

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2010

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
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YEAR ENDED DECEMBER 31, 2010

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INTRODUCTORY SECTION

Board of Fire Commissioners

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MONTVILLE TOWNSHIP FIRE DISTRICT #3
P.O. BOX 166, 47 BLOOMFIELD AVENUE
PINE BROOK, NJ 07058-0166
Tel: 973-227-8071 • Fax: 973-227-8182
Email: firedist3@optonline.net

April 1, 2011

To the Board of Fire Commissioners
Montville Township Fire District #3
Township of Montville
Montville, NJ

Dear Fire Commissioners:

The comprehensive annual financial report of the Township of Montville Fire District #3 (the "District") for the year ended December 31, 2010 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the District. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The comprehensive annual financial report is presented in five sections: introductory, financial, supplementary information, single audit, and comments and recommendations. The introductory section includes this transmittal letter and a list of the District's principal officials. The financial section includes the financial statements, the MD&A as well as the auditors' report thereon. The District is required to undergo an annual single audit, when applicable, in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and the New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit, including the auditor's reports on internal control and compliance with applicable laws, regulations, contracts and grants along with findings and questioned costs, are included in the single audit section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Township of Montville Fire District #3 is an independent reporting entity within the criteria adopted by the Government Accounting Standards Board ("GASB") in codification section 2100. All funds of the District are included in this report.

The Commissioners of Fire District #3, Township of Montville is a public body corporate and politic of the State of New Jersey governed by five members elected by the registered voters of the District.

The District was created in 1936 pursuant to New Jersey Title 40A municipalities 40A:14-70. The District is an instrumentality of the Township of Montville, State of New Jersey, established to function as a fire district, to provide for fire and rescue services to the Township's citizens. The District consists of elected officials and is responsible for the fiscal control of the District. A president is appointed by the District and is responsible for the administrative control of the District.

The Honorable Commissioners of
Fire District #3 Township of Montville
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April 1, 2011

GENERAL TRENDS AND SIGNIFICANT EVENTS:

During 2010, the Commissioners experienced the following:

- The District awarded Kraft Roofing Co. Inc. with a contract for the replacement of the roof of the firehouse. The contracted amount of \$87,650 was paid in 2011.
- The District approved authorization to enter into a contract for the lease/purchase of a new fire apparatus at a cost not to exceed \$800,000. This purchase will be made in 2011.

INTERNAL ACCOUNTING CONTROLS:

Management of the District is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of state awards, the District is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is also subject to periodic evaluation by the District's management.

As part of the District's single audit described earlier, tests are made to determine the adequacy of the internal control structure, including that portion related to federal and state award programs, as well as to determine that the District has complied with applicable laws and regulations, if applicable.

BUDGETARY CONTROLS:

In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the District. Annual appropriated budgets are adopted for the general fund. The final budget amount as amended for the fiscal year is reflected in the supplementary information section.

ACCOUNTING SYSTEM AND REPORTS:

The District's accounting records reflect generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the District is organized on the basis of funds. These funds are explained in "Notes to the Financial Statements," Note 1.

The Honorable Commissioners
Fire District #3 Township of Montville
Page 3
April 1, 2011

CASH MANAGEMENT:

The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 3. The District has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT:

The District carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.

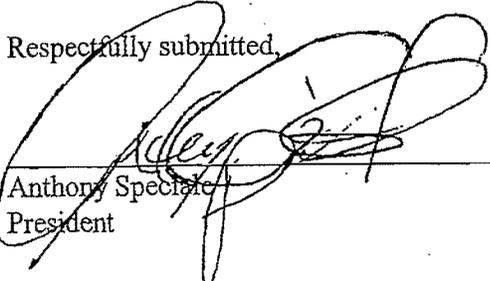
OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP CPAs, was selected by the District. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act of 1996 and the related OMB Circular A- 133 and New Jersey's Circular NJOMB 04-04. The auditors' report on the financial statements is included in the financial section of this report.

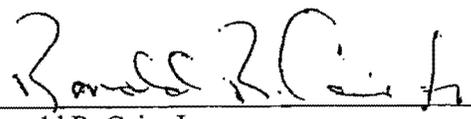
ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Commissioners of Fire District #3 Township of Montville for their concern in providing fiscal accountability to the citizens of the Township of Montville and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,



Anthony Speciale
President



Ronald R. Cain, Jr.
Vice-President

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2010

Commissioners:

Anthony Speciale
Ronald R. Cain, Jr.
Timothy Wright
Donald F. Hainzl
Edward J. Rosenbergen Sr.

President
Vice President
Treasurer
Commissioner
District Clerk

Other Officials:

Kathleen Cain

Confidential Secretary to the
Board of Fire Commissioners

Consultants and Advisors:

ATTORNEY

Anthony M. Bucco, Esq.
of Johnson, Murphy, Hubner, McKeon, Wubbenhorst
Bucco, and Appelt, P.C.
Riverdale, New Jersey

AUDIT FIRM

Nisivoccia LLP
Mount Arlington, New Jersey

FINANCIAL SECTION

Independent Auditors' Report

To the Board of Fire Commissioners
Montville Township Fire District #3
Township of Montville
Montville, NJ

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Township of Montville Fire District #3 (the "Fire District") as of and for the year ended December 31, 2010, which collectively comprise the Fire District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Township of Montville Fire District's management. Our responsibility is to express opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Township of Montville Fire District #3, as of December 31, 2010, and the respective changes in financial position where applicable, thereof for the year then ended, in conformity 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 1, 2011 on our consideration of the Township of Montville Fire District #3'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 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.

To the Board of Fire Commissioners
Township of Montville Fire District #3
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The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Montville Fire District #3's basic financial statements. The introductory section and supplementary information schedules 1-3 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Additionally, the schedule of expenditures of state awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*; and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and is not a required part of the financial statements. The supplementary information schedules 1-3 and schedule of expenditures of state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on this section.

Mount Arlington, New Jersey
April 1, 2011

NISIVOCCIA LLP



William F. Schroeder
Registered Municipal Accountant No. 452
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

This section presents management's analysis of the District's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the District's financial position to be strong for a Fire District. The District is functioning within its stringent financial policies and guidelines as set forth by the Fire District members. Following is a key highlight for 2010:

- The District awarded Kraft Roofing Co. Inc. with a contract for the replacement of the roof of the firehouse. The contracted amount of \$87,650 was paid in 2011.
- The District approved authorization to enter into a contract for the lease/purchase of a new fire apparatus at a cost not to exceed \$800,000. This purchase will be made in 2011.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the basic audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net assets; a statement of activities; a balance sheet and statement of revenue, expenditures and changes in fund balance – governmental funds and notes to the financial statements. There is also a supplementary information section of the report.

The *statement of net assets* presents the financial position of the District on a full accrual historical cost basis. The statement of net assets presents information on all of the District's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets is one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net assets provides information about the nature and amount of resources and obligations at year-end, the *statement of activities* presents the results of the District's activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *supplementary data* provides detailed comparison of budget to actual expenses.

Financial Conditions

2010 was another good year for the District and it is in excellent shape to meet its future financial demands. Net assets and cash did increase in 2010, with the largest increase being in Unrestricted Net Assets.

The District's total net assets increased from the prior year by \$161,647 or 8.32%. The analysis below focuses on the District's net assets (Table I) and changes in net assets (Table 2) during the year.

Table I
Condensed Statement of Net Assets

	Dec. 31, 2010	Dec. 31, 2009	Increase/ (Decrease) from 2009	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 1,189,512	\$ 965,735	\$ 223,777	23.17%
Capital Assets	1,030,810	1,014,254	16,556	1.63%
Total Assets	2,220,322	1,979,989	240,333	12.14%
Current Liabilities	115,196	36,287	78,909	217.46%
Total Liabilities	115,196	36,287	78,909	217.46%
Invested in Capital Assets, Net of Related Debt	1,030,810	1,014,254	16,556	1.63%
Restricted	495,158	405,158	90,000	22.21%
Unrestricted	579,381	524,290	55,091	10.50%
Total Net Assets	\$ 2,105,349	\$ 1,943,702	\$ 161,647	8.32%

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Activities for the year.

Table II
Condensed Statement of Activities

	Dec. 31, 2010	Dec. 31, 2009	Increase/ (Decrease) from 2009	Percent of Increase/ (Decrease)
Operating Revenue	\$ 90,547	\$ 101,448	\$ (10,901)	(10.75%)
Nonoperating Revenue	550,854	549,425	1,429	0.26%
Total Revenue	641,401	650,873	(9,472)	(1.46%)
Operating expenses:				
Administrative and General Expenses	479,754	433,988	45,766	10.55%
Debt Service		4,648	(4,648)	(100.00%)
Total Expenses	479,754	438,636	41,118	9.37%
Change in Net Assets	161,647	212,237	(50,590)	(23.84%)
Beginning Net Assets	1,943,702	1,731,465	212,237	12.26%
Ending Net Assets	\$ 2,105,349	\$ 1,943,702	\$ 161,647	8.32%

Results of Operations

Operating Revenues: The increase in operating revenues is due to increases in Fire Prevention Bureau income and miscellaneous receipts. Non-operating revenue decreased due to lower interest income as a result of lower interest rates.

Expenses: Total expenses increased 9.37% from 2009. The increase was mainly due to an increase in Administrative and General Expenses. The District maintains its policy of careful spending to stay within the budget.

Capital Assets: As of December 31, 2010, the District had \$1,030,810 invested in capital assets, including several fire trucks, vehicles, equipment and machinery, and furniture and fixtures. The amount represents an increase of \$16,556 from the prior year.

The following table summarizes the District's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2010. These changes are presented in detail in Note 5 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	Dec. 31, 2010	Dec. 31, 2009	Increase/ (Decrease) from 2009	Percent of Increase/ (Decrease)
Vehicles and Fire Trucks	\$ 1,813,803	\$ 1,813,803		0.00%
Machinery and Equipment	232,450	201,653	\$ 30,797	15.27%
Furniture and Fixtures	130,000	42,350	87,650	206.97%
Total	<u>2,176,253</u>	<u>2,057,806</u>	<u>118,447</u>	5.76%
Less:				
Accumulated Depreciation	<u>1,145,443</u>	<u>1,043,552</u>	<u>101,891</u>	9.76%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,030,810</u>	<u>\$ 1,014,254</u>	<u>\$ 16,556</u>	1.63%

Budgetary Highlights: Over the course of the year, the District's Board of Commissioners approved amendments to the original adopted budget. The budget transfers that were made were minor.

Cash Flow Activity: The cash and cash equivalents and investments at year-end 2010 increased by \$223,777 from the previous year. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

Final Comments: The District is moving forward with plans to upgrade its facilities over the next few years.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 674,960
Restricted Cash and Cash Equivalents	514,552
Accounts Receivable	223
Total Current Assets	<u>1,189,735</u>
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>1,030,810</u>
Total Noncurrent Assets	<u>1,030,810</u>
Total Assets	<u>2,220,545</u>
<u>LIABILITIES:</u>	
Current Liabilities:	
Accounts Payable	107,696
Tenant Security Deposit Payable	7,500
Total Liabilities	<u>115,196</u>
<u>NET ASSETS:</u>	
Invested in Capital Assets, Net of Related Debt	1,030,810
Restricted for Capital Projects	495,158
Unrestricted	579,381
Total Net Assets	<u>\$ 2,105,349</u>

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Governmental Activities</u>
Operating Revenue:	
Amount to be Raised by Taxation to Support District Budget	
Appropriations	\$ 90,000
Fire Prevention Bureau Income	88,806
New Jersey Supplemental Fire Services Grant	1,225
Miscellaneous Revenue	516
	180,547
Total Operating Revenue	180,547
Operating Expenses:	
Administrative and General Expenses	377,862
Depreciation	101,892
Capital Outlay	90,000
	569,754
Total Operating Expenses	569,754
Operating Loss	(389,207)
Non-Operating Revenue:	
Interest on Investments	8,616
Amount to be Raised by Taxation to Support District Budget	542,238
	550,854
Total Non-Operating Revenue	550,854
Change in Net Assets	161,647
Net Assets - Beginning of Year	1,943,702
Net Assets - End of Year	\$ 2,105,349

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	<u>Major Fund</u> <u>General Fund</u>	<u>Non-Major Fund</u> <u>Capital Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 674,960	\$ 514,552	\$ 1,189,512
Accounts Receivable	223		223
Interfund Receivable - Capital Fund	19,394		19,394
Total Assets	<u>\$ 694,577</u>	<u>\$ 514,552</u>	<u>\$ 1,209,129</u>
<u>LIABILITIES:</u>			
Accounts Payable	\$ 107,696		\$ 107,696
Tenant Security Deposit Payable	7,500		7,500
Interfund Payable - General Fund		\$ 19,394	19,394
Total Liabilities	<u>115,196</u>	<u>19,394</u>	<u>134,590</u>
<u>FUND BALANCES:</u>			
Reserved for Future Capital Improvements		495,158	495,158
Unreserved	579,381		579,381
Total Fund Balances	<u>579,381</u>	<u>495,158</u>	<u>1,074,539</u>
Total Liabilities and Fund Balances	<u>\$ 694,577</u>	<u>\$ 514,552</u>	

Amounts Reported in the Statement of Activities are Different Because:

Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not Reported in the Funds. The Cost of the Assets is \$2,176,253 and the Accumulated Depreciation is \$1,145,443	1,030,810
Net Assets of Governmental Activities	<u>\$ 2,105,349</u>

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2010

	<u>Major Fund</u> <u>General Fund</u>	<u>Non-Major Fund</u> <u>Capital Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>REVENUE:</u>			
Amount to be Raised by Taxation to			
Support District Budget	\$ 542,238		\$ 542,238
Fire Prevention Bureau Income	88,806		88,806
Budget Appropriation		\$ 90,000	90,000
New Jersey Supplemental Fire Services			
Grant	1,225		1,225
Interest Earned on Investment	8,616		8,616
Miscellaneous	516		516
Total Revenue	<u>641,401</u>	<u>90,000</u>	<u>731,401</u>
<u>EXPENDITURES:</u>			
Operating, Maintenance and			
Administration	377,862		377,862
Capital Outlay	90,000		90,000
Purchase of Equipment	118,448		118,448
Total Expenditures	<u>586,310</u>		<u>586,310</u>
Net Change in Fund Balances	55,091	90,000	145,091
Fund Balances, Beginning of Year	<u>524,290</u>	<u>405,158</u>	<u>929,448</u>
Fund Balances, End of Year	<u>\$ 579,381</u>	<u>\$ 495,158</u>	<u>\$ 1,074,539</u>

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Note 1: Organization and Summary of Significant Accounting Policies

A. Reporting Entity

The primary criterion for including activities within the District's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the District. Oversight responsibility includes financial interdependency, selection of governing body members of the fire district, designation of management, and the ability to significantly influence operations and accountability for fiscal matters. In addition, certain legally separate, tax-exempt entities that meet specific criteria (i.e., benefit of economic resources, access/entitlement to resources, and significance) should be included in the financial reporting entities. The combined financial statements include all funds of the District over which the District exercises operating control. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

B. Basis of Presentation and Accounting

The financial statements of the Township of Montville Fire District #3 (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District-wide financial statements (the Statement of Net Assets and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Ad valorem (property) taxes are susceptible to accrual. Under New Jersey State Statute, a municipality is required to remit to its fire district the entire balance of taxes in the amount voted upon or certified, prior to the end of the fiscal year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available. The District is entitled to receive moneys under the established payment schedule and the unpaid amount is considered to be an "accounts receivable".

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

The District reports the following governmental funds:

General Fund: The General Fund is the general operating fund of the District and is used to account for all expendable financial resources except those required to be accounted for in another fund.

Capital Fund: The Capital Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities.

Significant accounting policies include:

1. Grants

Recognition of revenue from grants are based on the accrual basis of accounting. Grant funds received before costs are incurred are deferred.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue. Grants externally restricted for nonoperating purposes are recorded as contributed capital and identified as grants-in-aid.

2. Interfund Receivables/Payables:

Interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District.

3. Inventories:

Inventories, which benefit future periods, are recorded as expenditures during the year of purchase.

4. Accrued Salaries and Wages and Compensated Absences:

Fire Commissioners are paid annual fees. There are no accrued salaries and wages. The District does not provide any compensation-related benefits for Fire Commissioners or other volunteers other than a term life insurance policy.

5. Deferred Revenue:

Deferred revenue represents cash which has been received but not yet earned.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

6. Net Assets

Equity is classified as net assets and displayed in three components:

- 1) Restricted – Net assets should be reported as restricted when constraints placed on net assets are either a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.
- 2) Unrestricted – all other net assets that do not meet the definition of “Restricted.”
- 3) Invested in capital assets net of related debt – consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowing that are attributable to the acquisition, construction, or improvement of those assets.

7. Revenue Recognition

District taxes are received semi-annually. Fire Prevention Bureau Inspection customers are billed at the time of service and revenue is recorded net of any discounts, assessments, or abatements, if applicable.

8. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

9. Investments

Investments are stated at cost which approximates market. The Fire District classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from the estimates.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 2: Pension

The District enrolled in the Public Employees' Retirement System (PERS) in October of 2006. The District made its first scheduled payment in 2009.

The District's five part-time employees participate in the Public Employee's Retirement System (PERS) of New Jersey, which is a contributory, defined benefit public employee retirement system. The PERS is sponsored and administered by the State of New Jersey. The PERS is considered a cost-sharing, multiple-employer plan.

Employees who are members of PERS and retire at a specified age according to the relevant tier category for that employee are entitled to a retirement benefit based upon a formula which takes "final average salary" during years of creditable service. Vesting occurs after 8 to 10 years of service. Enrolled PERS members may retire at age 55 with a minimum of 10 years of service required for vesting.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employee contributions are based on 5.50% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

District contributions to the plans amounted to \$6,936, \$5,176 and \$-0- for 2010, 2009, and 2008 respectively.

Note 3: Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The District classifies certificates of deposit and securities which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB Statement No. 40 Governmental Accounting Standards Board Deposit and Investment Risk Disclosures requires the disclosure of the level of custodial risk assumed by the District in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the District ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 3: Cash and Cash Equivalents and Investments (Cont'd)

Credit Risk – The District limits the investments to those authorized in its cash management plan which are permitted under state statutes below and on the following page.

Deposits:

New Jersey statutes require that fire districts deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation or by any other agency of the United States that insures deposits made in public depositories. Fire districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

New Jersey statutes permit the District to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 3: Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2010, cash and cash equivalents and investments of the Township of Montville Fire District #3 consisted of the following:

<u>Fund</u>	<u>Checking Accounts</u>	<u>Savings Accounts</u>	<u>Total</u>
Operating	\$ 496,460	\$ 178,499	\$ 674,959
Capital		514,552	514,552
	<u>\$ 496,460</u>	<u>\$ 693,051</u>	<u>\$ 1,189,511</u>

The carrying amount of the District's cash and cash equivalents at December 31, 2010 was \$1,189,511, and the bank balance was \$1,201,553. The Fire District had no investments as of December 31, 2010.

Note 4: Accounts Payable:

Accounts payable was as follows:

	<u>2010</u>
Vendors	<u>\$ 107,696</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 5: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2010:

	Balance 12/31/2009	Increases/ (Decreases)	Balance 12/31/2010
Capital Assets:			
Vehicles and Fire Trucks	\$ 1,813,803		\$ 1,813,803
Machinery and Equipment	201,653	\$ 30,797	232,450
Furniture and Fixtures	42,350	87,650	130,000
Total Capital Assets	<u>2,057,806</u>	<u>118,447</u>	<u>2,176,253</u>
Less Accumulated Depreciation for:			
Vehicles and Fire Trucks	883,584	76,890	960,474
Machinery and Equipment	123,670	20,068	143,738
Furniture and Fixtures	36,298	4,933	41,231
	<u>1,043,552</u>	<u>101,891</u>	<u>1,145,443</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,014,254</u>	<u>\$ 16,556</u>	<u>\$ 1,030,810</u>

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets were reviewed for impairment.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

	<u>Estimated Useful Life</u>
Fire Trucks	20 Years
Vehicles	10 Years
Equipment/Machinery	Various
Office Furniture/Fixtures	Various

Note 6: Interfund Receivables and Payables

The following interfund balances remain on the balance sheet at December 31, 2010:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 19,394	
Capital Fund		\$ 19,394
	<u>\$ 19,394</u>	<u>\$ 19,394</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010
(Continued)

Note 6: Interfund Receivables and Payables (Cont'd)

The interfund between the General Fund and the Capital Fund represents interest earned in the Capital Fund from 2007 to 2010 that is due to the General Fund.

Note 7: Risk Management

The District is exposed to various risks of loss related torts, theft of, damage to and destruction of assets, errors, and omissions, injuries to employees, and natural disasters.

The District secures all insurance coverage through private insurance carriers using a broker as their representative. The following coverages were in place in 2010:

1. Property Damage Other Than Motor Vehicles
2. Motor Vehicle
3. General Liability
4. Inland Marine
5. Public Officials Liability
6. Umbrella Policy
7. Workers' Compensation

Note 8: Contractual Commitments

The District had no contractual commitments as of December 31, 2010.

Note 9: Contingencies

The District is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury, personnel practices and property damage. In the opinion of the General Counsel to the Authority, payment of claims by the District, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the District's financial position.

The District participates in federal and state assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of District Management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

Note 10: Economic Dependency

The Fire District receives a substantial amount of its support from its local government. A significant reduction in the level of support, if this were to occur, may have an effect on the District's programs and activities.

SUPPLEMENTARY INFORMATION

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS

	General Fund	Capital Fund	Total
Cash Balance:			
January 1, 2010	\$ 545,063	\$ 420,672	\$ 965,735
Cash Receipts:			
Township of Montville - District Taxes	542,238		542,238
Fire Prevention Bureau	88,583		88,583
Supplemental Fire Services Program	1,225		1,225
Interest on Investments	4,736		4,736
Due to General Fund:			
Interest on Investments		3,880	3,880
Budget Appropriation		90,000	90,000
Total Cash Receipts	637,298	93,880	731,178
Cash Disbursed:			
Operating, Maintenance and Administration	230,797		230,797
Fringe Benefits	68,156		68,156
Capital Appropriations	208,448		208,448
Total Cash Disbursements	507,401		507,401
Cash Balance December 31, 2010	\$ 674,960	\$ 514,552	\$ 1,189,512

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE FISCAL ENDED DECEMBER 31, 2010

	2010			Variance Favorable (Unfavorable)
	Budget	Budget After Modification	Actual	
<u>REVENUE:</u>				
Amount To Be Raised By Taxation				
To Support The District Budget	\$ 542,237	\$ 542,237	\$ 542,238	\$ 1
Fire Prevention Bureau Income	80,000	80,000	88,806	8,806
Basic Entitlement Grant Revenue -				
Supplemental Fire Services Program	1,225	1,225	1,225	
Interest on Investments	6,400	6,400	8,616	2,216
Miscellaneous Revenue			516	516
Total Revenue	<u>629,862</u>	<u>629,862</u>	<u>641,401</u>	<u>11,539</u>
<u>BUDGETED APPROPRIATIONS:</u>				
Operating Appropriations:				
Operating, Maintenance and Administration:				
Rent & Utilities	60,500	61,217	40,163	21,054
Fire Suppression Supplies	49,000	49,000	25,630	23,370
Maintenance & Repairs	109,612	107,725	106,608	1,117
Office Expense	1,300	1,300	1,159	141
Professional Services	15,000	15,920	16,481	(561)
Insurance	50,000	50,250	50,250	
Training & Education	4,500	4,500	1,674	2,826
Elections	250	250	225	25
Stipends	28,500	28,500	25,473	3,027
Uniforms	25,000	25,000	19,074	5,926
Advertising & Promotions	20,000	20,000	18,969	1,031
Death Benefit Fund	4,000	4,000	4,000	
Total Operating, Maintenance and Administration	<u>367,662</u>	<u>367,662</u>	<u>309,706</u>	<u>74,077</u>
Operating Appropriations Off-set By Revenues:				
Salaries & Wages	65,000	65,000	38,529	26,471
Payroll Taxes & Workers' Compensation	17,200	17,200	29,627	(12,427)
Total Operating Appropriations				
Off-set By Revenues	<u>82,200</u>	<u>82,200</u>	<u>68,156</u>	<u>14,044</u>
Total Operating, Maintenance and Administration	<u>367,662</u>	<u>367,662</u>	<u>309,706</u>	<u>57,956</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE FISCAL ENDED DECEMBER 31, 2010
 (Continued)

	2010			
	Budget	Budget After Modification	Actual	Variance Favorable (Unfavorable)
<u>BUDGETED APPROPRIATIONS (Cont'd):</u>				
Capital Appropriations:				
Capital Outlay	\$ 85,000	\$ 85,000	\$ 90,000	\$ (5,000)
Purchase of Equipment	95,000	95,000	118,448	(23,448)
Total Capital Appropriations	<u>180,000</u>	<u>180,000</u>	<u>208,448</u>	<u>(28,448)</u>
TOTAL APPROPRIATIONS	<u>\$ 629,862</u>	<u>\$ 629,862</u>	<u>\$ 586,310</u>	<u>\$ 43,552</u>

SINGLE AUDIT

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2010

State Agency or Department	State Program	State Account Number	Grant Period		Grant Award	Grant Receipts	Amount of Expenditures	Total Cumulative Expenditures
			From	To				
Department of Law and Public Safety	Basic Entitlement Grant - Supplemental Fire Services Program	N/A	01/01/10	12/31/10	\$ 1,225	\$ 1,225	\$ 1,225	\$ 1,225
					<u>\$ 1,225</u>	<u>\$ 1,225</u>	<u>\$ 1,225</u>	<u>\$ 1,225</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2010

NOT APPLICABLE

N/A - Not Available

SEE ACCOMPANYING NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2010

Note 1. GENERAL

The accompanying Schedules of Expenditures of Federal and State Awards present the activity of all federal and state grant awards of the Township of Montville Fire District #3. The District is defined in Note 1 to the District's financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state awards passed through other government agencies are included on the schedules of expenditures of federal and state awards.

Note 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditure of State Awards is presented using the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of federal OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

Note 3. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.



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 200 Valley Road, Suite 300
 ML Arlington, NJ 07856
 973-328-1826 | 973-328-0507 Fax

Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
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Independent Auditors' 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*

The Board of Fire Commissions
 Montville Township Fire District #3
 Montville, NJ

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the Township of Montville Fire District #3 (the "Fire District") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division").

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fire District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of providing an opinion on the effectiveness of the Fire District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fire District's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Fire District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2010-01 that we consider to be a significant deficiency in internal control over financial reporting.

The Board of Fire Commissions
Montville Township Fire District #3
Montville, NJ
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fire District'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*. However, we noted a certain matter which we have reported to management in the "Comments and Recommendation" section of this report.

The Fire District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Fire District's response, accordingly, and we express no opinion on it.

This report is intended solely for the information and use of the Board of Commissioners and management of the Fire District, and to meet the requirements for filing with the Division, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mount Arlington, New Jersey
April 1, 2011

NISIVOCCIA LLP



William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant
No. 452

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

Summary of Auditors' Results:

- An unqualified report was issued on the Fire District's financial statements.
- The audit did not disclose any noncompliance that is material to the financial statements of the Fire District.
- The audit did not disclose any material weaknesses in the internal controls of the Fire District.
- The Fire District was not subject to the single audit provisions of Federal OMB Circular A-133 (the "Circular") and New Jersey's OMB Circular NJOMB 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, for 2010 as grant expenditures were less than the single audit thresholds of \$500,000 identified in the Circulars.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards, except as follows:

Finding 2010-1

During our audit, we noted that the Fire District does not maintain an adequate segregation of duties with respect to the cash handling and recording functions due to limited personnel. The collection and deposits of Fire Prevention Bureau fees and the preparation of cash receipts books are performed by one individual. Also, the disbursement of funds, the preparation of cash disbursement books and the reconciliation of bank accounts are performed by another individual. This is not unusual in operations the size of the Fire District, but management should constantly be aware of this condition and realize the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view.

Management's Response:

The finding was evaluated, however due to budgetary constraints no resolution can be made at this time.

Findings and Questioned Costs for Federal Awards:

- N/A – Since expenditures were below the single audit threshold.

Findings and Questioned Costs for State Awards:

- N/A – Since expenditures were below the single audit threshold.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2010

The Fire District had two findings during the prior year relating to the segregation of duties (09-1) and preparation of financial statements (09-2). Finding 09-2 was resolved during 2010. Finding 09-1 was not resolved during 2010 and is reported in the schedule of findings and questioned costs as finding 2010-1.

COMMENTS AND RECOMMENDATIONS

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S.A. 40A:11-4 et seq.

N.J.S.A. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to Subsection b. of Section 9 of P.L. 1971, C.198 (N.J.S.A. 40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, C.198 (N.J.S.A. 40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, C.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, C.198 (N.J.S.A. 40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S.A. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2005, the bid threshold in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) is \$21,000, and with a qualified purchasing agent, the threshold may be up to \$29,000.

Effective July1, 2010 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 is \$26,000, and with a qualified purchasing agent the threshold may be up to \$36,000.

The governing body of the municipality has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the District Counsel's opinion should be sought before a commitment is made.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required to be Advertised Per N.J.S.A. 40A:11-4 et seq. (Cont'd)

The minutes indicated that bids were requested by public advertising per N.J.S.A. 40A:11-4. The minutes also indicated that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" and "Extraordinary Unspecifiable Services" per N.J.S.A. 40A:11-5.

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

Technical Accounting Directives

The Division of Local Government Services has established three (3) technical accounting directives which are prescribed by the revision of 1987 draft "Requirements of Audit and Accounting". They are as follows:

1. Maintenance of an encumbrance accounting system.
2. Fixed asset accounting and reporting system.
3. General ledger accounting system.

The District maintains encumbrance, general ledger and fixed assets accounting systems.

Segregation of Duties

The District does not maintain an adequate segregation of duties with respect to the cash handling and recording functions due to limited personnel. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to perpetuate errors and prevent detection within a reasonable period of time. The functions of collections and deposits of Fire Prevention Bureau fees and the preparation of cash receipts and cash disbursements books are performed by one individual.

This is not unusual in operations the size of the Fire District. However, management and the Board of Fire Commissioners should be aware of this situation and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Recommendation

It is recommended that the District maintains an adequate segregation of duties with respect to the preparation of cash receipts and cash disbursements books and the cash handling functions.

Management's Response:

The finding was evaluated, however due to budgetary constraints no resolution can be made at this time.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS
(Continued)

Operations:

A review of the General Fund expenditures revealed that some individual line items in the budget have been overexpended.

It is recommended that the budget be periodically reviewed and proper budget adjustments be made so that overexpenditures do not occur.

Management's Response:

The District will make every effort to avoid overexpenditures.

Status of PY Findings:

The Fire District had two findings during the prior year relating to the segregation of duties (09-1) and preparation of financial statements (09-2). Finding 09-2 was resolved during 2010. Finding 09-1 was not resolved during 2010 and is reported in the schedule of findings and questioned costs as finding 2010-1.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The District maintain an adequate segregation of duties with respect to the preparation of cash receipts and cash disbursements books and the cash handling functions.
2. The budget be reviewed and budget adjustments be made so that overexpenditures do not occur.