

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

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**YEAR ENDED DECEMBER 31, 2011**  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Commissioners  
Township of Upper Fire District #3  
Marmora, New Jersey 08223

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and the fund financial statements of the Township of Upper 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 Fire District's basic financial statements, as listed in the accompanying 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.

### ***Auditor's 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 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 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

***Auditor's Responsibility – Continued***

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 opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and fund financial statements of the Township of Upper Fire District #3, State of New Jersey, as of December 31, 2012 and the respective changes in financial position for the fiscal year then ended in conformity 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 Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Upper Fire District #3, State of New Jersey's basic financial statements. The statistical information and roster of officials are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statistical information and roster of officials have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated April 5, 2013 on our consideration of the Township of Upper 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 Township of Upper 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**

*Leon P. Costello*  
**Leon P. Costello**  
**Certified Public Accountant**  
**Registered Municipal Accountant**  
**No. 393**

**April 5, 2013**

**REQUIRED SUPPLEMENTARY INFORMATION - PART I**

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

The discussion and analysis of Township of Upper Fire District #3's financial performance provides an overall review of the Fire District's financial activities for the fiscal year ended December 31, 2012. 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.

The 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.

### **OVERVIEW:**

The Township of Upper Fire District #3, hereafter referred to as the "Fire District," is a primary governmental entity located in the Township of Upper, 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 Upper.

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 Upper. 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 \$503,720.00, which corresponds to a property tax rate of 0.061 per \$100 of assessed valuation.

### **Financial Highlights**

Key financial highlights for 2012 are as follows:

- In total, net assets increased \$8,975.41 which represents a 10% increase from 2011.
- General Revenues in the form of property tax assessments and accounted for \$503,720.00 or 99% of the total revenues of \$504,641.31.
- Total assets of governmental activities increased by \$8,975.41 as cash and cash equivalents increased by \$49,612.41, investments decreased by \$50,444.00. The Fire District had \$495,665.90 in expenses. General revenues (primarily property tax assessments) were in the amount of \$504,641.31.

## **Reporting the Fire District as a Whole**

### Statement of Net Assets and the Statement of Activities

While this document contains the 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 Assets 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.

These two statements report the Fire District's net assets and changes in those assets. This change in net assets 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 one fund to account for all financial transactions. The Fire District's governmental fund is the General 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 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 fund statements provide a detailed short-term view of the Fire District's general government operations and the basic services it provides. 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 educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## **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 11 to 15 of this report.

## **The Fire District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the Fire District as a whole. Net assets 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.

**The Fire District as a Whole - Continued**

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

**Table 1  
Net Assets**

	<u>2012</u>	<u>2011</u>
<b>Assets</b>		
Current and Other Assets	\$ 93,400.36	\$ 84,424.95
Total Assets	<u>93,400.36</u>	<u>84,424.95</u>
<b>Liabilities</b>		
Other Liabilities	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
<b>Net Assets</b>		
Reserved for Emergencies	55,583.00	23,200.00
Reserved for Capital Outlay	2,756.00	-
Unrestricted	35,061.36	61,224.95
Total Net Assets	<u>\$ 93,400.36</u>	<u>\$ 84,424.95</u>

The Fire District's combined net assets were \$93,400.36 on December 31, 2012. This was an increase of \$8,975.41 from 2011.

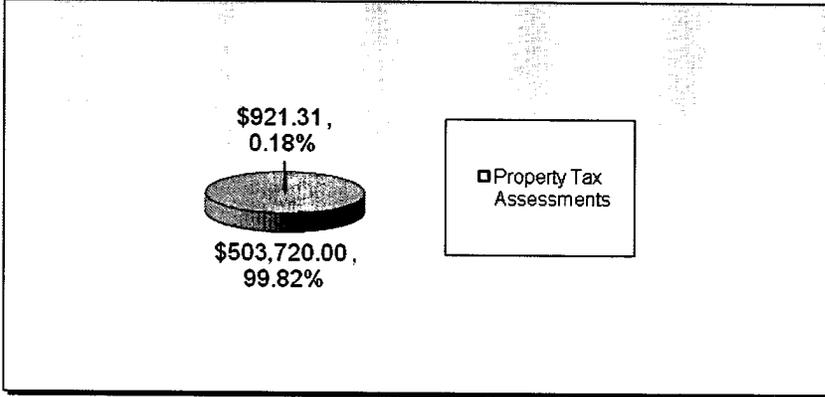
Table 2 shows changes in net assets for fiscal year 2012 and 2011.

**Table 2  
Changes in Net Assets**

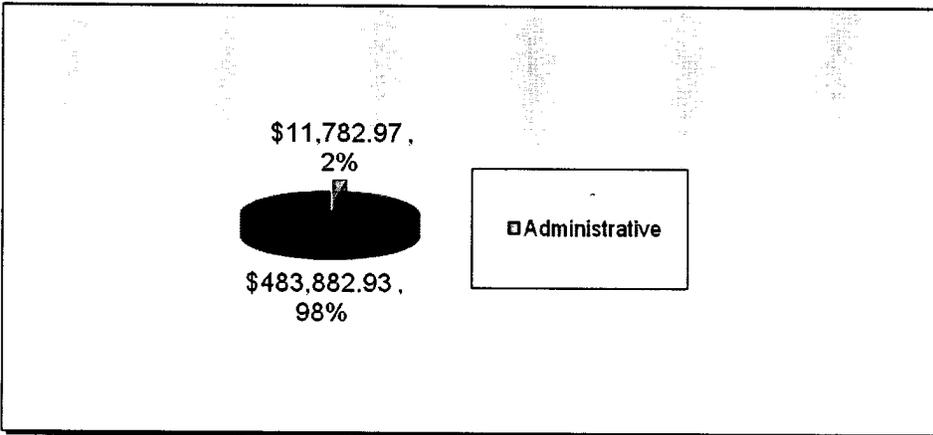
	<u>2012</u>	<u>2011</u>
<b>Revenues</b>		
General Revenues:		
Property Tax Assessments	\$ 503,720.00	\$ 488,805.00
Other	921.31	2,123.30
Total Revenues	<u>504,641.31</u>	<u>490,928.30</u>
<b>Program Expenses</b>		
Current	<u>495,665.90</u>	<u>612,769.09</u>
Total Expenses	<u>495,665.90</u>	<u>612,769.09</u>
<b>Nonoperating Revenue:</b>		
Cancellation of Prior Period Payable		
Less: Excess (Deficit) of Revenue over Expenditures	8,975.41	(121,840.79)
Increase in Net Assets	<u>\$ 8,975.41</u>	<u>\$ (121,840.79)</u>

**Governmental Activities**

The property tax assessments made up more than 99% of revenues while investment earnings and other revenues made up less than 1% of revenues for fiscal year 2012. The Fire District's total revenues were \$504,641.31 for the year ended December 31, 2012.



The total cost of operations was \$495,655.90.



**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 \$504,641.31 and expenditures were \$495,665.90.

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	\$ 503,720.00	100%	\$ 488,805.00	100%
Fund Balance Appropriated		0%		0%
Other Income	921.31	0%	2,123.30	0%
<b>Total</b>	<b>\$ 504,641.31</b>	<b>100.00%</b>	<b>\$ 490,928.30</b>	<b>100.00%</b>

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

Expenditures	2012 Amount	Percentage of Total	2011 Amount	Percentage of Total
Current Expense:				
Administration	\$ 11,782.97	2%	\$ 13,753.05	2%
Operations & Maintenance	483,882.93	98%	601,516.04	98%
<b>Total</b>	<b>\$ 495,665.90</b>	<b>100%</b>	<b>\$ 615,269.09</b>	<b>100%</b>

**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.

**Capital Assets**

At the end of the fiscal year 2012, the Fire District had does not own any capital assets.

**For the Future**

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

In conclusion, the Township of Upper 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.

**THE ORGANIZATION:**

The Fire District is governed by a five member Board of Commissioners who establishes the policies and plans to meet the current and future needs for the Fire District. The current members of the Fire District Board of Commissioners are set forth below:

<u>Name</u>	<u>Position Held</u>
Robert DiNicolantonio	Chairman
Robert Smith	Treasurer
Z. Richard Lee	Secretary
Thomas Swenk	Commissioner
Kurt Austin	Commissioner

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, Z. Richard Lee, Secretary of the Board of Commissioners at Township of Upper Fire District #3, P.O. Box 855, Marmora, NJ 08223.

## **FINANCIAL STATEMENTS**

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2012**

	<u>General Fund</u>	<u>Reserve Fund</u>	<u>Total</u>	<u>Statement of Net Assets</u>
<b><u>ASSETS</u></b>				
Cash and Cash Equivalents	\$ 80,837.36	\$	\$ 80,837.36	\$ 80,837.36
Investments	2,756.00		2,756.00	2,756.00
Hurricane Damage Receivable	9,807.00		9,807.00	9,807.00
Interfunds	(55,583.00)	55,583.00	-	-
<b>Total Assets</b>	<b><u>\$ 37,817.36</u></b>	<b><u>\$ 55,583.00</u></b>	<b><u>\$ 93,400.36</u></b>	<b><u>\$ 93,400.36</u></b>
 <b><u>LIABILITIES</u></b>				
NONE				
 <b><u>Fund Balances/Net Assets:</u></b>				
Reserved for Emergencies	\$	\$ 55,583.00	\$ 55,583.00	\$ 55,583.00
Reserved for Capital Outlay	2,756.00		2,756.00	2,756.00
Unreserved, reported in:				
General Fund	<u>35,061.36</u>		<u>35,061.36</u>	<u>35,061.36</u>
<b>Total Fund Balance</b>	<b><u>37,817.36</u></b>	<b><u>55,583.00</u></b>	<b><u>93,400.36</u></b>	<b><u>93,400.36</u></b>
 <b>Total Liabilities and Fund Balance</b>	 <b><u>\$ 37,817.36</u></b>	 <b><u>\$ 55,583.00</u></b>	 <b><u>\$ 93,400.36</u></b>	
 <b>Net Assets:</b>				
Reserved for Emergencies				55,583.00
Reserved for Capital Outlay				2,756.00
Unrestricted				<u>35,061.36</u>
<b>Total Net Assets</b>				<b><u>\$ 93,400.36</u></b>

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

	<u>General Fund</u>	<u>Reserve Fund</u>	<u>Total</u>	<u>Statement of Activities</u>
<b>Revenues:</b>				
Taxes	\$ 503,720.00	\$	\$ 503,720.00	\$ 503,720.00
Interest on Deposits and Investments	921.31		921.31	921.31
Total Revenues:	<u>504,641.31</u>	<u>-</u>	<u>504,641.31</u>	<u>504,641.31</u>
<b>Expenditures/ Expenses:</b>				
Current:				
Administrative Costs:				
Office Expenses	838.23		838.23	838.23
Professional Services - Administration	10,944.74		10,944.74	10,944.74
Cost of Operations & Maintenance:				
Insurance	25,393.58		25,393.58	25,393.58
Vehicle Lease	80,000.00		80,000.00	80,000.00
Building Lease	65,000.00		65,000.00	65,000.00
Contract with Marmora Volunteer Fire Company	286,025.00		286,025.00	286,025.00
Cost of Fire Hydrants	24,489.35		24,489.35	24,489.35
Salaries & Wages	2,975.00		2,975.00	2,975.00
Total Expenditures	<u>495,665.90</u>	<u>-</u>	<u>495,665.90</u>	<u>495,665.90</u>
Excess (deficiency) of Revenues over Expenditures	8,975.41	-	8,975.41	8,975.41
Transfer from General Fund	(32,383.00)	32,383.00	0.00	0.00
Fund Balances/Net Assets:				
Beginning of the Year	61,224.95	23,200.00	84,424.95	84,424.95
End of the Year	<u>\$ 37,817.36</u>	<u>\$ 55,583.00</u>	<u>\$ 93,400.36</u>	<u>\$ 93,400.36</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

**TOWNSHIP OF UPPER 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 Upper 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) 11, 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 assets 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 assets 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 assets presents the financial condition of the Fire District at fiscal 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 Fire District, accounts for all administrative and operational activities of the Fire District.

Reserve Fund – The reserve fund of the Fire District is a discretionary fund to be utilized for expenditures voted upon by the Commissioners for emergent conditions within the District.

**TOWNSHIP OF UPPER 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 assets (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 assets. Depreciation is charged as expense against current operations and accumulated depreciation is reported on the statement of net assets.

**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 10A: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. 10A: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.

**TOWNSHIP OF UPPER 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**

Cash, Cash Equivalents and Investments - Continued

N.J.S.A. 17:9-11 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.

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 Assets

Net assets represent the difference between assets and liabilities. Net assets 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 assets 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 Balance Reserves

In accordance with Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Commission classified 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 Commission.
- 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 UPPER 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**

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 60, "Accounting and Financial for Service Concession Arrangements" to improve financial reporting related to service concession arrangements (SCAs) which are a type of public-private or public-public partnership. This statement is not anticipated to have any effect on the District's financial reporting.

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The purpose of the statement is to amend the criteria for reporting and including component units with the primary government. This statement, which is effective for fiscal periods beginning after June 15, 2012, is not anticipated to have any effect on the District's financial reporting.

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". The statement, which is effective for periods beginning after December 15, 2011, amends and supersedes several previously issued GASB statements to incorporate guidance that had been included in AICPA and FASB guidance. The statement will have a minimum, but undetermined impact on the proprietary fund financial statements of the District.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and net Position". The statement, which is effective for periods beginning after December 15, 2011, amends several previously issued GASB statements to standardize reporting of deferred inflows and outflows of financial resources. This statement is not anticipated to have any effect on the District's financial reporting.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 64 "Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53". This statement, which is effective for fiscal periods beginning after June 15, 2011, is not anticipated to have any effect on the District's financial reporting.

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

GASB Statement No. 3, amended by GASB Statement No. 40, requires disclosure of the level of custodial credit risk assumed by the Fire District in its cash, cash equivalents and investments.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Fire District's deposits may not be returned to it. The District does not have a policy for custodial credit risk; however, the State of New Jersey imposes certain collateral requirements for governmental units. These requirements are disclosed in detail as part of Note 1.

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

**NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

Deposits

All of the deposits of the Fire District are insured through federal depository insurance coverage, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

At December 31, 2012, the Fire District's deposits had a carrying amount of \$80,837.36 and a bank balance of \$95,895.01. The entire bank balance amounts were insured at December 31, 2012.

Investments

Pursuant to the Enabling Act, the funds of the Fire District may be invested in any direct obligations of, or obligations as to which the principal and interest thereof is guaranteed by, the United States of America or other obligations as the Fire District may approve. It invests pooled monies from various State and non-State agencies in primarily short-term investments.

As of December 31, 2012, the Fire District has \$2,756 in investments

Credit Risk

The District does not have an investment policy regarding the management of credit risk.

Interest Rate Risk

The District does not have a policy to limit interest rate risk.

**NOTE 3 – FUND BALANCE**

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

Specific classifications of fund balances are summarized below:

Assigned Fund Balance – The District had assigned 2,756.00 of fund balance to Capital Outlay to at December 31, 2012.

Unassigned Fund Balance – At December 31, 2012, the District has a balance of \$35,061.36, of Unassigned fund balance in the general fund.

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

**NOTE 4 - CONTINGENCIES AND LITIGATION**

In the normal course of business, the Fire District may periodically be named as a defendant in litigation. In the opinion of management, supported by legal counsel, the impact of any such matters, if adversely determined, would not have a material adverse effect on the general-purpose financial statements or operations of the Fire District.

**NOTE 5 – DUE TO MARMORA VOLUNTEER FIRE COMPANY**

From April 29, 2002 until December 31, 2007, the Fire District commenced holding back \$30,000 per quarter from its fire protection contract with the Marmora Volunteer Fire Company (MVFC), toward the future purchase of a firefighting vehicle. The quarterly withholding amount was modified to \$22,500 per quarter in 2003. In 2005, the quarterly withholding amount was modified to \$25,333 for the last three payments made in 2005. Additionally, the Fire District agreed to transfer a surplus in the fire hydrants expense account amounting to \$4,273.04 for the benefit of the MVFC in 2005.

The Fire District released \$286,025 during 2012 and \$283,525 during 2011, to the MVFC to make lease payments for equipment.

As of December 31, 2012, there was no amount due to the MVFC.

**NOTE 6 – LEASE OBLIGATIONS**

At December 31, 2012, the Fire District had operating and property lease agreements in effect for the following:

Operating:

Marmora Volunteer Fire Company – certain trucks and motor vehicles

Property:

Marmora Volunteer Fire Company – Marmora, NJ

Future minimum rental payments under operating and property lease agreements are as follows:

<u>Year</u>	<u>Property</u>	<u>Operating</u>
2013	\$ 65,000.00	\$ 80,000.00

**NOTE 7 - SUBSEQUENT EVENTS**

Management has reviewed and evaluated all events and transactions that occurred between December 31, 2012 and April 5, 2013, the date that the financial statements were issued, for possible disclosure and recognition in the financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION - PART II**

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL - ALL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Budget	Actual	Variance - Favorable (Unfavorable)
<b><u>Revenues:</u></b>			
Taxes	\$ 503,720.00	\$ 503,720.00	\$ -
Interest on Deposits and Investments	2,419.00	921.31	(1,497.69)
Miscellaneous			-
Total Revenues	506,139.00	504,641.31	(1,497.69)
<b><u>Expenditures:</u></b>			
Administration:			
Office Expenses	1,000.00	838.23	161.77
Professional Services - Administration	13,000.00	10,944.74	2,055.26
Utilities	100.00	-	100.00
Cost of Operations & Maintenance:			
Insurance	28,500.00	25,393.58	3,106.42
Vehicle Lease	80,000.00	80,000.00	-
Building Lease	65,000.00	65,000.00	-
Contract with Marmora Volunteer Fire Company	286,025.00	286,025.00	-
Cost of Fire Hydrants	24,400.00	24,489.35	(89.35)
Salaries & Wages	2,975.00	2,975.00	-
Total Expenditures	501,000.00	495,665.90	5,334.10
Excess of Revenue over Expenditures	5,139.00	8,975.41	3,836.41
Unreserved General Fund Balance - January 1,	61,224.95	61,224.95	-
Decrease By:			
Transfer to Reserve	(5,139.00)	(35,139.00)	(30,000.00)
Unreserved General Fund Balance - December 31	\$ 61,224.95	\$ 35,061.36	\$ (26,163.59)

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGET-TO-GAAP RECONCILIATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

Note A - Explanation of Differences Between Budgetary Inflows and Outflows GAAP Revenue and Expenditures

	General Fund
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	\$ 504,641.31
Difference - budget to GAAP: None	
	\$ 504,641.31
Uses / outflows of resources Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	\$ 495,665.90
Difference - budget to GAAP: None	
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds.	\$ 495,665.90

## **OTHER SUPPLEMENTARY INFORMATION**



# FORD - SCOTT

& ASSOCIATES, L.L.C.

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## INDEPENDENT AUDITOR'S REPORT

### 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

To the Board of Commissioners  
Township of Upper Fire District #3  
Marmora, New Jersey 08223

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 Upper 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 April 5, 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.

#### District's Responses to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of 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

*Leon P. Costello*  
Leon P. Costello  
Certified Public Accountant  
Registered Municipal Accountant  
No. 393

April 5, 2013

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**STATISTICAL INFORMATION**  
**DECEMBER 31, 2012**

Property Tax Levies:

Following is a tabulation of district assessed valuations, tax levies and property tax rates per \$100 of assessed valuation for the current and preceding five years:

<u>Year</u>		<u>Assessed Valuations</u>		<u>Total Tax Levy</u>		<u>Property Tax Rates</u>
2012	\$	830,374,308	\$	503,720.00	\$	0.061
2011		833,203,233		488,805.00		0.059
2010		833,143,057		481,923.00		0.058
2009		825,742,614		458,796.00		0.056
2008		827,581,999		442,000.00		0.053
2007		820,103,202		425,000.00		0.052

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**ROSTER OF OFFICIALS**  
**DECEMBER 31, 2012**

**Board of Commissioners**

<u>Name</u>	<u>Title</u>
Robert DiNicolantonio	Chairman
Robert Smith	Treasurer
Z. Richard Lee	Secretary
Thomas Swenk	Commissioner
Kurt Austin	Commissioner

**Surety Company**

American Alternative Insurance Company  
Blanket Bond Coverage in the amount of \$250,000

**TOWNSHIP OF UPPER FIRE DISTRICT #3**  
**GENERAL INFORMATION AND RECOMMENDATIONS**  
**DECEMBER 31, 2012**

**CONDITION OF RECORDS**

The financial records, books of account and minutes maintained by the Treasurer were available and complete.

**FINDING # 2012-1\*\***

Our testing revealed that the District does not use purchase orders. This creates an internal control weakness due to not having proper approval by the Board of Commissioners as well as not obtaining a vendor certification.

**RECOMMENDATION**

We recommend that the District creates a purchase order which allows all Commissioners's to give approval for the disbursements which have proper and adequate support attached. This would also allow the vendor to certify that the payment being made is correct.

\*\* Denotes prior year finding