

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Financial Statements and Supplementary Information
For the Year Ended December 31, 2011

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Financial Statements and Supplementary Information Year Ended December 31, 2011

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HAMILTON TOWNSHIP FIRE COMMISSIONERS DISTRICT No. 2

Roster of Officials

For the year ended December 31, 2011

Board of Fire Commissioners

Gene Argenti, Chairman

Alec Martin, Secretary

Scott Fairfax, Treasurer

Norman Molis, Commissioner

Brian Clarke, Commissioner

Other Officials

Stark & Stark, Attorneys at Law

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INDEPENDENT AUDITOR'S REPORT

To the Board of Fire Commissioners
Hamilton Township Fire District No. 2
Hamilton, New Jersey

We have audited the accompanying financial statements of the governmental activities and each major fund of Hamilton Township Fire District No. 2, in the County of Mercer, State of New Jersey as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hamilton Township Fire District No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements include the balance sheet of the Deferred Compensation Trust Fund which is unaudited. Note 8 sets forth the significant statutory and regulatory requirements related to this fund.

In our opinion, except for the effects of such adjustments, if any, as might have been determined had we audited the financial statements of the Deferred Compensation Trust Fund, 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 Hamilton Township Fire District No. 2, in the County of Mercer, State of New Jersey, as of December 31, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2012, on our consideration of Hamilton Township Fire District No. 2'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 27 through 28, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hamilton Township Fire District No. 2's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it. The other supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

DePietto & DePietto, LLC

Holland, Pennsylvania
September 6, 2012

REQUIRED SUPPLEMENTARY INFORMATION

HAMILTON TOWNSHIP FIRE COMMISSIONERS DISTRICT No. 2

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

The discussion and analysis of the Hamilton Township Fire Commissioners District No. 2's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2011. The intent of the discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

In total, net assets increased \$459,141 from \$2,133,490 in 2010 to \$2,592,631 in 2011.

General revenues accounted for \$3,245,309 or 100% of all revenues.

Per generally accepted accounting principles (GAAP) basis, the District had \$2,786,168 in expenses including \$140,660 of depreciation for 2011. General revenues (primarily taxes) of \$3,245,309 were adequate to provide for these programs.

Per Non-GAAP budgetary basis, the District had \$2,858,211 in expenditures and \$3,245,309 of actual revenue including \$48,702 of funds received from FEMA under the SAVER grant that was not included in the 2011 budget. The District did not have to utilize any of the \$101,497 of designated surplus noted in the 2011 budget.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those financial statements. These statements are organized so the reader can understand Hamilton Township Fire Commissioners District No. 2 as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This annual report consists of the following three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

Required Financial Statements

District-Wide Financial Statements (Statement of Net Assets and Governmental Funds Balance Sheet and Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances)

Under GASB 34, any special purpose government entity that has only one major fund (not including fiduciary funds) may show the government-wide and fund financial statements all as part of the basic financial statements. Since the District only has governmental funds the District-wide and fund financial statements are combined in the basic financial statements.

The financial statements of the District report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Assets and Governmental Funds Balance Sheet includes information on the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). The Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances identify the District's revenues and expenses for the year ended December 31, 2011.

The District also administers a deferred compensation plan for its employees. The fiduciary fund statements presented provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. This information is not included as part of the government-wide financial statements.

Financial Analysis of the District

The Statement of Net Assets and Governmental Funds Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances provide an indication of the District's financial condition and also indicate that the financial condition of the District improved slightly during the last fiscal year. The District's net assets reflect the difference between assets and liabilities. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

Net Assets

A summary of the District's Statement of Net Assets is presented below.

Table 1
Condensed Statement of Net Assets

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
Current and Other Assets	\$ 1,211,291	\$ 865,929
Capital Assets, net of accumulated depreciation	<u>1,769,038</u>	<u>1,909,698</u>
Total Assets	<u>\$2,980,329</u>	<u>\$2,775,627</u>
Liabilities and Net Assets:		
Total Liabilities	\$ 387,698	\$ 642,137
Net Assets:		
Invested in Capital Assets, net of related debt	1,477,375	1,405,332
Restricted for Post-Retirement Sick Pay Benefits	52,092	47,258
Unrestricted	<u>1,063,164</u>	<u>680,900</u>
Total Net Assets	<u>2,592,631</u>	<u>2,133,490</u>
Total Liabilities and Net Assets	<u>\$2,980,329</u>	<u>\$2,775,627</u>

As Table 1 indicates, total assets increased by \$204,702 from \$2,775,627 to \$2,980,329 during the year ended December 31, 2011. This is comprised of an increase of \$478,722 in cash and cash equivalents, a \$15,452 increase in receivables, a decrease of \$148,812 in prepaid expenses and a decrease in capital assets, net of depreciation of \$140,660. The net decrease in capital assets is due to 2011 depreciation of \$140,660. Total liabilities reflect a decrease of \$254,439. This includes a reduction of \$212,703 in long-term debt as the District continued to make scheduled payments on the bond and capital lease payable and a decrease of \$41,736 in accounts payable and accrued expenses at year end.

Table 1 also indicates that total net assets increased \$459,141 from \$2,133,490 in 2010 to \$2,592,631 in 2011. This increase is due to \$459,141 of revenue exceeding expenses for 2011. In addition, net assets invested in capital assets, net of related debt, increased by \$72,043 due to \$212,703 decrease in principal on the capital lease and bond payable and a \$140,660 increase in accumulated depreciation. Also, \$4,834 was transferred to reserves for post-retirement sick pay to be in compliance with GASB 45, *Other Post Employment Benefits*.

Table 2
Condensed Statement of Activities

	<u>Governmental Activities 2011</u>	<u>Governmental Activities 2010</u>
REVENUES:		
General Revenues:		
Property Taxes	\$3,132,100	\$2,728,476
Grants - Federal	48,702	0
Grants – State	14,199	7,099
Fees and other revenue	50,308	14,916
Total Revenues	<u>\$3,245,309</u>	<u>\$2,750,491</u>
EXPENSES:		
Administration	\$ 178,992	\$ 194,860
Cost of Operations and Maintenance	2,607,176	2,628,027
Total Expenses	<u>2,786,168</u>	<u>2,822,887</u>
Increase (Decrease) in Net Assets	<u>\$ 459,141</u>	<u>\$ (72,396)</u>

The Statement of Activities identifies the various revenue and expense items which affect the change in net assets. Table 2 indicates that the District’s total revenues increased by \$494,818. The increase in revenue was primarily due to an increase in property tax revenues and funding from the federal grant. The total expenses decreased by \$36,719. The majority of the change was due to a decrease in operating materials and supplies, training and education and computers and software.

Governmental Activities

The unique nature of property taxes in New Jersey creates the legal requirements to annually seek voter approval for the District operations. Property taxes made up 96.5% of revenues for governmental activities for Hamilton Township Fire Commissioners District No. 2 for 2011 and

99.2% in 2010. The District's total revenues were \$3,245,309 for the year ended December 31, 2011 and \$2,750,491 for the year ended December 31, 2010. In 2011, the state grant accounted for .4% of revenue, the federal grant for 1.5%, fire prevention fees for 1.2% of revenue, investment income for .3% and other miscellaneous revenue accounted for the remaining .1%.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Administration includes expenses associated with administrative and financial supervision of the District.

Cost of Operations and Maintenance involve keeping equipment in an effective working condition.

The District's Funds

All governmental funds (i.e., general fund and capital projects fund) are accounted for using the modified-accrual basis of accounting. Total revenues were \$3,245,309 and expenditures were \$2,786,168. The change in fund balance for the year in the general fund was an increase of \$459,141, and there was an increase of \$4,834 in reserves for post-retirement sick pay to be in compliance with GASB 45, *Other Post Employment Benefits*.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management. The following schedule presents a summary of the revenues of the General Fund for the year ended December 31, 2011, and the amount of increases and decreases in relation to prior year revenues.

**Table 3
Summary of Revenues – General Fund**

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease) from 2010</u>
Revenue:			
Local Sources:			
Amount to be Raised by Taxation	\$3,132,100	\$2,728,476	\$403,624
Miscellaneous	50,308	14,916	35,392
Federal sources	48,702	0	48,702
State sources	<u>14,199</u>	<u>7,099</u>	<u>7,100</u>
Total	<u>\$3,245,309</u>	<u>\$2,750,491</u>	<u>\$494,818</u>

The following schedule presents a summary of the expenditures of the General Fund for the year ended December 31, 2011, and the amount of increases and decreases in relation to prior year amounts.

Table 4
Summary of Expenditures – General Fund

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease) from 2010</u>
Expenditures:			
Administration	\$ 178,992	\$ 194,860	\$(15,868)
Cost of Operations and Maintenance	<u>2,607,176</u>	<u>2,628,027</u>	<u>(20,851)</u>
Total	<u>\$2,786,168</u>	<u>\$2,822,887</u>	<u>\$(36,719)</u>

Capital Assets

At the end of the year 2011, the District had \$1,769,038 invested in capital assets net of depreciation. Table 5 shows 2011 balances compared to 2010.

Table 5
Capital Assets (Net of Depreciation)

	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease) from 2010</u>
Building and Building Renovations	\$1,236,641	\$1,315,894	\$(79,253)
Fire Equipment	9,812	15,816	(6,004)
Office Equipment	6,349	8,465	(2,116)
Vehicles	<u>516,236</u>	<u>569,523</u>	<u>(53,287)</u>
Total	<u>\$1,769,038</u>	<u>\$1,909,698</u>	<u>\$(140,660)</u>

In 2011, capital assets, net of depreciation decreased by \$140,660. The decrease was due to posting 2011 depreciation of \$140,660.

Economic Factors

During 2010 and through March 2011, the District’s board underwent some changes. Two of the five fire commissioners who held office in 2009 were voted out and new commissioners were voted in. A new Secretary and a new Treasurer took office. The Fire Commissioners changed the District’s attorney in April 2010. The Fire Commissioners hired a new accounting firm in the beginning of 2011 to assist in adjusting the District’s financial records to prepare for the 2010 audit, assist in preparing future budgets and help the commissioners implement new accounting procedures to ensure that financial statements are prepared in accordance with generally accepted accounting principles. The District also engaged a new auditing firm in March 2011 to audit the December 31,

2010 financial statements. This same firm was engaged to audit the December 31, 2011 financial statements.

For the 2011 year, the Hamilton Township Fire Commissioners District No. 2 was able to sustain its budget through the district tax levy and other sources of revenue. Approximately 96.5% of total revenue is from the local tax levy, while the remaining 3.5% was from other sources. The tax rate levy per \$100 of property valuation increased from \$.305 in 2010 to \$.328 in 2011.

The Board of Fire Commissioners adopted the 2011 budget on January 30, 2011 and the voters subsequently approved the budget at the annual fire district election held in February 2011.

For the Future

Hamilton Township Fire Commissioners District No. 2 is presently in good financial condition. The District is proud of its community support.

In conclusion, Hamilton Township Fire Commissioners District No. 2 has committed itself to financial excellence for many years. In addition, the District's system for financial planning, budgeting, and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenge of the future.

Contacting the District's Financial Management

This financial report is designed to provide our District's citizens, taxpayers, investors, creditors and other interested parties with a general overview of the District's finances and to show the District's accountability for the money it receives. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact, Treasurer, at Hamilton Township Fire Commissioners District No. 2, 2711 Nottingham Way, Hamilton, New Jersey, 08619.

BASIC FINANCIAL STATEMENTS

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Statement of Net Assets and Governmental Funds Balance Sheet

December 31, 2011

Governmental Funds

	<u>General Fund</u>	<u>Total</u>	<u>Adjustments (Note 9)</u>	<u>Statement of Net Assets</u>
ASSETS				
Cash and cash equivalents	\$ 1,147,828	\$1,147,828	\$ 0	\$ 1,147,828
Grant receivable - FEMA	18,983	18,983		18,983
Other receivables	645	645		645
Prepaid expenses	43,835	43,835		43,835
Capital assets, net of accumulated depreciation (Note 3)			1,769,038	1,769,038
	<hr/>	<hr/>		
Total assets	<u>\$ 1,211,291</u>	<u>\$1,211,291</u>	<u>\$ 1,769,038</u>	<u>\$ 2,980,329</u>
LIABILITIES				
Accounts payable	\$ 6,111	\$ 6,111	0	6,111
Accrued expenses	89,924	89,924	0	89,924
Long-term liabilities:				
Due within one year	0	0	224,766	224,766
Due after one year	0	0	66,897	66,897
	<hr/>	<hr/>		
Total liabilities	<u>96,035</u>	<u>96,035</u>	<u>291,663</u>	<u>387,698</u>
FUND BALANCES/NET ASSETS				
Fund balances:				
Unassigned	1,063,164	1,063,164	(1,063,164)	0
Committed				
For post retirement sick pay benefits	52,092	52,092	(52,092)	0
	<hr/>	<hr/>		
Total fund balances	<u>1,115,256</u>	<u>1,115,256</u>	<u>(1,115,256)</u>	<u>0</u>
	<hr/>	<hr/>		
Total liabilities and fund balances	<u>\$ 1,211,291</u>	<u>\$1,211,291</u>	<u>(823,593)</u>	<u>387,698</u>
Net assets:				
Invested in capital assets, net of related debt			1,477,375	1,477,375
Restricted for post-retirement sick pay benefits			52,092	52,092
Unrestricted			1,063,164	1,063,164
			<hr/>	<hr/>
Total net assets			<u>2,592,631</u>	<u>2,592,631</u>
			<hr/>	<hr/>
Total liabilities and net assets			<u>\$ 1,769,038</u>	<u>\$ 2,980,329</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances
For the Year Ended December 31, 2011

	<u>Governmental Funds</u>			
	<u>General</u>		<u>Adjustments</u>	<u>Statement of</u>
	<u>Fund</u>	<u>Total</u>	<u>(Note 9)</u>	<u>Activities</u>
Expenditures/expenses:				
Fire protection - administration	\$ 178,992	\$ 178,992	\$ 0	\$ 178,992
Fire protection - operations	2,607,176	2,607,176	0	2,607,176
Total expenditures/expenses	2,786,168	2,786,168	0	2,786,168
General revenues:				
Taxes	3,132,100	3,132,100	0	3,132,100
Life hazard fees	41,865	41,865	0	41,865
Grants - federal	48,702	48,702	0	48,702
Grants - state	14,199	14,199	0	14,199
Investment earnings	8,443	8,443	0	8,443
Transfers - internal activities	0	0	0	0
Total general revenues and transfers	3,245,309	3,245,309	0	3,245,309
Excess of revenues and transfers in over expenditures and transfers out	459,141	459,141	(459,141)	0
Changes in net assets	0	0	459,141	459,141
Fund balance/net assets:				
Beginning of the year	2,133,490	2,133,490	0	2,133,490
End of the year	\$2,592,631	\$2,592,631	\$ 0	\$2,592,631

HAMILTON TOWNSHIP FIRE DISTRICT No. 2
 Statement of Fiduciary Net Assets
 Fiduciary Funds
 December 31, 2011

	Deferred Compensation Trust
ASSETS	
Investments with fiscal agents	<u>\$ 645,983</u>
TOTAL CURRENT ASSETS	<u><u>\$ 645,983</u></u>
NET ASSETS	
Held in trust for deferred compensation	<u><u>\$ 645,983</u></u>

HAMILTON TOWNSHIP FIRE DISTRICT No. 2
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2011

	Deferred Compensation Trust
ADDITIONS TO NET ASSETS	
Additions (Reductions) to net assets attributed to:	
Investment income (losses):	
Net depreciation in fair value of investments	\$ (2,116)
Interest income	<u>2,984</u>
Net investment earnings	868
Contributions:	
Participants'	<u>32,440</u>
TOTAL ADDITIONS TO NET ASSETS	33,308
DEDUCTIONS FROM NET ASSETS	
Distributions:	
Participants'	722
Guaranteed Withdrawal Fees	<u>708</u>
TOTAL DEDUCTIONS FROM NET ASSETS	<u>1,430</u>
Net increase prior to interfund transfers	31,878
Interfund transfers	<u>0</u>
NET INCREASE	31,878
NET ASSETS AVAILABLE FOR BENEFITS	
Beginning of year	615,145
Prior period adjustment	
Adjustment of participants' contributions receivable	<u>(1,040)</u>
END OF YEAR	<u><u>\$ 645,983</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Hamilton Township Fire District No. 2 (the "District") have been prepared in conformity with generally accepted accounting principles (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 District's accounting policies are described below.

Reporting Entity

Hamilton Township Fire District No. 2 is a political subdivision of the Township of Hamilton, County of Mercer, New Jersey. The District was established to function as a special service district through the adoption of a Township ordinance, to provide fire prevention and suppression services to the residents of Hamilton Township. The District functions independently through a Board of Fire Commissioners. The board is comprised of five members elected to three-year terms. The board is responsible for the fiscal control of the District. The annual Fire District election is held the third Saturday of February.

The fire district is governed by N.J.S.A. 40A:14-70 et al. and is organized as a taxing authority charged with the responsibility of providing the resources necessary to provide firefighting services to the residents within its territory. The Fire District has one fire company within its jurisdiction, the Mercerville Fire Co. which provides a manpower pool of over 25 volunteers.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity, of the Governmental Accounting Standards Board* (GASB), the financial statements must present the District (the primary government) and its component units. Component units are legally separate entities for which the District (the primary entity) is financially accountable. Financial accountability is defined as the ability to appoint a voting majority of the organization's governing body and either (1) the District's ability to impose its will over the organization or (2) the potential that the organization will provide a financial benefit to, or impose a financial burden on, the District. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements.

Basic Financial Statements – Government-Wide and Fund Financial Statements

The District's basic financial statements (i.e., the statement of net assets and the statement of changes in net assets) combine both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds) and report information on all of the nonfiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to residents or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Taxes and other items not properly included among program revenues are reported as general revenues.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basic Financial Statements – Government-Wide and Fund Financial Statements (continued)

Separate financial statements are provided for fiduciary funds even though they are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the basic financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District in general considers revenues available if they are collected within 60 days of the end of the current fiscal period. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

For the governmental funds financial statements, the District considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met.

The accounts of the District are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The District reports the following major governmental funds:

The General Fund is the District's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the District except those required to be accounted for in other specialized funds.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The Capital Projects Fund is used to account for the financial resources for the acquisition of capital assets or the construction of major capital facilities within the District. The financial resources are derived from the issuance of debt or by reservation of fund balance that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election. Additionally the District reports the following fiduciary funds:

The Deferred Compensation Trust Fund is used to account for assets held by the District in a trustee capacity for the District's eligible employees.

Encumbrances

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

Revenues and Expenditures

Revenues are recorded when they are determined to be both available and measurable. Generally, fees and other non-tax revenues are recognized when received. Grants from other governments are recognized when qualifying expenditures are incurred. Expenditures are recorded when the related liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Prepaid Expenses

Prepaid expenses recorded on the district-wide financial statements represent payments to vendors for services that will benefit periods beyond December 31, 2011.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America for governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Income Taxes

As a public body, the District is exempt from both federal and state taxes existing under statute.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash used for the day-to-day operations of the Fire District is in a non-interest bearing checking account and interest bearing savings accounts.

For presentation in the financial statements, investments with an original maturity of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with a maturity of more than three months, if any, are reported as investments.

New Jersey fire districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statutes provide a list of permissible investments that may be purchased by New Jersey fire districts.

Capital Assets

Capital assets, which include fire trucks, vehicles and equipment, generally result from expenditures in the governmental funds. These assets are reported on the government –wide statement of net assets.

Generally, the District capitalizes assets with a cost of \$1,000 or more and a useful life greater than one year. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The 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 the asset's life are not.

Depreciation has been provided over estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Building and Building Renovations	7 – 25 years
Fire equipment	5 – 10 years
Office equipment	5 years
Vehicles	5 – 25 years

Employee Benefits

Vacation, sick pay and other employee benefits are recorded as expenditures when paid except for other post employment benefits noted in Note 10.

Budget and Budgetary Accounting

The District must adopt an annual budget in accordance with N.J.S.A. 40A:14-78.1 et. al. The fire commissioners must introduce and approve the annual budget no later than sixty days prior to the annual election. Upon introduction, the commissioners 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 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.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budget and Budgetary Accounting (continued)

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

Subsequent to the adoption of the District budget, the amount of money to be raised by taxation in support of the 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 District's financial statements.

Fire District Taxes

Upon the proper certification to the assessor of the municipality in which the District is located, the assessor shall assess the amount of taxes to be raised in support of the District's budget in the same manner as all other municipal taxes. The collector or treasurer of the municipality then pays the assessed taxes in four equal installments to the treasurer or custodian of funds of the District.

NOTE 2 – CASH AND CASH EQUIVALENTS AND CONCENTRATION OF CREDIT RISK

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

N.J.S.A. 17:9-41 et. Seq. establishes the requirements for security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value 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.

Bank deposits

All bank deposits are classified as to credit risk by the three categories. **Category 1** consists of bank deposits insured or collateralized with securities held by the District of in the District's name by its agent. **Category 2** consists of bank deposits collateralized with securities held by pledging public

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 2 – CASH AND CASH EQUIVALENTS AND CONCENTRATION OF CREDIT RISK (CONTINUED)

Bank deposits (continued)

depository's trust department or agent in the District's name. **Category 3** includes uncollateralized deposits including any deposits that are collateralized with securities held by the pledging public depository or by its trust department or agent but not in the District's name. At December 31, 2011, the District's deposits of \$1,048,563 are classified as Category 1 deposits.

New Jersey Cash Management Fund

During the year, the District participated in the New Jersey Cash Management Fund. The fund is governed by regulations of the State Investment Council, which prescribes the standards designed to insure the quality of investments in order to minimize the risk to the Fund's participants. At December 31, 2011, \$99,265 maintained within the New Jersey Cash Management Fund is not subject to categorization as defined above.

NOTE 3 – CAPITAL ASSETS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, Being Depreciated:				
Building and Building Renovations	\$1,961,451	\$ 0	\$ 0	\$1,961,451
Fire Equipment	199,892	0	0	199,892
Office Equipment	28,024	0	0	28,024
Vehicles	<u>1,320,307</u>	<u>0</u>	<u>0</u>	<u>1,320,307</u>
Total Capital Assets, Being Depreciated	3,509,674	0	0	3,509,674
Less: Total Accumulated Depreciation	<u>1,599,976</u>	<u>140,660</u>	<u>0</u>	<u>1,740,636</u>
Total Capital Assets, Being Depreciated, Net	<u>\$1,909,698</u>	<u>\$140,660</u>	<u>\$ 0</u>	<u>\$1,769,038</u>

Depreciation expense of \$140,600 was charged to governmental activities as part of its cost of operations in 2011.

NOTE 4 – ACCRUED EXPENSES

Accrued expenses include costs for professional fees, unused vacation time, payroll and related payroll taxes and other operating expenses that were incurred for the year ended December 31, 2011 but were not paid by that date.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 5 – LONG-TERM LIABILITES

Obligation under Capital Lease

On June 16, 2003, the Hamilton Township Fire District No. 2 adopted a resolution to enter into the Master Municipal Lease and Option Agreement No. 1604 for the acquisition of a rescue pumper. The lease was entered into on August 27, 2003 the lease will end on March, 2013 after all rental payments have been made.

The lease provides for annual payments in the amount of \$69,098 for ten (10) years. The annual rate of interest is 3.241%. The acquisition cost of the rescue pumper was \$580,791.

The lease payable balance at December 31, 2011 was \$66,897. Interest expense for the year ended December 31, 2011 was \$6,395.

The following schedule reflects the amortization of the rescue pumper lease:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 64,766	4,332	69,098
2013	<u>66,897</u>	<u>2,201</u>	<u>69,098</u>
Total	<u>\$131,663</u>	<u>\$6,533</u>	<u>\$138,196</u>

Long-Term Debt

The District's long-term debt consisted of the following at December 31, 2011:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Interest Rate</u>	<u>Balance</u>
Renovation of Fire House	11/15/02	\$1,300,000	3.875%	\$160,000

Serial bonds were issued in the amount of \$1,300,000 to be paid over ten (10) years. The following schedule reflects the serial bond payments due:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	<u>\$160,000</u>	<u>\$6,200</u>	<u>\$166,200</u>
Total	<u>\$160,000</u>	<u>\$6,200</u>	<u>\$166,200</u>

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 6 – FEMA STAFFING FOR ADEQUATE FIRE AND EMERGENCY RESPONSE (SAFER) GRANT

On March 23, 2011, the District was awarded a grant (Grant #EMW-2010-FH-00542) for a total of \$109,417 from FEMA under its Staffing for Adequate Fire and Emergency Response (SAFER) Grant Program to cover the cost of one firefighter and associated fringe benefits. The grant period of performance is from May 12, 2011 to May 11, 2013. Through December 31, 2011 the District expended \$48,702 of the grant.

NOTE 7 – NJ SUPPLEMENTAL FIRE SERVICES PROGRAM GRANT

New Jersey Basic Entitlement Grant

Annually, the Supplemental Fire Services Program (SFSP) awards a grant to the Fire District for volunteer fire services. By acceptance of the grant, the Fire District agrees to all obligations and responsibilities pursuant to the SFSP as provided in Ch. 295, P.L., 1985.

The funds are utilized for the purchase of items as defined in compliance with state statutes. The grant was budgeted for \$14,000 for the year ended December 31, 2011. The District received and expended \$14,199 for the year ended December 31, 2011.

NOTE 8 – PENSION RETIREMENT SYSTEMS

Description of Pension Retirement Systems

Employees of the District, who are eligible for pension coverage, are covered by the Public Employees' Retirement System or the Police and Firemen's Retirement System of New Jersey, which have been established by state statute and administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the System's terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS). These reports may be obtained by writing to the Division of Pension and Benefits, P.O. Box 295, Trenton, NJ, 08625 or contacting the Division through the internet at www.state.nj.us/treasury/pensions.

The plans do not maintain separate records for each reporting unit and, accordingly, the actuarial data for Fire District No. 2 is not available. The employee's portion is deducted biweekly from his/her paycheck and is paid to the state monthly. The District's contribution is paid on an annual basis and is computed and billed by the State Fund. The annual appropriation for 2011 from the State of New Jersey for both PERS and PFRS was \$205,084.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 8 – RETIREMENT SYSTEMS (CONTINUED)

Deferred Compensation Plan

The Fire District also has a deferred compensation plan under section 457(b) of the Internal Revenue Code of 1986, as amended, which was approved by the State of New Jersey, Department of Community Affairs. The purpose of this Plan is to provide an optional benefit to employees whereby a designated amount of the participant's compensation is withheld each month from his paycheck and is then invested in the plan according to the investments the employee selected. An employee becomes a participant when he has executed and entered into an agreement with the employer. A participant must agree to defer a minimum of twenty dollars per payroll period or such greater amount as specified by the employee in his agreement. For 2011, the maximum amount deferred could not exceed the lesser of \$16,500 or 100% of normal compensation. There was a catch-up contribution allowed for those individuals who were age 50 and over. The agent providing administrative services for the plan is The Variable Annuity Life Insurance Company.

Compensated absences

Fire district employees are entitled to one hundred twenty (120) hours per year. Each employee is entitled to utilize the earned sick time during the calendar year. Unused sick leave shall be cumulative. Unused sick leave may be accumulated to be used toward the option to sell back at the time of retirement. Employees are entitled to thirty-six (36) hours of personal time, which may not be carried forward to subsequent years and if unused, are forfeited by December 31 of each year. Vacation hours are determined based upon number of year's the employee has been with the District. All vacation time must be taken prior to December 31st of each year. Benefits to be paid in any future year will be calculated according to a formula outlined in the District's agreement with the employee union and included in the current year's budget. Also, see Note 10 regarding Other Post-Employment Benefits.

NOTE 9 – STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES – ADJUSTMENTS

In order to present the statement of net assets in accordance with GASB 34, the District needed to make certain adjustments to the general fund balance sheet. The capital assets previously reported in the fixed asset group of accounts and long-term debt previously reported in the long-term debt group of accounts had to be posted to the general fund. Also, the ending fund balances had to be converted to the net asset classifications required under GASB 34. The adjustments shown on the statement of net assets accomplish that task.

NOTE 10 – OTHER POST-RETIREMENT BENEFITS

HEALTHCARE

Plan Description

The Commissioners of Hamilton Township Fire District No. 2, County of Mercer and State of New Jersey contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 10 – OTHER POST-RETIREMENT BENEFITS (CONTINUED)

HEALTHCARE

Plan Description

defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. The Commissioners of Hamilton Township Fire District No. 2 authorized participation in the SHBP's post-retirement benefit program through a resolution.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf.

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Commissioners of Hamilton Township Fire District No. 2, County of Mercer, State of New Jersey on a monthly basis. The Fire District funds the cost of these benefits through taxes. The cost of health benefits per retiree is determined by the SHBP. There are currently no retirees receiving benefits.

As of July 2011, under Chapter 78, P.L. 2001, employee contributions for health benefits are required at a specified percentage of the health benefits/prescription drug premiums for a salary range, but not less than 1.5% of salary (as previously required under Chapter 2, P.L. 2010). For local government employees the first year phase in begins upon the expiration of the collective negotiations agreement in effect as of June 28, 2011. For new employees hired on or after June 28, 2011, or after the expiration of a collective negotiations agreement that was in force on June 28, 2011, the employees contribute (without any phase-in) at the full amount of the required contribution rate (4.5% to 35%).

The Commissioners of Hamilton Township Fire District No. 2, County of Mercer, State of New Jersey contributions to SHBP for the year ending December 31, 2011 was \$195,126, which equaled the required contributions for the year.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 10 – OTHER POST-RETIREMENT BENEFITS (CONTINUED)

SICK PAY

Each employee receives 120 hours of sick time per year. Unused sick time may be accumulated toward post-retirement payment. The calculation of accumulated time is based on an equation determined by the Commissioners of Hamilton Township Fire District No. 2, County of Mercer, State of New Jersey. It is based upon number of years already worked and approximate number of years to retirement for each employee who has accumulated sick time. An hourly rate is determined and applied toward the unused sick time. The result is divided in half to determine the amount of the final payment. The final payment cannot exceed \$16,000. Based on accumulated sick days as of December 31, 2011, the accrued sick pay due employees under the terms of the contract at death or retirement was \$52,092.

NOTE 11 – RISK MANAGEMENT

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

Property and Liability Insurance

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

NOTE 12 – CONTINGENCIES

Hamilton Township Fire District No. 2 pays rent for each hydrant and inch-per-foot of water pipes in the fire district to Trenton Water Works. In the last quarter of 2008, Trenton Water Works, pursuant to a City of Trenton ordinance, increased the rental fees by 40%, an increase of approximately \$23,000 per quarter for Hamilton Township Fire District No. 2. In October 2008, the Mayor of Hamilton Township, John Bencivengo, wrote a letter to all Hamilton Township Fire Districts informing them that the increase for 2008 did not apply to Hamilton Township fire districts. He instructed the fire districts in Hamilton Township to continue paying the rental fees at the old rate. Trenton Water Works billed the fire districts at the increased rates for 2009, 2010 and 2011 and continues to bill them at that rate in 2012.

The Townships of Hamilton, Hopewell, Ewing and Lawrence (outside water utility system users/"OWUS") filed suit against the City of Trenton and the Trenton Water Works in 2008, under Docket No. MER-L-2626-08. The lawsuit, in brief, alleges the City of Trenton was building an artificial surplus into the Trenton Water Works budget each year, thus, basically creating a budgetary line item for the City of Trenton's operating budget. The OWUS litigants have alleged Constitutional issues as well as other issues.

Per the Hamilton Township Department of Law as of April 30, 2012, the litigation is still ongoing. They had a Case Management Conference with Judge Jacobsen on April 23, 2012. They discussed a new settlement proposal with the Judge. They say it is very reasonable and would contain some type of rate increase forgiveness component for the fire districts (partial forgiveness with time to pay to

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to the Financial Statements

December 31, 2011

NOTE 12 – CONTINGENCIES (CONTINUED)

complete forgiveness or anywhere in between). If the case does not settle soon, the Judge intends to refer them to mediation.

The outcome of the litigation is uncertain. In 2008, 2009 and 2010 Hamilton Township Fire District No. 2 budgeted and paid Trenton Water Works at the increased rates. In 2011, the District budgeted at the increased rate and paid Trenton Water Works at the old reduced rate. The budget is approved annually by the New Jersey Local Finance Board. The potential additional liability to the District at December 31, 2011 is \$252,737. However, if the 40% increase in rents is forgiven for the period of October 1, 2008 through December 31, 2011, then the District would have no additional liability but would have overpaid Trenton Water Works by \$41,520.

NOTE 13 – LITIGATION

As of the date of this report there is no litigation pending which, if decided adversely to the District would have a material impact on the District. However, see Note 12, Contingencies for litigation involving Hamilton Township and The City of Trenton and Trenton Water Works.

REQUIRED SUPPLEMENTARY INFORMATION

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP Budgetary Basis) - General Fund

For the Year Ended December 31, 2011

	Budgeted Amounts			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 3,132,100	\$ 3,132,100	\$ 3,132,100	\$ 0
Designated surplus	101,497	101,497	0	(101,497)
FEMA grant	0	0	48,702	48,702
Investment income	7,000	7,000	8,443	1,443
Life hazard fees	38,000	38,000	41,865	3,865
Supplemental fire services grant	14,000	14,000	14,199	199
	<u>3,292,597</u>	<u>3,292,597</u>	<u>3,245,309</u>	<u>(47,288)</u>
Total Revenues	3,292,597	3,292,597	3,245,309	(47,288)
<u>Expenditures:</u>				
General Government:				
Salaries and wages	\$ 1,507,924	\$ 1,507,924	\$ 1,509,589	\$ (1,665)
Fringe benefits	658,788	618,388	571,455	46,933
Administration:				
Election expenses	1,800	1,300	1,238	62
Memberships and dues	2,300	2,300	608	1,692
Insurance	89,200	89,200	93,185	(3,985)
Office expenses	4,400	12,000	12,696	(696)
Professional fees	46,700	80,000	71,265	8,735
Total Administration	144,400	184,800	178,992	5,808
Operations:				
Computers, software and maintenance	4,000	4,000	1,454	2,546
Cash deficit from prior year	254,058	254,058	0	254,058
Fire prevention	4,800	4,800	4,178	622
Materials and supplies	15,500	15,500	2,417	13,083
Nonbondable assets	16,017	16,017	13,310	2,707
Rent - water and hydrant	280,000	280,000	208,975	71,025
Repairs and maintenance	105,000	105,000	83,503	21,497
Telephone	10,000	10,000	9,390	610
Training	12,000	12,000	2,489	9,511
Uniforms and personal equipment	4,000	4,000	0	4,000
Utilities	45,000	45,000	41,349	3,651
Total Operations	<u>750,375</u>	<u>750,375</u>	<u>367,065</u>	<u>383,310</u>
Total General Government	3,061,487	3,061,487	2,627,101	434,386

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP Budgetary Basis) - General Fund

For the Year Ended December 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Capital Outlay				
Payment of capital lease and loan principal	212,703	212,703	212,703	0
Interest on capital lease and loan	18,407	18,407	18,407	0
Total Capital Outlay	<u>231,110</u>	<u>231,110</u>	<u>231,110</u>	<u>0</u>
Total Expenditures	<u>3,292,597</u>	<u>3,292,597</u>	<u>2,858,211</u>	<u>434,386</u>
Excess of Revenues Over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 387,098</u>	<u>\$ 387,098</u>

Reconciliation of Budget Basis to GAAP Basis:

Excess of Revenues Over Expenditures - Budget Basis	\$ 387,098
Depreciation is not an outflow of a budgetary resource but is an expenditure for financial reporting purposes	(140,660)
Payment of principal on capital leases and notes payable is an outflow of a budgetary resource but is not an expenditure for financial reporting purposes	<u>212,703</u>
Excess (Deficit) of Revenues Over Expenditures - GAAP Basis	<u>\$ 459,141</u>

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Notes to Required Supplementary Information

For the Year Ended December 31, 2011

NOTE 1 – BUDGETS/BUDGETARY CONTROL

Annual budgets are prepared each year for the operations of the fire district. The budgets are approved by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The budgets are then voted upon by the public, at the annual fire district election held on the third Saturday in February. Budgetary transfers may be made during the last two months of the year.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

OTHER SUPPLEMENTARY INFORMATION

HAMILTON TOWNSHIP FIRE DISTRICT No. 2
Schedule of Supplemental Fire Services Grant Expenditure Report
For the Year Ended December 31, 2011

REVENUE

State of New Jersey Supplemental Fire Services Grant \$ 14,199

Total revenue \$ 14,199

EXPENDITURES

Insurance \$ 14,199

Total expenditures \$ 14,199



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*

To the Board of Fire Commissioners
Hamilton Township Fire District No. 2
Hamilton, New Jersey

We have audited the financial statements of governmental activities of Hamilton Township Fire District No. 2 as of and for the year ended December 31, 2011, and have issued our report thereon dated September 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Hamilton Township Fire District No. 2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Hamilton Township Fire District No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hamilton Township Fire District No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hamilton Township Fire District No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Hamilton Township Fire District No. 2 in a separate letter dated September 6, 2012.



This report is intended for the information and use of the board of commissioners, management, and the State of New Jersey Department of Community Affairs, Division of Local Government Services and is not intended to be and should not be used by anyone other than these specified parties.

DePietto & DePietto, LLC

Holland, Pennsylvania
September 6, 2012

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

General Comments and Recommendations

For the Year Ended December 31, 2011

General Comments

Our audit examination covered the financial statements of the governmental activities and each major fund of Hamilton Township Fire District No. 2, County of Mercer, New Jersey. The Board of Fire Commissioners is fiscally responsible for the financial position and maintaining proper internal controls for the District.

The financial accounting records of the District were maintained in good condition.

Acknowledgements

During the course of the audit, we received the cooperation of the officials of the Fire District and we appreciate the courtesies extended to us.

Prior Year Comments

We identified six audit findings during the prior year audit. Action was taken by the Board of Fire Commissioners to address and correct these findings during the year ended December 31, 2011. For the corrective actions taken by the Board of Fire Commissioners please see the Schedule of Audit Findings in this report.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Schedule of Audit Findings and Responses

For the Year Ended December 31, 2011

This section identifies any significant deficiencies and instances of non-compliance related to the December 31, 2011 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.

Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Hamilton Township Fire District No. 2.
2. There were no significant deficiencies relating to the audit of the financial statements as reported in the 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*.
3. There were no instances of noncompliance or other matters, required to be reported under *Government Auditing Standards*.

Findings – Financial Audit Current Year

None

Current Year Status of Prior Year Findings

10-1 Finding: Those charged with governance were not sufficiently involved with the entity to address important oversight responsibilities and were not actively involved and did not have significant influence over the District's internal control environment and its financial reporting.

While conducting the audit and making inquiries of those charged with governance, we made note of several issues. Prior to March 2010, the Fire Chief prepared all of the financial reports including the annual budget that was submitted to the State of New Jersey. The Fire Chief reported the financial condition of the District to the Fire Commissioners at each meeting including a budget tracking report. He presented bills for payment that were approved by the Fire Commissioners. The Fire Chief also called employees' hours into the payroll company each pay period. The Fire Chief had too many financial responsibilities. The Fire Commissioners relied on the Fire Chief for the District's accounting and financial issues. Although the accounting firm the District used, at the time, provided limited advice and oversight to the Fire Commissioners, the Fire Commissioners needed to have a better understanding of the importance of the District's operations to its annual budget. The Fire Commissioners should have questioned and analyzed the financial information presented to them.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Schedule of Audit Findings and Responses

For the Year Ended December 31, 2011

Recommendation:

We recommend corrective actions be taken to ensure that those charge with governance are sufficiently involved with the entity and have significant influence over the District's financial reporting.

District's Response and Corrective Action Taken:

The Board of Fire Commissioners' met on a regular basis in 2011 and continues to meet on a regular basis in 2012. All meetings are posted in the newspaper so the public is aware of the meeting and can attend. The Treasurer presents a Budget to Actual Report, Cash Balances and a list of bills to be paid to the Fire Commissioners at each meeting. The bills to be paid are reviewed by three commissioners and then the check is signed by the same three commissioners. The Fire Chief retired in July 2011. The old accountant was fired and a new accountant was hired in March 2011 to assist with budget preparation and financial reporting. In August 2011, a new purchase order system was implemented with the help of the new accountant. The outside payroll processing company was changed and our internal control system was improved to insure a proper financial reporting and budget process.

10-2 Finding: The opening balances for 2010 per the accounting records did not reconcile to the balances on the December 31, 2009 audited financial statements and accompanying footnotes.

During our analytical process, which included reviewing supporting documentation from the prior auditor for the December 31, 2009 balance sheet accounts and reconciling the December 31, 2009 audit report to the accounting records, we noted that the ending balances per the audited financial statements did not agree to the financial records of the District.

Recommendation:

We recommend corrective actions be taken to ensure that the accounting records always reconcile to the audited financial statements. The District should make sure that at the end of each audit all audit journal entries approved by the Fire Commissioners are posted to the accounting records and the balances on the audited financial statements are reconciled to the financial records of the District.

District's Response and Corrective Action Taken:

We fired the old accountant and hired a new accountant to ensure proper financial reporting. From March 2011 to July 2011, the new accountant went through the financial accounting records and adjusted the accounts to agree to the December 31, 2009 audited financial statements and reconciled all of the bank accounts and other accounts to supporting documentation for 2010, prior to giving you, the new auditor, final accounting records for 2010. At December 31, 2011, all account balances were reconciled by the new accountant.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Schedule of Audit Findings and Responses

For the Year Ended December 31, 2011

10-3 Finding: Resolutions passed in 2010 for transfers between fund balances did not agree with the financial accounting records of the District.

While reading the 2010 minutes and accepted resolutions, we noted that resolutions were made to cancel \$238,978 from the capital reserves to the general fund, move \$67,497 for renovations to the general fund and to cancel \$9,000 of capital reserves and move it to the general fund for the rescue truck. The reserves for capital projects per the December 31, 2009 audited financial statements only had a balance of \$80,102. This is the amount that was actually transferred to the general fund in 2010.

Recommendation:

We recommend corrective actions be taken to ensure that District always has balances in the reserve accounts prior to passing and approving a resolution to transfer funds.

District's Response and Corrective Action Taken:

The Fire Commissioners will consult with the District's new accountant prior to making any transfers of reserves.

10-4 Finding: No written conflict of interest policy with the Fire Commissioners

While performing our audit and reviewing the District's records, we noted that there was no conflict of interest disclosure document between each Fire Commissioner and the District.

Recommendation:

We recommend corrective actions be taken to ensure that District has a written conflict of interest policy. The District should have a written conflict of interest policy prepared in conjunction with an experienced attorney and should require any fire commissioner to disclose annually, in writing, any interests that could give rise to conflicts. This policy must be monitored and enforced.

District's Response and Corrective Action Taken:

The Fire Commissioners have discussed this with the District's attorney and are working on a written conflict of interest policy.

10-5 Finding: Bank reconciliations are not prepared and reviewed on a timely basis

Prior to the new accountant being hired in March 2011, bank reconciliations were not prepared and reviewed in a timely fashion.

Recommendation:

We recommend corrective actions be taken to insure that District has bank reconciliations prepared on a monthly basis and recommend that the bank statements get reviewed and signed off by someone other than the person reconciling the bank account.

HAMILTON TOWNSHIP FIRE DISTRICT No. 2

Schedule of Audit Findings and Responses

For the Year Ended December 31, 2011

District's Response and Corrective Action Taken:

Effective in 2011, the Treasurer's assistant, who has an accounting background, is preparing the bank reconciliations each month on a timely basis.

10-6 Finding: A proper requisition system was not used to process invoices from vendors

Prior to the new accountant being hired in March 2011, the District was using purchase orders however the purchase orders were being used incorrectly. They were being used more as a summary sheet for the disbursement than a purchase order. It was not used to purchase the item or processed prior to the vendor invoice being received, it did not have the person requesting the expenditure, a person authorizing the expenditure and was not cancelled when the invoice was paid.

Recommendation:

We recommend corrective actions be taken to insure that District has a suitable requisition system in place to assure all disbursements are properly authorized.

District's Response and Corrective Action Taken:

Effective in 2011, the new accountant assisted the Fire Commissioners in putting in an effective requisition system. All purchase orders are approved prior to purchasing the item and are matched to the vendor invoice and cancelled prior to payment.