

**FIRE DISTRICT NO. 1
OF THE TOWNSHIP OF SOUTH BRUNSWICK**

Financial Statements

For the year ended December 31, 2011

(With Independent Auditors' Report thereon)

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Financial Statements
For the year ended December 31, 2011
(With Independent Auditors' Report thereon)

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Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

Board of Fire Commissioners
Fire District No. 1 of the Township of South Brunswick:

We have audited the accompanying financial statements of the governmental activities of each major fund, of Fire District No. 1 of the Township of South Brunswick, County of Middlesex, State of New Jersey, as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fire District No. 1 of the Township of South Brunswick's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the New Jersey Department of Treasury, Office of Management and Budget and in compliance with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of each major fund of Fire District No. 1 of the Township of South Brunswick, County of Middlesex, State of New Jersey, as of December 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2012, on our consideration of the Fire District No. 1 of the Township of South Brunswick'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 through 6 and 30 through 31 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fire District No. 1 of the Township of South Brunswick financial statements as a whole. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


HOLMAN & FRENIA, P.C.
Certified Public Accountants

March 9, 2012
Toms River, New Jersey



Certified Public Accountants & Consultants

**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***

Board of Fire Commissioners
Fire District No. 1 of the Township of South Brunswick:

We have audited the financial statements of Fire District No. 1 of the Township of South Brunswick, County of Middlesex, State of New Jersey, as of and for the year ended December 31, 2011, which collectively comprise the Fire District No. 1 of the Township of South Brunswick's basic financial statements and have issued our report thereon dated March 09, 2012. 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 audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fire District No. 1 of the Township of South Brunswick's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fire District No. 1 of the Township of South Brunswick's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fire District No. 1 of the Township of South Brunswick's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a significant deficiency, or combination of significant deficiencies, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all significant deficiencies or material weaknesses have been identified. However, as discussed in the comments and recommendation section, we identified deficiencies in internal control over financial reporting that we consider to be material weaknesses, as items 2011-01 and 2011-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fire District No. 1 of the Township of South Brunswick'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 of Local Government Services, Department of Community Affairs, State of New Jersey and described in the comments and recommendation section of this report as items 2011-01, 2011-02, and 2011-03.

Fire District No. 1 of the Township of South Brunswick's response to the findings identified in our audit is described in the accompanying general comments and recommendations. We did not audit Fire District No. 1 of the Township of South Brunswick's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of Fire District No. 1 of the Township of South Brunswick's management and respective state agencies and is not intended to be and should not be used by anyone other than these specified parties.

HOLMAN & FRENIA, P.C.
HOLMAN & FRENIA, P.C.
Certified Public Accountants

March 9, 2012
Toms River, New Jersey



March 9, 2012

Board of Commissioners of
Fire District No. 1 of the Township of South Brunswick
County of Middlesex
Kendall Park, New Jersey 08824

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 Statement and Management's Discussion and Analysis for State and Local Governments" issued in June 1999.

Financial Statements

The financial statements included in this report are the District Wide Financial Statements of Net Assets and the Statement of Activities for the year ended December 31, 2011.

The District Wide Financial Statement of Net Assets shows the financial position of the Fire District No. 1 of the Township of South Brunswick (the District) at December 31. Assets are compared with Liabilities and Net Assets are the result.

Statement of Activities measure performance for the year and how this performance impacts Net Assets.

Financial Analysis

The District, at December 31, 2011, has total net assets of \$3,184,928 compared to \$3,285,770 at December 31, 2010. The decrease of \$100,842 can be primarily attributed to a \$100,000 onetime payment made to the Kendall Park Volunteer Fire Company to assist with the cost associated with remodeling of the truck bay area and communications room at the New Road firehouse to improve emergency response.

The District liabilities of \$1,267,093 at December 31, 2011 increased from \$614,781 compared to the prior year. This increase is accounted for primarily because of the addition of a new rescue truck.

In summary, net assets decreased by \$100,842 for the year ended December 31, 2011.

Commissioners of Fire District No.1
In the Township of South Brunswick, County of Middlesex
P.O. Box 68, Kendall Park, NJ 08824-0068
732-297-9900 Fax 732-297-4247 Web Site www.sbfd1.org

Condensed Financial Information

Key District financial information for the years 2011 and 2010 include the following balances:

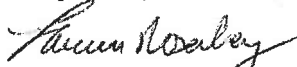
	Assets	
	<u>2011</u>	<u>2010</u>
Unrestricted current assets	\$ 975,103	\$ 1,155,463
Property, plant and equipment, net of depreciation	<u>3,476,918</u>	<u>2,745,088</u>
Total assets	<u>\$ 4,452,021</u>	<u>\$ 3,900,551</u>
Liabilities and Net Assets		
Liabilities	\$ 1,267,093	\$ 614,781
Net assets -- investment in capital assets	2,255,763	2,157,431
Net assets -- restricted	325,259	336,466
Net assets -- unrestricted	<u>603,906</u>	<u>791,873</u>
Liabilities and net assets	<u>\$ 4,452,021</u>	<u>\$ 3,900,551</u>
Other Financial Information:		
Total operating/non-operating revenues	\$ 691,774	\$ 855,302
Total operating/non-operating expenses	<u>792,616</u>	<u>752,596</u>
Excess revenues over expenses	<u>\$ (100,842)</u>	<u>\$ 102,706</u>
Capital spending, net	96,574	318,515

The District's total 2011 operating expenses were under budget for the year.

Note from the District's Management

The District's financial report is designed to provide users of the financial statements with a general overview of the District's finances and to show the District's accountability for the money it receives. The financial statements of the District are a matter of public record and may be examined at P.O. Box 68, Kendall Park, New Jersey 08824 during the District's business hours.

Respectfully Submitted,


Lawrence Rosenberg
Treasurer

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK**Statement of Net Assets****December 31, 2011****(With comparative totals for December 31, 2010)**

	Governmental Activities	
	(Memorandum Only)	
	<u>2011</u>	<u>2010</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 938,424	\$ 1,120,939
Prepaid insurance	36,679	34,524
Total current assets	975,103	1,155,463
Fixed assets (net of depreciation)	3,476,918	2,745,088
Total assets	4,452,021	3,900,551
Liabilities:		
Current liabilities:		
Accounts payable	22,531	27,124
Accrued interest payable	23,407	-
Bonds payable	80,000	75,000
Capital lease payable	100,749	-
Total current liabilities	226,687	102,124
Noncurrent liabilities:		
Bonds payable	360,000	440,000
Capital lease payable	680,406	72,657
Total noncurrent liabilities	1,040,406	512,657
Total liabilities	1,267,093	614,781
Net assets:		
Investments in capital assets, net of related debt	2,255,763	2,157,431
Restricted net assets:		
Encumbrances	-	41,207
Capital	325,259	295,259
Unrestricted net assets:		
Undesignated	322,356	412,625
Designated for subsequent year's expenditures	281,550	379,248
Total net assets	\$ 3,184,928	\$ 3,285,770

See independent auditors' report.

See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK

Statement of Activities

For the year ended December 31, 2011

(With comparative totals for year ended December 31, 2010)

	Expenses	Charges for Services	Governmental Activities	
			2011	(Memorandum Only) 2010
Government activities:				
Operation appropriations:				
Administration	\$ 102,645	\$ -	\$ 102,645	\$ 94,890
Costs of operations and maintenance	626,361	-	626,361	569,643
Operating appropriations offset with revenues	26,218	-	26,218	53,195
Length of service award contribution	37,392	-	37,392	34,868
Total government activities	792,616	-	792,616	752,596
General revenues:				
Miscellaneous revenue			1,824	87,897
Operating grant revenues			6,298	6,298
Amount raised by taxation			683,652	761,107
Total general revenues			691,774	855,302
Excess of revenues over expenditures			(100,842)	102,706
Net assets, January 1			3,285,770	3,183,064
Net assets, December 31			\$ 3,184,928	\$ 3,285,770

See independent auditors' report.

See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Governmental Funds
Balance Sheet
December 31, 2011
(With comparative totals for December 31, 2010)

				<u>Totals</u>	
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>December 31, 2011</u>	(Memorandum Only) <u>December 31, 2010</u>
Assets:					
Current assets:					
Cash and cash equivalents	\$ 207,757	\$ 730,667	\$ -	\$ 938,424	\$ 1,120,939
Interfund receivable	405,408	-	-	405,408	534,510
Total assets	<u>\$ 613,165</u>	<u>\$ 730,667</u>	<u>\$ -</u>	<u>\$ 1,343,832</u>	<u>\$ 1,655,449</u>
Liabilities, equity and other credits:					
Accounts payable	\$ 22,531	\$ -	\$ -	\$ 22,531	\$ 27,124
Interfund payable	-	405,408	-	405,408	534,510
Total liabilities	<u>22,531</u>	<u>405,408</u>	<u>-</u>	<u>427,939</u>	<u>561,634</u>
Fund balances:					
Restricted for:					
Capital	-	325,259	-	325,259	295,259
Assigned for:					
For subsequent year's expenditures	281,550	-	-	281,550	379,248
Other purposes	-	-	-	-	41,207
Unassigned, reported in:					
General fund	<u>309,084</u>	<u>-</u>	<u>-</u>	<u>309,084</u>	<u>378,101</u>
Total fund balance	<u>590,634</u>	<u>325,259</u>	<u>-</u>	<u>915,893</u>	<u>1,093,815</u>
Total liabilities and fund balance	<u>\$ 613,165</u>	<u>\$ 730,667</u>	<u>\$ -</u>		
Amounts reported for governmental activities in the statement of net assets (A-1) are different because:					
Prepaid insurance is reported in governmental funds as expenditures. However, in the statement of net assets, the cost of those assets is expensed over the term of the policy as insurance expense.				36,679	34,524
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$5,488,396, and the accumulated depreciation is \$2,011,478.				3,476,918	2,745,088
Accrued interest not recorded in current financial statements.				(23,407)	-
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported as liabilities in the funds.				(1,221,155)	(587,657)
Net assets of governmental activities				<u>\$ 3,184,928</u>	<u>\$ 3,285,770</u>

See independent auditors' report.
See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2011
(With comparative totals for year ended December 31, 2010)

	Totals			
	(Memorandum Only)			
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>December 31, 2011</u>
				<u>December 31, 2010</u>
Revenues:				
Miscellaneous anticipated revenue:				
Investment income	\$ 830	\$ -	\$ -	\$ 830
Other revenue	994	-	-	994
Total miscellaneous revenues	1,824	-	-	1,824
Operating grant revenues:				
Supplemental fire service act	6,298	-	-	6,298
Total operating grant revenue	6,298	-	-	6,298
Total revenues	8,122	-	-	8,122
Amount raised by taxation to support district budget	479,777	30,000	173,875	683,652
Total anticipated revenues	487,899	30,000	173,875	691,774
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	66,952	-	-	66,952
Fringe benefits	1,586	-	-	1,586
Other expenditures:				
Professional fees	15,516	-	-	15,516
Elections	213	-	-	213
Medical services	7,735	-	-	7,735
Membership dues/software/subscriptions	379	-	-	379
Office supplies	9,410	-	-	9,410
Regulation compliance	106	-	-	106
Advertising	748	-	-	748
Total administration	102,645	-	-	102,645

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2011
(With comparative totals for year ended December 31, 2010)

	Totals (Memorandum Only)			
			December 31, 2011	December 31, 2010
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	
Cost of operations and maintenance:				
Other expenditures:				
Fire protection services	121,500	-	-	121,500
Fire marshal services	40,000	-	-	40,000
Insurance	45,139	-	-	45,139
Incentive program	11,708	-	-	11,708
Sub station	36,189	-	-	36,189
Communication costs	8,855	-	-	8,855
Fire prevention program	4,700	-	-	4,700
Travel	11,856	-	-	11,856
Training and education	3,894	-	-	3,894
Firefighter fitness	3,690	-	-	3,690
Firefighting support	374	-	-	374
Equipment maintenance and repairs	61,546	-	-	61,546
Firefighting supplies	2,343	-	-	2,343
Support services - EMS	5,000	-	-	5,000
Ladder/hose testing	1,031	-	-	1,031
Basic entitlement	6,300	-	-	6,300
Public relations	14,130	-	-	14,130
Uniforms	691	-	-	691
Maintenance agreements	-	-	-	-
Transfer to other Fire Department	100,000	-	-	100,000
Other non-bondable assets	76,838	-	-	76,838
Miscellaneous expense	-	-	-	-
Total cost of operations and maintenance	555,784	-	-	555,784
Length of service award program	37,392	-	-	37,392
Capital appropriations	-	781,155	-	781,155
Debt service for capital appropriations:				
Bond principal	-	-	75,000	75,000
Interest on bonds	-	-	30,120	30,120
Capital leases	-	-	65,562	65,562
Interest on capital leases	-	-	3,193	3,193
Total debt service for capital appropriations	-	-	173,875	173,875
Total governmental expenditures	695,821	781,155	173,875	1,650,851
Other financing sources and uses:				
Proceeds from capital lease	-	781,155	-	781,155
Total other financing sources and uses:	-	781,155	-	781,155
Excess (deficiency) of revenues under (over) expenditures	(207,922)	30,000	-	(177,922)
Fund balance, January 1	798,556	295,259	-	1,093,815
Prior period adjustment	-	-	-	-
Fund balance, January 1 (restated)	798,556	295,259	-	1,093,815
Fund balance, December 31	\$ 590,634	\$ 325,259	\$ -	\$ 915,893

See independent auditors' report.
See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance in
the Governmental Funds to the Statement of Activities
December 31, 2011

Total net changes in Fund Balance-Governmental Funds (B-2)	\$	(177,922)
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Amounts reported for governmental activities in the statement of activities (A-2) are different because:

Capital Outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlays-General Fund	96,574	
Capital Outlays-Capital Fund	781,155	
Depreciation Expense	<u>(145,899)</u>	
		731,830

Prepaid insurance is reported in governmental funds as expenditures. However, in the statement of net assets, the cost of those assets is expensed over the term of the policy as insurance expense.

Prior year	(34,524)	
Current year	<u>36,679</u>	
		2,155

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.	75,000
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Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.	72,657
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Accrual of interest on capital leases is not an expenditure in the governmental funds, but the adjustment is charged to expense and is reported in the statement of activities.

Prior year	-	
Current year	<u>(23,407)</u>	
		(23,407)

Proceeds from debt issues are a financing source in the governmental funds. They are not revenue in the statement of activities, issuing debt increases long-term liabilities in the statement of net assets.

Capital lease proceeds	<u>(781,155)</u>
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Changes in net assets of governmental activities	\$	<u>(100,842)</u>
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See independent auditors' report.

See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK

Fiduciary Funds

Statement of Net Assets

December 31, 2011

(With comparative totals for December 31, 2010)

	Length of Service Award Program	Totals December 31, 2011	(Memorandum Only) December 31, 2010
Assets:			
Investments	\$ 321,181	\$ 321,181	\$ 292,438
Total assets	321,181	321,181	292,438
Net assets:			
Reserved:			
For Length of Service Award Program	321,181	321,181	292,438
Total net assets	\$ 321,181	\$ 321,181	\$ 292,438

See independent auditors' report.
See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Fiduciary Funds
Statement of Changes in Net Assets
For the year ended December 31, 2011
(With comparative totals for year ended December 31, 2010)

	Length of Service Award Program	Totals (Memorandum Only)	
		December 31, 2011	December 31, 2010
Revenues and other financing sources:			
District contributions	\$ 37,392	\$ 37,392	\$ 34,868
Total contributions	37,392	37,392	34,868
Investment earnings:			
Interest	1,531	1,531	35,799
Total investment earnings	1,531	1,531	35,799
Total revenues and other financing sources	38,923	38,923	70,667
Expenditures:			
Benefits paid directly to participants	8,911	8,911	27,719
Administrative expenses	1,269	1,269	1,640
Total expenditures	10,180	10,180	29,359
Excess of revenues and other financing sources over expenditures	28,743	28,743	41,308
Net assets, January 1	292,438	292,438	-
Prior period adjustment	-	-	251,130
Net assets, January 1 (restated)	292,438	292,438	251,130
Net assets, December 31	\$ 321,181	\$ 321,181	\$ 292,438

See independent auditors' report.
See accompanying notes to financial statements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements
For the year ended December 31, 2011

NOTE 1: GENERAL INFORMATION

A. Description of Reporting Entity

Fire District No. 1 of the Township of South Brunswick is a political subdivision of the Township of South Brunswick, County of Middlesex, State of New Jersey. A board of five commissioners oversees all of the operations of the Fire District. The length of each commissioner's term is three years with the annual election held the third Saturday of February.

Fire Districts are governed by the N.J.S.A. 40A: 14-70 et al. and are taxing authorities charged with the responsibility of providing the resources necessary to provide fire fighting services to the residents within its territorial location.

Fire District No. 1 of the Township of South Brunswick is not a component unit of any other financial reporting entity nor does the Fire District have any component units to be presented in accordance with Governmental Accounting Standards Board Statement No. 14.

B. District Officials

The District is governed by a board of five commissioners. The following were in office at December 31, 2011:

<u>Officials</u>	<u>Term Expires</u> <u>March</u>
Dean Behrend	2013
William Orchard	2012
Kris Olson	2014
Lawrence Rosenberg	2014
Arthur Tarnowski	2013

C. Accounting Records

The official accounting records of the Fire District No. 1 of the Township of South Brunswick are maintained in the office of the District.

D. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Fire District conform to generally accepted accounting principles (GAAP) applicable to governmental funds of state and local governments in accordance with the provisions of N.J.A.C. 5:31-7-1. 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 District's accounting policies are described below.

The basic financial statements report using the economic resources measurement focus and the accrual basis of accounting generally includes the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using the same focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The tax revenues are recognized in the year for which they are levied (see Note 2 M) while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon thereafter, within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

B. Fund Accounting

The accounts of the district are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn is divided into separate "fund types."

Governmental Funds:

General Fund

The General Fund is the general operating fund of the Fire District and is used to account for the inflows and outflows of financial resources. The acquisition of certain capital assets, such as fire fighting apparatus and equipment, is accounted for in the General Fund when it is responsible for the financing of such expenditures.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities such as firehouses and fire fighting apparatus. Generally, the financial resources of the Capital Projects Fund are derived from the issuance of debt or by the reservation of fund balance, which must be authorized by the voters as a separate question of the ballot either during the annual election or at a special election.

Debt Service Fund

The Debt Service Fund is used to account for resources that will be used to service general long-term debt.

Fiduciary Funds:

Trust and Agency Fund

The Trust and Agency Fund is used to account for assets held by the Fire District on behalf of outside parties, including other governments, or on behalf of other funds within the Fire District.

C. District Wide and Fund Financial Statements

District Wide Financial Statements

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments as of January 1, 2004. The District’s basic financial statements reflect the implementation.

The district-wide financial statements (A-1 and A-2) include the statement of net assets and the statement of activities. These statements report financial information of the District as a whole excluding the fiduciary activities. All inter-fund activity, excluding the fiduciary funds, has been eliminated in the statement of activities. Individual funds are not displayed but the statements distinguish governmental activities as generally supported through taxes and user fees.

Fund Financial Statements

The fund financial statements provide detail of the governmental and fiduciary funds.

D. Budgets and Budgetary Accounting

The Fire District must adopt an annual budget in accordance with N.J.S.A. 40A: 14-78.1 et al.

The fire commissioners must introduce and approve the annual budget no later than sixty days prior to the annual election. At introduction, the commissioners shall fix the time and place for a public

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets and Budgetary Accounting (continued)

hearing on the budget and must advertise the time and place at least ten days prior to the hearing in a newspaper having substantial circulation in the fire district. The public hearing must not be held less than twenty-eight days after the date the budget was introduced. After the hearing has been held, the fire commissioners may, by majority vote, adopt the budget.

Amendments may be made to the Fire District budget in accordance with N.J.S.A. 40A: 14-78.3. The budget may not be amended subsequent to its final adoption and approval.

Subsequent to the adoption of the Fire District budget, the amount of money to be raised by taxation in support of the Fire District budget must appear on the ballot for the annual election for approval of the legal voters.

Fire Districts have a prescribed budgetary basis to demonstrate legal compliance. However, budgets are adopted on principally the same basis of accounting utilized for the preparation of the Fire Districts general-purpose financial statements.

E. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances, other than in the special revenue fund, are reported as reservations of fund balances at year-end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services.

Encumbered appropriations carry over into the next fiscal year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the adopted budget by the outstanding encumbrance amounts as of the current year-end. There were no encumbrances at December 31, 2011.

F. Cash and Cash Equivalents

Cash and cash equivalents include petty cash, change funds and cash in banks. All certificates of deposit are recorded as cash regardless of the date of maturity. Fire districts are required by N.J.S.A. 40A: 5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey organized under the laws of the United States or of the State of New Jersey or with the New Jersey Cash Management Fund. N.J.S.A. 40A: 5-15.1 provides a list of investments that may be purchased by fire districts.

N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the provision 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 the State of New Jersey.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents (continued)

Public funds are defined as the funds of any governmental unit. 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 of five percent of its 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.

G. Prepaid Expenses

Prepaid expenses that benefit future periods are recorded as an expenditure during the year of purchase.

H. Debt Limitation

N.J.S.A.40A:14-84 governs procedures for the issuance of any debt related to such purchases. In summary, fire districts may purchase fire fighting apparatus, equipment, land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000 or 2 percent of the assessed valuation of property, whichever is larger.

I. Capital Assets

Capital assets, which include land, building, improvements and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District has set capitalization thresholds for reporting capital assets of \$1,000.

Depreciation is recorded on the straight-line method (with no depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

Building and Improvements	5 to 40 Years
Furniture and Equipment	5 to 15 Years
Vehicles and Apparatus	5 to 20 Years

J. Inventory, Materials and Supplies

The inventory on hand at any time is small. Accordingly, purchases are charged directly to fixed assets or to maintenance costs, as applicable.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Interfund Receivable/Payable

Interfund receivables and payables that arise from transactions between funds that are due within one year are recorded by all funds affected by such transactions in the periods in which the transaction is executed.

L. Revenues and Expenditures

Revenues are recorded when they are determined to be both available and measurable. Generally, fees and other non-tax revenues are recognized when qualifying expenditures are incurred.

Expenditures are recorded when the related liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

M. Fire District Taxes

Upon proper certification to the assessor of the municipality in which the Fire District is located, the assessor shall assess the amount of taxes to be realized in support of the Fire District's budget in the same manner as all other municipal taxes. The collector or treasurer of the municipality shall then pay over to the treasurer or custodian of funds of the Fire District the taxes assessed in accordance with the following schedule: on or before April 1, an amount equaling 21.25% of all monies assessed, on or before July 1, an amount equaling 22.5% of all monies assessed, on or before October 1, an amount equaling 25% of all monies assessed and on or before December 31 an amount equal to the difference between the total of all monies assessed and the total of monies previously paid over.

N. Fund Equity

Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

O. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Subsequent Events

Fire District No. 1 of the Township of South Brunswick has evaluated subsequent events occurring after December 31, 2011 through the date of March 9, 2012, which is the date the financial statements were available to be issued.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 3: CASH AND CASH EQUIVALENTS

The Fire District is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2011, and reported at fair value are as follows:

Deposits:

Demand Deposits	\$ 938,424
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Total Deposits	<u>\$ 938,424</u>
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Reconciliation to Governmental Fund Statements:

Governmental Funds	\$ 938,424
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Total	<u>\$ 938,424</u>
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Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, the District's bank balance of \$1,075,432 was insured or collateralized as follows:

Insured	\$ 252,541
Collateralized in the District's name under GUDPA (See Note 5)	92,224
Collateralized not in the District's name (New Jersey Cash Management Fund)	<u>730,667</u>
Total	<u>\$ 1,075,432</u>

NOTE 4: INVESTMENTS

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Fire District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are **exposed** to custodial credit risk if the securities are uninsured, are not registered in the name of the Fire District, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fire District's name. All of the District's investments are held in the **name** of the District and are collateralized by GUDPA.

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the **fire** value of an investment. The Fire District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at December 31, 2011, are provided in the above schedule.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 4: INVESTMENTS (continued)

C. Investment Credit Risk

The Fire District has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Fire District or bonds or other obligations of the local unit or units within which the Fire District is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Fire District;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

As of December 31, 2011, the Fire District had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>Fair Value</u>
LOSAP Annuity Contract			<u>\$321,181</u>

NOTE 5: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA)

The Fire District has deposited cash in 2011 with an approved public fund depository qualified under the provisions of the Government Unit Deposit Protection Act.

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236, was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the 6 month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 5: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA) (continued)

twenty-second days of each month in the 6 month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by F.D.I.C. or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in the aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after the default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each such governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30th and December 31st, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the Commissioner from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Fire District should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

NOTE 6: FIXED ASSETS

N.J.S.A. 40A: 14-84 governs the procedures for the acquisition of property and equipment for the fire districts, and the N.J.S.A. 40A: 14-85-87 governs procedures for the issuance of any debt related to such purchases. In summary, fire districts may purchase fire fighting apparatus, equipment, land, and buildings to house such property in an amount not exceeding five mills on the dollar of the least assessed valuation of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000 or two percent of the assessed valuation of property, whichever is larger.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 6: FIXED ASSETS (continued)

Fixed assets consisted of the following at December 31, 2011:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Governmental Activities:				
Apparatus	\$ 2,493,181	\$ 781,155	\$ -	\$ 3,274,336
Equipment	539,169	96,574	-	635,743
Substation	<u>1,578,317</u>	<u>-</u>	<u>-</u>	<u>1,578,317</u>
Totals at historical cost	<u>4,610,667</u>	<u>877,729</u>	<u>-</u>	<u>5,488,396</u>
Less: accumulated depreciation				
Apparatus	(933,263)	(88,835)	-	(1,022,098)
Equipment	(556,570)	(17,606)	-	(574,176)
Substation	<u>(375,746)</u>	<u>(39,458)</u>	<u>-</u>	<u>(415,204)</u>
Total accumulated depreciation	<u>(1,865,579)</u>	<u>(145,899)</u>	<u>-</u>	<u>(2,011,478)</u>
Total capital assets being depreciated net of accumulated depreciation	<u>\$ 2,745,088</u>	<u>\$ 731,830</u>	<u>\$ -</u>	<u>\$ 3,476,918</u>

NOTE 7: LONG-TERM OBLIGATIONS

During the year ended December 31, 2011, the following changes occurred in long-term obligations:

	Principal Outstanding <u>January 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	Principal Outstanding <u>December 31, 2011</u>	Due Within <u>One Year</u>
General Serial Bonds	\$ 515,000	\$ -	\$ 75,000	\$ 440,000	\$ 80,000
Obligations under Capital Lease	<u>72,657</u>	<u>781,155</u>	<u>72,657</u>	<u>781,155</u>	<u>100,749</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 587,657</u>	<u>\$781,155</u>	<u>\$147,657</u>	<u>\$1,221,155</u>	<u>\$180,749</u>

A. Bonds Payable

Bonds and loans are authorized in accordance with State law by the voters of the Fire District through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Fire District are general obligation bonds.

On January 1, 1997, the Fire District issued \$1,250,000 general obligation bonds at interest rates varying from 4% to 6.25% for various construction and renovation projects. The final maturity of these bonds is January 1, 2017.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 7: LONG-TERM OBLIGATIONS (continued)

A. Bonds Payable (continued)

Principal and interest due on bonds outstanding is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 80,000	\$ 25,133	\$ 105,133
2014	85,000	20,613	105,613
2015	90,000	15,767	105,767
2016	90,000	10,637	100,637
2017	<u>95,000</u>	<u>5,463</u>	<u>100,463</u>
	<u>\$ 440,000</u>	<u>\$ 77,613</u>	<u>\$ 517,613</u>

B. Capital Leases Payable

The Fire District is leasing fire trucks totaling \$1,635,164 under capital leases. All capital leases are for term of seven years. The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at December 31, 2011.

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 100,749	\$ 26,481	\$ 127,230
2013	104,164	23,066	127,230
2014	107,695	19,535	127,230
2015	111,346	15,884	127,230
2016	115,121	12,109	127,230
2017-2018	<u>242,080</u>	<u>12,378</u>	<u>254,457</u>
	<u>\$ 781,155</u>	<u>\$ 109,453</u>	<u>\$ 890,608</u>

NOTE 8: PENSION

A. Custodial Credit Risk

Fire District No. 1 of the Township of South Brunswick contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System (P.E.R.S.) and the Police and Fireman's Retirement System (P.F.R.S.), administered by the State of New Jersey, Division of Pensions and Benefits. It provides retirement, disability, medical and death benefits to plan members and beneficiaries.

The Public Employees' Retirement System (P.E.R.S.) was established in January 1955 under the provisions of *N.J.S.A.43:15A*, and the Public Fireman's Retirement System (P.F.R.S.) was established as of July 1, 1944 under the provisions of *N.J.S.A.43:16A*. Both plans were set up to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plans. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county,

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 8: PENSION (continued)

A. Custodial Credit Risk (continued)

municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

The State of New Jersey P.F.R.S. program as established as of July 1, 1944. The program was established under the provisions of N.J.S.A.43:16A, which assigns authority to establish and amend, benefit provisions to the plans' board of trustees. P.F.R.S. issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625, or calling (609) 984-1684.

B. Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by *N.J.S.A.43:15A* and *43.3B*. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 78, P.L. 2011 changed this for employees enrolled after June 28, 2011. See Note 8C below.

C. Significant Legislation

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by ½ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the District's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 8: PENSION (continued)

C. Significant Legislation (continued)

enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits; accordingly, the pension costs for PERS were reduced.

New Legislation signed by the Acting Governor (Chapter 133, Public Laws 2001) changed the formula for calculating retirement benefits for all current and future non-veteran retirees from N/60 to N/55 (a 9.09% increase). This legislation, signed June 29, 2001, provides that all members of the PFRS and the PERS will have their pensions calculated on the basis of years of credit divided by 55. It also provides that all current retirees will have their original pension recalculated under the N/55 formula. Starting February 1, 2002, pension cost of living adjustments will be based on the new original pension.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service. Tier 3 was added to PFRS for enrollees after June 28, 2011. Tier 3 retirees will have a maximum retirement benefit of 65% of final compensation after 30 years of service.

All cost of living adjustments are frozen until the pension fund reaches a "target funded ratio".

Chapter 78 also requires all covered employees to contribute a prescribed percentage towards their health costs.

D. Contribution Requirements

The contribution policy is set by *N.J.S.A.43:15A*, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and *N.J.S.A.18:66*, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 6.5%, effective October 1, 2011, of employees' annual compensation as defined. The rate will increase over the next seven years to 7.5%. Employers are required to contribute at an actuarially determined rate in both PFRS and PERS. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums.

Plan members are required to contribute 10%, effective October 1, 2011, of their annual covered salary for P.F.R.S. and Fire District No. 1 of the Township of South Brunswick is required to contribute at an actuarially determined rate. The contribution requirements of plan members and are established and may be amended by the plan's board of trustees. The District contributed to P.F.R.S. for the year ended December 31, 2011.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 9: LENGTH OF SERVICE AWARDS PROGRAM

The District has a contractual agreement to award an annuity to volunteer firefighters based on length of service to insure continued service.

The Board of Commissioners had a Length of Service Award reserve of approximately \$321,000 as of December 31, 2011.

This is not a pension plan as described under the Employee Retirement Security Act and, therefore, is not guaranteed to the volunteers until they reach the age 65.

NOTE 10: FUNDING

The activities of the Board of Commissioners are primarily funded by the striking of the fire tax on the property owners of the Fire District, as provided for by the state statute. For the year ended December 31, 2011, the fire tax rate on the Fire District No. 1 was approximately \$.072 per \$100 of assessed valuation.

The tax revenue is supplemented by income earned on surplus funds invested in a money market fund and investments during the year. The District also participates in the Supplemental Fire Services Program and received a basic entitlement grant of approximately \$6,298.

NOTE 11: RISK MANAGEMENT

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

Property and Liability Insurance

The District maintains commercial insurance coverage for property, liability and surety bonds. Insurance coverage was maintained in amounts consistent with prior years. The District did not have any claims that exceeded coverage.

NOTE 12: INTERFUND RECEIVABLE/PAYABLE

As of December 31, 2011, the following interfund balances remained on the balance sheet:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 405,408	\$ -
Capital projects	-	405,408
Total	<u>\$ 405,408</u>	<u>\$ 405,408</u>

The purpose of interfunds are short-term borrowings.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 13: GASB #54 FUND BALANCE DISCLOSURE

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the 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 legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by external parties, constitutional provision 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 Business Administrator.
- Unassigned – includes balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

General Fund – Of the \$590,634 General Fund fund balance at December 31, 2011, \$281,550 has been assigned to be designated for subsequent year's expenditures; and \$309,084 is unassigned.

Capital Projects Fund – Of the \$325,259 Capital Projects Fund fund balance at December 31, 2011, the entire balance is restricted for Capital.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available, unless prohibited by law or regulation.

NOTE 14: EMERGENCY APPROPRIATIONS

Under N.J.S.A. 40A:14-78.14, the District has allocated an emergency appropriation in the amount of \$80,000 for the 2011 Fire Marshal services through an interlocal services agreement between the Township of South Brunswick and Fire District No. 1 of the Township of South Brunswick. This appropriation created a deferred charge, which will be raised in the 2012 budget to cover these services.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Budgetary Comparison Schedule
All Governmental Funds
For the year ended December 31, 2011

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Miscellaneous anticipated revenue:				
Investment income	\$ 2,300	\$ 2,300	\$ 830	\$ (1,470)
Other revenue	6,300	6,300	994	(5,306)
Total miscellaneous revenues	8,600	8,600	1,824	(6,776)
Operating grant revenues:				
Supplemental fire service act	-	-	6,298	6,298
Total operating grant revenue	-	-	6,298	6,298
Total revenues	8,600	8,600	8,122	(478)
Amount raised by taxation to support district budget	683,652	683,652	683,652	-
Total anticipated revenues	692,252	692,252	691,774	(478)
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	86,000	76,500	66,952	9,548
Fringe benefits	2,000	2,000	1,586	414
Other expenditures:				
Professional fees	21,500	21,500	15,516	5,984
Elections	750	250	213	37
Furnishings	1,000	-	-	-
Medical services	10,000	10,000	7,735	2,265
Membership dues/software/subscriptions	1,300	1,300	379	921
Office supplies	7,500	10,500	9,410	1,090
Regulation compliance	-	250	106	144
Advertising	1,200	1,200	748	452
Total administration	131,250	123,500	102,645	20,855

EXHIBIT C-1
(continued)

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Budgetary Comparison Schedule
All Governmental Funds
For the year ended December 31, 2011

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Cost of operations and maintenance:				
Other expenditures:				
Fire protection services	121,500	121,500	121,500	-
Fire marshal services (Note 14)	-	80,000	40,000	40,000
Insurance	60,000	60,000	45,139	14,861
Incentive program	18,000	18,000	11,708	6,292
Sub station	43,300	41,800	36,189	5,611
Communication costs	9,000	9,000	8,855	145
Fire prevention program	7,000	7,000	4,700	2,300
Travel	20,000	17,000	11,856	5,144
Training and education	4,500	4,500	3,894	606
Firefighter fitness	4,000	3,750	3,690	60
Firefighting support	500	500	374	126
Equipment maintenance and repairs	30,000	69,229	61,546	7,683
Firefighting supplies	3,500	2,750	2,343	407
Support services - EMS	5,000	5,000	5,000	-
Ladder/hose testing	6,000	6,000	1,031	4,969
Basic entitlement	6,300	6,300	6,300	-
Public relations	15,000	14,500	14,130	370
Uniforms	650	1,150	691	459
Maintenance agreements	4,000	4,000	-	4,000
Transfer to other Fire Department	100,000	100,000	100,000	-
Other non-bondable assets	62,000	77,228	76,838	390
Total cost of operations and maintenance	520,250	649,207	555,784	93,423
Length of service award program	45,000	45,000	37,392	7,608
Capital outlay	30,000	30,000	781,155	(751,155)
Debt service for capital appropriations:				
Bond principal	70,000	70,000	75,000	(5,000)
Interest on bonds	31,330	31,330	30,120	1,210
Capital leases	230,000	230,000	65,562	164,438
Interest on capital leases	13,670	13,670	3,193	10,477
Total debt service for capital appropriations	345,000	345,000	173,875	171,125
Total operating appropriations	1,071,500	1,192,707	1,650,851	(458,144)
Other financing sources and uses:				
Proceeds from capital lease	-	-	781,155	781,155
Total other financing sources and uses:	-	-	781,155	781,155
Excess (deficiency) of revenues under (over) expenditures	(379,248)	(500,455)	(177,922)	322,533
Fund balance, January 1	1,093,815	1,093,815	1,093,815	-
Fund balance, December 31	\$ 714,567	\$ 593,360	\$ 915,893	\$ 322,533
Reconciliation to fund balance:				
Original deficiency of revenue over expenditures		\$ (379,248)		
2010 Encumbrances		(41,207)		
2011 Emergency appropriation		(80,000)		
Modified deficiency of revenue over expenditures		\$ (500,455)		

EXHIBIT I-1

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Long-Term Debt
Schedule of Serial Bonds Payable
For the year ended December 31, 2011

Issue	Date of Issue	Amount of Issue	Annual Maturities		Interest Rate	Balance		Retired	Balance December 31, 2011				
			Date	Amount		January 1, 2011	Issued						
General Obligation Bonds, 1997	01/01/1997	1,250,000	1/1/13	80,000	5.650%	\$	515,000	\$	-				
			1/1/14	85,000	5.700%								
			1/1/15	90,000	5.700%								
			1/1/16	90,000	5.750%								
			1/1/17	95,000	5.750%								
Total						\$	515,000	\$	-	\$	75,000	\$	440,000

EXHIBIT I-2

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF SOUTH BRUNSWICK
Long-Term Debt
Schedule of Obligations Under Capital Leases
For the year ended December 31, 2011

<u>Description</u>	<u>Date of Lease</u>	<u>Term of Lease</u>	<u>Amount of Original Issue</u>		<u>Interest Rate Payable</u>	<u>Amount Outstanding January 1, 2011</u>		<u>Issued</u>	<u>Retired</u>	<u>Adjustments</u>		<u>Amount Outstanding December 31, 2011</u>
			<u>Principal</u>	<u>Interest</u>		<u>Principal</u>	<u>Interest</u>			<u>December 31, 2011</u>	<u>December 31, 2011</u>	
Pumper	7/28/06	7 years	464,551	68,815	4.87%	\$ 72,657	\$ -	\$ -	\$ 65,562	\$ (7,095)	\$ -	-
Rescue Truck	2/11/11	7 years	781,155	109,453	3.39%	-	-	781,155	-	-	-	781,155
Total						\$ 72,657	\$ 781,155	\$ 65,562	\$ (7,095)	\$ -	\$ -	781,155



Certified Public Accountants & Consultants

Board of Fire Commissioners
Fire District No. 1 of the Township of South Brunswick
Kendall Park, New Jersey

We have audited the basic financial statements of the Fire District No. 1 of the Township of South Brunswick, County of Middlesex, State of New Jersey for the year ended December 31, 2011. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS

Contracts and Agreements Required to be Advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$17,500, except by contract or agreement.

It is pointed out that the Board of Fire Commissioners has the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures did not reveal any individual payments, contracts or agreements in excess of \$2,625 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

Examination of Cash Receipts

A test check of cash receipts was made. The results of the examination disclosed the following:

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate.

Reserve for Encumbrances and Accounts Payable

A review of outstanding issued purchase orders was made as of December 31, 2011 for proper classification of orders as reserve for encumbrances and accounts payable.

Property, Plant & Equipment

During our review of the District's fixed assets, we noted the following:

Finding 2011-01*:

The District does not maintain a complete and accurate fixed asset listing.

Recommendation:

The District must properly maintain a complete and accurate fixed asset listing.

Management's Response:

This will be corrected in 2012.

Inventory

During our review of the District's inventory, we noted the following:

Finding 2011-02:

The District has not updated the inventory listing since the prior audit.

Recommendation:

The District must properly maintain a complete and accurate inventory listing.

Management's Response:

This will be corrected in 2012.

Examination of Payroll

An examination of payroll and payroll taxes was performed. The following was noted:

Finding 2011-03:

The District understated the salaries reported on the third quarter State and Federal payroll tax filings by \$195. An employee's reimbursed expenses of \$43 were included in the fourth quarter State and Federal payroll taxes in error.

Recommendation:

The District must accurately report employee earnings for State and Federal payroll tax purposes.

Management's Response:

This will be corrected in 2012.

Follow-up on Prior Years' Findings

In accordance with *Government Auditing Standards* we have included a review of prior year findings. The previous year's audit findings have been corrected with the exception of the finding above marked with an asterisk (*).

Acknowledgment

We received the complete cooperation of all the staff of the District and we greatly appreciate the courtesies extended to the members of the audit team.

During our review, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions, please contact us.


HOLMAN & FRENIA, P.C.
Certified Public Accountants

March 9, 2012
Toms River, New Jersey