

**FIRE DISTRICT NO. 1
BOROUGH OF PINE HILL, NEW JERSEY
REPORT OF AUDIT
WITH SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED
DECEMBER 31, 2012**

**FIRE DISTRICT NO. 1
BOROUGH OF PINE HILL, NEW JERSEY**

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BOROUGH OF PINE HILL, NEW JERSEY

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**FIRE DISTRICT NO. 1
BOROUGH OF PINE HILL, NEW JERSEY**
Roster of Officials and Surety Bonds

| <u>Name</u> | <u>Title</u> | <u>Amount of Surety Bond</u> |
|--------------------------------------|-----------------------------|----------------------------------|
| <u>Board of Commissioners</u> | | |
| Charles Warrington | Chairman | (A) |
| James Wakely | Vice-Chairman | (A) |
| George Borchert | Secretary | (A) |
| Kevin Waddington | Treasurer | (A) |
| Fred Costantino | Director of Personnel | (A) |
| Maria Hassett | Fire District Administrator | (A) |

(A) Crime Policy – Crime coverage including \$1,000,000.00 for management liability, \$250,000.00 treasurer's bond and \$250,000.00 blanket employees theft bond through VFIS Insurance Group.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Fire District No. 1
Borough of Pine Hill
Pine Hill, New Jersey 08021

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, and each major fund of the Borough of Pine Hill Fire District No. 1, in the County of Camden, State of New Jersey, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 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 Fire District'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 Fire District's internal control. Accordingly, we express no such opinion. An audit 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Borough of Pine Hill Fire District No. 1, in the County of Camden, State of New Jersey as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information 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 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 Borough of Pine Hill Fire District No. 1's basic financial statements. The related major fund supporting statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements and schedules previously referred to are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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 June 10, 2013 on our consideration of the Borough of Pine Hill Fire District No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of Pine Hill Fire District No. 1's internal control over financial reporting and compliance.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
June 10, 2013

**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

Board of Fire Commissioners
Fire District No. 1
Borough of Pine Hill
Pine Hill, New Jersey 08043

We have audited, in accordance with the 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 the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the governmental activities, and each major fund of the Borough of Pine Hill Fire District No. 1, in the County of Camden, State of New Jersey, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Fire District's basic financial statements, and have issued our report thereon dated June 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough of Pine Hill Fire District No. 1's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of Borough of Pine Hill Fire District No. 1's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of Pine Hill Fire District No. 1's financial statements are free from 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, and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

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 Fire District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the Fire District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
June 10, 2013

**REQUIRED SUPPLEMENTARY INFORMATION
PART I**

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

As management of the Borough of Pine Hill Fire District No. 1 (hereafter referred to as the "Fire District"), we offer readers of the Fire District's financial statements this narrative overview and analysis of the financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the Fire District's financial performance as a whole; readers should also review the information furnished in the notes to the basic financial statements and financial statements to enhance their understanding of the Fire District's financial performance.

FINANCIAL HIGHLIGHTS

- The net position of the Fire District, which represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources, totaled \$513,401.06 at the close of the current year.
- As of the close of the current year, the Fire District's governmental funds reported combined ending fund balances of \$521,636.22, an increase of \$11,123.79 in comparison with the prior year.
- At the end of the current year, unassigned fund balance for the general fund was \$269,438.57, approximately a nine percent (9%) increase from that of the prior year.
- The Fire District's total bonded debt decreased by \$105,000.00 as a result of budgeted debt payments.
- The Fire District entered into a capital lease in January 2012 in the principal amount of \$562,440.00 and decreased by \$49,093.74 as a result of budgeted debt payments.

USING THIS REPORT OF AUDIT

This report of audit consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the Fire District as a whole and present a longer-term view of the Fire District's finances. Fund financial statements for the governmental activities tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Fire District's operations in more detail than the government-wide statements by providing information about the Fire District's most significant funds.

Reporting the Fire District as a Whole

One of the most important questions asked about the Fire District's finances is, "Is the Fire District as a whole better off or worse off as a result of the year's activities?" The statement of net position and the statement of activities report information about the Fire District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets, deferred outflows of resources, liabilities, and deferred inflows of resources using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Fire District's *net position* and changes in it. You can think of the Fire District's net position - which represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources - as one way to measure the Fire District's financial health, or *financial position*. Over time, *increases or decreases* in the Fire District's net position is one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Fire District's property tax base and the condition of the Fire District's capital assets, to assess the *overall health* of the Fire District.

In the statement of net position and the statement of activities, we divide the Fire District into one kind of activity, that being governmental activities. This is where all of the Fire District's basic services are reported, which include fire-fighting and emergency medical services. Property taxes, uniform fire safety act fees, and state and federal grants primarily finance these activities.

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

USING THIS REPORT OF AUDIT (CONT'D)

Reporting the Fire District's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds, not the Fire District as a whole. 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 Fire District, 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 Fire District constitute one fund type, that being governmental funds.

Governmental funds - All of the Fire District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the Fire District's fund balances by law, creditors, Fire District board of commissioners, and the Fire District's annually adopted budget. Unassigned fund balance is available for spending for any purpose. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Fire District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Fire District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in a reconciliation at the bottom of the fund financial statements.

The Fire District maintains 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 debt service fund.

THE FIRE DISTRICT AS A WHOLE

During 2012, the Fire District's net position increased by \$13,801.10, increasing from \$499,599.96 in 2011 to \$513,401.06 in 2012. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Fire District's governmental-type activities.

| TABLE 1 | | |
|-----------------------------------|--------------------|--------------------|
| NET POSITION | | |
| | <u>2012</u> | <u>2011</u> |
| Current and Other Assets | \$ 548,411.18 | \$ 541,101.08 |
| Capital Assets | 749,763.09 | 337,641.36 |
| Total Assets | 1,298,174.27 | 878,742.44 |
| Other Liabilities | 31,658.03 | 36,641.53 |
| Long-Term Liabilities Outstanding | 753,115.18 | 342,500.95 |
| Total Liabilities | 784,773.21 | 379,142.48 |
| Net Investment in Capital Assets | 21,416.83 | 17,641.35 |
| Restricted for: | | |
| Capital Projects | 150,000.00 | 150,000.00 |
| Unrestricted | 341,984.23 | 331,958.61 |
| Total Net Position | \$ 513,401.06 | \$ 499,599.96 |

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Management's Discussion and Analysis

For the Year Ended December 31, 2012

(Unaudited)

THE FIRE DISTRICT AS A WHOLE (CONT'D)

In total, assets of governmental activities increased by \$419,431.83 and liabilities increased by \$405,630.73. The increase in assets & liabilities was primarily attributable entering in a new capital lease agreement for a new fire truck in the amount of \$562,440.00 along with depreciation of \$150,318.26 of capital assets currently used for operations. The increase in liabilities primarily resulted from entering the capital lease agreement, the pay down of general obligation bonds in the amount of \$105,000.00 in principal and the pay down of the capital lease in the amount of \$49,093.74.

Four percent (4%), or \$21,416.83 of the Fire District's net position at the end of the current year reflects its net investment in capital assets (i.e., vehicles and equipment). This component represents capital assets, net of accumulated depreciation, and net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets. The Fire District uses these assets to provide fire-fighting services to the citizens of the Borough of Pine Hill; consequently, these assets are not available for future spending. Although the Fire District'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 sources since the capital assets themselves cannot be used to liquidate these liabilities.

An additional component of the Fire District's net position, approximately twenty-nine percent (29%), or \$150,000.00, represents resources that are restricted. This amount consists of amounts restricted for voter-approved capital projects and payment of debt service.

The third and final component of net position is unrestricted. The unrestricted net position represents forty-seven percent (67%), or \$341,984.23 of total net position. This component represents resources and uses that do not meet the criteria of the aforementioned two components of net position.

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| Expenses: | | |
| Operating Appropriations: | | |
| Administration | \$ 180,123.77 | \$ 173,093.94 |
| Cost of Operations and Maintenance | 667,842.30 | 557,429.89 |
| Interest on Long-Term Debt | 30,515.66 | 15,372.93 |
| Total Program Expenses | <u>878,481.73</u> | <u>745,896.76</u> |
| General Revenues: | | |
| Taxes: | | |
| Property Taxes, Levied for General Purposes | 673,854.00 | 654,225.18 |
| Property Taxes, Levied for Debt Service | 186,407.00 | 117,153.82 |
| State Aid Unrestricted | 3,945.00 | 3,945.00 |
| Miscellaneous Income | 28,076.83 | 37,096.50 |
| Total General Revenues | <u>892,282.83</u> | <u>812,420.50</u> |
| Change in Net Position | 13,801.10 | 66,523.74 |
| Net Position, January 1 | <u>499,599.96</u> | <u>433,076.22</u> |
| Net Position, December 31 | <u>\$ 513,401.06</u> | <u>\$ 499,599.96</u> |

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

THE FIRE DISTRICT AS A WHOLE (CONT'D)

During 2012, the Fire District's revenues increased by \$79,862.30, increasing from \$812,420.50 in 2011 to \$892,282.83 in 2012. The increase is largely attributable to an increase in the Fire District tax rate from 1.45% in 2011 to 1.62% in 2012. In regards to expenses, the Fire District experienced an increase of \$132,584.97, increasing from \$745,896.76 in 2011 to \$878,481.73 in 2012. The increase in expenditures and revenues is largely attributable to the first budgeted capital lease payment in the combined principal and interest amount of \$67,572.94.

Property taxes constituted approximately ninety-six percent (96%) of total revenues for governmental activities for the Fire District for the year 2012. In addition, miscellaneous revenues, which resulted primarily from fees for smoke detector and donations, constituted approximately four percent (4%) of total revenues for governmental activities.

Cost of operations and maintenance comprised approximately seventy-six percent (76%) of Fire District expenses, with administration comprising approximately twenty-one percent (21%) of total expenses. The remaining three percent (3%) of expenses resulted from costs incurred for fire official activities and mandatory debt service principal and interest payments.

THE FIRE DISTRICT'S FUNDS

As the Fire District completed the year, its governmental funds reported a *combined* fund balance of \$521,636.22, which is higher than last year's total of \$510,512.43. Of the combined ending fund balances of \$521,636.22, approximately fifty-one percent (51%) constitutes unassigned fund balance in the amount of \$268,066.37. The remainder of fund balance is assigned / restricted to indicate that it is not available for new spending because it has already been assigned as follows: (1) restricted for voter-approved capital projects (\$150,000.00), (2) to liquidate encumbrances and purchase orders of the prior period (\$12,569.85), and (3) designated for subsequent year's expenditures (\$91,000.00).

General fund - The general fund is the general operating fund of the Fire District and is used to account for the inflows and outflows its of financial resources. The acquisition of certain capital assets, such as fire-fighting and emergency medical apparatus and equipment, is accounted for in the general fund when it is responsible for the financing of such expenditures. At the end of the current year, unassigned fund balance of the general fund was \$268,066.37.

During the current year, the fund balance of the Fire District's general fund increased by \$11,123.79. The primary factor affecting the fund balance of the general fund was the increase in the tax levy and the first budgeted debt payment for the capital lease.

Special revenue fund - The special revenue fund is used to account for and report the proceeds of specific revenue sources, such as state or federal government grants, that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Fire District did not have any activity in this fund during the current year.

Capital projects fund - The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities such as fire houses, firefighting apparatus, and equipment. Generally, the financial resources of the capital projects fund are derived from the issuance of debt or by the utilization 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. The Fire District did not have any activity in this fund during the current year.

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 Management's Discussion and Analysis
 For the Year Ended December 31, 2012
 (Unaudited)

THE FIRE DISTRICT'S FUNDS (CONT'D)

Debt service fund - The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. For the current year, the Fire District expended \$154,093.74 and \$31,685.46, representing the payment of mandatory principal and interest, respectively.

General Fund Budgetary Highlights

During the months of November and December of the current year, the Fire District modified its general fund budget through budgetary line item transfers approved by the governing body. The net change in the total budget modification resulted from the rollover of the prior year's encumbrances, which were expensed in 2012.

The final budgetary basis revenue estimate was \$677,799.00, which decreased \$1,000.00 from the original budget estimate due to \$1,000.00 being transferred to debt service.

In addition, during the current year, the Fire District budgeted \$674,854.00 for property taxes (local tax levy).

The final budgetary basis expenditure appropriation estimate was \$791,080.08 compared to the original estimate of \$758,799.00. The difference of \$33,281.08 was a result of the appropriation of prior year encumbrances in the amount of \$32,281.08 and a transfer to debt service in the amount of \$1,000.00.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Fire District's net investment in capital assets for its governmental activities as of December 31, 2012 amounts to a historical cost of \$2,226,385.16, or \$749,763.09 net of accumulated depreciation (see Table 3 below). This net investment in capital assets includes land, buildings and improvements, vehicles, equipment, office equipment, and computer equipment. Net capital assets increased by \$412,121.73 in 2012 from 2011. The increase was primarily attributable in the current year to the new fire truck purchase through a capital lease in the amount of \$562,440.00 less the current year depreciation of capital assets of \$150,318.26.

| TABLE 3 | | |
|--|----------------------|----------------------|
| CAPITAL ASSETS AT YEAR END | | |
| (NET OF ACCUMULATED DEPRECIATION) | | |
| | <u>2012</u> | <u>2011</u> |
| Vehicles | \$ 168,668.66 | \$ 311,263.14 |
| Fire Equipment | 580,754.07 | 25,697.52 |
| Office Equipment | 340.36 | 680.70 |
| | \$ 749,763.09 | \$ 337,641.36 |
| Total | \$ 749,763.09 | \$ 337,641.36 |

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
Management's Discussion and Analysis
For the Year Ended December 31, 2012
(Unaudited)

CAPITAL ASSET AND DEBT ADMINISTRATION (CONT'D)

Capital Assets (Cont'd)

Major capital asset events during the year include the following:

- The Fire District purchased one (1) 2012 E-One Rescue Pumper for \$562,440.00.
- The Fire District had depreciation expense of \$150,318.26 during 2012.

Additional information on the Fire District's capital assets can be found in note 4.

Debt

General Obligation Bonds. At the end of the current year, the Fire District had total bonded debt outstanding of \$215,000.00. The 2012 adopted budget had an appropriation of \$105,000 representing the payment of the annual principal on the outstanding general obligation bonds (refer to audit exhibit I-1, schedule of general obligation bonds, for more detail).

Capital Leases Payable. At the end of the current year, the Fire District had a capital lease outstanding of \$513,346.26. The 2012 adopted budget had an appropriation of \$49,093.74 representing the payment of the annual principal on the capital lease (refer to audit exhibit I-2, schedule of obligations under capital leases, for more detail).

Compensated Absences. At the end of the current year, the liability for compensated absences was \$24,768.92. Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. Additional information on compensated absences can be found in note 11.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For the 2012 year, the Fire District was able to sustain its budget through property taxes, uniform fire safety act annual registration fees, interest on investments and deposits, and other miscellaneous revenue sources. Approximately ninety-six percent (96%) of total revenue is from property taxes, while less than one percent (1%) of the Fire District's revenue is from federal, state, and local sources. The 2013 budget was adopted January 13, 2013 by the Commissioners, and was subsequently approved by the voters at the annual fire district election on February 7, 2013.

CONTACTING THE FIRE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Fire District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Maria Hassett, Fire District Administrator, at the Borough of Pine Hill Fire District No. 1, 1109 Erial Road, Pine Hill, New Jersey 08021, or email at mhassett@pinehillboronj.com.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Statement of Net Position

December 31, 2012

ASSETS:

| | |
|--------------------------------------|---------------------|
| Cash and Cash Equivalents | \$ 381,105.66 |
| Prepaid Expenses | 17,305.52 |
| Restricted Assets: | |
| Restricted Cash and Cash Equivalents | 150,000.00 |
| Capital Assets, net (Note 4) | <u>749,763.09</u> |
| Total Assets | <u>1,298,174.27</u> |

LIABILITIES:

| | |
|----------------------------------|-------------------|
| Accounts Payable | 26,774.96 |
| Accrued Interest Payable | 4,883.07 |
| Noncurrent Liabilities (Note 5): | |
| Due within One Year | 154,448.06 |
| Due beyond One Year | <u>598,667.12</u> |
| Total Liabilities | <u>784,773.21</u> |

NET POSITION:

| | |
|----------------------------------|----------------------|
| Net Investment in Capital Assets | 21,416.83 |
| Restricted for: | |
| Capital Projects | 150,000.00 |
| Unrestricted | <u>341,984.23</u> |
| Total Net Position | <u>\$ 513,401.06</u> |

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

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Statement of Activities

For the Year Ended December 31, 2012

| | | |
|--|----|--------------------------|
| Expenses: | | |
| Operating Appropriations: | | |
| Administration | \$ | 180,123.77 |
| Cost of Operations and Maintenance | | 667,842.30 |
| Interest on Long-Term Debt | | <u>30,515.66</u> |
| Total Program Expenses | | <u>878,481.73</u> |
| General Revenues: | | |
| Taxes: | | |
| Property Taxes, Levied for General Purposes | | 674,481.80 |
| Taxes Levied for Debt Service | | 185,779.20 |
| State Aid Unrestricted | | 3,945.00 |
| Miscellaneous Income | | <u>28,076.83</u> |
| Total General Revenues | | <u>892,282.83</u> |
| Change in Net Position | | 13,801.10 |
| Net Position, January 1 (Restated) (Note 13) | | <u>499,599.96</u> |
| Net Position, December 31 | \$ | <u><u>513,401.06</u></u> |

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

FUND FINANCIAL STATEMENTS

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
Balance Sheet
Governmental Funds
December 31, 2012

| | General Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|---------------------------------------|----------------------|-----------------------------|-------------------------|--------------------------------|
| ASSETS: | | | | |
| Cash and Cash Equivalents | \$ 381,105.66 | \$ 150,000.00 | \$ | \$ 531,105.66 |
| Prepaid Expenses | <u>17,305.52</u> | <u></u> | <u></u> | <u>17,305.52</u> |
| Total Assets | <u>398,411.18</u> | <u>150,000.00</u> | <u>-</u> | <u>548,411.18</u> |
| LIABILITIES AND FUND BALANCES: | | | | |
| Liabilities: | | | | |
| Accounts Payable | <u>26,774.96</u> | <u></u> | <u></u> | <u>26,774.96</u> |
| Total Liabilities | <u>26,774.96</u> | <u>-</u> | <u>-</u> | <u>26,774.96</u> |
| Fund Balances: | | | | |
| Restricted: | | | | |
| Capital Projects | | 150,000.00 | | 150,000.00 |
| Assigned: | | | | |
| Subsequent Year's Expenditures | 91,000.00 | | | 91,000.00 |
| Other Purposes | 12,569.85 | | | 12,569.85 |
| Unassigned | <u>268,066.37</u> | <u></u> | <u></u> | <u>268,066.37</u> |
| Total Fund Balances | <u>371,636.22</u> | <u>150,000.00</u> | <u>-</u> | <u>521,636.22</u> |
| Total Liabilities and Fund Balances | <u>\$ 398,411.18</u> | <u>\$ 150,000.00</u> | <u>\$ -</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 \$2,226,385.16, and the accumulated depreciation is \$1,476,622.07.

749,763.09

Accrued interest payable is not due and payable in the current period and, therefore, is not reported as liabilities in the funds.

(4,883.07)

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.

(753,115.18)

Net position of governmental activities

\$ 513,401.06

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

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--------------------------------------|----------------------------------|---|
| REVENUES: | | | | |
| Operating Grant Revenue | \$ 3,945.00 | | | \$ 3,945.00 |
| Amount to be Raised by Taxation to Support the District Budget | 674,481.80 | | \$ 185,779.20 | 860,261.00 |
| Non-Budgetary Revenues | <u>28,076.83</u> | | | <u>28,076.83</u> |
| Total Revenues | <u>706,503.63</u> | <u>-</u> | <u>185,779.20</u> | <u>892,282.83</u> |
| EXPENDITURES: | | | | |
| Operating Appropriations: | | | | |
| Administration | 179,752.92 | | | 179,752.92 |
| Cost of Operations and Maintenance | 515,626.92 | | | 515,626.92 |
| Debt Service: | | | | |
| Principal | | | 154,093.74 | 154,093.74 |
| Interest and Other Charges | | | <u>31,685.46</u> | <u>31,685.46</u> |
| Total Expenditures | <u>695,379.84</u> | <u>-</u> | <u>185,779.20</u> | <u>881,159.04</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>11,123.79</u> | <u>-</u> | <u>-</u> | <u>11,123.79</u> |
| Fund Balance, January 1 | <u>360,512.43</u> | \$ 150,000.00 | <u>-</u> | <u>510,512.43</u> |
| Fund Balance, December 31 | <u>\$ 371,636.22</u> | <u>\$ 150,000.00</u> | <u>\$ -</u> | <u>\$ 521,636.22</u> |

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

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 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, 2012

| | | |
|---|------------------------|-------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 11,123.79 |
| 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 | \$ <u>(150,318.26)</u> | (150,318.26) |
| Repayment of long-term debt 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. | | 154,093.74 |
| Interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. This amount is the net effect of the difference in the treatment of interest on long-term debt. | | 1,169.80 |
| In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+). | | <u>(2,267.97)</u> |
| Change in Net Position of Governmental Activities | \$ | <u>13,801.10</u> |

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

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Notes to Financial Statements
For the Year Ended December 31, 2012

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity - Fire District No. 1 of the Borough of Pine Hill (the "Fire District") is a political subdivision of the Borough of Pine Hill (the "Borough"), Camden County, New Jersey. It was formed in January, 1988. 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 taxing 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. 1 of the Borough of Pine Hill has one fire company within its jurisdiction, the Pine Hill Fire Company.

Component Units - GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, provide guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statements No. 14 and No. 39. In addition, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, provides additional guidance for organizations that do not meet the financial accountability criteria for inclusion as component units but that nevertheless should be included because the primary government's management determines that it would be misleading to exclude them. As of December 31, 2012, it has been determined by the Fire District that no component units exist.

Basis of Presentation - The financial statements of the Fire District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fire District's accounting policies are described in this note.

The Fire District's basic financial statements consist of government-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.

Government-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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Basis of Presentation (Cont'd)**

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 the Fire District, only one category of funds exists, that being governmental.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Fire District's major governmental funds:

General Fund - The general fund is the general operating fund of the Fire District and is used to account for the inflows and outflows its 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 and report the proceeds of specific revenue sources, such as state or federal government grants, that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Fund - The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities such as fire houses and firefighting apparatus. Generally, the financial resources of the capital projects fund are derived from the issuance of debt or by the utilization 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 and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflow of resources, liabilities, and deferred inflows of resources associated with the operation of the Fire District are included on the statement of net position.

Fund Financial Statements - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue and in the presentation of expenses versus expenditures.

Revenues -- Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Fire District, available means expected to be received within thirty days of year-end.

Non-exchange transactions, in which the Fire District receives value without directly giving equal value in return, include Ad Valorem (property) taxes, grants, entitlements, and donations. Ad Valorem (property) taxes are susceptible to accrual, as under New Jersey State Statute, a municipality is required to remit to its fire district the entire balance of taxes in the amount voted upon or certified, prior to the end of the fire district year. The Fire District records the entire approved tax levy as revenue (accrued) at the start of the year since the revenue is both measurable and available. The Fire District is entitled to receive moneys under the following established payment 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. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Fire District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Fire District on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: grants, fees, and rentals.

Expenses / Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgets / Budgetary Control - 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 hearing must not be held less than twenty-eight days after the date the budget was introduced. After the hearing has been held, the fire commissioners may, by majority vote, adopt the budget.

Amendments may be made to the Fire District budget in accordance with N.J.S.A. 40A:14-78.3. The budget may not be amended subsequent to its final adoption and approval, except for provisions allowed by N.J.S.A. 40A:14-78.5.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Budgets / Budgetary Control (Cont'd) - 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 fund financial statements.

Amounts reported under "final budget" on exhibits C-1 and I-3 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, the special revenue fund budgetary comparison schedule, and the capital projects fund summary statement of project expenditures - budgetary, 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. Encumbrances are a component of fund balance at year end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services. Open encumbrances in the governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included with committed or assigned fund balance, as appropriate.

Open encumbrances in the special revenue fund, however, for which the Fire District has received advances of grant awards, and all eligibility and time requirements satisfied are reflected on the balance sheet as unearned grant revenue at year end.

The encumbered appropriation authority carries over into the next year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current year end.

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. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governments are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 40A:5-15.1 provides a list of permissible investments that may be purchased by New Jersey governments.

Additionally, the Fire District has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Cash, Cash Equivalents and Investments (Cont'd) - N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include 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 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.

Inventories - Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out method.

The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed.

Inventories recorded on the government-wide financial statements are recorded as expenditures when consumed rather than when purchased. As of December 31, 2012, no material amount of inventories existed.

Prepaid Expenses - Prepaid expenses recorded in the governmental fund types, which benefit future periods, are recorded as an expenditure during the year of purchase. Prepaid expenses recorded on the government-wide financial statements represent payments made to vendors for services that will benefit periods beyond December 31, 2012.

Allowance for Doubtful Accounts - Management has not had the need to establish a policy of recording an allowance for doubtful accounts based upon the aging of receivable balances.

Short-Term Interfund Receivables / Payables - Short-term interfund receivables / payables represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund in the Fire District and that are due within one year. These amounts are eliminated in the governmental column of the statement of net position.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the government-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 \$2,000.00. The Fire District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets (Cont'd) - Depreciation is computed using the straight-line method over the following useful lives:

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Buildings and Improvements | 10-20 Years |
| Computer Equipment | 5 Years |
| Equipment | 5 Years |
| Office Equipment | 5 Years |
| Vehicles | 10 Years |

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 of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000.00 or two percent (2%) of the assessed valuation of property, whichever is larger.

Deferred Loss on Refunding - Deferred loss on refunding arising from the issuance of the refunding general obligation bonds is recorded as a deferred outflow of resources. It is amortized in a systematic and rational manner over the duration of the related debt as a component of interest expense.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Fire District is eligible to realize the revenue.

Accrued Liabilities and Long-Term Obligations - All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Bond Discount and Bond Premium - Bond discount and bond premium arising from the issuance of the general obligation bonds are recorded as liabilities. They are amortized in a systematic and rational manner over the duration of the related debt as a component of interest expense. Bond discount and bond premium are presented as an adjustment of the face amount on the bonds.

Compensated Absences - Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the Fire District and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the Fire District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid with expendable available financial resources.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for the 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 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.

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 policies for determining such classifications, are as follows:

Nonspendable - The nonspendable fund balance classification includes 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 (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can only 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 has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business manager is established by way of a 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Fund Balance (Cont'd) -**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, it is the policy of the Fire District to spend restricted fund balances first. Moreover, when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the Fire District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

Interfunds - Interfund receivables and payables that arise from transactions between funds are recorded by all funds affected by such transactions in the period in which the transaction is executed.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Standards Adopted - During the year ended December 31, 2012, the Fire District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34

Issued in November 2010, the objective of this Statement is to improve financial reporting for a governmental financial reporting entity. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement had no impact on the financial statements of the Fire District for the year ended December 31, 2012.

Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Issued in June 2011, this Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

This Statement only impacted financial statement terminology as opposed to financial statement reporting for the year ended December 31, 2012.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**New Accounting Standards Adopted (Cont'd) -*****Statement No. 65, Items Previously Reported as Assets and Liabilities***

Issued in March 2012, this Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

Implementation of this statement affected the amount and classification of a few balances (see note 13).

Note 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Fire District's deposits might not be recovered. Although the Fire District does not have a formal policy regarding custodial credit risk, 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 Deposit Protection Act (GUDPA). Under the Act, the first \$250,000.00 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Fire District in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Fire District relative to the happening of a future condition. Such funds are classified as uninsured and uncollateralized. Of the Fire District's amount on deposit of \$541,437.20 as of December 31, 2012, \$250,000.00 was insured under FDIC and the remaining balance of \$291,437.20 was collateralized under GUDPA.

Note 3: PROPERTY TAX LEVIES

Following is a tabulation of Fire District assessed valuations, tax levies and property tax rates per \$100.00 of assessed valuations for the current and preceding four years:

| | <u>Year</u> | <u>Assessed Valuation</u> | <u>Total Tax Levy</u> | <u>Tax Rate</u> |
|-----|-------------|-------------------------------|---------------------------|---------------------|
| | 2012 | \$ 530,387,634.00 | \$ 860,261.00 | 0.162 |
| | 2011 | 533,558,765.00 | 771,379.00 | 0.145 |
| (r) | 2010 | 539,489,564.00 | 742,176.00 | 0.138 |
| | 2009 | 276,665,560.00 | 716,459.00 | 0.259 |
| | 2008 | 276,075,443.00 | 689,011.00 | 0.250 |

(r) revaluation

Note 4: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012 was as follows:

| | <u>Balance Jan. 1, 2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance Dec. 31, 2012</u> |
|--|---------------------------------|-----------------------|------------------|----------------------------------|
| Capital Assets that are being Depreciated: | | | | |
| Vehicles & Apparatus | \$ 1,480,540.78 | | | \$ 1,480,540.78 |
| Fire Equipment | 179,327.66 | \$ 562,440.00 | | 741,767.66 |
| Office Equipment | 4,076.72 | | | 4,076.72 |
| Total Capital Assets being Depreciated | <u>1,663,945.16</u> | <u>562,440.00</u> | <u>-</u> | <u>2,226,385.16</u> |
| Total Capital Assets, Cost | <u>1,663,945.16</u> | <u>562,440.00</u> | | <u>2,226,385.16</u> |
| Less Accumulated Depreciation for: | | | | |
| Vehicles & Apparatus | (1,169,277.64) | (142,594.48) | | (1,311,872.12) |
| Fire Equipment | (153,630.14) | (7,383.44) | | (161,013.58) |
| Office Equipment | (3,396.02) | (340.34) | | (3,736.36) |
| Total Accumulated Depreciation | <u>(1,326,303.80)</u> | <u>(150,318.26) *</u> | <u>-</u> | <u>(1,476,622.07)</u> |
| Total Capital Assets being Depreciated, Net of Accumulated Depreciation | <u>337,641.36</u> | <u>412,121.74</u> | <u>-</u> | <u>749,763.09</u> |
| Capital Assets, Net | <u>\$ 337,641.36</u> | <u>\$ 412,121.74</u> | <u>\$ -</u> | <u>\$ 749,763.09</u> |

* Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|----------------------|
| Administration | \$ 340.34 |
| Cost of Operations and Maintenance | <u>149,977.92</u> |
| Total Depreciation Expense | <u>\$ 150,318.26</u> |

Note 5: LONG-TERM OBLIGATIONS

During the year ended December 31, 2012, the following changes occurred in long-term obligations:

| | <u>Balance Jan. 1, 2012</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance Dec. 31, 2012</u> | <u>Due within One Year</u> |
|--|---------------------------------|----------------------|------------------------|----------------------------------|--------------------------------|
| General Obligation Bonds Payable: | | | | | |
| Principal | \$ 320,000.00 | | \$ (105,000.00) | \$ 215,000.00 | \$ 105,000.00 |
| Total General Obligation Bonds Payable | <u>320,000.00</u> | <u>-</u> | <u>(105,000.00)</u> | <u>215,000.00</u> | <u>105,000.00</u> |
| Other Liabilities: | | | | | |
| Obligations under Capital Lease | | \$ 562,440.00 | (49,093.74) | 513,346.26 | 49,448.06 |
| Compensated Absences Payable | 22,500.95 | 2,267.97 | | 24,768.92 | |
| Total Other Liabilities | <u>22,500.95</u> | <u>564,707.97</u> | <u>(49,093.74)</u> | <u>538,115.18</u> | <u>49,448.06</u> |
| Total Government-wide Long-Term Debt | <u>\$ 342,500.95</u> | <u>\$ 564,707.97</u> | <u>\$ (154,093.74)</u> | <u>\$ 753,115.18</u> | <u>\$ 154,448.06</u> |

Note 5: LONG-TERM OBLIGATIONS (CONT'D)

General Obligation Bonds - Bonds and loans are authorized in accordance with State law by the voters of the Fire District through referendums. All bonds are retired in serial installments within the statutory period of usefulness. All bonds issued by the Fire District are general obligation bonds to be paid from property taxes. As of December 31, 2012, the Fire District had the following outstanding general obligation bonds:

On July 15, 2004, the Fire District issued \$950,000.00 in general obligation bonds at rates varying from 3.50% to 4.25% for the acquisition of an aerial ladder truck and ancillary equipment. The final maturity of these bonds is July 15, 2014. The bonds will be paid from property taxes.

Principal and interest due on bonds outstanding is as follows:

| Year Ending Dec. 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|-------------------------|------------------------|----------------------|
| 2013 | \$ 105,000.00 | \$ 9,006.25 | \$ 114,006.25 |
| 2014 | <u>110,000.00</u> | <u>4,675.00</u> | <u>114,675.00</u> |
| | <u>\$ 215,000.00</u> | <u>\$ 13,681.25</u> | <u>\$ 228,681.25</u> |

Bonds and Notes Authorized but not Issued – As of December 31, 2012, the Fire District had no authorized but not issued bonds.

Compensated Absences - Compensated absences will be paid from the fund from which the employees' salaries are paid.

Capital Leases Payable - The Fire District is leasing an E-One Rescue Pumper totaling \$562,440.00 under capital leases. The capital lease is for a term of ten years. The following is a schedule of the future minimum lease payments under the capital lease, and the present value of the net minimum lease payments at December 31, 2012:

| Year Ending Dec. 31, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|-------------------------|------------------------|----------------------|
| 2013 | \$ 49,448.06 | \$ 18,124.88 | \$ 67,572.94 |
| 2014 | 51,193.94 | 16,379.00 | 67,572.94 |
| 2015 | 53,001.46 | 14,571.48 | 67,572.94 |
| 2016 | 54,872.80 | 12,700.14 | 67,572.94 |
| 2017 | 56,810.21 | 10,762.73 | 67,572.94 |
| 2018-2021 | <u>248,019.79</u> | <u>22,271.97</u> | <u>270,291.76</u> |
| | <u>\$ 513,346.26</u> | <u>\$ 94,810.20</u> | <u>\$ 608,156.46</u> |

Note 6: LEASES

Lease Obligations - At December 31, 2012, the Fire District had lease agreements in effect for the following:

Operating:
Cannon 2022 Copy Machine

Operating Leases - Future minimum rental payments under operating lease agreements are as follows:

| Year Ending <u>Dec. 31,</u> | <u>Amount</u> |
|--|----------------------|
| 2013 | \$ 1,752.00 |
| 2014 | <u>584.00</u> |
| | <u>\$ 2,336.00</u> |

Rental payments under operating leases for the year ended December 31, 2012 were \$1,752.00.

Note 7: PENSION PLANS

The Fire District contributes to two cost-sharing multiple-employer defined benefit pension plans, the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS), which are administered by the New Jersey Division of Pensions and Benefits. In addition, Fire District employees may be eligible to participate in the Defined Contribution Retirement Program (DCRP), which is a defined contribution pension plan and is also administered by the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

Public Employees' Retirement System - The PERS was established in 1955. The PERS provides retirement, death, and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System were required to contribute 5.0% of their annual covered salary. Effective July 1, 2008, however, in accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. For employees enrolled in the retirement system prior to July 1, 2008, the increase is effective with the payroll period that begins immediately after July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, effective October 1, 2011, the active member contribution rate was increased to 6.5%. An additional 1.0% increase will be phased-in over seven years beginning on July 1, 2012. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The Fire District is billed annually for its normal contribution, plus any accrued liability, by the Borough of Pine Hill, who maintains, administers, and reports to the State of New Jersey all required pension information on behalf of the Fire District.

Note 7: PENSION PLANS (CONT'D)

Public Employees' Retirement System (Cont'd) -The following represents the amounts billed to the Fire District for its contributions to the various plans:

| <u>Year</u> | <u>Normal Contribution</u> | <u>Accrued Liability</u> | <u>Non-Contributory Group Life Insurance</u> | <u>Total Liability</u> | <u>Funded by Fire District</u> |
|-------------|----------------------------|--------------------------|--|------------------------|--------------------------------|
| 2012 | \$5,396.00 | \$10,792.00 | \$1,031.00 | \$17,219.00 | \$ 17,219.00 |
| 2011 | 6,013.00 | 9,582.00 | 1,184.00 | 16,779.00 | 16,779.00 |
| 2010 | 4,963.00 | 6,376.00 | 1,572.00 | 12,911.00 | 12,911.00 |

Police and Firemen's Retirement System - The PFRS was established in 1944. The PFRS provides retirement, death, and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:16A and 43:3B.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 204, P.L. 1989, plan members enrolled in the Police and Firemen's Retirement System are required to contribute 8.5% of their annual covered salary. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 10.0% in October, 2011. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The Fire District is billed annually for its normal contribution, plus any accrued liability, by the Borough of Pine Hill, who maintains, administers, and reports to the State of New Jersey all required pension information on behalf of the Fire District.

The following represents the amounts billed to the Fire District for its contributions to the various plans:

| <u>Year</u> | <u>Normal Contribution</u> | <u>Accrued Liability</u> | <u>Non-Contributory Group Life Insurance</u> | <u>Total Liability</u> | <u>Funded by Fire District</u> |
|-------------|----------------------------|--------------------------|--|------------------------|--------------------------------|
| 2012 | \$6,554.00 | \$7,376.00 | \$510.00 | \$14,440.00 | \$ 14,440.00 |
| 2011 | 8,587.00 | 6,885.00 | 673.00 | 16,145.00 | 16,145.00 |
| 2010 | 7,193.00 | 5,124.00 | 626.00 | 12,943.00 | 12,943.00 |

Related Party Investments - The Division of Pensions and Benefits does not invest in securities issued by the Borough of Pine Hill or the Fire District.

Defined Contribution Retirement Program - The Defined Contribution Retirement Program (DCRP) is a cost-sharing multiple-employer defined contribution pension fund which was established in 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP provides eligible members, and their beneficiaries, with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N.J.S.A. 43:15C-1 et. seq.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Fire District's contribution amounts for each pay period are transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

Note 7: PENSION PLANS (CONT'D)

Defined Contribution Retirement Program (Cont'd) - As of December 31, 2012, the Fire District did not have any employees that participated in the Defined Contribution Retirement Program. Therefore, no contributions have been made.

Related Party Investments - The Division of Pensions and Benefits does not invest in securities issued by the Borough of Pine Hill or the Fire District.

Note 8: RISK MANAGEMENT

The Fire 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 Fire District maintains commercial insurance coverage for property, liability, and surety bonds.

New Jersey Unemployment Compensation Insurance - The Fire District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Contribution Method". Under this plan, a contribution rate is established annually for the Fire District share of unemployment tax. The rate is based on cost experience for all government employees.

Note 9: COMPENSATED ABSENCES

The Fire District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences". A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

The Fire District Administrator accumulates fifteen (15) sick days per year that can accrue with no limit. At departure, the Fire District compensates the Administrator for all unused sick time at the rate of pay at termination or retirement. The Administrator is not compensated for unused vacation time, and unused vacation time does not accumulate.

The Career Firefighters accumulate sick days according to the contract guidelines and can be accrued with no limit. The Career Firefighters at the time of termination after achieving twenty-five (25) years of service, reaching fifty-five (55) years of age, death or retirement due to disability, will be paid for all accumulated time at the rate of pay in effect at departure. In the case of a departure not previously described, the employee will not be compensated for accumulated sick time. Unused vacation time can be carried over to the succeeding year only, and the employees can sell back up to five (5) unused vacation days in the year accumulated. At the time of separation, the employees can receive payment for unused time on a prorated basis.

Part-time employees are not compensated for absences.

The liability for vested compensated absences is recorded within those funds as the benefits accrue to employees. As of December 31, 2012, the liability for compensated absences in the governmental fund types was \$24,768.92.

Note 10: INTERFUND RECEIVABLES AND PAYABLES

As of December 31, 2012, no interfund receivables or payables existed.

Note 11: FUND BALANCES APPROPRIATED - GENERAL FUND

The 2013 annual budget of the Fire District was adopted on January 13, 2013, and subsequently approved by the voters at the annual election held on February 7, 2013. The adopted budget utilized \$91,000.00 of fund balance in the general fund.

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

| <u>Year</u> | <u>Balance Dec. 31</u> | <u>Utilization in Subsequent Budget</u> |
|-------------|----------------------------|---|
| 2012 | \$ 371,636.22 | \$ 91,000.00 |
| 2011 | 360,512.43 | 80,000.00 |
| 2010 | 285,698.99 | 76,000.00 |
| 2009 | 263,911.41 | 73,000.00 |
| 2008 | 251,337.91 | 73,000.00 |

Note 12: FUND BALANCES**RESTRICTED**

As stated in note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the Fire District's fund balance are summarized as follows:

Capital Projects Fund - These funds are restricted for future capital expenditures to be made in future years. When the Fire District desires to utilize these funds in their annual budget, a capital resolution must be passed by the Board of Fire Commissioners prior to any expenditure against a capital appropriation. As of December 31, 2012, the balance is \$150,000.00.

ASSIGNED

As stated in note 1, 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. Specific assignments of the Fire District's fund balance are summarized as follows:

General Fund -

Other Purposes - As of December 31, 2012, the Fire District had \$12,569.85 of encumbrances outstanding for purchase orders signed by Fire District, but not completed, as of the close of the year.

For Subsequent Year's Expenditures - The Fire District has appropriated and included as anticipated revenue for the year ending December 31, 2013, \$91,000.00 of general fund balance at December 31, 2012.

UNASSIGNED

As stated in note 1, the unassigned fund balance classification represents fund balance that has not been restricted, committed, or assigned to specific purposes. The Fire District's unassigned fund balance is summarized as follows:

General Fund - As of December 31, 2012, \$268,066.37 of general fund balance was unassigned.

Note 13: RESTATEMENT OF NET POSITION

As a result of the implementation of GASB *Statement No. 65, Items Previously Reported as Assets and Liabilities*, net position as of December 31, 2011 has been restated as follows:

| | |
|---|----------------------|
| Net Position, December 31, 2011 | \$ 507,250.31 |
| Expense of Bond Issuance Costs ^a | <u>7,650.35</u> |
| Net Position, December 31, 2011 (Restated) | <u>\$ 499,599.96</u> |

^a formerly reported as a deferred asset and amortized over the life of the related debt.

Note 14: ACCOUNTING STANDARDS PRONOUNCEMENT TO BE IMPLEMENTED IN FUTURE PERIODS

Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* was issued in June 2012. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans*, revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement - determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

This Statement is effective for fiscal years GASB beginning after June 15, 2014.

**REQUIRED SUPPLEMENTARY INFORMATION
PART II**

BUDGETARY COMPARISON SCHEDULES

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2012

| | <u>Original Budget</u> | <u>Budget Modifications / Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative) Final to Actual</u> |
|--|----------------------------|---|-------------------------|-------------------|---|
| REVENUES: | | | | | |
| Operating Grant Revenue: | | | | | |
| Supplemental Fire Services Grant (P.L. 1985, Ch. 295) | \$ 3,945.00 | - | \$ 3,945.00 | \$ 3,945.00 | - |
| Amount to be Raised by Taxation to Support the District Budget | 674,854.00 | \$ (1,000.00) | 673,854.00 | 674,481.80 | 627.80 |
| Total Anticipated Revenues | 678,799.00 | (1,000.00) | 677,799.00 | 678,426.80 | 627.80 |
| Non-Budgetary Revenues: | | | | | |
| Miscellaneous Revenues Not Anticipated | | | | 28,076.83 | \$ 28,076.83 |
| Total Non-Budgetary Revenues | - | - | - | 28,076.83 | 28,076.83 |
| Total Revenues | 678,799.00 | (1,000.00) | 677,799.00 | 706,503.63 | 28,704.63 |
| EXPENDITURES: | | | | | |
| Operating Appropriations: | | | | | |
| Administration: | | | | | |
| Salary and Wages: | | | | | |
| Commissioners | 12,000.00 | | 12,000.00 | 12,000.00 | - |
| Administrator | 57,900.00 | 2,167.27 | 60,067.27 | 60,067.27 | - |
| Assistant Clerk | 3,000.00 | 500.00 | 3,500.00 | 3,189.58 | 310.42 |
| Fire Official | 20,700.00 | | 20,700.00 | 20,700.00 | - |
| Overtime, Longevity, Sick Buy Back | 6,000.00 | 371.41 | 6,371.41 | 3,843.52 | 2,527.89 |
| Fringe Benefits | 39,719.00 | | 39,719.00 | 36,547.77 | 3,171.23 |
| Other Expenses: | | | | | |
| Election | 1,000.00 | | 1,000.00 | 978.02 | 21.98 |
| Training and Education | 1,000.00 | | 1,000.00 | 225.00 | 775.00 |
| Office Expenses | 5,000.00 | | 5,000.00 | 2,237.56 | 2,762.44 |
| Professional Services | 36,000.00 | 4,675.00 | 40,675.00 | 30,238.05 | 10,436.95 |
| Banquet | 3,500.00 | | 3,500.00 | 3,007.25 | 492.75 |
| Utilities & Phone | 1,200.00 | 100.00 | 1,300.00 | 1,235.40 | 64.60 |
| Computer Maintenance and Support | 5,000.00 | | 5,000.00 | 4,996.00 | 4.00 |
| Other | 2,500.00 | | 2,500.00 | 487.50 | 2,012.50 |
| Total Administration | 194,519.00 | 7,813.68 | 202,332.68 | 179,752.92 | 22,579.76 |

(Continued)

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended December 31, 2012

| | <u>Original Budget</u> | <u>Budget Modifications / Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative) Final to Actual</u> |
|---|----------------------------|---|-------------------------|----------------------|---|
| EXPENDITURES (CONT'D): | | | | | |
| Operating Appropriations (Cont'd): | | | | | |
| Cost of Operations and Maintenance: | | | | | |
| Salary and Wages: | | | | | |
| Firefighters | \$ 130,000.00 | | \$ 130,000.00 | \$ 129,944.00 | \$ 56.00 |
| Overtime & Sick time Buyback | 12,000.00 | \$ 100.00 | 12,100.00 | 11,102.53 | 997.47 |
| Fringe Benefits | 90,840.00 | | 90,840.00 | 61,384.03 | 29,455.97 |
| Other Expenses: | | | | | |
| Advertising | 1,000.00 | 200.00 | 1,200.00 | 1,123.32 | 76.68 |
| Insurance | 105,000.00 | (14,700.00) | 90,300.00 | 71,043.31 | 19,256.69 |
| Maintenance and Repair | 43,000.00 | 41,045.46 | 84,045.46 | 83,421.39 | 624.07 |
| Promotions | 1,000.00 | 364.89 | 1,364.89 | 1,364.89 | - |
| Supplies Expense | 13,500.00 | 5,291.93 | 18,791.93 | 3,675.50 | 15,116.43 |
| Station Leasing | 94,000.00 | | 94,000.00 | 94,000.00 | - |
| Training and Education | 10,500.00 | (4,131.32) | 6,368.68 | 6,368.68 | - |
| Uniforms | 3,000.00 | (1,770.00) | 1,230.00 | 1,230.00 | - |
| Purchase of Assets | 16,000.00 | (4,746.00) | 11,254.00 | 11,254.00 | - |
| Firefighter Stipends | 15,500.00 | (1,770.51) | 13,729.49 | 13,729.49 | - |
| Supplemental Fire Services Grant | 4,340.00 | 4,091.00 | 8,431.00 | 4,091.00 | 4,340.00 |
| Professional Services | 20,000.00 | | 20,000.00 | 17,004.00 | 2,996.00 |
| Copier Lease | 4,400.00 | 491.95 | 4,891.95 | 4,890.78 | 1.17 |
| Miscellaneous | 200.00 | | 200.00 | | 200.00 |
| Total Cost of Operations and Maintenance | <u>564,280.00</u> | <u>24,467.40</u> | <u>588,747.40</u> | <u>515,626.92</u> | <u>73,120.48</u> |
| Total Expenditures | <u>758,799.00</u> | <u>32,281.08</u> | <u>791,080.08</u> | <u>695,379.84</u> | <u>95,700.24</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ (80,000.00)</u> | <u>\$ (33,281.08)</u> | <u>\$ (113,281.08)</u> | 11,123.79 | <u>\$ 124,404.87</u> |
| Fund Balance, Beginning | | | | <u>360,512.43</u> | |
| Fund Balance, Ending | | | | <u>\$ 371,636.22</u> | |
| Recapitulation: | | | | | |
| Assigned: | | | | | |
| Year-End Encumbrances | | | | \$ 12,569.85 | |
| Designated for Subsequent Years Expenditures | | | | 91,000.00 | |
| Unassigned | | | | <u>268,066.37</u> | |
| | | | | <u>\$ 371,636.22</u> | |

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1

Required Supplementary Information

Budgetary Comparison Schedule

Note to RSI

For the Year Ended December 31, 2012

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 | \$ 706,503.63 |
| Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized. | <u>-</u> |
| Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds. (B-2) | <u>\$ 706,503.63</u> |
| Uses / Outflows of Resources: | |
| Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule | \$ 695,379.84 |
| Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes. | <u>-</u> |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds (B-2) | <u>\$ 695,379.84</u> |

OTHER SUPPLEMENTARY INFORMATION

LONG-TERM DEBT

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 Schedule of General Obligation Bonds
 For the Year Ended December 31, 2012

| <u>Issue</u> | <u>Date of Issue</u> | <u>Amount of Issue</u> | <u>Annual Maturities</u> | | <u>Interest Rate</u> | <u>Balance</u> | <u>Retired</u> | <u>Balance</u> |
|--|----------------------|------------------------|--------------------------|---------------|----------------------|-----------------------------|-----------------------------|-----------------------------|
| | | | <u>Date</u> | <u>Amount</u> | | <u>Jan. 1, 2012</u> | | <u>Dec. 31, 2012</u> |
| Acquisition of Aerial Ladder Truck and Ancillary Equipment | 07/15/04 | \$ 950,000.00 | 7/15/13 | \$ 105,000.00 | 4.125% | \$ <u>320,000.00</u> | \$ <u>105,000.00</u> | \$ <u>215,000.00</u> |
| | | | 7/15/14 | 110,000.00 | 4.250% | | | |
| | | | | | | \$ <u><u>320,000.00</u></u> | \$ <u><u>105,000.00</u></u> | \$ <u><u>215,000.00</u></u> |

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 Schedule of Obligations Under Capital Leases
 For the Year Ended December 31, 2012

| <u>Description</u> | <u>Date of Lease</u> | <u>Term of Lease</u> | <u>Amount of Original Issue</u> | | <u>Interest Rate Payable</u> | <u>Amount Outstanding Jan. 1, 2012 (a)</u> | <u>Issued Current Year</u> | <u>Retired Current Year</u> | <u>Amount Outstanding Dec. 31, 2012 (a)</u> |
|--------------------------|----------------------|----------------------|---------------------------------|-----------------|------------------------------|--|----------------------------|-----------------------------|---|
| | | | <u>Principal</u> | <u>Interest</u> | | | | | |
| 2012 E-One Rescue Pumper | 01/12/12 | 10 Years | \$ 562,440.00 | \$ 113,289.40 | 3.531% | \$ - | \$ 562,440.00 | \$ 49,093.74 | \$ 513,346.26 |

(a) Future Interest Payments Removed from Carrying Value of Leases.

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
 Budgetary Comparison Schedule
 Debt Service Fund
 For the Year Ended December 31, 2012

| | <u>Original Budget</u> | <u>Budget Modifications / Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative), Final to Actual</u> |
|--|----------------------------|---|-------------------------|-------------------|--|
| REVENUES: | | | | | |
| Amount to be Raised by Taxation to Support the District Budget | \$ 185,407.00 | \$ 1,000.00 | \$ 186,407.00 | \$ 185,779.20 | (627.80) |
| EXPENDITURES: | | | | | |
| Principal Payments: | | | | | |
| General Obligation Bonds | 105,000.00 | | 105,000.00 | 105,000.00 | - |
| Capital Leases | 48,222.00 | 1,000.00 | 49,222.00 | 49,093.74 | \$ 128.26 |
| Interest Payments: | | | | | |
| General Obligation Bonds | 13,206.00 | | 13,206.00 | 13,206.26 | (0.26) |
| Capital Leases | 18,979.00 | | 18,979.00 | 18,479.20 | 499.80 |
| Total Expenditures | <u>185,407.00</u> | <u>1,000.00</u> | <u>186,407.00</u> | <u>185,779.20</u> | <u>627.80</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | \$ <u>-</u> | \$ <u>-</u> | \$ <u>-</u> | - | \$ <u>0.00</u> |
| Fund Balance, January 1 | | | | - | |
| Fund Balance, December 31 | | | | <u>\$ -</u> | |

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
Schedule of Findings and Recommendations
For the Year Ended December 31, 2012

Schedule of Financial Statement 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

BOROUGH OF PINE HILL FIRE DISTRICT NO. 1
Summary Schedule of Prior Year Audit Findings
And Recommendations as Prepared by Management

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

None

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APPRECIATION

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

Respectfully submitted,


BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

