DOWNE TOWNSHIP

FIRE DISTRICT NO. 2

COUNTY OF CUMBERLAND

REPORT OF AUDIT

DECEMBER 31, 2016

DOWNE TOWNSHIP FIRE DISTRICT NO. 2

COUNTY OF CUMBERLAND

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DOWNE TOWNSHIP FIRE DISTRICT NO. 2

COUNTY OF CUMBERLAND

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DOWNE TOWNSHIP

FIRE DISTRICT NO. 2

ROSTER OF OFFICIALS

The following officials were in office during 2016:

NAME	TITLE	AMOUNT OF SURETY BOND
Board of Commissioners		
Thomas A. Welden	President	
John E. Laws	Vice-President	
Eric Postalwaite	Secretary/Treasurer	$75,000
Ted Welden	Commissioner	
Harry Wilson	Commissioner	

FINANCIAL SECTION

NIGHTLINGER, COLAVITA & VOLPA

A Professional Association

Certified Public Accountants

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Williamstown, NJ 08094

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February 28, 2017

INDEPENDENT AUDITOR'S REPORT

President and Members of the
Downe Township Fire District No. 2
County of Cumberland
P.O. Box 1
Dividing Creek, New Jersey 08315

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Downe Township Fire District No. 2, in the County of Cumberland, State of New Jersey as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Downe Township Fire District No 2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Downe Township Fire District No. 2, County of Cumberland, State of New Jersey, as of December 31, 2016, and the respective changes in financial position thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying Management Discussion and Analysis on pages 6 through 11 along with budgetary comparison information on pages 32 through 33 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management's responses about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire District's basic financial statements. The related major fund supporting statements and schedules listed in the table of contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with **Government Auditing Standards**, we have also issued our report dated February 28, 2017 on our consideration of the Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant

NIGHTLINGER, COLAVITA & VOLPA

A Professional Association

Certified Public Accountants

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February 28, 2017

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

President and Members of the
Downe Township Fire District No. 2
County of Cumberland
P.O. Box 1
Dividing Creek, New Jersey 08315

We have audited the financial statements of the governmental activities and each major fund of the Downe Township Fire District No. 2, in the County of Cumberland, State of New Jersey as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Downe Township Fire District No 2's basic financial statements and have issued our report thereon dated February 28, 2017. 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 in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, New Jersey Division of Local Government Services, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fire District'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 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 misstatement on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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. Given these limitations, additional material weaknesses may exist that have not been identified.

Compliance and Other Maters

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**.

Purpose of this Report

The purpose of this report is solely describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the entity's internal control and compliance. However, this report is a matter of public record.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant

REQUIRED SUPPLEMENTARY INFORMATION – PART I

DOWNE TOWNSHIP FIRE DISTRICT No. 2
COUNTY OF CUMBERLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016
UNAUDITED

As management of the Downe Township Fire District No. 2, we offer readers of the Downe Township Fire District No. 2 financial statements this narrative overview and analysis of the financial activities of the Downe Township Fire District No. 2 for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the Fire District's financial performance as a whole. Readers should also review the information furnished in the notes to the basic financial statements and financial statements along with the financial statements to enhance their understanding of the Fire District's financial performance.

Financial Highlights

- The assets of Downe Township Fire District No. 2 exceeded its liabilities at the close of the most recent year by $139,305 (Net Position).

- As of the close of the current year, the Downe Township Fire District No. 2's governmental funds reported ending fund balances of $91,836 an increase of $8,344 in comparison with the prior year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Downe Township Fire District No. 2's basic financial statements. The Downe Township Fire District No. 2's basic financial statements comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

District-wide Financial Statements. The district-wide financial statements are designed to provide readers with a broad overview of the Downe Township Fire District No. 2's finances, in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Downe Township Fire District No. 2's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Downe Township Fire District No. 2 is improving or deteriorating.

The Statement of Activities presents information showing how the Downe Township Fire District No. 2's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for certain items that will result in cash flows in future periods.

Both of the district-wide financial statements distinguish functions of the Downe Township Fire District No. 2 that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Downe Township Fire District No. 2 include fire-fighting/suppression services that are provided to the citizens of the Downe Township Fire District No. 2.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Downe Township Fire District No. 2, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Downe Township Fire District No. 2 constitute one fund type, which is the governmental fund type.

Governmental Funds. All of the Downe Township Fire District No. 2's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Downe Township Fire District No. 2's general government operations and the basic services it provides. Government fund information provides insight as to determining a range of financial resources available to finance fire-fighting/suppression services in the near future.

The Downe Township Fire District No. 2 maintains a maximum of four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, special revenue fund, capital projects fund, and the debt service fund.

The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Also, Downe Township Fire District No. 2 adopts an annual budget in accordance with N.J.S.A. 40A:14:78-3. Budgetary comparison schedules have been provided to demonstrate compliance regarding spending within the budget, as well as provide management with a planning tool to achieve the goals of the District.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to financial statements are an integral part of the financial statements.

District-wide Financial Analysis

The Net Position reported each year, and amount of change thereon, provide a useful indicator of a government's financial position. In the case of the Downe Township Fire District No. 2, Assets exceeded Liabilities by $139,305 at the close of the most recent year.

The Downe Township Fire District No. 2's Net Position is mostly unrestricted (66 percent). The remaining portion was comprised entirely of its investment in capital assets. The Downe Township Fire District No. 2 uses these assets to provide fire-fighting/suppression services to the citizens of the Downe Township Fire District No. 2: consequently these assets are not available for future spending. Although the Downe Township Fire District No. 2's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operating sources, since the capital assets themselves cannot be used to liquidate those liabilities.

Statement of Net Position

Table 1 provides a comparative summary of the Fire District's net position for the years ended in 2016 and 2015.

Table 1
Net Position

	2016	2015
Assets		
Cash	$ 118,541	$ 105,439
Capital Assets	47,469	47,604
Total Assets	166,010	153,043
Liabilities		
Accounts Payable	405	397
Due LOSAP Trust Fund	4,375	3,150
Non-Current Liabilities:		
Reserve for LOSAP	21,925	18,400
Total Liabilities	26,705	21,947
Net Position	139,305	131,096
Analysis of Net Position		
Invested in Capital Assets, Net of Related Debt	47,469	47,604
Unrestricted	91,836	83,492
Total Net Position	$ 139,305	$ 131,096

In total, the Net Position of governmental activities increased by $8,209.

Total Liabilities increased when compared with last year, primarily resulting from an increase of $4,750 designated for future LOSAP contributions.

Governmental Activities. The Statement of Activities shows the cost of the governmental activities program services and the charges for services and grants offsetting those services. Table 2 shows the changes in net position for 2016 and 2015.

Table 2
Statement of Activities

	2016	2015
Expenses		
Operating Expenses		
Administration	$ 5,052	$ 4,949
Cost of Operations and Maintenance	54,468	50,800
Depreciation Expense	7,386	5,704
LOSAP Contribution	7,900	7,900
Total Program Expenses	74,806	69,353
Program Revenues		
Operating Grants & Contributions	301	495
Net Program Expenses	74,505	68,858
Taxes:		
Property Taxes, Levied for General Purpose	82,631	82,171
Miscellaneous Revenues		28
Unrestricted Investment Earnings	83	38
Total General Revenues	82,714	82,237
Increase(Decrease) in Net Position	8,209	13,379
Net Position, January 1	131,096	117,717
Net Position, December 31	$ 139,305	$ 131,096

Property taxes constituted 99% of revenues for government activities for the Fire District for the year 2016.

Cost of Operations and maintenance comprises 73% of fire district expenses, with administration comprising 7%. Other expenses comprised 20%.

Financial Analysis of the Government Funds

As previously stated, the Downe Township Fire District No. 2 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund. The focus of the Downe Township Fire District No. 2's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Downe Township Fire District No. 2's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year and as a useful measure of permitting a governmental unit to maintain cash flow in anticipation of tax collections.

As of the end of the current year, the Downe Township Fire District No. 2's governmental funds reported combined ending fund balances of $91,836, which was $8,344 more than the prior year. This ending fund balance is comprised of $71,586 in unassigned funds and $20,250 in funds designated to support the 2017 budget. The general fund is the main operating fund of the District.

The fund balance of the Downe Township Fire District No. 2's is made up of the general fund. Key factors are as follows:

- The Downe Township Fire District No. 2 spent less than what was anticipated in the 2016 budget categories as follows (Only variances of $500 or more are reflected):

Advertising by $776	Replacement Equipment by $4,699
Outside Services by $852	Supplies by $1,940
Professional Fees by $698	Utilities by $3,345
Contingent by $1,130	Maintenance & Repairs by $3,706
Insurance by $1,406	

Revenues increased $283 from the prior year and operating expenditures increased $2,871 over the same period.

Capital Projects Fund

There were no open capital projects and therefore, the District was not required to maintain a capital projects fund.

General Fund Budgetary Highlights

The Downe Township Fire District No. 2 was not required to modify its 2016 general fund budget, through budget transfers.

The original budgetary revenue estimate of $83,331 was the same as the final budget. This amount was made up of $82,631 for property taxes (local tax levy), $100 for interest income and $600 for supplemental fire services program.

The original budgetary estimate of $94,231 was the same as the final budget for planned expenditures appropriation.

Operating and Maintenance and Administration expenditures had a combined favorable spending variance of $19,560 at year end.

Capital Assets and Debt Administration

The Downe Township Fire District No. 2's investment in capital assets for its governmental activities as of December 31, 2016 amounts to $47,469. This investment in capital assets includes building improvements and firefighting equipment.

CAPITAL ASSETS
NET OF ACCUMULATED DEPRECIATION

	2016	2015
Building Improvements	$ 30,491	$ 34,234
Firefighting Equipment	16,978	13,370
Total Capital Assets	$ 47,469	$ 47,604

Accumulated Depreciation was $500,417 as of December 31, 2016.

Additional information on the Downe Township Fire District No. 2's capital assets can be found in Note 3 in the notes to financial statements.

Long-Term Obligations

As of the end of 2016, the Downe Township Fire District No. 2 had no bonded debt and no obligation under capital lease agreements.

Economic Factors and Next Years Budget

For the 2016 year the Downe Township Fire District No. 2 was able to sustain its budget through the district tax levy and other sources of revenue. Approximately 99% of total revenue is from the local tax levy, while the remaining 1% is from other sources.

The Board of Fire Commissioners adopted the 2017 budget January 17, 2017 and the voters subsequently approved the budget at the annual fire district election held on February 21, 2017.

The Fire District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of accrual accounting.

Contacting the Fire District's Financial Management

This financial report is designed to provide our patrons, citizens, taxpayers, and creditors with a general overview of the Fire District's finances and to show the Fire District's accountability for the money it receives. If you have questions about this report or need additional information, contact Mr. John E. Laws, Vice Chairman, Downe Township Fire District No. 2, PO Box 1, Dividing Creek, NJ 08315.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

EXHIBIT A-1

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
STATEMENT OF NET POSITION
DECEMBER 31, 2016

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	118,541
Capital Assets, net (Note 3)		47,469
Total Assets		166,010
LIABILITIES		
Accounts Payable		405
Due LOSAP Trust Fund (Note 11)		4,375
Non-current Liabilities:		
Reserve for LOSAP (Note 11)		21,925
Total Liabilities		26,705
NET POSITION		
Invested in Capital Assets, Net of Related Debt		47,469
Unrestricted		91,836
Total Net Position	$	139,305

The accompanying Notes to Financial Statements are an integral part of this statement.

EXHIBIT A-2

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
STATEMENT OF ACTIVITIES
DECEMBER 31, 2016

		Governmental Activities
Expenses:		
Operating Appropriations:		
Administration	$	5,052
Cost of Operations and Maintenance		54,468
Depreciation Expense		7,386
Length of Service Award Program (LOSAP) - Contribution (P.L. 1997, c. 388)		7,900
Total Program Expenses		74,806
Program Revenues:		
Operating Grants and Contributions		301
Net Program Expenses		74,505
General Revenues:		
Taxes:		
Property Taxes, Levied for General Purposes		82,631
Unrestricted Investment Earnings		83
Total General Revenues		82,714
Increase in Net Position		8,209
Net Position, January 1		131,096
Net Position, December 31	$	139,305

The accompanying Notes to Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

EXHIBIT B-1

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2016

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	$ 118,541	$ 118,541
Total Assets	$ 118,541	$ 118,541
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	$ 405	$ 405
Due LOSAP Trust Fund (Note 11)	4,375	4,375
Reserve for LOSAP (Note 11)	21,925	21,925
Total Liabilities	26,705	26,705
Fund Balances:		
Assigned Fund Balance:		
Designated for Subsequent Years Expenditures	20,250	20,250
Unassigned, Reported in:		
General Fund	71,586	71,586
Total Fund balances	91,836	91,836
Total Liabilities and Fund Balances	$ 118,541	

Amounts reported for *governmental activities* in the statement of net position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is $547,886 and the accumulated depreciation is $500,417. (Note 3)	47,469
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds (see Note 5).	
Net position of governmental activities	$ 139,305

The accompanying Notes to Financial Statements are an integral part of this statement.

EXHIBIT B-2

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2016

	General Fund	Total Governmental Funds
REVENUES		
Amount to be Raised by Taxation	$ 82,631	$ 82,631
Operating Grant Revenue	301	301
Miscellaneous Revenues	83	83
Total Revenues	83,015	83,015
EXPENDITURES		
Operating Appropriations:		
Administration	5,052	5,052
Cost of Operations and Maintenance	61,719	61,719
Length of Service Award Program (LOSAP) - Contribution (P.L. 1997, c. 388)	7,900	7,900
Total Expenditures	74,671	74,671
Excess (Deficiency) of Revenues Over Expenditures	8,344	8,344
OTHER FINANCING SOURCES (USES)		
Total Other Financing Sources and Uses		
Net Change in Fund Balances	8,344	8,344
Fund Balance—Jan 1	83,492	83,492
Fund Balance—Dec 31	$ 91,836	$ 91,836

The accompanying Notes to Financial Statements are an integral part of this statement.

EXHIBIT B-3

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

Total net change in fund balances - governmental funds (from B-2)		$ 8,344
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. This is the amount by which capital outlays exceeded depreciation in the period.		
Depreciation expense	$ (7,386)	
Capital outlays	7,251	
		(135)
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.		
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.		
Proceeds of long-term debt		
Capital lease proceeds		
Change in net assets of governmental activities (A-2)		$ 8,209

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Description of Reporting Entity** - Fire District No. 2 of Downe Township is a political subdivision of the Township of Downe, Cumberland County, New Jersey. It was formed through the adoption of a Township ordinance. A board of five commissioners oversees all operations of the Fire District. The length of each commissioner's term is three years with the annual election held the third Saturday of every February.

Fire Districts are governed by **N.J.S.A.** 40A:14-70 et al. and are organized as a taxpaying authority charged with the responsibility of providing the resources necessary to provide fire-fighting services to the residents within its territorial location. Fire District No. 2 serves the Dividing Creek area of the Township.

The Fire District is not a component unit of any other financial reporting entity as to Governmental Accounting Standards Board Statement No. 14, as amended by GASB Statements No. 39 and No. 61.

b. **Basis of Accounting, Measurement Focus and Basis of Preparation** - The financial statements of the Fire District conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Generally, the financial statements are presented using the flow of current financial resources measurement focus and modified accrual basis of accounting. The more significant of the Fire District's accounting policies are described in this Note.

The Fire District's basic financial statements consist of district-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

District-wide Financial Statements – The Statement of Net Position and the Statement of Activities display information about the Fire District as a whole. These statements include the financial activities of the government. The Statement of Net Position presents the financial condition of the governmental activities of the Fire District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Fire District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. The policy of the Fire District is to not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Fire District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Fire District.

Notes to Financial Statements Continued

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fund Financial Statements – During the year, the Fire District segregates transactions related to certain Fire District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Fire District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. The Fire District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For fire districts, only one category of funds exists, which is governmental.

Governmental Funds:

General Fund - The General Fund is the general operating fund of the Fire District and is used to account for its 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.

Special Revenue Fund - The Special Revenue Fund is used to account for the proceeds of specific revenue sources, such as state or federal government grants and appropriations that are legally restricted to expenditures for specified purposes.

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 fire houses 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 on 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 liabilities recorded in the Statement of Net Position.

c. 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 not later than sixty days prior to the annual election. At introduction, the commissioners shall fix the time and place for a public 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 hearings 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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Budgets and Budgetary Accounting (Continued)

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 District's basic financial statements.

Amounts reported under "final budget" in Exhibits C-1 and I-3, and in the detail statements, include modifications to the adopted budget that were made during the year as approved by the Board of Commissioners.

Exhibit C-3 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounting as presented in the General Fund Budgetary Comparison Schedule and the Special Revenue Fund Budgetary Comparison Schedule to the GAAP basis of accounting as presented in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Note that the Fire District does not report encumbrances outstanding at year-end as expenditures in the general fund since the general fund budget follows modified accrual basis of accounting.

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. Due to the small size of the Fire District, the selective encumbrance method is implemented rather than a full encumbrance system.

Open encumbrances in the special revenue fund for which the Fire District has received advances are reflected in the balance sheet as deferred revenues at year-end.

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 amount as of the current year-end.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Cash, Cash Equivalents and Investments - Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. All certificates of deposit are recorded as cash regardless of the date of maturity.

New Jersey governments are limited as to the types of investments and types of financial institutions they may invest in. **N.J.S.A.** 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey governments.

N.J.S.A. 17:9-41 et seq. establishes the requirements for security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include State or federally chartered banks, savings banks or associations located in the State of New Jersey or state or federally chartered banks, savings banks or associations located in another state with a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of the 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.

e. Inventories and Prepaid Expenses - Inventories and prepaid expenses, which benefit future periods, are recorded as an expenditure during the year of purchase.

f. Interfunds - 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 period in which the transaction is executed.

g. Capital Assets – General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Fire District maintains a capitalization threshold of $1,000. The Fire District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not. All reported capital assets, except land and construction in progress, are required to be depreciated. Improvements are to be depreciated over the remaining useful lives of the related capital assets.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Capital Assets (Continued)

Depreciation should be computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	30 Years
Vehicles	5-10 Years
Firefighting Equipment	5 Years

While depreciation has not been computed or reported as reflected in the comments section of the audit, it will be computed and reported as of December 31, 2016.

N.J.S.A. 40A:14-84 governs the procedures for the acquisition of property and equipment for Fire Districts, and **N.J.S.A.** 40A:14-85 to 87 governs procedures for the issuance of any debt related to such purchases. In summary, Fire Districts may purchase fire fighting apparatus and equipment and land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation or property within the district upon the approval of the legal voters. Debt may be issued up to the larger of either $60,000, or 2 percent of the assessed valuation of property.

h. Long-Term Obligations - Long-term debt is recognized as a liability of the Fire District when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of the Fire District. The remaining portion of such obligations is reported in the Statement of Net Position.

i. Unearned Revenue – Unearned revenue in the special revenue fund represents cash, which has been received but not yet earned.

j. Fire District Taxes - Upon the 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 raised 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 moneys assessed; on or before July 1, an amount equaling 22.5% of all moneys assessed; on or before October 1, an amount equaling 25% of all moneys assessed; and on or before December 31, an amount equaling the difference between the total of all moneys so assessed and the total amount of moneys previously paid over.

k. 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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Use of Estimates – In order for the preparation of basic financial statements to be in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

m. Comparative Data - Comparative total data for the prior year have been presented in selected sections of the accompanying basic financial statements in order to provide an understanding of the changes in the Fire District's financial position and operations.

n. Net Position- Net Position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net Position is classified into the following three components:

Net Investment in Capital Assets- This components represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for acquisition, construction, or improvement of those assets.

Restricted- Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Fire District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted- Net Position is reported is reported as unrestricted when it does not meet the criteria of the other two components of Net Position. The Fire District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The Fire District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

o. Fund Balance- The Fire District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the Fire District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Fire District's classifications and polices for determining such classifications are as follows:

Non Spendable- The non spendable fund balance classification included amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Fund Balance- (Continued)

Restricted- The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions or constraints are placed on the use of resources either by being externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed- The committed fund balance classification includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the Fire District's highest level of decision-making authority, which for the Fire District, is the Board of Commissioners. Such formal action consists of an affirmative vote by the Board of Commissioners, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purpose unless the Board of Commissioners removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned- The assigned fund balance classification includes amounts that are constrained by the Fire District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by either the Board of Commissioners or by the business manager, to which the Board of Commissioners or by the business manager, to which the Board of Commissioners has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business manager is established by way of formal job description for the position, approved by the Board of Commissioners.

Unassigned- The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

p. New Accounting Standards:

The District has adopted the following GASB statements:

- GASB No. 80 - *Blending Requirements for Certain Component Units - an Amendment of GASB No. 14*: The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended.* This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 80, did not impact the financial statements of the District.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. New Accounting Standards (Continued):

The District has adopted the following GASB statements:

- GASB No. 79 - *Certain External Investment Pools and Pool Participants:* This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 79, did not impact the financial statements of the District.

- GASB Statement No. 78 - *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans:* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement is effective for fiscal years beginning after December 15, 2015. The adoption of GASB 78, did not impact the financial statements of the District.

- GASB No. 77, *Tax Abatement Disclosures:* This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. This Statement is effective for fiscal years beginning after December 15, 2015. The adoption of GASB 77, did not impact the financial statements of the District.

- GASB No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments:* The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 76, did not impact the financial statements of the District.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. New Accounting Standards (Continued):

The District has adopted the following GASB statements (Continued):

- GASB No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68:* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 73, did not impact the financial statements of the District.

- GASB No. 72 - *Fair Value Measurement and Application:* This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 72, did not impact the financial statements of the District.

- GASB No. 82 - *Pensions - an Amendment of GASB No. 67, No. 68 and No. 73*: The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of GASB 82, did not impact the financial statements of the District.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. New Accounting Standards (Continued):

Other accounting standards that the District is currently reviewing for applicability and potential impact on the financial statements include:

- GASB No. 81 - *Irrevocable Split-Interest Agreements*: The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of GASB 81, is not expected to impact the financial statements of the District.

- GASB No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions:* The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement will be effective for reporting periods beginning after June 15, 2017. The adoption of GASB 75, is not expected to impact the financial statements of the District.

- GASB No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans:* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement will be effective for reporting periods beginning after June 15, 2016. The adoption of GASB 74, is not expected impact the financial statements of the District.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

All bank deposits and investments as of the balance sheet date are entirely insured or collateralized by a pool maintained by public depositories as required by the Governmental Unit Protection Act which are classified as credit risk. Custodial Credit Risk that, in the event of a bank failure, the districts deposits may not be returned to it. Although the district does not have a formal policy regarding custodial credit risk, as described in Note 1: N.J.S.A. 17:9-41 ET. Seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the governmental Unit Protection Act.

The Fire District designates and approves a list of authorized depository institutions based on an evaluation of solicited responses ad presentation of GUDPA certifications provided by the financial institutions. As of December 31, 2016, the District's bank balance of $121,698 was exposed to custodial credit risk as follows:

Insured	$ 121,698
Uninsured and collateralized with securities held by pledging financial institutions	
	$ 121,698

3. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Additions	Adjustment	Balance December 31, 2016
Land, Building, & Improve	$ 108,468	$	$	$ 108,468
Vehicles	284,630			284,630
Equipment	147,537	7,251		154,788
Totals at Historical Cost	540,635	7,251		547,886
Less Accum. Depreciation for:				
Land, Build & Improve	(74,234)	(3,743)		(77,977)
Vehicles	(284,630)			(284,630)
Equipment	(134,167)	(3,643)		(137,810)
Total Accum. Depreciation	(493,031)	(7,386)		(500,417)
Capital Assets, Net	$ 47,604	$ (135)	$	$ 47,469

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

4. PROPERTY TAX LEVIES

Following is a tabulation of Fire District assessed valuations, tax levies and property tax rates per $100 of assessed valuations for the current and preceding four years:

Fiscal Year	Assessed Valuations	Total Tax Levy	Property Tax Rates
2016	$ 42,761,717	$ 82,631	$ .194
2015	43,195,172	82,171	.191
2014	43,163,549	82,365	.191
2013	44,046,500	81,085	.187
2012	43,367,700	81,120	.187

5. BOND ANTICIPATION NOTE PAYABLE

None

6. FUND BALANCES APPROPRIATED

The following presents the fund balance as of the end of the last five years and the amount utilized in the subsequent year's budget:

	End of Year		Designated Subsequent Budget	
Year	Restricted	Unrestricted	Restricted	Unrestricted
2016	$	$ 91,836	$	$ 20,250
2015		83,492		10,900
2014		72,560		8,300
2013		69,701		11,550
2012		62,316		7,550

7. DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGET

There were no deferred charges to be raised in 2016.

8. LITIGATION

The District did not consult a Solicitor regarding any litigation, claims, or assessments during 2016.

9. SUBSEQUENT EVENTS

None

Notes to Financial Statements Continued

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

10. 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.

11. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP)

In 2001, the voters approved the establishment of a Length of Service Award Program (LOSAP) Deferred Compensation Plan in accordance with P.L. 1997, c. 388, N.J.S.A. 40A:14-183 et seq. This program and community service is rendered by members of volunteer emergency service organizations. The District has approved a specific point system by which the appropriated funds are distributed among the qualifying participating firemen. The District provides funding for this program through the annual adopted budget and plans to remit all contributions to the Lincoln Financial Group, which is a provider appearing on the list approved by the New Jersey Division of Local Government Services. Vesting of LOSAP benefits will be in accordance with the schedule indicated by N.J.A.C. 5:30-14:50.

The first year of eligibility for entrance into the Plan by qualified volunteers was calendar 2001. Amounts deferred under section 457 Plans must be held in trust for the exclusive benefit of participating volunteers and not be accessible by the Fire District or its Creditors.

As required by N.J.A.C 5:30-14.49, the Fire District must have an annual review of its LOSAP performed in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The following description of the LOSAP of Downe Fire District #2 provides only general information. Participants should refer to the Program agreement for a more complete description of the Program's provisions. The Fire District is the Program sponsor.

General – The Program is a defined contribution Program covering volunteers in Downe Fire District No. 2 who have performed sufficient services to earn a number of "points" as defined in a resolution adopted by the Board of Fire Commissioners of Fire District No. 2 on March 27, 2001 and approved by the voters of the District as a public question at the annual fire commissioners' election.

Contributions – The Fire Districts contribution, on behalf of a participant that is a qualifying volunteer, is as follows:

2016 - $1,669

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

11. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) (CONT'D)

Participant Accounts – Each participant's account reflects the total amount of contributions that are allocated to the account and the earnings thereon, any payments or withdrawals on the participant's behalf from the account and any expenses. Under the enabling legislation, the amount in each participants account is not subject to the general creditors of the District.

Vesting – Participants are 100% vested after 5 years of service. If a participant deceases prior to 5 years of service, the full amount of the volunteer's account will be considered vested and will be paid to the estate of the participant.

Participant Loans – Loans are not permitted under the Program.

Payment of Benefits – A fully taxable distribution may be made at any time for the full amount of the participant's vested interest in his or her account.

Fees and Costs – The Program participants pay all fees costs related to administration of the Program.

Employer Contributions – All employer contributions are paid to Lincoln Financial Group, within a reasonable time, in the year subsequent to the year in which the required points have been earned and certified by the chief of the fire company or rescue squad as applicable.

Withdrawals – The plan provides for hardship withdrawals, of which there were none during 2016.

Contribution Receivable – As set forth in the resolution adopted by District, the Plan Sponsor is obligated to make contributions for participants in the plan who meet the service requirements in any qualifying year.

The District determined its 2016 LOSAP contribution to be $4,375. This amount has been accrued and is reflected in the Statement of Net Position.

Investments – All investment balances at December 31, 2016 are certified by Lincoln Financial Group and are valued at market value as stated by Lincoln Financial Group. As of December 31, 2016, the fair market value of the plan investments was $66,898, which includes the 2015 District contribution of $3,150.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

11. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) (CONT'D)

Reserve - During 2016, the Reserve for LOSAP activity was as follows:

	LOSAP Reserve
Balance as of December 31, 2015	$ 18,400
Increased by:	
Transfer from 2016 Budget	7,900
	26,300
Decreased by:	
2016 Board Contribution	4,375
Balance as of December 31, 2016	$ 21,925

Program Termination – The Fire District Resolution and the enabling legislation do not have any provisions for program termination.

Tax Status – The LOSAP was established as a Deferred Compensation Plan pursuant to Section 457 of the Internal Revenue Code (IRC) of 1986, as amended, except for specific provisions added by reason of the LOSAP as enacted into federal law in 1997. The establishment of this LOSAP also complies with New Jersey Public Law 1997, Chapter 388 and the LOSAP Document.

Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the Township of Commercial Fire District No. 3 subject only to the claims of the District's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the District, and each participant's rights are equal to his or her share of the fair market value of the plan assets.

End of Notes to Financial Statements

REQUIRED SUPPLEMENTARY INFORMATION – PART II

BUDGETARY COMPARISON SCHEDULES

EXHIBIT C-1
(1)

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH TOTALS FOR 2015)

	2016				2015
	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Actual
Revenues					
Revenues and Other Financing Sources:					
Miscellaneous Revenues:					
Interest Earned	$ 100	$ 100	$ 83	$ (17)	$ 38
Miscellaneous Revenue					28
Total Miscellaneous Revenues	100	100	83	(17)	66
Operating Grant Revenue:					
Supplemental Fire Services Program	600	600	301	(299)	495
Total Operating Grant Revenue	600	600	301	(299)	495
District Taxes to Support the District Budget:					
Operating and Maintenance	82,631	82,631	82,631		82,171
Total Revenues and Other Financing Sources	$ 83,331	$ 83,331	$ 83,015	$ (316)	$ 82,732
Expenditures					
Operating Appropriations:					
Administration:					
Office Expense	$ 200	$ 200	$ 131	$ 69	$ 143
Commissioners	500	500	500		500
Elections	300	300	132	168	124
Advertising	1,000	1,000	224	776	177
Professional Fees	4,763	4,763	4,065	698	4,005
Contingent Expenses	565	565		565	
Total Administration	7,328	7,328	5,052	2,276	4,949
Cost of Operations and Maintenance:					
Insurance	23,000	23,000	21,594	1,406	20,081
Training	1,000	1,000	330	670	580
Maintenance and Repairs	7,600	7,600	3,894	3,706	1,299
Supplies	3,300	3,300	1,360	1,940	1,427
Utilities	7,700	7,700	4,355	3,345	4,692
Website	400	400	299	101	299
Contracted Services Provided by Volunteer Fire Co. Agreement - NJSA 40A:14-70.1	20,000	20,000	20,000		20,000
Outside Services	1,000	1,000	148	852	148
Replacement Equipment	14,438	14,438	9,739	4,699	10,425
Contingent Expenses	565	565		565	
Total Other Operating and Maintenance	79,003	79,003	61,719	17,284	58,951
Length of Service Awards (LOSAP) Contribution (P.L. 1997, c. 388)	7,900	7,900	7,900		7,900
Total Operating and Maintenance Expenditures	$ 94,231	$ 94,231	$ 74,671	$ 19,560	$ 71,800

See Notes to Financial Statements

EXHIBIT C-1
(2)

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2016
(WITH TOTALS FOR 2015)

	2016				2015
	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Actual
Excess (Deficit) of Revenue Over Expenditures	$ (10,900)	$ (10,900)	$ 8,344	$ 19,244	$ 10,932
Fund Balance - Beginning of Year	83,492	83,492	83,492		72,560
Fund Balance - End of Year	$ 72,592	$ 72,592	$ 91,836	$ 19,244	$ 83,492

See Notes to Financial Statements

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT C-3

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

		General Fund
Sources/inflows of resources		
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	$	83,015
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	$	83,015
Uses/outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	$	74,671
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for *budgetary* purposes, but in the year the supplies are received for *financial reporting* purposes.		
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$	74,671

OTHER SUPPLEMENTARY INFORMATION

CAPITAL PROJECTS FUND

LONG-TERM DEBT

SUPPLEMENTAL DATA

EXHIBIT J-1

DOWNE TOWNSHIP FIRE DISTRICT NO. 2

SCHEDULE OF STATE AND FEDERAL FINANCIAL ASSISTANCE

FOR THE YEAR ENDED DECEMBER 31, 2016

State Funding Department	State Program	GMIS Number	Grant Award Amount	From	To	Balance 1/1/2016	Receipts or Revenue Realized	Expenditures	Balance 12/31/2016
Department of Community Affairs	Supplemental Fire Services Program	8030-150-041650	$ 301	1/1/2016	12/31/2016	$	$ 301	(301)	$

EXHIBIT J-2

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS

Cash - January 1, 2016		$ 105,439
Receipts:		
District Taxes	$ 82,631	
SFSP	301	
Interest	83	
		83,015
		188,454
Disbursements:		
Budget Appropriations	66,366	
Prior Year Accounts Payable	397	
LOSAP	3,150	
		69,913
Cash - December 31, 2016		$ 118,541

Analysis of Balance:

Balance Per Bank:		
Checking	$ 101,660	
CD	20,038	
Total Balance Per Bank		$ 121,698
Outstading Checks		(3,157)
		$ 118,541

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

GENERAL COMMENTS

We have audited the financial statements of the Downe Township Fire District No. 2 as of and for the year ended December 31, 2016 and have issued our report thereon dated February 28, 2017. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Downe Township Fire District No. 2 to the extent deemed necessary to evaluate the system as required by generally accepted auditing standards.

The purpose of our study and evaluation was to determine the nature, timing and extent of performing the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole.

The Board of Fire Commissioners of the Downe Township Fire District No. 2 is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the purpose described in the second paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of accounting control of the Downe Township Fire District No. 2 taken as a whole. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

The size of the staff is not large enough to achieve adequate segregation of duties. This can result in accounting errors or irregularities that may go undetected.

Therefore, to increase the likelihood of detecting material errors or irregularities at an early date, management should monitor and review the financial area and analytically review significant fluctuations between actual and budgeted results of operations. All significant fluctuations should be investigated and resolved in a timely manner.

These conditions were considered in determining the nature, timing and extent of audit tests to be applied in our audit of the financial statements dated February 28, 2017.

The report is intended solely for the use of management and the Division of Local Government Services and should not be used for any other purpose.

GENERAL COMMENTS (Continued)

CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER **N.J.S.** 40A:11-4

N.J.S. 40A:11-4 requires every appropriate contract or agreement shall be made or awarded only after public advertising for bids, except as provided otherwise by any other law for the sum exceeding the aggregate of $17,500.

The Board of Fire Commissioners has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold 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 no bids were requested by public advertisement in 2016 and our examination did not reveal any items required to be advertised for bids.

AWARD OF PURCHASES, CONTRACTS OR AGREEMENTS BY QUOTATIONS
N.J.S. 40A:11-6.1

Prior to the award of any purchase, contract or agreement, the District shall (except in the case of the performance of professional services) solicit quotations, whenever practicable, on any purchase, contract or agreement, the estimated cost or price of which is in excess of $2,625. The award shall be made on the basis of the lowest responsible quotation received, which quotation is most advantageous to the contracting unit, price and other factors considered; provided, however, that if the contracting agent deems it impracticable to solicit competitive quotations in the case of extraordinary, unspecifiable services, or, in the case of such or any other purchase, contract or agreement awarded hereunder, having sought such quotations received, the contracting agent shall file a statement of explanation of the reason or reasons therefore, which shall be placed on file with said purchase, contract or agreement. Our examination of expenditures revealed that solicitation of quotations was made when necessary.

OTHER GENERAL COMMENTS

Purchase Orders/Vouchers

Our review of the purchasing and disbursements procedure disclosed that purchase orders/vouchers were used and contained the appropriate signatures for approval. The selective encumbrance method of expenditures was implemented as required by directive of the Director of the Division of Local Government Services.

Minutes

Signed minutes of the meetings of the Commissioners were available, provided various sufficient detail and were signed and prepared on a timely basis.

PRIOR YEAR AUDIT FINDINGS

There were no prior year findings.

RECOMMENDATIONS

NONE

REPORTABLE CONDITIONS AND OTHER FINDINGS

The problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendation, please do not hesitate to call us.

APPRECIATION

We desire to express our appreciation for the assistance and courtesies rendered by the Fire District officials during the course of the audit.

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant