

DOWNE TOWNSHIP
FIRE DISTRICT NO. 2
COUNTY OF CUMBERLAND
REPORT OF AUDIT
DECEMBER 31, 2019

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 2019:

<u>NAME</u>	<u>TITLE</u>	<u>AMOUNT OF SURETY BOND</u>
<u>Board of Commissioners</u>		
Mark Upham Jr.	Chairman	
James Jacobson	Vice Chairman	
Daniel Jacobson	Treasurer	\$75,000
Megan Jacobson	Secretary	
John E. Laws	Commissioner	

FINANCIAL SECTION

NIGHTLINGER, COLAVITA & VOLPA

A Professional Association

Certified Public Accountants

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Williamstown, NJ 08094

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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, 2019, 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, 2019, 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 30 through 31 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 April 24, 2020 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
April 24, 2020

NIGHTLINGER, COLAVITA & VOLPA

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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, 2019, 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 April 24, 2020. 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, material weaknesses may exist that have not been identified.

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

Respectfully submitted,

NIGHTLINGER, COLAVITA & VOLPA, P.A.

Raymond Colavita, C.P.A.
Registered Municipal Accountant
April 24, 2020

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, 2019
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, 2019. 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 \$138,321 (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 \$92,359 an increase of \$3,207 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, provides a useful indicator of a government's financial position. In the case of the Downe Township Fire District No. 2, Assets exceeded Liabilities by \$132,321 at the close of the most recent year.

The Downe Township Fire District No. 2's Net Position is mostly unrestricted (64 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 2019 and 2018.

**Table 1
Net Position**

	<u>2019</u>	<u>2018</u>
Assets		
Cash and Cash Equivalents	\$ 132,321	\$ 98,338
Accounts Receivable		26,326
Capital Assets	45,962	49,972
	<u>178,283</u>	<u>174,636</u>
Liabilities		
Accounts Payable	937	2,587
Due LOSAP Trust Fund	1,200	1,800
Non-Current Liabilities:		
Reserve for LOSAP	37,825	31,125
	<u>39,962</u>	<u>35,512</u>
Net Position	<u>138,321</u>	<u>139,124</u>
Analysis of Net Position		
Invested in Capital Assets, Net of Related Debt	45,962	49,972
Unrestricted	92,359	89,152
	<u>138,321</u>	<u>139,124</u>
Total Net Position	<u>\$ 138,321</u>	<u>\$ 139,124</u>

In total, the Net Position of governmental activities decreased by \$803.

Total Liabilities increased when compared with last year, resulting from a decrease of \$1,650 in Accounts Payable, offset by a \$6,100 increase in the Reserve for LOSAP. Additionally, total Assets increased by \$3,647, which was comprised of an increase in cash of \$33,983, offset by a decrease in Accounts Receivable of \$26,326 and Capital Assets of \$4,010.

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 2019 and 2018.

**Table 2
Statement of Activities**

	2019	2018
Expenses		
Operating Expenses		
Administration	\$ 13,801	\$ 5,603
Cost of Operations and Maintenance	54,475	65,414
Depreciation Expense	11,690	12,244
LOSAP Contribution	7,900	7,900
Total Program Expenses	87,866	91,161
Program Revenues		
Operating Grants & Contributions	301	301
Net Program Expenses	87,565	90,860
Taxes:		
Property Taxes, Levied for General Purpose	83,431	83,281
Unrestricted Investment Earnings	35	46
Miscellaneous Revenues	3,296	5,499
Total General Revenues	86,762	88,826
Increase(Decrease) in Net Position	(803)	(2,034)
Net Position, January 1	139,124	141,158
Net Position, December 31	\$ 138,321	\$ 139,124

Property taxes constituted 96% of revenues for government activities for the Fire District for the year 2019.

Cost of Operations and maintenance comprises 62% of fire district expenses, with administration comprising 16%. Other expenses comprised 22%.

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 \$92,359, which was \$3,207 more than the prior year. This ending fund balance is comprised of \$66,359 in unassigned funds and \$26,000 in funds designated to support the 2020 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 2019 budget categories as follows (Only variances of \$500 or more are reflected):

Outside Services by \$975
Maintenance & Repair by \$2,868
Contingent by \$565
Replacement Equipment by \$2,813
Supplies by \$1,167
Training by \$764

Revenues decreased \$2,064 from the prior year and operating expenditures increased \$349 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 did not modify its 2019 general fund budget through budget transfers, thus resulting in five over-expenditures at year end.

The original budgetary revenue estimate of \$84,131 was the same as the final budget. This amount was made up of \$83,431 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 \$10,375 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, 2019 amounts to \$45,962. This investment in capital assets includes building improvements and firefighting equipment.

CAPITAL ASSETS NET OF ACCUMULATED DEPRECIATION

	<u>2019</u>	<u>2018</u>
Building Improvements	\$ 25,769	\$ 23,006
Firefighting Equipment	20,193	26,966
Total Capital Assets	<u>\$ 45,962</u>	<u>\$ 49,972</u>

Accumulated Depreciation was \$534,401 as of December 31, 2019.

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 2019, 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 2019 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 2020 budget January 14, 2020 and the voters subsequently approved the budget at the annual fire district election held on February 15, 2020.

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. Dan Jacobson, Treasurer, Downe Township Fire District No. 2, PO Box 1, Dividing Creek, NJ 08315.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
STATEMENT OF NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Governmental Activities</u>
ASSETS	
Cash and Cash Equivalents	\$ 132,321
Capital Assets, net (Note 3)	45,962
Total Assets	<u>178,283</u>
LIABILITIES	
Accounts Payable	937
Due LOSAP Trust Fund (Note 11)	1,200
Non-current Liabilities:	
Reserve for LOSAP (Note 11)	37,825
Total Liabilities	<u>39,962</u>
NET POSITION	
Invested in Capital Assets, Net of Related Debt	45,962
Unrestricted	92,359
Total Net Position	<u>\$ 138,321</u>

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
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Governmental</u> <u>Activities</u>
Expenses:	
Operating Appropriations:	
Administration	\$ 13,801
Cost of Operations and Maintenance	54,475
Depreciation Expense	11,690
Length of Service Award Program (LOSAP) - Contribution (P.L. 1997, c. 388)	7,900
Total Program Expenses	<u>87,866</u>
Program Revenues:	
Operating Grants and Contributions	301
Net Program Expenses	<u>87,565</u>
General Revenues:	
Taxes:	
Property Taxes, Levied for General Purposes	83,431
Unrestricted Investment Earnings	35
Miscellaneous	3,296
Total General Revenues	<u>86,762</u>
Increase in Net Position	(803)
Net Position, January 1	<u>139,124</u>
Net Position, December 31	<u>\$ 138,321</u>

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

FUND FINANCIAL STATEMENTS

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 132,321	\$ 132,321
Total Assets	<u>\$ 132,321</u>	<u>\$ 132,321</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts Payable	\$ 937	\$ 937
Due LOSAP Trust Fund (Note 11)	1,200	1,200
Reserve for LOSAP (Note 11)	37,825	37,825
Total Liabilities	<u>39,962</u>	<u>39,962</u>
Fund Balances:		
Assigned Fund Balance:		
Designated for Subsequent Years Expenditures	26,000	26,000
Unassigned, Reported in:		
General Fund	66,359	66,359
Total Fund balances	<u>92,359</u>	<u>92,359</u>
Total Liabilities and Fund Balances	<u>\$ 132,321</u>	

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 \$580,363 and the accumulated depreciation is \$534,401. (Note 3)

45,962

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

\$ 138,321

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

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Amount to be Raised by Taxation	\$ 83,431	\$ 83,431
Operating Grant Revenue	301	301
Miscellaneous Revenues	3,331	3,331
	<hr/>	<hr/>
Total Revenues	87,063	87,063
	<hr/>	<hr/>
EXPENDITURES		
Operating Appropriations:		
Administration	13,801	13,801
Cost of Operations and Maintenance	62,155	62,155
Length of Service Award Program (LOSAP) - Contribution (P.L. 1997, c. 388)	7,900	7,900
	<hr/>	<hr/>
Total Expenditures	83,856	83,856
	<hr/>	<hr/>
Excess (Deficiency) of Revenues Over Expenditures	3,207	3,207
	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES)		
Total Other Financing Sources and Uses		
	<hr/>	<hr/>
Net Change in Fund Balances	3,207	3,207
	<hr/>	<hr/>
Fund Balance—Jan 1	89,152	89,152
	<hr/>	<hr/>
Fund Balance—Dec 31	\$ 92,359	\$ 92,359
	<hr/> <hr/>	<hr/> <hr/>

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

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, 2019

Total net change in fund balances - governmental funds (from B-2) \$ 3,207

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	\$ (11,690)	
Capital outlays	7,680	
		(4,010)

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) \$ (803)

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, 2019

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
YEAR ENDED DECEMBER 31, 2019
(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.

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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Budgets and Budgetary Accounting (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

d. **Cash, Cash Equivalents and Investments (Continued)** -

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.

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

<u>Description</u>	<u>Estimated Lives</u>
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, 2019.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g. Capital Assets (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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.

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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o. Fund Balance- (Continued)

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. 83 - *Certain Asset Retirement Obligations*: This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The requirements of Statement will be effective for reporting periods beginning after June 15, 2018. The adoption of GASB 83 is not expected to impact the financial statements of the District.

- GASB No. 84 - *Fiduciary Activities*: The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of Statement will be effective for reporting periods beginning after December 15, 2018. The adoption of GASB 84 is not expected to impact the financial statements of the District.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has adopted the following GASB statements:

- GASB No. 88 – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*: The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The adoption of GASB 88 is not expected to impact the financial statements of the District.
- GASB No. 90 - *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*: The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The adoption of GASB 90 is not expected to impact the financial statements of the District.

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

- GASB No. 87 - *Leases*: The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of Statement will be effective for reporting periods beginning after December 15, 2019. The Board is evaluating the potential impact of the adoption of GASB 87 on the District’s financial statements.
- GASB No. 89 - *Accounting for Interest Cost Incurred before the End of a Construction Period*: The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management is evaluating the potential impact of the adoption of GASB 89 on the District’s financial statements.
- GASB No. 91 – *Conduit Debt Obligations*: The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Management is evaluating the potential impact of the adoption of GASB 91 on the District’s financial statements.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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 and presentation of GUDPA certifications provided by the financial institutions. As of December 31, 2019, the District's bank balance of \$132,321 was exposed to custodial credit risk as follows:

Insured	\$ 132,321
Uninsured and collateralized with securities held by pledging financial institutions	
	\$ 132,321

3. CAPITAL ASSETS

Capital Asset activity for the year ended December 31, 2019 was as follows:

	Balance December 31, 2018	Additions	Deletions	Balance December 31, 2019
Land, Building, & Improve	\$ 108,468	\$ 5,560	\$	\$ 114,028
Vehicles	284,630			284,630
Equipment	179,585	2,120		181,705
Totals at Historical Cost	572,683	7,680		580,363
Less Accum. Depreciation for:				
Land, Build & Improve	(85,461)	(2,798)		(88,259)
Vehicles	(284,630)			(284,630)
Equipment	(152,620)	(8,892)		(161,512)
Total Accum. Depreciation	(522,711)	(11,690)		(534,401)
Capital Assets, Net	\$ 49,972	\$ (4,010)	\$	\$ 45,962

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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:

<u>Fiscal Year</u>	<u>Assessed Valuations</u>	<u>Total Tax Levy</u>	<u>Property Tax Rates</u>
2019	\$ 42,300,700	\$ 83,431	.198
2018	42,802,900	83,281	.195
2017	42,949,300	83,281	.194
2016	42,761,717	82,631	.194
2015	43,195,172	82,171	.191

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:

<u>Year</u>	<u>End of Year</u>		<u>Designated Subsequent Budget</u>	
	<u>Restricted</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Unrestricted</u>
2019	\$	\$ 92,359	\$	\$ 26,000
2018		89,152		10,100
2017		83,532		10,250
2016		91,836		20,250
2015		83,492		10,900

7. DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGET

There were no deferred charges to be raised in 2019.

8. LITIGATION

The District did not consult a Solicitor regarding any litigation, claims, or assessments during 2019.

9. SUBSEQUENT EVENTS

None

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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 – If an active member meets the required years of active service, the LOSAP must provide a benefit between the minimum contribution of \$100 and a maximum contribution of \$1,150 per year. While the maximum amount was established by statute, it is subject to periodic increases related to the consumer price index (N.J.S.A. 40A:14-185) and provided for in a resolution of the Fire District. The Division of Local Government Services issues the permitted maximum annually, which is \$1,742 for 2019.

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.

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

11. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) (Continued)

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 2018.

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 2019 LOSAP contribution to be \$1,200. This amount has been accrued and is reflected in the Statement of Net Position.

Investments – All investment balances at December 31, 2019 are certified by Lincoln Financial Group and are valued at market value as stated by Lincoln Financial Group. As of December 31, 2019, the fair market value of the plan investments was \$52,444, which includes the 2018 District contribution of \$1,800.

Reserve - During 2019, the Reserve for LOSAP activity was as follows:

	<u>LOSAP Reserve</u>
Balance as of December 31, 2018	\$ 31,125
Increased by:	
Transfer from 2019 Budget	7,900
	<u>39,025</u>
Decreased by:	
2019 Board Contribution	1,200
Balance as of December 31, 2019	<u><u>\$ 37,825</u></u>

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

11. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) (Continued)

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

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2019
(WITH TOTALS FOR 2018)

	2019			Variance	2018
	Original Budget	Modified Budget	Actual	Favorable (Unfavorable)	Actual
<u>Revenues</u>					
Revenues and Other Financing Sources:					
Miscellaneous Revenues:					
Interest Earned	\$ 100	\$ 100	\$ 35	\$ (65)	\$ 46
Miscellaneous Revenue			3,296	3,296	5,499
Total Miscellaneous Revenues	100	100	3,331	3,231	5,545
Operating Grant Revenue:					
Supplemental Fire Services Program	600	600	301	(299)	301
Total Operating Grant Revenue	600	600	301	(299)	301
District Taxes to Support the District Budget:					
Operating and Maintenance	83,431	83,431	83,431		83,281
Total Revenues and Other Financing Sources	\$ 84,131	\$ 84,131	\$ 87,063	\$ 2,932	\$ 89,127
<u>Expenditures</u>					
Operating Appropriations:					
Administration:					
Commissioners	\$ 500	\$ 500	\$	\$ 500	\$ 500
Advertising	1,000	1,000	621	379	155
Election	300	300	224	76	115
Office Expense	200	440	440		281
Contingent Expenses	1,500	6,008	6,008		
Professional Fees	5,763	6,508	6,508		4,552
Total Administration	9,263	14,756	13,801	955	5,603
Cost of Operations and Maintenance:					
Utilities	6,000	6,000	5,837	163	6,485
Supplies	2,500	2,500	1,333	1,167	894
Agreement to Fight Fires - NJSA 40A:14-70.1	20,000	20,000	20,000		20,000
Contingent Expenses	565	565		565	492
Replacement Equipment	12,503	12,503	9,690	2,813	7,310
Outside Services	1,000	1,000	25	975	1,255
Insurance	26,500	22,500	22,395	105	27,142
Maintenance and Repairs	6,600	4,967	2,099	2,868	5,311
Website	400	540	540		95
Training	1,000	1,000	236	764	1,020
Total Other Operating and Maintenance	77,068	71,575	62,155	9,420	70,004
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	\$ 83,856	\$ 10,375	\$ 83,507
Excess (Deficit) of Revenue Over Expenditures	\$ (10,100)	\$ (10,100)	\$ 3,207	\$ 13,307	\$ 5,620
Fund Balance - Beginning of Year	89,152	89,152	89,152		83,532
Fund Balance - End of Year	\$ 79,052	\$ 79,052	\$ 92,359	\$ 13,307	\$ 89,152

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTE TO RSI
FOR THE YEAR ENDED DECEMBER 31, 2019

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

	<u>General Fund</u>
Sources/inflows of resources	
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	\$ 87,063
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.	<u>\$ 87,063</u>
Uses/outflows of resources	
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	\$ 83,856
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for <i>budgetary</i> purposes, but in the year the supplies are received for <i>financial reporting</i> purposes.	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 83,856</u>

OTHER SUPPLEMENTARY INFORMATION

DOWNE TOWNSHIP FIRE DISTRICT NO. 2
SCHEDULE OF STATE AND FEDERAL FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>State Funding Department</u>	<u>State Program</u>	<u>GMIS Number</u>	<u>Grant Award Amount</u>	<u>From</u>	<u>To</u>	<u>Balance 1/1/2019</u>	<u>Receipts or Revenue Realized</u>	<u>Expenditures</u>	<u>Balance 12/31/2019</u>
Department of Community Affairs	Supplemental Fire Services Program	8030-150-041650	\$ 301	1/1/2019	12/31/2019	\$	\$ 301	(301)	\$

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

Cash - January 1, 2019		\$	98,338
Receipts:			
District Taxes	\$	109,757	
SFSP		301	
Interest		35	
Miscellaneous		3,297	
		<hr/>	113,390
			<hr/>
			211,728
Disbursements:			
Budget Appropriations		75,020	
Prior Year Accounts Payable		2,587	
LOSAP		1,800	
		<hr/>	79,407
			<hr/>
Cash - December 31, 2019		\$	<u><u>132,321</u></u>

Analysis of Balance:

Balance Per Bank:			
Checking	\$	132,321	
Total Balance Per Bank		<hr/>	\$ 132,321
Outstanding Checks			
			<hr/>
			<u><u>\$ 132,321</u></u>

GENERAL COMMENTS

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, 2019 and have issued our report thereon dated April 24, 2020. 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 April 24, 2020.

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 indicated that one bid was requested by public advertisement in 2019.

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

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.

**DOWNE TOWNSHIP FIRE DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Schedule of Financial Statement Findings

REPORTABLE CONDITIONS AND OTHER FINDINGS

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

None

**DOWNE TOWNSHIP FIRE DISTRICT NO. 2
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Schedule of Financial Statement Findings (Continued)

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

1) Material weakness (es) identified? _____ yes X no

2) Significant deficiencies identified? _____ yes X no

Noncompliance material to basic
financial statements noted? _____ yes X no

STATUS OF PRIOR YEAR AUDIT FINDINGS

Finding No. 2018 - 1

Status: Resolved

Finding No. 2018 - 2

Status: Resolved

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