

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2013

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
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INTRODUCTORY SECTION

Board of Fire Commissioners

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

March 7, 2014

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

Dear Fire Commissioners:

The annual financial report of the Township of Montville Fire District #3 (the "District") for the year ended December 31, 2013 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 annual financial report is presented in five sections: introductory, financial, supplementary information, Government Auditing Standards and comments and recommendations. The introductory section includes this transmittal letter, and a list of principal officials. The financial section includes the financial statements, the Management Discussion & Analysis, as well as the auditors' report thereon. Information related to the *Government Auditing Standards* section, including the auditor's report on internal control and compliance with applicable laws, regulations, contracts and grants along with findings and related responses are included in the *Government Auditing Standards* 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 Governmental Accounting Standards Board ("GASB") in codification section 2100. All funds of the District are included in this report.

The 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: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.

GENERAL TRENDS AND SIGNIFICANT EVENTS:

During 2013, the Commissioners experienced the following:

- The District entered into a lease purchase agreement for a new fire apparatus at a total cost of \$740,162 in 2012. The District made an initial payment of \$550,000 in July 2012 and continues to make monthly payments on the lease. The final payment will be made in 2015.

The Honorable Commissioners of
Fire District #3 Township of Montville
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March 7, 2014

INTERNAL ACCOUNTING CONTROLS:

Management of the District is responsible for establishing and maintaining an internal control system designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control system 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 system is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control system 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 system, 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. The applicable funds are explained in "Notes to the Financial Statements," Note 1.

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.

The Honorable Commissioners of
Fire District #3 Township of Montville
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March 7, 2014

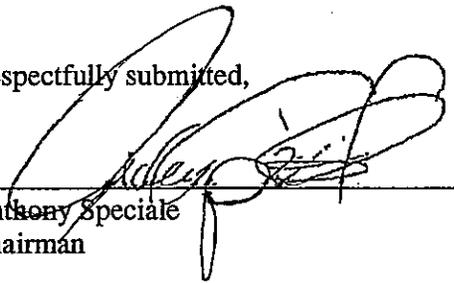
OTHER INFORMATION:

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. The auditors' report on the financial statements is included in the financial section of this report.

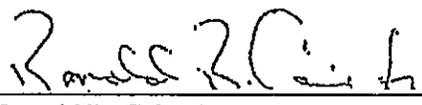
ACKNOWLEDGEMENTS:

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
Chairman



Ronald R. Cain, Jr.
Vice-Chairman

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2013

Commissioners:

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

Chairman
Vice Chairman
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 Murphy McKeon P.C.
Riverdale, New Jersey

AUDIT FIRM

Nisivoccia LLP
Mount Arlington, New Jersey

FINANCIAL SECTION



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax
Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Montville Fire District #3 (the "Fire District") as of and for the year ended December 31, 2013 and the related notes to the financial statements, and which collectively comprises the Fire District's basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fire District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fire District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Board of Fire Commissioners
Township of Montville Fire District #3
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Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Fire District as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire District's financial statements. The supplementary information schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Fire Commissioners
Township of Montville Fire District #3
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2014 on our consideration of the Fire District's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
March 7, 2014

NISIVOCIA 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. The District is well within its stringent financial policies and guidelines as set forth by the Fire District members. Following is the key highlight for 2013:

- The District entered into a lease purchase agreement for a new fire apparatus at a total cost of \$740,162 in 2012. The District made an initial payment of \$550,000 in July 2012 and continues to make monthly payments on the lease. The final payment will be made in 2015.

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 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 position; a statement of activities, a balance sheet and a statement of revenue, expenditures and changes in fund balance – governmental funds and notes to the financial statements.

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

While the statement of net position 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 year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs.

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 information schedules* provide detailed comparison of budget to actual expenses.

Financial Conditions

2013 was another relatively good year for the District and it is in excellent shape to meet its future financial demands. The District's total net position increased from the prior year by \$84,480 or 3.65%. This was primarily a result of actual administrative and general expenses being less than budgeted. The analysis below focuses on the District's net position (Table I) and changes in net position (Table 2) during the year.

Table I
Condensed Statement of Net Position

| | Dec. 31, | Dec. 31, | Increase/ (Decrease) from | Percent of Increase/ (Decrease) |
|--------------------------|---------------------|---------------------|---------------------------------|---------------------------------------|
| Current and Other Assets | \$ 1,070,807 | \$ 916,136 | \$ 154,671 | 16.88% |
| Capital Assets | 1,441,231 | 1,579,191 | (137,960) | -8.74% |
| Total Assets | <u>2,512,038</u> | <u>2,495,327</u> | <u>16,711</u> | 0.67% |
| Current Liabilities | 82,990 | 87,690 | (4,700) | -5.36% |
| Long-Term Liabilities | 32,490 | 95,559 | (63,069) | -66.00% |
| Total Liabilities | <u>115,480</u> | <u>183,249</u> | <u>(67,769)</u> | -36.98% |
| Net Investment in | | | | |
| Capital Assets | 1,345,672 | 1,420,563 | (74,891) | -5.27% |
| Restricted | 272,658 | 182,658 | 90,000 | 49.27% |
| Unrestricted | <u>778,228</u> | <u>708,857</u> | <u>69,371</u> | 9.79% |
| Total Net Position | <u>\$ 2,396,558</u> | <u>\$ 2,312,078</u> | <u>\$ 84,480</u> | 3.65% |

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

Table II
Condensed Statement of Activities

| | Dec. 31, | Dec. 31, | Increase/ (Decrease) from | Percent of Increase/ (Decrease) |
|--------------------------|---------------------|---------------------|---------------------------------|---------------------------------------|
| Operating Revenue | \$ 122,161 | \$ 105,954 | \$ 16,207 | 15.30% |
| Nonoperating Revenue | 549,200 | 545,209 | 3,991 | 0.73% |
| Total Revenue | <u>671,361</u> | <u>651,163</u> | <u>20,198</u> | 3.10% |
| Operating expenses: | | | | |
| Admin & General Expenses | 448,921 | 426,725 | 22,196 | 5.20% |
| Depreciation | 137,960 | 138,223 | (263) | -0.19% |
| Total Expenses | <u>586,881</u> | <u>564,948</u> | <u>21,933</u> | 3.88% |
| Change in Net Position | 84,480 | 86,215 | (1,735) | -2.01% |
| Beginning Net Position | <u>2,312,078</u> | <u>2,225,863</u> | <u>86,215</u> | 3.87% |
| Ending Net Position | <u>\$ 2,396,558</u> | <u>\$ 2,312,078</u> | <u>\$ 84,480</u> | 3.65% |

Results of Operations

Operating Revenues: The increase in operating revenues is due to increases in Fire Prevention Bureau revenue and miscellaneous receipts. Non-operating revenue increased marginally.

Expenses: Administrative and General Expenses increased 5.20% from 2012. The District maintains its policy of careful spending to stay within the budget.

Capital Assets: As of December 31, 2013, the District had \$1,441,231 invested in capital assets, including several fire trucks, vehicles, equipment and machinery, and furniture and fixtures. The amount represents a decrease of \$137,960 from the prior year due to depreciation.

The following table summarizes the District's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2013. These changes are presented in detail in Note 5 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

| | Dec. 31, 2013 | Dec. 31, 2012 | Increase/ (Decrease) from 2012 | Percent of Increase/ (Decrease) |
|--|---------------------|---------------------|--------------------------------------|---------------------------------------|
| Vehicles and Fire Trucks | \$ 2,561,566 | \$ 2,561,566 | | 0.00% |
| Machinery and Equipment | 261,575 | 261,575 | | 0.00% |
| Furniture and Fixtures | 140,700 | 140,700 | | 0.00% |
| Total | <u>2,963,841</u> | <u>2,963,841</u> | | 0.00% |
| Less: | | | | |
| Accumulated Depreciation | <u>1,522,610</u> | <u>1,384,650</u> | \$ 137,960 | 9.96% |
| Capital Assets, Net of Accumulated Depreciation | <u>\$ 1,441,231</u> | <u>\$ 1,579,191</u> | <u>\$ (137,960)</u> | -8.74% |

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 2013 increased by \$154,671 from the previous year, primarily due to an increase in Fire Prevention revenues. 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 POSITION
DECEMBER 31, 2013

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| <u>ASSETS:</u> | |
| Assets: | |
| Cash and Cash Equivalents | \$ 775,101 |
| Restricted Cash and Cash Equivalents | 295,706 |
| Capital Assets, Net of Accumulated Depreciation | 1,441,231 |
| Total Assets | \$ 2,512,038 |
| <u>LIABILITIES:</u> | |
| Liabilities: | |
| Accounts Payable | \$ 19,921 |
| Capital Leases Payable: | |
| Due Within One Year | 63,069 |
| Due Beyond One Year | 32,490 |
| Total Liabilities | 115,480 |
| <u>NET POSITION:</u> | |
| Net Investment in Capital Assets | 1,345,672 |
| Restricted for Capital Projects | 272,658 |
| Unrestricted | 778,228 |
| Total Net Position | 2,396,558 |
| Total Liabilities and Net Position | \$ 2,512,038 |

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, 2013

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Operating Revenue: | |
| Fire Prevention Bureau Income | \$ 116,343 |
| Miscellaneous Revenue | 5,818 |
| | 122,161 |
| Total Operating Revenue | 122,161 |
| Operating Expenses: | |
| Administrative and General Expenses | 448,921 |
| Depreciation | 137,960 |
| | 586,881 |
| Total Operating Expenses | 586,881 |
| Operating Loss | (464,720) |
| Non-Operating Revenue: | |
| Interest on Investments | 1,700 |
| Amount to be Raised by Taxation to Support District Budget | 540,000 |
| Tenant Security Deposit Payable - Cancellation | 7,500 |
| | 549,200 |
| Total Non-Operating Revenue | 549,200 |
| Change in Net Position | 84,480 |
| Net Position - Beginning of Year | 2,312,078 |
| Net Position - End of Year | \$ 2,396,558 |

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, 2013

| | General Fund | Capital Fund | Total Governmental Funds |
|---|--------------|--------------|--------------------------------|
| <u>ASSETS:</u> | | | |
| Cash and Cash Equivalents | \$ 775,101 | \$ 295,706 | \$ 1,070,807 |
| Interfund Receivable - Capital Fund | 23,048 | | 23,048 |
| Total Assets | \$ 798,149 | \$ 295,706 | \$ 1,093,855 |
| <u>LIABILITIES:</u> | | | |
| Accounts Payable | \$ 19,921 | | \$ 19,921 |
| Interfund Payable - General Fund | | \$ 23,048 | 23,048 |
| Total Liabilities | 19,921 | 23,048 | 42,969 |
| <u>FUND BALANCES:</u> | | | |
| Committed for Future Capital Improvements | | 272,658 | 272,658 |
| Unassigned | 778,228 | | 778,228 |
| Total Fund Balances | 778,228 | 272,658 | 1,050,886 |
| Total Liabilities and Fund Balances | \$ 798,149 | \$ 295,706 | |

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 \$2,963,841 and the Accumulated Depreciation is \$1,522,610 | 1,441,231 |
| Long-Term Liabilities, Including Lease Payable, are not Due and Payable in the Current Period and Therefore are not Reported as Liabilities in the Funds. | (95,559) |
| Net Position of Governmental Activities | \$ 2,396,558 |

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, 2013

| | <u>General Fund</u> | <u>Capital Fund</u> | <u>Total Governmental Funds</u> |
|---|---------------------|---------------------|---|
| <u>REVENUE:</u> | | | |
| Amount to be Raised by Taxation to Support District Budget | \$ 540,000 | | \$ 540,000 |
| Fire Prevention Bureau Income | 116,343 | | 116,343 |
| Budget Appropriation | | \$ 90,000 | 90,000 |
| Interest Earned on Investments | 1,700 | | 1,700 |
| Miscellaneous | 5,818 | | 5,818 |
| Tenant Security Deposit Payable - Cancellation | 7,500 | | 7,500 |
| Total Revenue | <u>671,361</u> | <u>90,000</u> | <u>761,361</u> |
| <u>EXPENDITURES:</u> | | | |
| Operating, Maintenance and Administration | 448,921 | | 448,921 |
| Capital Lease Payment | 63,069 | | |
| Transfer to Capital | 90,000 | | 90,000 |
| Total Expenditures | <u>601,990</u> | | <u>538,921</u> |
| Net Change in Fund Balances | 69,371 | 90,000 | 159,371 |
| Fund Balances, Beginning of Year | <u>708,857</u> | <u>182,658</u> | <u>891,515</u> |
| Fund Balances, End of Year | <u>\$ 778,228</u> | <u>\$ 272,658</u> | <u>\$ 1,050,886</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, 2013

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 and a resulting benefit or burden relationship, 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 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 Position 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 year. The District records the entire approved tax levy as revenue (accrued) at the start of the 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, 2013
(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.

Fund Balance Restrictions, Commitments and Assignments:

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined for a formal action of the District's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classifications should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts has been restricted, committed or assigned.

The District has not established any fund balance restrictions.

The District has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body. The Board of Fire Commissioners must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body in order to remove or change the commitment of resources. The District has committed resources of \$272,658 in the Capital Fund at December 31, 2013 for future capital improvements.

The assignment of resources is generally made by the District through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Fire Commissioners may allow an official of the District to assign resources through policies adopted by the Board of Fire Commissioners. The District has no assigned resources at December 31, 2013.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenue and expenses during the reporting period. Estimates are used to determine certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

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

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

Significant accounting policies include:

1. Grants:

Recognition of revenue from grants is 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. The District was not awarded any grants in the current year.

2. Inventories:

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

3. Compensated Absences:

Neither the employees nor the Fire Commissioners are entitled to earn or accrue sick, vacation or other compensated benefits. Thus there was no compensated absence balance at December 31, 2013.

4. Unearned Revenue:

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

5. Net Position:

The Fire District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the prior year. This statement defines net position as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

The Fire District implemented GASB No. 65, *Items Previously Reported as Assets and Liabilities*, during the current year. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

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

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

5. Net Position (Cont'd)

A deferred outflow of resources is a consumption of net position by the Fire District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Fire District that is applicable to a future reporting period. The Fire District did not have any deferred inflows or outflows of resources at December 31, 2013.

Net position is displayed in three components – net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

6. Revenue Recognition

District taxes are received quarterly. 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.

7. Cash and Cash Equivalents

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

8. Investments

Investments are stated at cost which approximates markets. 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.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

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

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

9. 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.

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.

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, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The employee contribution rate for PERS was 6.64% effective July 1, 2012 and increased to 6.78% effective July 1, 2013. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. Employers are required to contribute at an actuarially determined rate in the PERS. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits.

District contributions to the plan amounted to \$8,637, \$8,795 and \$8,726 for 2013, 2012, and 2011 respectively.

Note 3: Cash and Cash Equivalents and Investments

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

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

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.

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

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;

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

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

Investments: (Cont'd)

- (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;
- (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, 2013, 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 | \$ 393,434 | \$ 381,667 | \$ 775,101 |
| Capital | | 295,706 | 295,706 |
| | <u>\$ 393,434</u> | <u>\$ 677,373</u> | <u>\$ 1,070,807</u> |

The carrying amount of the District's cash and cash equivalents at December 31, 2013 was \$1,070,807 and the bank balance was \$1,079,086. The Fire District had no investments as of December 31, 2013.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 4: Long-Term Debt:

Long-term debt is recognized as a liability of a governmental fund when due.

A lease agreement was entered into with Pierce Manufacturing for the purchase of a new fire truck in 2012. The total cost of the truck was \$740,162. The District made an initial payment of \$550,000 in July 2012, and a total of \$31,534 in monthly payments throughout the remainder of the year. In 2013, the District made payments totaling \$63,069. The District will continue to make monthly payments until its final payment in 2015.

Summary of Long-Term Debt - Current Year

| | <u>Balance</u> <u>12/31/</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>12/31/</u> |
|---------------|---------------------------------|------------------|--------------------|---------------------------------|
| Lease Payable | 158,628 | | \$ 63,069 | \$ 95,559 |
| | <u>\$ 158,628</u> | <u>\$ -0-</u> | <u>\$ 63,069</u> | <u>\$ 95,559</u> |

Schedule of Annual Debt Service for Principal and Interest
for Long-Term Debt Outstanding

| <u>Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------|------------------|-----------------|------------------|
| December 31, 2014 | \$ 63,069 | \$ 2,034 | \$ 65,103 |
| December 31, 2015 | 32,490 | 356 | 32,846 |
| | <u>\$ 95,559</u> | <u>\$ 2,390</u> | <u>\$ 97,949</u> |

Note 5: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2013:

| | <u>Balance</u> <u>12/31/2012</u> | <u>Increases/ (Decreases)</u> | <u>Balance</u> <u>12/31/2013</u> |
|---|-------------------------------------|-----------------------------------|-------------------------------------|
| Capital Assets: | | | |
| Vehicles and Fire Trucks | \$ 2,561,566 | | \$ 2,561,566 |
| Machinery and Equipment | 261,575 | | 261,575 |
| Furniture and Fixtures | 140,700 | | 140,700 |
| Total Capital Assets | <u>2,963,841</u> | | <u>2,963,841</u> |
| Less Accumulated Depreciation for: | | | |
| Vehicles and Fire Trucks | 1,151,643 | 114,278 | 1,265,921 |
| Machinery and Equipment | 180,842 | 18,214 | 199,056 |
| Furniture and Fixtures | 52,165 | 5,468 | 57,633 |
| | <u>1,384,650</u> | <u>137,960</u> | <u>1,522,610</u> |
| Capital Assets, Net of Accumulated Depreciation | <u>\$ 1,579,191</u> | <u>\$ (137,960)</u> | <u>\$ 1,441,231</u> |

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 5: Capital Assets (Cont'd)

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, 2013:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|--------------|---------------------------------|------------------------------|
| General Fund | \$ 23,048 | |
| Capital Fund | | \$ 23,048 |
| | <u>\$ 23,048</u> | <u>\$ 23,048</u> |

The interfund between the General Fund and the Capital Fund represents interest earned in the Capital Fund from 2007 to 2013 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 2013:

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013
(Continued)

Note 8: Accounts Payable

Accounts payable was as follows:

| | 2013 |
|---------|-----------|
| Vendors | \$ 19,921 |

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.

Note 10: Economic Dependency

The Fire District receives a substantial amount of its support from its local district taxes. A significant reduction in the level of support, if this were to occur, may have a significant 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

| | <u>General Fund</u> | <u>Capital Fund</u> | <u>Total</u> |
|--|-------------------------|-------------------------|---------------------|
| Cash Balance: | | | |
| January 1, 2013 | \$ 710,821 | \$ 205,315 | \$ 916,136 |
| Cash Receipts: | | | |
| Township of Montville - District Taxes | 540,000 | | 540,000 |
| Fire Prevention Bureau | 116,343 | | 116,343 |
| Interest on Investments | 1,310 | | 1,310 |
| Due to General Fund: | | | |
| Interest on Investments | | 391 | 391 |
| Miscellaneous Receipts | 6,165 | | 6,165 |
| Budget Appropriation | | 90,000 | 90,000 |
| Total Cash Receipts | <u>663,818</u> | <u>90,391</u> | <u>754,209</u> |
| Cash Disbursed: | | | |
| Operating, Maintenance and Administration | 361,465 | | 361,465 |
| Fringe Benefits | 85,004 | | 85,004 |
| Capital Appropriations | 153,069 | | 153,069 |
| Total Cash Disbursements | <u>599,538</u> | | <u>599,538</u> |
| Cash Balance December 31, 2013 | <u>\$ 775,101</u> | <u>\$ 295,706</u> | <u>\$ 1,070,807</u> |

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2013

| | 2013 | | | Variance Favorable (Unfavorable) |
|---|-------------------|---------------|---------------------------------|--|
| | Budget | Transfer | Budget After Modification | |
| <u>REVENUE:</u> | | | | |
| Amount To Be Raised By Taxation | | | | |
| To Support The District Budget | \$ 540,000 | | \$ 540,000 | \$ 540,000 |
| Fire Prevention Bureau Income | 80,000 | | 80,000 | 116,343 |
| Interest on Investments | 4,700 | | 4,700 | 1,700 |
| Miscellaneous Revenue | | | | 5,818 |
| Total Revenue | <u>624,700</u> | | <u>624,700</u> | <u>663,861</u> |
| <u>BUDGETED APPROPRIATIONS:</u> | | | | |
| Operating Appropriations: | | | | |
| Operating, Maintenance and Administration: | | | | |
| Salaries & Wages | 65,000 | | 65,000 | 76,367 |
| Public Employees Retirement System | 9,500 | | 9,500 | 8,637 |
| Rent & Utilities | 48,700 | | 48,700 | 37,908 |
| Fire Suppression Supplies | 55,050 | | 55,050 | 55,050 |
| Maintenance & Repairs | 142,569 | | 142,569 | 135,818 |
| Office Expense | 1,500 | | 1,500 | 1,084 |
| Professional Services | 17,500 | | 17,500 | 14,313 |
| Insurance | 52,000 | \$ 4,825 | 56,825 | 56,825 |
| Training & Education | 4,000 | | 4,000 | 2,706 |
| Elections | 250 | | 250 | 225 |
| Stipends | 28,500 | | 28,500 | 24,327 |
| Uniforms | 25,000 | (4,825) | 20,175 | 16,908 |
| Advertising & Promotions | 18,000 | | 18,000 | 14,753 |
| Death Benefit Fund | 4,000 | | 4,000 | 4,000 |
| Total Operating, Maintenance and Administration | <u>471,569</u> | | <u>471,569</u> | <u>448,921</u> |
| Capital Appropriations: | | | | |
| Capital Outlay | 90,000 | | 90,000 | 90,000 |
| Capital Leases | 63,131 | | 63,131 | 63,069 |
| Total Capital Appropriations | <u>153,131</u> | | <u>153,131</u> | <u>153,069</u> |
| TOTAL APPROPRIATIONS | <u>\$ 624,700</u> | <u>\$ -0-</u> | <u>\$ 624,700</u> | <u>\$ 601,990</u> |
| | | | | <u>\$ 22,710</u> |

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF LEASE PAYABLE
SCHEDULE OF LEASE PAYABLE FOR ORIGINAL ISSUE OF \$740,162 WITH PRINCIPAL

| | |
|--------------------|-------------------------|
| Balance 12/31/2012 | \$ 158,628 |
| Decreased by: | |
| Principal Paid | <u>63,069</u> |
| Balance 12/31/2013 | <u><u>\$ 95,559</u></u> |

| <u>Year</u> | <u>Principal</u> |
|-------------|-------------------------|
| 2014 | \$ 63,069 |
| 2015 | <u>32,490</u> |
| | <u><u>\$ 95,559</u></u> |

SINGLE AUDIT



Mount Arlington Corporate Center
200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
11 Lawrence Road
Newton, NJ 07860
973-383-6699 | 973-383-6555 Fax

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*

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, (the "Division") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Township of Montville Fire District #3, in the County of Morris (the "Fire District") as of, and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements and have issued our report thereon dated March 7, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fire District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire District's internal control.

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 Authority'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 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2013-1 that we consider to be a significant deficiency.

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*.

The Fire District's Response to the Finding

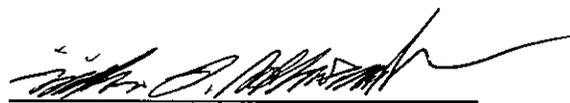
The Fire District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fire District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Fire District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mount Arlington, New Jersey
March 7, 2014

NISIVOCCIA LLP



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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion the financial statements of the Fire District.
- A significant deficiency was disclosed during the audit of the financial statements as reported in the *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*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of the Fire District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

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

- The audit disclosed the following significant deficiency required to be reported under Generally Accepted Government Auditing Standards, except as follows:

Finding 2013-1

During our audit, we noted that the Fire District does not maintain an adequate segregation of duties due to limited personnel. The functions of handling cash and 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, 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.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2013

The Fire District had one finding during the prior year relating to the segregation of duties (2012-1). Finding 2012-1 was not resolved during 2013 and is reported in the schedule of findings and responses as finding 2013-1.

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 January 1, 2011 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 is \$17,500, 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 assets 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 handling cash and 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 recommendation was evaluated, however due to budgetary constraints no resolution can be made at this time.

Operations:

A review of the General Fund expenditures revealed that the salaries and wages line items in the budget have been overexpended.

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

Operations: (Cont'd)

Recommendation

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 by making budget adjustments when necessary. The budget line was over expended due to extra activity in the Fire Prevention Bureau department which is offset by extra revenues for the department.

Status of Prior Year Recommendations:

The Fire District had two recommendations during the prior year relating to the segregation of duties and budget adjustments being made so that overexpenditures do not occur. These two prior year recommendations were not resolved during 2013 and are reported as current year recommendations though much improvement was made on the overexpenditures recommendation.

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.