fees	-	218	218
Donations	-	115	115
Flowers and gifts	-	205	205
Insurance	89,990	-	89,990
Installation banquet	38	-	38
Interest expense	236	-	236
Meeting expenses	-	1,474	1,474
Miscellaneous	191	-	191
Office expense	-	3,189	3,189
Payroll service	2,707	-	2,707
Payroll taxes	17,486	1,943	19,429
Postage and meter	-	998	998
President's budgeted compensation	24,200	-	24,200
Professional services	-	25,715	25,715
Repairs - equipment, radios, trucks	11,790	-	11,790
Salaries	230,099	25,344	255,443
Socials	-	1,105	1,105
Station supplies	5,994	-	5,994
Telephone	-	3,556	3,556
Training and supplies	7,654	-	7,654
Uniforms	1,434	-	1,434
Utilities	-	17,022	17,022
	<hr/>	<hr/>	<hr/>
TOTAL EXPENSES	\$ <u>419,063</u>	\$ <u>82,463</u>	\$ <u>501,526</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (6,979)	\$ 42,669
Adjustments to reconcile increase (decrease) in net assets to cash provided (used) by operating activities:		
Depreciation	18,912	18,515
Increase in accounts receivable	(64,587)	(278)
Increase (decrease) in accounts payable	-	(5,000)
Net cash provided (used) by operating activities	<u>(52,654)</u>	<u>55,906</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of equipment	<u>(5,443)</u>	<u>(7,002)</u>
Net cash used in investing activities	<u>(5,443)</u>	<u>(7,002)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on capital lease	<u>(1,868)</u>	<u>(1,731)</u>
Net cash used in financing activities	<u>(1,868)</u>	<u>(1,731)</u>
 INCREASE (DECREASE) IN CASH	(59,965)	47,173
 Cash and cash equivalents at beginning of period	<u>116,824</u>	<u>69,651</u>
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ <u>56,859</u>	\$ <u>116,824</u>
 PAYMENTS DURING THE YEAR FOR:		
Interest	\$ <u>-</u>	\$ <u>236</u>
Income taxes	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 thirteen paid employees and approximately ten 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. At December 31, 2006 and 2005, 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, 2006 AND 2005

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 2006 and 2005 was \$42,000 and \$42,000, respectively.

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 2006 and 2005 was \$13,664 and \$11,720, 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 2006 and 2005 was \$18,912 and \$18,515, 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.

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.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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, 2006 and 2005. 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.

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.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
 NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

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 \$3,075, respectively, at December 31, 2006.

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

	<u>2006</u>
Future minimum lease payments	\$ 328
Less: Amount representing interest	<u> 3</u>
Present value of net minimum lease payments	325
Less: Current portion due within one year	<u>325</u>
 Long-Term Capital Lease Obligation	 \$ <u> --</u>

Minimum future lease payments for the next year:

	Total Minimum Lease <u>Payments</u>	<u>Interest</u>	Present Value of Future Minimum Capital Lease <u>Obligation</u>
2007	\$ <u>328</u>	\$ <u> 3</u>	\$ <u>325</u>

10. INSURANCE PROCEEDS:

During 2005, the Company received insurance proceeds in the amount of \$19,334 for damages to the building, fire trucks and contents due to Hurricane Katrina. During 2006, \$23,017 was received from FEMA for damage to trucks during Hurricane Katrina.

11. LITIGATION:

The Company is a defendant in a lawsuit. It is not possible to predict at this time the extent of the Company's liability, if any.



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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

June 22, 2007

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 and for the year ended December 31, 2006, and have issued our report thereon dated June 22, 2007. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Herbert Wallace Memorial Volunteer Fire Company'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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects Herbert Wallace Memorial Volunteer Fire Company's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Herbert Wallace Memorial Volunteer Fire Company's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described in the accompanying schedule of findings is not a material weakness.

Compliance and Other Matters

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 grant agreements, 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*.

Herbert Wallace Memorial Volunteer Fire Company's response to the findings in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Herbert Wallace Memorial Volunteer Fire Company's response and, accordingly, we express no opinion on it.

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, 2006

SUMMARY OF AUDITOR'S RESULTS:

1. The opinion on the financial statements of Herbert Wallace Memorial Volunteer Fire Company for the year ended December 31, 2006 was unqualified.
2. Internal Control
 Material weakness: none noted
 Significant deficiency: 06-01
3. Compliance and Other Matters
 Noncompliance material to financial statements: none noted

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES

06-01 Payment of Federal Unemployment Taxes (FUTA)

<u>Condition</u>	It was noted FUTA taxes are being paid. This is a repeat finding.
<u>Criteria</u>	Pursuant to Internal Revenue Service guidelines, organizations exempt from federal income tax under section 501(c)(3) are also exempt from 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. Further, the organization has failed to bring this matter to their attention.
<u>Effect</u>	The organization has overpaid its payroll taxes.
<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.

HERBERT WALLACE MEMORIAL VOLUNTEER FIRE COMPANY
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

SUMMARY OF PRIOR YEAR FINDINGS:

- 05-01** **Payroll Procedures Regarding the Chief's Salary**
Finding resolved.
- 05-02** **Signing Blank Checks in Advance**
Finding resolved.
- 05-03** **Discrepancies Regarding Paid Receipt Invoices**
Finding resolved.
- 05-04** **Segregation of Duties**
Finding resolved.
- 05-05** **Documentation of Pay Rates**
Finding resolved.
- 05-06** **Payment of Federal Unemployment Taxes (FUTA)**
The company continues to pay Federal and State unemployment taxes.
This is a repeat finding in 2006.
- 05-07** **Clarification of the Annual Leave Policy**
Finding resolved February 2007.
- 05-08** **Excessive Use of Legal Services**
Finding resolved.
- 05-09** **Audit of Financial Practices by Jefferson Parish**
Finding resolved.
- 05-10** **Non-Compliance with Purchasing Procedures**
Finding resolved.
- 05-11** **Incorrect Monthly Financial Reports to the Board**
Finding resolved.