

PARSIPPANY-TROY HILLS FIRE DISTRICT #5

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2011

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2011

	<u>Page</u>
<u>INTRODUCTORY SECTION</u>	
Letter of Transmittal	1-3
Roster of Officials	4
<u>FINANCIAL SECTION</u>	
Independent Auditors' Report	1-2
Management's Discussion and Analysis (Unaudited)	3-6
<u>Financial Statements:</u>	
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet – Governmental Funds	9
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds	10
Notes to Financial Statements	11-19
<u>SUPPLEMENTARY INFORMATION</u>	
	<u>Schedule</u>
Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents And Investments	1
General Fund – Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual	2
Schedule of Lease Payable for Original Issue of \$396,623 with Principal	3
Schedule of Serial Bonds Payable	4
<u>GOVERNMENT AUDITING STANDARDS</u>	
	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Schedule of Findings and Responses	3
Summary Schedule of Prior Audit Findings	4
<u>COMMENTS AND RECOMMENDATIONS</u>	
Comments and Recommendations	1-3
Summary of Recommendations	4

INTRODUCTORY SECTION

Board of Fire Commissioners

Fire District #5

P.O. Box 151

Parsippany, NJ 07054

April 20, 2012

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #5
Township of Parsippany
Parsippany, NJ

Dear Fire Commissioners:

The annual financial report of the Parsippany-Troy Hills Fire District #5 (the "District") for the year ended December 31, 2011 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the District. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the general fund of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The comprehensive annual financial report is presented in five sections: introductory, financial, supplementary information, *Government Auditing Standards* and comments and recommendations. The introductory section includes this transmittal letter and a list of the District's principal officials. The financial section includes the financial statements, the MD&A as well as the auditors' report thereon. The auditor's reports on internal control and compliance with applicable laws, regulations, contracts and grants along with the schedule of findings and responses, are included in the *Government Auditing Standards* section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Parsippany-Troy Hills Fire District #5 is an independent reporting entity within the criteria adopted by the Government Accounting Standards Board ("GASB") in codification section 2100. All funds of the District are included in this report.

The Commissioners of Fire District #5, Township of Parsippany is a public body corporate and politic of the State of New Jersey governed by five members elected by the registered voters of the District.

The District was created in 1935 pursuant to New Jersey Title 40A municipalities 40A:14-70. The District is an instrumentality of the Township of Parsippany, State of New Jersey, established to function as a fire district, to provide for fire and rescue services to the Township's citizens. The District consists of elected officials and is responsible for the fiscal control of the District. A Chairman is appointed by the District and is responsible for the administrative control of the District.

The Honorable Commissioners of
Parsippany-Troy Hills Fire District #5
Page 2
April 20, 2012

GENERAL TRENDS AND SIGNIFICANT EVENTS:

During 2011, the Commissioners experienced the following:

- The District has continued to pay their lease purchase agreement for a 2007 Pierce Enforcer Triple Combination Pumper Truck which it acquired for \$396,623. The truck was delivered in February of 2008. The payments will continue through 2013.
- The District has continued to pay their serial bond for the construction of a new fire station which it acquired for \$2.6 million. The payments will continue through 2021.

INTERNAL ACCOUNTING CONTROLS:

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

BUDGETARY CONTROLS:

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

ACCOUNTING SYSTEM AND REPORTS:

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

CASH MANAGEMENT:

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

The Honorable Commissioners
Parsippany-Troy Hills Fire District #5
Page 3
April 20, 2012

RISK MANAGEMENT:

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

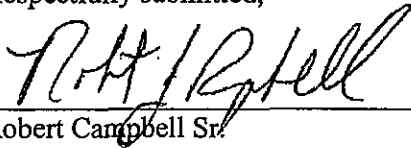
OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, CPAs, was selected by the District. The auditors' report on the financial statements is included in the financial section of this report.

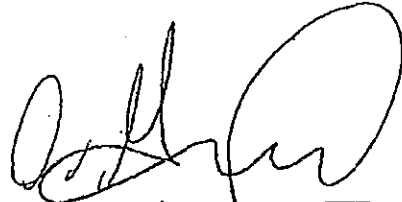
ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Commissioners of Fire District #5 Township of Parsippany for their concern in providing fiscal accountability to the citizens of the Township of Parsippany and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,



Robert Campbell Sr.
Chairman



Adam Greenberg
Treasurer

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2011

Commissioners:

Robert Campbell Sr.
Ken Lambert
Paul Nazario
Adam Greenberg
Robert Campbell, Jr.

Chairman
Vice Chairman
Business Administrator
Treasurer
Clerk

Consultants and Advisors:

ATTORNEY

Anthony M. Bucco, Esq.
of Murphy McKeon
Riverdale, New Jersey

AUDIT FIRM

Nisivoccia LLP
Mount Arlington, New Jersey

FINANCIAL SECTION



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

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

Independent Auditors' Report

To the Board of Fire Commissioners
 Parsippany-Troy Hills Fire District #5
 Township of Parsippany
 Parsippany, NJ

We have audited the accompanying financial statements of the governmental activities and the major fund of the Parsippany-Troy Hills Fire District #5 (the "Fire District") as of and for the year ended December 31, 2011, which collectively comprise the Fire District's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the Parsippany-Troy Hills Fire District #5's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to in the first paragraph do not include all of the Fire District's capital assets, which should be included in order to conform with accounting principles generally accepted in the United States of America. The total amount that should be recorded for capital assets is not known.

In our opinion, except for the effects on the financial statements of the omission described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Parsippany-Troy Hills Fire District #5, 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 April 20, 2012 on our consideration of the Parsippany-Troy Hills Fire District #5'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

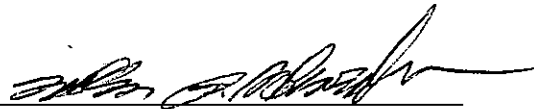
To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #5
Page 2

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 6 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements as a whole. The information included in the introductory section and supplementary information schedules listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information schedules listed in the table of contents 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 on the basis of accounting described in Note 1 to the financial statements. The information in the introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Mount Arlington, New Jersey
April 20, 2012

NISIVOCCIA LLP



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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

Financial Highlights

Management believes the District's financial position to be strong for a Fire District. The District is functioning within its stringent financial policies and guidelines as set forth by the District members. Following is a list of key highlights for 2011:

- The District has continued to pay their lease purchase agreement for a 2007 Pierce Enforcer Triple Combination Pumper Truck which it acquired for \$396,623. It was delivered in February of 2008. The payments will continue through 2013.
- The District has continued to pay their serial bond for the construction of a new fire station which it acquired for \$2.6 million. The payments will continue through 2021.

Overview of Annual Financial Report

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

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

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

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

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

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

Financial Conditions

The District is in excellent shape to meet its future financial demands. Net assets increased in 2011, which was primarily due to the retirement of long-term debt in excess of the depreciation of capital assets.

The District's total net assets increased from the prior year by \$179,945, or 25.42%. The analysis below focuses on the District's net assets (Table I) and changes in net assets (Table II) during the year.

Table I
Condensed Statement of Net Assets

	Dec. 31, 2011	Dec. 31, 2010	Increase/ (Decrease) from 2010	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 527,710	\$ 483,574	\$ 44,136	9.13%
Capital Assets	2,744,070	2,850,393	(106,323)	(3.73%)
Total Assets	<u>3,271,780</u>	<u>3,333,967</u>	<u>(62,187)</u>	<u>(1.87%)</u>
Current Liabilities	13,849	17,761	(3,912)	(22.03%)
Long-Term Debt Outstanding	2,369,995	2,608,215	(238,220)	(9.13%)
Total Liabilities	<u>2,383,844</u>	<u>2,625,976</u>	<u>(242,132)</u>	<u>(9.22%)</u>
Invested in Capital Assets				
Net of Related Debt	374,075	242,178	131,897	54.46%
Unrestricted	513,861	465,813	48,048	10.32%
Total Net Assets	<u>\$ 887,936</u>	<u>\$ 707,991</u>	<u>\$ 179,945</u>	<u>25.42%</u>

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

Table II
Condensed Statement of Activities

	Dec. 31, 2011	Dec. 31, 2010	Increase/ (Decrease) from 2010	Percent of Increase/ (Decrease)
Operating Revenue	\$ 46,853	\$ 7,580	\$ 39,273	518.11%
Nonoperating Revenue	791,541	842,808	(51,267)	(6.08%)
Total Revenue	<u>838,394</u>	<u>850,388</u>	<u>(11,994)</u>	<u>(1.41%)</u>
Operating expenses:				
Administrative and General Expenses	407,899	435,825	(27,926)	(6.41%)
Depreciation	106,323	106,323		0.00%
Length of Service Award Program	42,033	29,773	12,260	41.18%
Debt Service	102,194	115,501	(13,307)	(11.52%)
Total Expenses	<u>658,449</u>	<u>687,422</u>	<u>(28,973)</u>	<u>(4.22%)</u>
Change in Net Assets	179,945	162,966	16,979	10.42%
Beginning Net Assets	<u>707,991</u>	<u>545,025</u>	<u>162,966</u>	<u>29.90%</u>
Ending Net Assets	<u>\$ 887,936</u>	<u>\$ 707,991</u>	<u>\$ 179,945</u>	<u>25.42%</u>

Results of Operations

Operating Revenues: The increase in operating revenues is due to a significant increase in dedicated penalty receipts during the year. Non-operating revenue decreased due to a decrease in taxes received from the Township of Parsippany.

Expenses: Total expenses decreased 4.22% over 2010. The decrease was mainly due to a decrease in Administrative and General Expenses, specifically Building Maintenance costs. The District maintains its policy of careful spending to stay within its budget.

Budgetary Highlights: Over the course of the year, the District's Board of Commissioners did not make any amendments to the original adopted budget.

Long-term Debt: At year-end, the District had debt outstanding of \$2,369,995 – a decrease of \$238,220 from last year as a result of payments on the serial bond and the lease – as shown in Table III. The long-term debt is also described in Note 4 of the financial statements.

Table III
Outstanding General Long-Term Debt

	Dec. 31, 2011	Dec. 31, 2010	Increase/ (Decrease) from 2010	Percent of Increase/ (Decrease)
Lease Payable	\$ 124,995	\$ 183,215	\$ (58,220)	(31.78%)
Serial Bonds Payable	2,245,000	2,425,000	(180,000)	(7.42%)
	<u>\$ 2,369,995</u>	<u>\$ 2,608,215</u>	<u>\$ (238,220)</u>	(9.13%)

Capital Assets: As of December 31, 2011, the District had \$2,744,070 invested in capital assets, including a building and fire truck.

The following table summarizes the District's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2011. These changes are presented in detail in Note 9 to the financial statements.

Table IV
Capital Assets, Net of Accumulated Depreciation

	Balance 12/31/2011	Balance 12/31/2010	Increases/ (Decreases)	Percentage of Increases/ (Decreases)
Capital Assets:				
Building and Building Improvements	\$ 2,666,415	\$2,666,415		0.00%
Vehicles and Fire Trucks	396,623	396,623		0.00%
Total Capital Assets	<u>3,063,038</u>	<u>3,063,038</u>		0.00%
Less Accumulated Depreciation for:				
Building and Building Improvements	199,981	133,320	\$ 66,661	50.00%
Vehicles and Fire Trucks	118,987	79,325	39,662	50.00%
	<u>318,968</u>	<u>212,645</u>	<u>106,323</u>	50.00%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 2,744,070</u>	<u>\$2,850,393</u>	<u>\$ (106,323)</u>	(3.73%)

Results of Operations (Cont'd)

Cash Flow Activity: The cash and cash equivalents at year-end 2011 increased by \$44,136 from the previous year. The increase was mainly due to a decrease in Operating, Maintenance and Administration expenses and an increase in Miscellaneous Revenue Not Anticipated. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

Final Comments: The District is moving forward with plans to purchase a new fire truck within the next year.

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 431,064
Investments	96,646
Total Current Assets	<u>527,710</u>
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>2,744,070</u>
Total Noncurrent Assets	<u>2,744,070</u>
Total Assets	<u>3,271,780</u>
<u>LIABILITIES:</u>	
Current Liabilities:	
Accounts Payable - Vendors	13,849
Noncurrent Liabilities:	
Serial Bonds and Capital Leases Payable:	
Due Within One Year	251,026
Due Beyond One Year	<u>2,118,969</u>
Total Liabilities	<u>2,383,844</u>
<u>NET ASSETS:</u>	
Invested in Capital Assets, Net of Related Debt	374,075
Unrestricted	<u>513,861</u>
Total Net Assets	<u>\$ 887,936</u>

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Governmental Activities
Operating Revenue:	
Dedicated Penalties	\$ 19,413
Miscellaneous Revenue Not Anticipated	27,440
Total Operating Revenue	46,853
Operating Expenses:	
Administrative and General Expenses	407,899
Unallocated Depreciation	106,323
Length of Service Award Program	42,033
Total Operating Expenses	556,255
Operating Loss	(509,402)
Non-Operating Revenue:	
Amount to be Raised by Taxation to Support District Budget	790,414
Investment Income	1,127
Total Non-Operating Revenue	791,541
Non-Operating Expense:	
Interest on Leases	8,831
Interest on Bonds	93,363
Total Non-Operating Expenses	102,194
Change in Net Assets	179,945
Net Assets - Beginning of Year	707,991
Net Assets - End of Year	\$ 887,936

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General Fund</u>
<u>ASSETS:</u>	
Cash and Cash Equivalents	\$ 431,064
Investments	96,646
Total Assets	\$ 527,710
 <u>LIABILITIES:</u>	
Accounts Payable - Vendors	\$ 13,849
Total Liabilities	13,849
 <u>FUND BALANCES:</u>	
Unassigned	513,861
Total Fund Balances	513,861
 Amounts Reported in the Statement of Net Assets are Different Because:	
Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not Reported in the General Fund. The Cost of the Assets is \$3,063,038 and the Accumulated Depreciation is \$318,968.	2,744,070
Long-Term Liabilities, Including Lease Payable, are not Due and Payable in the Current Period and Therefore are not Reported as Liabilities in the Funds.	(2,369,995)
Net Assets of Governmental Activities	\$ 887,936

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	General Fund	Total Governmental Funds
<u>OPERATING REVENUE:</u>		
Dedicated Penalties	\$ 19,413	\$ 19,413
Miscellaneous Revenue Not Anticipated	27,440	27,440
	46,853	46,853
<u>OPERATING EXPENSES:</u>		
Operating, Maintenance and Administration	407,899	407,899
Length of Service Award Program	42,033	42,033
	449,932	449,932
Operating Income	(403,079)	(403,079)
<u>NONOPERATING REVENUE (EXPENSES):</u>		
Amount to be Raised by Taxation to Support District Budget	790,414	790,414
Interest Earned	1,127	1,127
Interest Expense - Debt Service	(102,194)	(102,194)
Lease Payable - Principal	(58,220)	(58,220)
General Obligation Bonds Principal	(180,000)	(180,000)
	451,127	451,127
Net Changes in Fund Balances	48,048	48,048
Fund Balance, January 1, 2011	465,813	465,813
Fund Balance, December 31, 2011	\$ 513,861	\$ 513,861

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note 1: Organization and Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation and Accounting

The financial statements of Parsippany-Troy Hills Fire District #5 (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

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

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

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

The District reports the following governmental fund:

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

Fund Balance Restrictions, Commitments and Assignments:

The District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during the current year. The objective of this standard is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

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

The District has not established any fund balance restrictions.

The District has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body. The Board of Fire Commissioners must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body in order to remove or change the commitment of resources. The District has no committed resources at December 31, 2011.

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

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

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

Fund Balance Restrictions, Commitments and Assignments (Cont'd)

The assignment of resources is generally made by the District through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Fire Commissioners may allow an official of the District to assign resources through policies adopted by the Board of Fire Commissioners. The District has no assigned resources at December 31, 2011.

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

Significant accounting policies include:

1. Grants

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

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

2. Inventories

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

3. Capital Assets

The District does not have a detailed capital assets inventory for all capital assets.

4. Accrued Salaries and Wages and Compensated Absences

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

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

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

5. Deferred Revenue

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

6. Net Assets

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

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

7. Revenue Recognition

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

8. Cash and Cash Equivalents

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

9. Investments

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

10. Use of Estimates

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 2: Pension

The District is not enrolled in the Public Employees' Retirement System (PERS).

Note 3: Cash and Cash Equivalents and Investments

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

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

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

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

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

Deposits:

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

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

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

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

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

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

Investments:

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund; or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in statute; and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

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

Investments: (Cont'd)

As of December 31, 2011, cash and cash equivalents and investments of the Parsippany-Troy Hills Fire District #5 consisted of the following:

<u>Fund</u>	<u>Cash and Cash Equivalents</u>		<u>Investment</u>	<u>Total</u>
	<u>Checking Accounts</u>	<u>Savings Accounts</u>	<u>Certificate of Deposit</u>	
Operating	\$ 423,634	\$ 13,308	\$ 90,768	\$ 527,710

During the period ending December 31, 2011, the Fire District invested in a Certificate of Deposit. The carrying amount of the District's cash and cash equivalents and investments at December 31, 2011 was \$527,710, and the bank balance was \$537,863.

Note 4: Long-Term Debt

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the General Fund for payment early in the following year.

A lease agreement was entered into with Pierce Manufacturing for the purchase of a 100 foot Aerial Platform fire truck in 2006. The total cost of the truck was \$396,623. The District made its fifth lease payment totaling \$58,220 in 2011. The District will make its annual payment in 2012 and its final payment in 2013.

The District made their second payment on the serial bond for the construction of a new fire station which it acquired for \$2.6 million. The payment was in the amount of \$180,000.

Summary of Long-Term Debt - Current Year

<u>Fund</u>	<u>Balance</u> <u>12/31/2010</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/2011</u>
Lease Payable	\$ 183,215	\$ 58,220	\$ 124,995
Serial Bonds Payable	2,425,000	180,000	2,245,000
	<u>\$ 2,608,215</u>	<u>\$ 238,220</u>	<u>\$ 2,369,995</u>

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 4: Long-Term Debt (Cont'd)

Schedule of Annual Debt Service for Principal and Interest for the Next Five
Years and Thereafter for Long-Term Debt Outstanding

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 251,027	\$ 92,457	\$ 343,484
2013	258,968	82,201	341,169
2014	200,000	71,610	271,610
2015	210,000	63,910	273,910
2016	220,000	55,825	275,825
2017-2021	1,230,000	145,530	1,375,530
	<u>\$ 2,369,995</u>	<u>\$ 511,532</u>	<u>\$ 2,881,527</u>

Note 5: Risk Management

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

The District secures all of its insurances through private insurance carriers using a broker as their representative. The following coverages were in place in 2011:

1. Commissioner's Fidelity Bond
2. Public Officials and Employees' Legal Liability Policy
3. Workers' Compensation
4. Motor Vehicle

5. Property Damage Other Than Motor Vehicles
6. Accident and Sickness/Disability
7. General Liability
8. Group Life

Note 6: Contractual Commitments

Accounts Payable was as follows:

	<u>2011</u>
Vendors	<u>\$ 13,849</u>

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(Continued)

Note 7: Contingencies

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

Note 8: Economic Dependency

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

Note 9: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2011:

	Balance 12/31/	Increases/ (Decreases)	Balance 12/31/
Capital Assets:			
Building and Building Improvements	\$ 2,666,415		\$ 2,666,415
Fire Truck	396,623		396,623
Total Fixed Assets	<u>3,063,038</u>		<u>3,063,038</u>
Less Accumulated Depreciation for:			
Building and Building Improvements	(133,320)	\$ (66,660)	(199,980)
Fire Trucks	(79,325)	(39,663)	(118,988)
	<u>(212,645)</u>	<u>(106,323)</u>	<u>(318,968)</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 2,850,393</u>	<u>\$ (106,323)</u>	<u>\$ 2,744,070</u>

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

	Estimated Useful Life
Fire Trucks	20 Years
Building/Building Improvements	40 Years

SUPPLEMENTARY INFORMATION

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS AND INVESTMENTS

	General Fund
Cash Balance:	
January 1, 2011	\$ 483,574
Cash Receipts:	
Amount to be Raised by Taxation to support the District Budget	790,414
Interest on Investments	1,127
Miscellaneous Revenue Not Anticipated	27,440
	838,394
Total Cash Receipts	
Cash Disbursed:	
Operating, Maintenance and Administration	453,843
Principal and Interest on Lease	67,052
Bond Principal and Interest	273,363
	794,258
Total Cash Disbursements	
Cash Balance December 31, 2011	\$ 527,710
Cash and Cash Equivalents	\$ 431,064
Investments	96,646
	\$ 527,710
Cash Balance December 31, 2011	\$ 527,710

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
GENERAL FUND
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN NET ASSETS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011			Variance Favorable (Unfavorable)
	Budget	Budget After Modification	Actual	
<u>REVENUE:</u>				
Amount to be Raised by Taxation to support the District Budget	\$ 790,414	\$ 790,414	\$ 790,414	
Interest on Investments			1,127	\$ 1,127
Dedicated Penalties			19,413	19,413
Miscellaneous Revenue Not Anticipated			27,440	27,440
Total Revenue	<u>790,414</u>	<u>790,414</u>	<u>838,394</u>	<u>47,980</u>
<u>BUDGETED APPROPRIATIONS:</u>				
Operating Appropriations:				
Operating, Maintenance and Administration:				
Insurance	85,000	85,000	90,413	(5,413)
Utilities	65,000	65,000	58,741	6,259
Building Maintenance	28,000	28,000	42,628	(14,628)
Equipment and Supplies	70,000	70,000	46,453	23,547
Education and Training	20,000	20,000	4,053	15,947
Equipment Maintenance	40,000	40,000	82,991	(42,991)
Fire Prevention	1,000	1,000		1,000
Administration and Legal	75,000	75,000	79,755	(4,755)
Uniforms and Gear	30,000	30,000	614	29,386
Good & Welfare	1,000	1,000	2,251	(1,251)
Length of Service Program Award	35,000	35,000	42,033	(7,033)
Total Operating and Maintenance	<u>450,000</u>	<u>450,000</u>	<u>449,932</u>	<u>68</u>
Principal Payments on Debt Service In Lieu of Depreciation:				
Lease Payable - Principal	58,220	58,220	58,220	
General Obligation Bonds Principal	180,000	180,000	180,000	
Total Principal Payments on Debt Service In Lieu of Depreciation	<u>238,220</u>	<u>238,220</u>	<u>238,220</u>	
Total Operating Appropriations	<u>688,220</u>	<u>688,220</u>	<u>688,152</u>	<u>68</u>
Non-Operating Appropriations:				
Lease Interest Expense	8,831	8,831	8,831	
General Obligation Bonds - Interest	93,363	93,363	93,363	
Total Non-Operating Appropriations	<u>102,194</u>	<u>102,194</u>	<u>102,194</u>	
TOTAL APPROPRIATIONS	<u>\$ 790,414</u>	<u>\$ 790,414</u>	<u>\$ 790,346</u>	<u>\$ 68</u>

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
SCHEDULE OF LEASE PAYABLE
SCHEDULE OF LEASE PAYABLE FOR ORIGINAL ISSUE OF \$396,623 WITH PRINCIPAL
INSTALLMENTS AND INTEREST DUE AUGUST 15 AT THE RATE OF 4.82%

Balance 12/31/10	\$ 183,215
Decreased by:	
Principal Paid	58,220
Balance 12/31/11	<u>\$ 124,995</u>

<u>Year</u>	<u>Principal</u>
2012	\$ 61,027
2013	63,968
	<u>\$ 124,995</u>

PARSIPPANY - TROY HILLS FIRE DISTRICT #5
SCHEDULE OF SERIAL BONDS PAYABLE

Purpose	Date of Issue	Original Issue	Maturity of Bonds Outstanding December 31, 2011		Interest Rate	Balance December 31, 2010	Matured	Balance December 31, 2011
			Date	Amount				
New Firehouse	7/1/2009	\$ 2,600,000	7/15/2012	\$ 190,000	3.850%			
			7/15/2013	195,000	3.850%			
			7/15/2014	200,000	3.850%			
			7/15/2015	210,000	3.850%			
			7/15/2016	220,000	3.850%			
			7/15/2017	230,000	3.850%			
			7/15/2018	235,000	3.850%			
			7/15/2019	245,000	3.850%			
			7/15/2020	255,000	3.850%			
			7/15/2021	265,000	3.850%			
					\$ 2,425,000	\$ 180,000	\$ 2,245,000	
					<u>\$ 2,425,000</u>	<u>\$ 180,000</u>	<u>\$ 2,245,000</u>	

GOVERNMENT AUDITING STANDARDS



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

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

Independent Auditors' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

The Board of Fire Commissions
Parsippany-Troy Hills Fire District #5
Parsippany, NJ

We have audited the financial statements of the governmental activities and major fund of the Parsippany-Troy Hills Fire District #5 (the "Fire District") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 20, 2012. This report includes a qualification of the opinion as a capital assets accounting and reporting system has not been fully implemented. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as Findings 2011-01 through 2011-03 that we consider to be significant deficiencies in internal control over financial reporting. 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 to those charged with governance.

The Board of Fire Commissions
Parsippany-Troy Hills Fire District #5
Parsippany, NJ
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fire District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters which we have reported to management in the comments and recommendations section of this report.

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

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

Mount Arlington, New Jersey
April 20, 2012

NISIVOC CIA LLP



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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

Summary of Auditors' Results:

- A qualified report was issued on the Fire District's financial statements as a capital assets accounting and reporting system has not been fully implemented.
- The audit did not disclose any material weaknesses in the internal controls of the Fire District.
- The audit did not disclose any noncompliance that is material to the financial statements of the Fire District.

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

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

Finding 2011-1

During our audit, we noted that the Fire District does not maintain an adequate segregation of duties due to limited personnel. The functions of handling cash and preparation of cash disbursements books are performed by one individual. This is not unusual in operations the size of the Fire District, but management should constantly be aware of this condition and realize the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view.

Finding 2011-2

The District does not maintain a general ledger or encumbrance accounting system. A general ledger and encumbrance listing are basic accounting records which aid in the gathering and reporting of financial information. An encumbrance accounting system also would be useful in identifying liabilities of the District and preventing possible overexpenditures of appropriations. We recommend that consideration be given to the implementation of a general ledger and encumbrance accounting and reporting system to improve the accounting records and to prevent potential overexpenditures and to be in compliance with Technical Accounting Directives issued by the State Division of Local Government Services.

Finding 2011-3

The District does not have a complete capital assets accounting and reporting system in place. This is due, in part, to the limited number of personnel and size of the District. At the present time, capital assets may be discarded without management's authorization, or items may be stolen and not be detected within a timely period.

Management's Response:

The findings 2011-01 and 2011-03 were evaluated, however, due to budgetary constraints, no resolution can be made at this time. Finding 2011-02 was evaluated and the District will begin utilizing a general ledger accounting system.

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2011

The Fire District had three findings during the prior year (10-01 to 10-03). These findings were not resolved during 2011 and are reported in the schedule of findings and responses as findings 2011-1 to 2011-3.

COMMENTS AND RECOMMENDATIONS

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
COMMENTS AND RECOMMENDATIONS

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

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

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

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

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

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

Effective January 1, 2011 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 is \$17,500, and with a qualified purchasing agent the threshold may be up to \$36,000.

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
COMMENTS AND RECOMMENDATIONS
(Continued)

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

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

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. None were noted.

Internal Control:

During our audit, we noted that monthly bank reconciliations were not prepared.

It is recommended that all bank accounts be reconciled on a monthly basis.

Management's Response:

The District will make every effort to ensure that bank statements are reconciled on a monthly basis for all accounts.

During the course of our audit, we noted that there were several vouchers missing required signatures. However, we were able to satisfy ourselves through other testing that other internal controls were adequate.

It is recommended that all vouchers should contain the required signatures prior to the release of the related payments.

Management's Response:

Efforts will be made to ensure that all vouchers have the appropriate signatures.

Receipts Journal and Supporting Documentation

During our audit, we noted that receipt records were not maintained for all deposits. Additionally, not all deposit slips or supporting documentation for funds received were maintained.

It is recommended that a receipts journal and all related supporting documentation be maintained.

Management's Response:

Receipts journals and supporting documentation will be maintained.

Operations:

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

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
COMMENTS AND RECOMMENDATIONS
(Continued)

Management's Response:

The District will make every effort to avoid overexpenditures.

Approval of Bill List

During the course of our audit, it was noted that a bills list was not being approved in the monthly minutes.

It is recommended that a bills list be presented to and approved by the board members at each meeting and that this be documented in the minutes.

Management's Response:

Bills will be approved by board members.

Approval of Legal Depositories

During the course of our audit, it was noted that the District's legal depositories were not approved in the minutes.

It is recommended that the Board approve any depositories utilized by the District during the course of the year.

Management's Response:

Legal Depositories will be approved by board members in the minutes.

Status of Prior Year Audit Recommendations

The Fire District had eight findings during the prior year (10-01 to 10-08). These findings were not resolved during 2011 and are reported in the schedule of findings and responses as findings 2011-1 to 2011-8.

PARSIPPANY-TROY HILLS FIRE DISTRICT #5
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The District maintains an adequate segregation of duties with respect to the preparation of cash disbursements books and the cash handling functions.
2. A general ledger and encumbrance accounting system be implemented as prescribed by the draft "Requirements of Audit and Accounting".
3. A complete fixed asset accounting and reporting system be fully implemented.
4. All bank accounts be reconciled on a monthly basis.
5. All vouchers should contain the required signatures prior to the release of the related payments.
6. Receipts journals and related supporting documentation be maintained.
7. The budget be periodically reviewed and proper budget adjustments be made so that overexpenditures do not occur.
8. All bills be approved in the minutes.
9. Legal Depositories be approved in the minutes.