

TOWNSHIP OF LOWER FIRE DISTRICT #3
REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
YEAR ENDED DECEMBER 31, 2012

TOWNSHIP OF LOWER FIRE DISTRICT #3

YEAR END DECEMBER 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Township of Lower Fire District #3
Erma, New Jersey 08204

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Board of Commissioners of the Township of Lower Fire District #3, State of New Jersey, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Township of Lower Fire District #3's basic financial statements as listed in the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements 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 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 entity'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 entity'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Qualified Opinion

As described in Note 9 of the financial statements, the district participates in a Length of Service Award Program (LOSAP) for its volunteer fire and rescue personnel. The amount reflected in the trust fund statements of \$305,772.77 was not audited and, therefore, we express no opinion on the LOSAP program.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “basis for Qualified Opinion” paragraph, 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 Board of Commissioners of the Township of Lower Fire District #3, State of New Jersey, as of December 31, 2012, and the respective changes in financial position for the year 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* and *budgetary comparison information* identified in the table of contents be presented to supplement the basic 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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 on our consideration of the Board of Commissioners of the Township of Lower Fire District #3'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 Board of Commissioners of the Township of Lower Fire District #3's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Glen J. Ortman
Glen J. Ortman
Certified Public Accountant
Registered Municipal Accountant
No. 427

September 10, 2013

REQUIRED SUPPLEMENTARY INFORMATION - PART I

MANAGEMENT'S DISCUSSION & ANALYSIS OF THE TOWNSHIP OF LOWER FIRE DISTRICT #3

This Management Discussion and Analysis ("MD&A") of the Township of Lower Fire District #3's ("Fire District") financial performance provides an overall review of the Fire District's financial activities for the fiscal years ended December 31, 2012 and 2011. The intent of this discussion and analysis is to look at the Fire District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the Fire District's financial performance.

This Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued in June 1999. Certain comparative information between the current year (2012) and the prior year (2011) is required to be presented in the MD&A.

Pronouncement

The Fire district has adopted GASB No. 1 through 65 and related interpretations issued through December 31, 2012. GASB Statement 34 and subsequent Statements and Interpretations require certain terminology, format and content, as well as inclusion of management's discussion and analysis and supplementary information.

Overview

The Township of Lower Fire District #3, hereafter referred to as the "Fire District," is a primary governmental entity located in the Township of Lower, State of New Jersey. The Fire District is run by a board of commissioners who are elected into office by the registered voters of District #3 in the Township of Lower.

The Fire District is responsible for establishing a budget and maintaining fiscal control over public funds that are used to provide for the safety and welfare of the residents located within District #3 in the Township of Lower. Under existing statute, the Fire District is exempt from both Federal and State taxes.

The accounts of the Fire District are maintained in accordance with the principles of "fund accounting." One fund, the General Fund is used to account for all revenues and expenditures applicable to the general operations of the Fire District.

Funding is acquired through property tax levies. In 2012 the total tax levy was \$697,464.00, which corresponds to a property tax rate of \$0.052 per \$100 of assessed valuation.

Financial Highlights

Key financial highlights for 2012 are as follows:

- In total, net position increased \$122,839.41, which represents approximately a 5.99% increase from 2011.
- General Revenues in the form of property tax assessments accounted for \$697,464.00 or 97% of the total revenues of \$718,600.36.
- Total assets of governmental activities increased by \$101,153.86 as current and other assets increased by \$28,724.29. Capital assets increased \$72,429.57.
- The Fire District had \$595,760.95 in expenses. General revenues (primarily property tax assessments) were in the amount of \$718,600.36.

Reporting the Fire District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains two funds used by the Fire District to provide programs and activities, the view of the Fire District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2012?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the modified accrual basis of accounting similar to the accounting used by most private-sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The district's activities are reported as governmental activities. The District is primarily financed through the levying of property taxes.

These two statements report the Fire District's Net Position and changes in those assets. This change in Net Position is important because it tells the reader that, for the commission as a whole, the financial position of the Fire District have improved or diminished. The causes of this change may be the result of many factors, some financial and some not.

Reporting the Fire District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Fire District's funds. The Fire District uses two funds to account for all financial transactions. The Fire District's governmental funds are made up of the General Fund and the Capital Projects Fund.

Governmental Funds

The Fire District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in the future years. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental funds statements provide a detailed short-term view of the Fire District's general government operations and the basic services it provides and the capital fund is used to account for expenditures for property, plant and equipment financed by debt authorized. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance activities. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds

The fiduciary fund is made up of an expendable trust fund used to account for funds held in trust for the Length of Service Award Program (LOSAP), a deferred compensation plan for eligible volunteers.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The Notes to the Financial Statements can be found on pages 16 to 23 of this report.

The Fire District as a Whole

Recall that the Statement of Net Position provides the perspective of the Fire District as a whole. Net Position may serve over time as a useful indicator of a government's financial position.

The Fire District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table 1 provides a summary of the Fire District's net position for 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Assets		
Current and Other Assets	\$ 583,086.57	\$ 554,362.28
Capital Assets	<u>2,110,524.40</u>	<u>2,038,094.83</u>
Total Assets	<u>2,693,610.97</u>	<u>2,592,457.11</u>
Liabilities		
Other Liabilities	<u>521,797.73</u>	<u>543,483.28</u>
Total Liabilities	<u>521,797.73</u>	<u>543,483.28</u>
Net Position		
Invested in Capital Asset	1,660,305.84	1,537,054.71
Restricted for Other Purposes	154,078.00	129,519.00
Unrestricted	<u>357,429.40</u>	<u>382,400.12</u>
Total Net Position	<u>\$ 2,171,813.24</u>	<u>\$ 2,048,973.83</u>

The Fire District's combined net position was \$2,171,813.24 on December 31, 2012. This was a 5.99 % increase from 2011.

The Fire District as a Whole - Continued

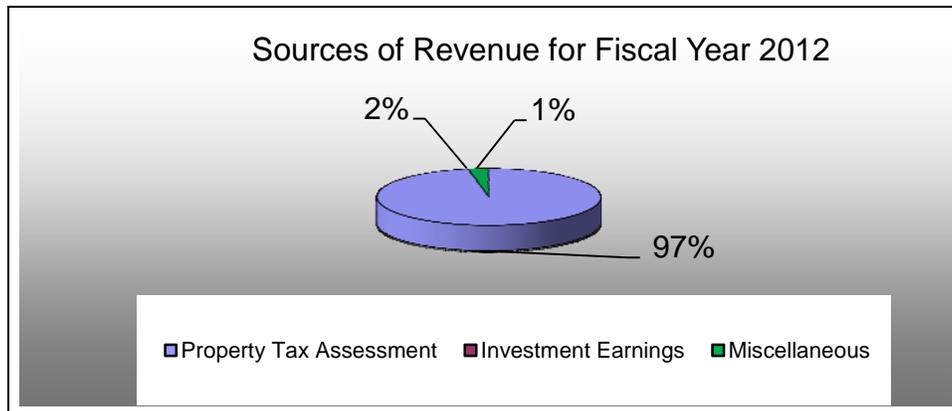
Table 2 shows changes in net position for fiscal year 2012 and 2011.

**Table 2
Changes in Net Position**

	2012	2011
Revenues		
General Revenues:		
Property Tax Assessments	\$ 697,464.00	\$ 683,789.00
Supplemental Fire Services Aid	1,306.24	1,306.24
Interest on Investments	293.66	349.78
Other	19,536.46	1,866.64
Total Revenues	<u>718,600.36</u>	<u>687,311.66</u>
Program Expenses		
Administration	26,134.60	26,070.00
Cost of Operations	350,334.10	293,239.72
Depreciation	164,647.69	160,711.99
Debt Service	54,644.56	41,191.00
Total Expenses	<u>595,760.95</u>	<u>521,212.71</u>
Less: Excess of Revenue over Expenditures		
Add: Deficiency of Expenditures over Revenues		
Increase (Decrease) in Net Position	<u>\$ 122,839.41</u>	<u>\$ 162,576.29</u>

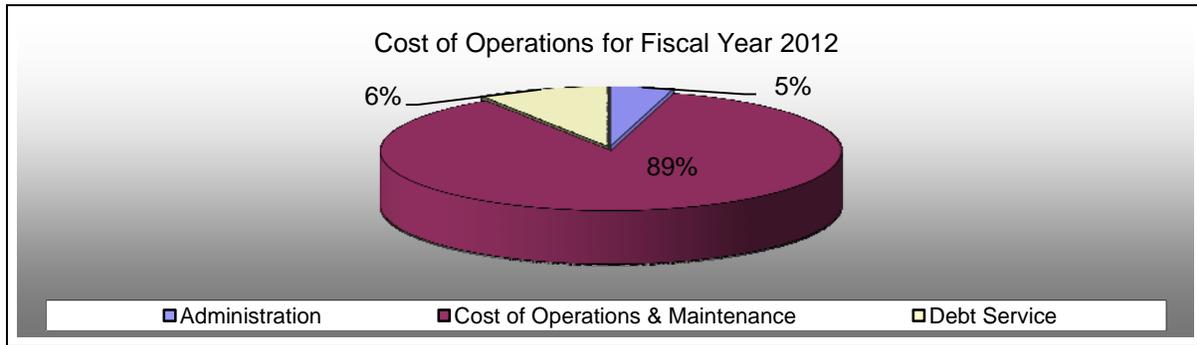
Governmental Activities

The property tax assessments made up 97% of revenues while investment earnings made up 1.0% of revenues and supplemental fire services revenues and other revenues made up the remaining 2.0% of revenues for fiscal year 2012. The Fire District's total revenues were \$718,600.36 for the year ended December 31, 2012.



Governmental Activities - Continued

The total cost of operations was \$595,760.95.



Business-Type Activities

The Fire District does not have any business-type activities.

The Fire District's Funds

The governmental fund (general fund presented in the fund-based statements) is accounted for using the modified accrual basis of accounting. Total revenues amounted to \$718,600.36 and expenditures were \$703,222.09.

As demonstrated by the various statements and schedules included in the financial section of this report, the Fire District continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds for the fiscal year ended December 31, 2012, and the amount and percentage of total revenues compared to prior year revenues.

Revenue	2012 Amount	Percentage of Total	2011 Amount	Percentage of Total
Property Taxes	\$ 697,464.00	97.06%	\$ 683,789.00	99.49%
Supplemental Fire Services Aid	1,306.24	0.18%	1,306.24	0.19%
Investment Earnings	293.66	0.04%	349.78	0.05%
Miscellaneous	19,536.46	2.72%	1,866.64	0.27%
Total	\$ 718,600.36	100.00%	\$ 687,311.66	100.00%

The following schedule represents a summary of governmental fund expenditures for the fiscal year ended December 31, 2012, and the percentage of total expenditures compared to prior year amounts.

<u>Expenditures</u>	<u>2012 Amount</u>	<u>Percentage of Total</u>	<u>2011 Amount</u>	<u>Percentage of Total</u>
Administration	\$ 26,134.60	2.82%	\$ 26,070.00	4.43%
Operation & Maintenance	350,334.10	37.84%	293,239.72	49.80%
Debt Service	312,405.06	33.74%	269,487.67	45.77%
Capital Outlay	237,077.26	25.60%	-	0.00%
Total	\$ <u>925,951.02</u>	<u>100.00%</u>	\$ <u>588,797.39</u>	<u>100.00%</u>

General Fund Budgeting Highlights

The Fire District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

For the Future

The Township of Lower Fire District #3 is in good financial condition presently.

In conclusion, the Township of Lower Fire District #3 has committed itself to financial excellence for many years. The Fire District plans to continue its sound fiscal management to meet the challenges of the future.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Fire District's finances and to show the Fire District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Chairman of the Board of Fire Commissioners, Lower Township Fire District #3, P.O. box 162, Rio Grande, N.J. 08204.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF LOWER FIRE DISTRICT #3
STATEMENT OF NET POSITION
DECEMBER 31, 2012

		<u>Governmental Activities</u>
ASSETS		
Cash and Cash Equivalents	\$	365,129.07
Taxes Receivable		217,957.50
Capital Assets:		
Capital Assets Being Depreciated, Net		2,110,524.40
		<hr/>
Total Assets	\$	<u><u>2,693,610.97</u></u>
 LIABILITIES		
Due to LOSAP trust fund	\$	27,591.00
Accounts Payable		28,198.18
Accrued Interest		15,789.99
Noncurrent Liabilities		
Due Within One Year		264,335.70
Due Beyond One Year		185,882.86
		<hr/>
Total Liabilities	\$	<u><u>521,797.73</u></u>
 NET POSITION		
Invested in Capital Assets	\$	1,660,305.84
Restricted for:		
Other Purposes		154,078.00
Unrestricted		357,429.40
		<hr/>
Total Net Position	\$	<u><u>2,171,813.24</u></u>

See Accompanying Notes to Financial Statements

TOWNSHIP OF LOWER FIRE DISTRICT #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Expenses	Program Revenue Fees, Fines & Charges For Services	Net (Expenses)/Revenues and Changes in Net Position Governmental Activities
Governmental Activities:			
Fire Protection:			
Administration	\$ 26,134.60	\$	\$ (26,134.60)
Cost of Providing Services	350,334.10	3,600.00	(346,734.10)
Depreciation	164,647.69		(164,647.69)
Interest on Long-Term Debt	54,644.56		(54,644.56)
 Total Expenses	595,760.95	3,600.00	(592,160.95)
 Total Governmental Activities	595,760.95	3,600.00	(592,160.95)
 General Revenues:			
Taxes			697,464.00
Interest			293.66
Other Revenue			17,242.70
Total General Revenues			715,000.36
Change in Net Position			122,839.41
Net Position - Beginning			2,048,973.83
Net Position - Ending			\$ 2,171,813.24

TOWNSHIP OF LOWER FIRE DISTRICT #3
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 365,129.07	\$ -	\$ 365,129.07
Taxes Receivable	217,957.50	-	217,957.50
Total Assets	<u>\$ 583,086.57</u>	<u>\$ -</u>	<u>\$ 583,086.57</u>
LIABILITIES AND FUND BALANCES			
Accounts Payable	\$ 28,198.18	\$ -	\$ 28,198.18
Due to Other Funds	27,591.00	-	27,591.00
Total Liabilities	<u>55,789.18</u>	<u>-</u>	<u>55,789.18</u>
FUND BALANCE			
Assigned to:			
Designated by the District:			
for Subsequent Year's Expenditures	154,078.00		154,078.00
Unassigned Fund Balance	373,219.39	-	373,219.39
	<u>527,297.39</u>	<u>-</u>	<u>527,297.39</u>
Total Liabilities and Fund Balances	<u>\$ 583,086.57</u>	<u>\$ -</u>	<u>\$ 583,086.57</u>

See Accompanying Notes to Financial Statements

TOWNSHIP OF LOWER FIRE DISTRICT #3
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2012

Total fund balances for governmental funds	\$	527,297.39
Capital assets used in governmental activities are not resources and therefore are not reported in the funds. The cost of the assets is \$4,405,491.87 and the accumulated depreciation is \$2,294,967.47.		
		2,110,524.40
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
		(450,218.56)
Interest on long-term debt in the statement of activities is accrued, regardless of when due.		
		(15,789.99)
Total net position of governmental actiivites	\$	<u><u>2,171,813.24</u></u>

TOWNSHIP OF LOWER FIRE DISTRICT #3
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

	General Fund	Capital Fund	Total Governmental Funds
REVENUES			
Property Taxes	\$ 697,464.00	\$	\$ 697,464.00
Supplemental Fire Services Aid	1,306.24		1,306.24
Interest	293.66		293.66
Miscellaneous	19,536.46		19,536.46
Total Revenues	<u>718,600.36</u>	<u>-</u>	<u>718,600.36</u>
EXPENDITURES			
Administrative	26,134.60		26,134.60
Fire Protection	292,694.66		292,694.66
Non-Bondable Assets	30,048.44		30,048.44
Length of Service Awards Program	27,591.00		27,591.00
Debt Service:			-
Principal	273,550.49		273,550.49
Interest	38,854.57		38,854.57
Capital Outlay	14,348.33	222,728.93	237,077.26
Total Expenditures	<u>703,222.09</u>	<u>222,728.93</u>	<u>925,951.02</u>
Excess/(Deficit) of Revenues over Expenditures	<u>15,378.27</u>	<u>(222,728.93)</u>	<u>(207,350.66)</u>
Other Financing Sources/(Uses)			
Capital Leases (non-budgeted)	-	222,728.93	222,728.93
Total Other Financing Sources/(Uses)	-	222,728.93	222,728.93
Net Change in Fund Balance	15,378.27	-	15,378.27
Fund Balance Beginning	511,919.12		511,919.12
Fund Balance Ending	<u>\$ 527,297.39</u>	<u>-</u>	<u>\$ 527,297.39</u>

See Accompanying Notes to Financial Statements

TOWNSHIP OF LOWER FIRE DISTRICT #3
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2012

Net change in fund balance - total governmental funds	\$	15,378.27
<p>The change in net position for governmental activities in the statement of activities is different because:</p> <p>Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.</p>		
Depreciation expense		(164,647.69)
Capital Outlays		14,348.33
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.</p>		
Bonds Payable		150,000.00
Capital Leases Payable		123,550.49
<p>In the statement of activities, interest on long-term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is a deduction in the reconciliation.</p>		
		(15,789.99)
Change in Net Position of Governmental Activities	\$	122,839.41

TOWNSHIP OF LOWER FIRE DISTRICT #3
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2012
(UNAUDITED)

	Expendable Trust Fund <hr style="border: 0.5px solid black;"/>
ASSETS	
Investments	\$ 278,181.77
Due from Other Funds	27,591.00
Total Assets	<hr style="border: 0.5px solid black;"/> \$ 305,772.77 <hr style="border: 0.5px solid black;"/>
NET ASSETS	
Held in Trust for LOSAP	<hr style="border: 0.5px solid black;"/> \$ 305,772.77 <hr style="border: 0.5px solid black;"/>

See Accompanying Notes to Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Lower Fire District #3 (the Fire District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fire District's accounting policies are described below.

A. Reporting Entity

The Fire District's basic financial statements include the accounts of all the Fire District's operations. The Fire District, as a special-purpose government, meets the criteria defining a primary government. As set forth in Government Accounting Standards Board (GASB) 14, a primary government is also a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state and local governments.

B. Basis of Presentation, Measurement Focus and Basis of Accounting

Basis of Presentation

The Fire District's basic financial statements consist of a statement of net position and a statement of activities and fund financial statements, which provide a more detailed level of financial information.

District-Wide Financial Statements: The statement of net position and the statement of activities display information about the Fire District as a whole. These statements report financial activities of the overall Fire District. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by District assessments, intergovernmental revenues, and other non-exchange transactions from business-type activities, if any, generally financed in whole or in part with fees charged to external parties.

The statement of net position presents the financial condition of the Fire District at year end. The statement of activities presents a comparison between direct expenses and program revenues for the governmental activity of the Fire District.

Fund Financial Statements: During the fiscal year, the Fire District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the Fire District's funds.

Governmental Funds

The Fire District reports the following governmental funds:

General Fund – The general operating fund of the Fire District, accounts for all administrative and operational activities of the Fire District.

Capital Fund – The accounting for expenditures for property, plant and equipment financed by debt authorized.

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation, Measurement Focus and Basis of Accounting (Continued)

Measurement Focus and Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax assessments are recognized as revenues in the year in which they are levied.

Contributions and grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position (total assets less total liabilities) are used as a practical measure of economic resources and the operating statement includes all transactions and events that increased or decreased net position. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net position.

C. Budget/Budgetary Control

An annual operating budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures in accordance with NJSA 40A:5A. The operating budget, adopted annually, is in the form prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

D. Assets, Liabilities and Equity

Cash, Cash Equivalents and Investments

Cash and cash equivalents include various checking and money market accounts, U.S. obligations, and certificates of deposit with maturities of three months or less.

Investments are carried at cost with associated premiums and discounts amortized over the term of the investment. Purchase of investments is limited by N.J.S.A. 40A:5-15.1 to bonds or obligations of or guaranteed by the federal government and to bonds or other obligations of federal or local units. These investments are required to have a maturity date not more than twelve months from the date of Purchase.

Additionally, the Fire District has adopted a cash management plan that 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.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Equity (Continued)

Capital Assets

The Fire District has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. The capitalization threshold used by the Fire District is \$1,000.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method over their estimated useful lives. Useful lives vary from 5 to 12 years for equipment and vehicles.

Accrued Liabilities and Long-Term Obligations

All payables and accrued liabilities are reported on the district-wide financial statements. In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

Net Position

Net position represent the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing (if any) used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the Fire District, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Fund Balances

In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fire District classifies governmental fund balances as follows;

- Non-spendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual restraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board of Commissioners, or Treasurer.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Equity (Continued)

Extraordinary and Special Items

Extraordinary items are transactions or events that are unusual in nature and infrequent in occurrence. Special items are transactions or events that are within control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

E. Recent Accounting Pronouncements Not Yet Effective

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 66 "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62". This statement, which resolves conflicts between Statements No. 10 and No. 54 provides more flexibility in fund classifications for risk based activities, is effective for fiscal periods beginning after December 15, 2012, is not anticipated to have any effect on the District's financial reporting.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67 "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25". This statement, which is effective for fiscal periods beginning after June 15, 2013, will not have any effect on the District's financial reporting.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27". This statement, which is effective for fiscal periods beginning after June 15, 2014, will not have any effect on the District's financial reporting.

In January 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 69 "Government Combinations and Disposals of Government Operations". This statement, which is effective for fiscal periods beginning after December 15, 2013, will not have any effect on the District's financial reporting.

In April 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees". This statement, which is effective for fiscal periods beginning after June 15, 2013, will not have any effect on the District's financial reporting.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Fire District's deposits may not be recovered. Although the District does not have a policy for custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. Of the Fire District's bank balance of \$366,862.02 as of December 31, 2012, \$0 was uninsured and uncollateralized.

Investments

The District does not have any investments at December 31, 2012.

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 3 - GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the year ended December 31, 2012 follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Furniture and Fixtures	\$ 50,000.00	\$ 7,137.00	\$ -	\$ 57,137.00
Equipment	1,777,414.61	229,740.26	-	2,007,154.87
Building & Improvements	2,341,000.00	200.00	-	2,341,200.00
Totals at Historical Cost	<u>4,168,414.61</u>	<u>237,077.26</u>	<u>-</u>	<u>4,405,491.87</u>
Less Accumulated Depreciation for:				
Furniture and Fixtures	(50,000.00)	(7,137.00)	-	(57,137.00)
Equipment	(1,117,553.96)	(97,479.92)	-	(1,215,033.88)
Muilding & Improvements	(962,765.82)	(60,030.77)	-	(1,022,796.59)
Total Accumulated Depreciation	<u>(2,130,319.78)</u>	<u>(164,647.69)</u>	<u>-</u>	<u>(2,294,967.47)</u>
Governmental Activities Capital Assets, Net	<u>\$ 2,038,094.83</u>	<u>\$ 72,429.57</u>	<u>\$ -</u>	<u>\$ 2,110,524.40</u>

NOTE 4 - DEBT SERVICE

The following tabulation presents the principal and interest requirements for the following year of district debt issued and outstanding:

1991 Serial Bond Payable

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 160,000.00	\$ 5,520.00	\$ 165,520.00
	<u>\$ 160,000.00</u>	<u>\$ 5,520.00</u>	<u>\$ 165,520.00</u>

Capital Leases

The Fire District has entered into agreements to purchase a) a new E-One HP 75 Foot Aerial Truck in 2007, totaling \$618,174.00 with a net carrying value of \$412,116.00 and b) a new E-One HP Pumper Fire Truck in 2012, totaling \$222,728.93 with a net carrying value of \$219,016.78. These agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 4 - DEBT SERVICE (CONTINUED)

The following schedule presents future minimum lease payments as of December 31, 2012:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 104,335.70	\$ 16,128.29	\$ 120,463.99
2014	33,646.83	9,275.56	42,922.39
2015	35,325.81	7,596.58	42,922.39
2016	37,088.57	5,833.82	42,922.39
2017	38,939.29	3,983.10	42,922.39
2018	40,882.36	2,040.03	42,922.39
	<u>\$ 290,218.56</u>	<u>\$ 44,857.38</u>	<u>\$ 335,075.94</u>

Amortization of leased equipment under capital assets is included with depreciation expense.

NOTE 5 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION

“Total fund balances” of the Fire District’s governmental funds \$527,297.39 differs from “net position” of governmental activities \$2,171,813.24. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheet.

- When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets is reported as expenditures in governmental funds. However, the statement of net position includes those capital assets.

Cost of Capital Assets:	\$ 4,405,491.87
Accumulated Depreciation:	<u>(2,294,967.47)</u>
	<u>\$ 2,110,524.40</u>

- Liabilities applicable to the Fire District’s governmental activities are not due and payable in the current period and are not recorded as fund liabilities. All liabilities are reported in the statement of net position.

Long-Term Liabilities:	
Due within one year	\$ 264,335.70
Due after one year	<u>185,882.86</u>
Total Long-Term Liabilities	<u>\$ 450,218.56</u>

- Interest on long-term debt in the statement of activities is accrued, regardless of when due.

Accrued interest	\$ <u>15,789.99</u>
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TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 6 - EXPLANATION OF DIFFERENCES BETWEEN GOVERNMENTAL FUND OPERATING STATEMENTS AND THE STATEMENT OF ACTIVITIES

The "net change in fund balances" for governmental funds \$15,378.27 differs from the "change in net position" for governmental activities, \$122,839.41. The differences arise primarily from the long-term economic focus of the statement of activities versus the current financial focus of the governmental funds.

1. When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net position decreases by the amount of depreciation expense charged for the year. The depreciation expense is \$164,647.69 and Capital outlays funded by budget expenses amounted to \$14,348.33.
2. Repayments of debt principal are reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the Fire District as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The amount of debt principal repayment for 2012 is \$150,000.00 for Bonds and \$123,550.49 for Capital Leases..
3. Interest expense in the statement of activities differs from the amount reported in governmental funds due to accrued interest from the prior year being subtracted from interest expense for the year and current year accrued interest being added to interest expense for the year. The net effect is an increase in interest expense in the amount of \$15,789.99.

NOTE 7 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

Receivables and payables at December 31, 2012 are as follows:

Fund	Interfund Receivable	Interfund Payable
Current	\$	\$ 27,591.00
Fiduciary Fund	27,591.00	
Total	\$ 27,591.00	\$ 27,591.00

As of December 31, 2012, an interfund remained from the General Fund to the Fiduciary Fund in the amount of \$27,591.00 for LOSAP. The interfund is due to the 2012 LOSAP contribution due at year end. The interfund will be repaid in the subsequent year.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Fire District makes quarterly payments to the Erma Fire Company, which is outlined in a contract. Additionally, the District also makes annual payments to the Bureau of Fire Safety. The Bureau was created by the three Lower Township Fire Districts. The Bureau earns its revenue from all three districts and is for inspections, user fees and violation fines. Each district pays the same amount each year.

TOWNSHIP OF LOWER FIRE DISTRICT #3
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

NOTE 9 - LENGTH OF SERVICE AWARDS PROGRAM (UNAUDITED)

The voters of Lower Township Fire District #3 approved establishment of a Length of Service Awards Program (LOSAP) deferred compensation plan. This plan is made available to all bona fide eligible volunteers who are performing qualified services which is defined as fire fighting and prevention services, emergency medical services and ambulance services pursuant to Section 457 of the Internal Revenue Code of 1986, as amended, except for provisions added by reason of the LOSAP as enacted into federal law in 1997. The establishment of this LOSAP will also comply with New Jersey Public Law 1997, Chapter 388 and the LOSAP document. The plan is administered by Lincoln Life Insurance Company and Lincoln Financial Group, its agent. The LOSAP Deferred Compensation Plan has not been audited.

NOTE 10 - FUND BALANCES

Restrictions of funds balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

The Fire District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Fire District does not have a formal fund balance spending policy therefore the default spending order requires committed, assigned and then unassigned to be spent first when expenditures are made.

Specific classifications of fund balance are summarized below:

Assigned Fund Balance – At December 31, 2012, the fire District assigned fund balance in the general fund of \$154,078 designated for subsequent year's expenditures.

Unassigned Fund Balance – At December 31, 2012, the Fire District has \$373,219.39 of unassigned fund balance in the general fund.

NOTE 11 – RISK MANAGEMENT

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

Property, and Liability Insurance – The Fire District maintains commercial insurance for property, liability and surety bonds.

From time to time, the Fire district may be a defendant in legal proceedings relating to its operations as a Fire District.

NOTE 12 - SUBSEQUENT EVENTS

Management has reviewed and evaluated all events and transactions that occurred between December 31, 2012 and September 10, 2013, the date that the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION - PART II

TOWNSHIP OF LOWER FIRE DISTRICT #3
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2012

	Budget	Adjusted Final Budget	Actual	Variance - Over (Under)
Revenues:				
District Taxes	\$ 697,464.00	\$ 697,464.00	\$ 697,464.00	\$ -
Fund Balance Appropriated	129,519.00	129,519.00		(129,519.00)
Supplemental Fire Services Aid			1,306.24	1,306.24
Interest on Deposits and Investments	500.00	500.00	293.66	(206.34)
Miscellaneous Revenue			19,536.46	19,536.46
Total Revenues	827,483.00	827,483.00	718,600.36	(108,882.64)
Expenditures:				
Operating and Maintenance:				
Administration:				
Salaries and Wages	24,400.00	24,400.00	24,400.00	-
Election	2,200.00	2,200.00	1,734.60	465.40
Total Administration	26,600.00	26,600.00	26,134.60	465.40
Cost of Operations & Maintenance:				
Advertising	1,000.00	1,000.00	107.26	892.74
Insurance Premiums	42,000.00	42,000.00	35,142.91	6,857.09
Maintenance and Repairs	142,700.00	142,700.00	114,146.55	28,553.45
Professional Fees	16,700.00	16,700.00	16,522.19	177.81
Supplies	2,500.00	2,500.00	2,355.65	144.35
Fire Contract	47,000.00	47,000.00	43,125.00	3,875.00
Training and Education	10,000.00	10,000.00	7,142.85	2,857.15
Office Expense	4,000.00	4,000.00	397.91	3,602.09
Utilities and Related Services	72,500.00	72,500.00	47,483.84	25,016.16
Fire Hydrant Rent	12,000.00	12,000.00	9,270.50	2,729.50
Bureau of Fire Safety	17,000.00	17,000.00	17,000.00	-
Contracted Services	9,000.00	9,000.00		9,000.00
Fire Fighting Equipment	40,000.00	40,000.00	44,396.77	(4,396.77)
Truck	50,000.00	-		-
Contingent	14,000.00	14,000.00		14,000.00
Total Cost of Operations and Maintenance	480,400.00	430,400.00	337,091.43	93,308.57
Debt Service:				
General Obligation Bonds - Principal	150,000.00	150,000.00	150,000.00	-
Capital Leases - Principal	93,028.00	128,028.00	123,550.49	4,477.51
General Obligation Bonds - Interest	16,215.00	16,215.00	16,215.00	-
Capital Leases - Interest	10,240.00	25,240.00	22,639.57	2,600.43
Total Debt Service	269,483.00	319,483.00	312,405.06	7,077.94
Capital Outlay - Reserve for Future Capital Outlays		-		-
Total Expenditures	776,483.00	776,483.00	675,631.09	100,851.91
Excess (Deficiency) of Revenues Over Expenditures	51,000.00	51,000.00	42,969.27	(8,030.73)
Other Financing (Uses):				
Operating Transfers (Out): (LOSAP) - Contribution (PL 1997, C 388)	(51,000.00)	(51,000.00)	(27,591.00)	23,409.00
Total Other Financing (Uses)	(51,000.00)	(51,000.00)	(27,591.00)	23,409.00
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	15,378.27	15,378.27
Fund Balances - Beginning of Year	511,919.12	511,919.12	511,919.12	-
Fund Balances - End of Year	\$ 511,919.12	\$ 511,919.12	\$ 527,297.39	\$ 15,378.27

OTHER SUPPLEMENTARY INFORMATION



FORD - SCOTT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Township of Lower Fire District #3
Erma, New Jersey 08204

We have audited, in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), the financial statements of the Township of Lower Fire District #3, State of New Jersey (the "District"), as of and for the year ended December 31, 2012, 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 September 10, 2013.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 entity'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 material weaknesses or significant deficiencies. 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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Division which are described in the accompanying schedule of findings and recommendations as Findings 2012-1, 2012-2, 2012-3 and 2012-4.

DISTRICT'S RESPONSES TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Findings and Responses. The 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Glen J. Ortman

Glen J. Ortman
Certified Public Accountant
Registered Municipal Accountant
No. 427

September 10, 2013

TOWNSHIP OF LOWER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Finding #2012-1:

Payment vouchers are not consistently used and approval signatures are not being obtained. In addition, there were numerous instances where the vendor/claimant signature had not been obtained.

Criteria:

New Jersey Administrative Code (N.J.A.C. 5:30-5.2) requires that purchases shall be sequentially numbered either through pre-printed multiple copy purchase orders or a computerized system that produces appropriate purchasing internal control. In addition, Local Fiscal Affairs Law 40A:5-16 requires that no payment be made unless the person claiming payment first present a detailed bill of items, specifying particularly how the bill or demand is made up, with the certification of the party claiming payment that it is correct.

Condition:

The District expended moneys without utilizing payment vouchers/purchase orders and obtaining proper vendor certification.

Cause:

Due to the volunteer status of the District's personnel, the District does not use vouchers on a consistent basis.

Effect:

Because of the District's failure to use payment vouchers and certification from the vendors, it was not in compliance with New Jersey Administrative Code and Local Fiscal Affairs Law.

Recommendation:

That vendor certification be obtained from the vendor and that payment vouchers / purchase orders should be utilized in all instances. In addition, all vouchers should have the proper approval signatures prior to payment.

Management Response:

Management agrees with this recommendation.

Finding #2012-2:

The use of a formal bid process was not utilized to replace a condenser unit that was in excess of the bid threshold.

Criteria:

Local Public Contracts Law requires that the District prepare a formal bid package when total services rendered would require payments in excess of the bid threshold.

Condition:

The payment for the replacement of a condenser unit was in excess of the bid threshold.

Cause:

This was an oversight by the District's personnel.

Effect:

The Agency is in violation of the Local Public Contracts Law.

TOWNSHIP OF LOWER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

Finding #2012-2: (Continued)

Recommendation:

That the Fire District advertise for bids in accordance with the Local Public Contracts Law for goods and services that will exceed the statutory threshold.

Management Response:

Management agrees with this recommendation.

Finding #2012-3:

The Fire District does not tag fixed assets for proper identification when received.

Criteria:

New Jersey Administrative Code (N.J.A.C. 5:30-5.6) requires that a Fixed Asset Accounting ledger be maintained.

Condition:

The Fire District does not tag fixed assets for proper identification.

Cause:

Personnel are part time and lack the necessary expertise.

Effect:

By not tagging the fixed assets, they cannot be properly identified to the fixed asset ledger in some instances.

Recommendation:

We recommend that all assets be tagged for proper identification when received and vehicle identification numbers and tag numbers be stated on the fixed asset ledger.

Management Response:

Management agrees with this recommendation.

Finding #2012-4:

The Fire District did not get approval from the Local finance Board prior to entering into a capital lease for financing of a fire truck.

Criteria:

The State of New Jersey, Division of Local Government Services requires that capital leases must be approved by the Local Finance Board.

Condition:

The Fire District did not get approval from the Local Finance Board prior to entering into a capital lease for the financing of a new fire truck.

Cause:

Personnel are part time and lack the necessary expertise.

Effect:

The fire district is in violation of the State of New Jersey's regulations.

TOWNSHIP OF LOWER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012
(CONTINUED)

Finding #2012-4: (Continued)

Recommendation:

That, prior to entering into any capital lease, the Fire District get approval from the State of New Jersey's Local Finance Board.

Management Response:

Management agrees with this recommendation.

Should any questions arise as to the comments or contents of this audit, or should you desire other assistance regarding such, please do not hesitate to contact me.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Glen J. Ortman

Glen J. Ortman
Certified Public Accountant
Registered Municipal Accountant
No. 427

September 10, 2013

TOWNSHIP OF LOWER FIRE DISTRICT #3
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDING DECEMBER 31, 2012

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.