

**FIRE DISTRICT NO. 2
TOWNSHIP OF MONTGOMERY, NEW JERSEY**

REPORT OF AUDIT

DECEMBER 31, 2015

**TOWNSHIP OF MONTGOMERY
FIRE DISTRICT NO. 2
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FIRE DISTRICT NO. 2
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TOWNSHIP OF MONTGOMERY FIRE DISTRICT #2
2016 OFFICIALS IN OFFICE AND SURETY BONDS

<u>NAME</u>	<u>POSITION</u>
<u>BOARD OF COMMISSIONERS</u>	
Leighton Laughlin, Jr.	Chairman
David VanDoren	Vice Chairman
Stephen Weingart	Secretary
Jonathan Plimpton	Treasurer
Peter Martin	Commissioner

A Surety Bond for \$1,700,000 Covers All the Commissioners.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Township of Montgomery
Fire District #2
Blawenburg, N.J. 08504

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of the Township of Montgomery Fire District #2, in the County of Somerset, State of New Jersey, as of and for the year ended December 31, 2015 and the related notes to the financial statements, which collectively comprise the Township of Montgomery Fire District #2's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion 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 the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, and State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of the Township of Montgomery Fire District #2, in the County of Somerset, State of New Jersey, as of December 31, 2015, 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

Required Supplementary Information

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 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 an opinion on the financial statements that collectively comprise the Township of Montgomery Fire District #2's basic financial statements as a whole. The supplemental schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Township of Montgomery Fire District #2, in the County of Somerset, State of New Jersey.

The Supplemental Data and Schedules are the responsibility of management and were derived directly from and related 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 statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental data section is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplemental data section has not been subjected to the audit procedures applied on the audit of the basic financial statements and, accordingly we do not express an opinion or provide any assurance on them.

Other Reporting By Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 21, 2016 on our consideration of the Township of Montgomery Fire District #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 Accounting Standards in considering the Township of Montgomery Fire District #2's internal control over financial reporting and compliance.

Solitario & Tierney, CPA, PLLC

Staten Island, New York
July 21, 2016

A NEW YORK PROFESSIONAL LIMITED LIABILITY COMPANY
451 ROBINSON AVENUE
STATEN ISLAND, NY 10312
STCPAPLLC@GMAIL.COM

**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**

Board of Fire Commissioners
Township of Montgomery
Fire District No. 2
Blawenburg, N.J. 08504

We have audited the financial statements of the governmental activities and each major fund of the Township of Montgomery Fire District No. 2, in the County of Somerset, State of New Jersey, as of and for the year ended December 31, 2015 and have issued our report thereon dated July 21, 2016. 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.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fire District'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 would not necessarily identify all deficiencies in internal control that might be 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 the Township of Montgomery 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 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, State of New Jersey.

This report is intended solely for the information and use of the management of the Fire District and the Bureau of Authority Regulation and is not intended to be and should not be used by anyone other than these specified parties.

Solitario & Tierney, CPA, PLLC

Staten Island, New York
July 21, 2016

REQUIRED SUPPLEMENTARY INFORMATION
PART I

**TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)**

As management of the Township of Montgomery Fire District No. 2, (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 of the Fire District for the year ended December 31, 2015. 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 along with the financial statements to enhance their understanding of the Fire District's financial performance.

Financial Highlights

- The assets of Fire District exceeded its liabilities at the close of the most recent year by \$2,253,039 (Net Position).
- As of the close of the current year, the Fire District's governmental funds reported combined ending fund balances of \$1,670,202 an increase of \$67,331 in comparison with the prior year.
- At the end of the current year, the committed fund balance for the capital fund was \$1,147,850 approximately a .25 percent increase from the prior year.
- At the end of the current year, the unassigned fund balance for the general fund was \$522,352 approximately a 14 percent increase from the prior year.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire District's basic financial statements. The Fire District's basic financial statements are comprised of three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

District-Wide Financial Statements: The district-wide financial statements are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private sector business.

The Statement of Net Position presents information on all of the Fire District's assets and liabilities, with the difference between the two reported as the net position. Over time, increases or decreases in the net position may serve as a useful indicator of whether the financial position of the Fire District is improving or deteriorating.

The Statement of Activities presents information showing how the Fire District's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods.

The two district-wide financial statements distinguish functions of the Fire District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Fire District include the following: fire suppression, fire rescue, fire inspections and investigations, emergency services and fire prevention activities; all of which are provided to the citizens of the Township of Montgomery.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The 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, governmental funds.

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)

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 available for spending in the future periods. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Fire District's general government operations and the basic services it provides, as listed above. Government fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the services that the Fire District provides to the citizens of the Township of Montgomery.

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 the debt service fund.

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

Also, the Fire District adopts an annual budget in accordance with N.J.S.A. 40A:14:78-3. Budgetary comparison schedules have been provided to demonstrate compliance with the budget.

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

District-Wide Financial Analysis

As noted earlier, the net position may serve over time as a useful indicator of a government's financial position. In the case of the Fire District, assets exceeded liabilities by \$2,253,039 at the close of the most recent year.

A portion of the Fire District's net position (24.6 percent) reflects its investment in capital assets (i.e. vehicles and equipment). The Fire District uses these assets to provide their services to the citizens of Montgomery Township consequently these assets are not available for future spending.

Statement of Net Position:

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NET POSITION
DECEMBER 31, 2015

Current and Other Assets	\$ 2,232,951
Capital Assets	<u>553,142</u>
Total Assets	\$ <u>2,786,093</u>
Other Liabilities	\$ <u>533,054</u>
Total Liabilities	\$ <u>533,054</u>
Net Position	\$ <u>2,253,039</u>

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)

Invested Capital Assets, Net of Related Debt	\$ 553,142
Committed for Future Expenditures	1,147,850
Unassigned	<u>552,047</u>
Net Position	\$ <u>2,253,039</u>

An additional portion of the Fire District's net position (50.9 percent) represents resources that are subject to external restrictions on how they may be used.

Governmental Activities: The Statement of Activities shows the cost of the governmental activities program services and the charges for service and grants offsetting those services. Key elements of the increase in governmental activities are as follows:

Expenses

Operating Appropriations:	
Administration	\$ 41,072
Cost of Operations and Maintenance	683,083
LOSAP Contribution	50,000
Capital Appropriations	<u>280,000</u>
Total Program Expenses	\$ 1,054,155
Program Revenues:	
Operating Grants & Contributions	<u>\$ 1,779</u>
Net Program Expenses	\$ 1,052,376
General Revenues	
Taxes:	
Property Taxes, Levied for General Purposes	\$ 852,000
Taxes Levied for Debt Service	0
Unrestricted Investment Earnings	3,060
Miscellaneous Income	<u>24,750</u>
Total General Revenues	<u>\$ 880,110</u>
Decrease in Net Position	\$ (172,266)
Net Position, January 1	2,416,873
Prior Period Adjustments	<u>8,432</u>
Net Position, December 31	<u>\$ 2,253,039</u>

Property taxes constituted 96.9% of revenues for government activities for the Fire District for the year 2015.

Cost of Administration and Operations comprises 68.8% of fire district expenses.

**TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)**

Financial Analysis of the Government Funds: As stated earlier, the Fire District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Fire District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Fire District's financing requirements. In particular, the unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year and as a useful measure of permitting a governmental unit to maintain cash flow in anticipation of tax collections.

As of the end of the current year, the Fire District's governmental funds reported combined ending fund balances of \$1,670,202. This was an increase of \$67,331 in comparison with the prior year.

Of the combined ending fund balances of \$1,670,202, the unassigned fund balance constituted \$522,352. Of the unassigned fund balance, \$25,000 has been utilized in the 2016 budget. The remainder of fund balance, in the amount of \$1,147,850, is committed to indicate that it is not available for new spending because it is committed to planned future outlays that are subject to the approval of the voters of the Fire District.

The general fund is the main operating fund of the Fire District. At the end of the current year, the unassigned fund balance of the general fund was \$522,352. The general fund balance increased by \$64,446 during the year.

The capital projects fund is the committed fund of the Fire District. At the end of the current year the committed fund balance of the capital projects fund was \$1,147,850. The capital fund balance increased by \$2,885 during the year.

General Fund Budgetary Highlights

During the course of the 2015-year the Fire District modified its general fund budget in conformance with statute.

The final budgetary basis revenue estimate was \$881,580. The original budgetary estimate was the same.

During the year 2015, the Fire District budgeted \$852,300 for property taxes (local tax levy) and \$1,780 for state aid revenues (supplemental fire services grant).

The final budgetary basis expenditures appropriation estimate was \$881,580. The original budgetary estimate was the same.

Capital Assets and Debt Administration

The Fire District investment in capital assets for its governmental activities as of December 31, 2015 amounts to \$553,142 (net of accumulated depreciation). This investment in capital assets includes vehicles and firefighting equipment. During 2015 the Fire District purchased firefighting equipment in the amount of \$6,531.

At the end of 2015 the Fire District had \$3,731,016 invested in vehicles and firefighting equipment. The accumulated depreciation on these items was \$3,177,874.

**TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015
(UNAUDITED)**

**TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
CAPITAL ASSETS
(NET OF ACCUMULATED DEPRECIATION)
DECEMBER 31, 2015**

FIRE APPARATUS & VEHICLES	\$ 494,811
FIREFIGHTING EQUIPMENT	<u>58,331</u>
 TOTAL CAPITAL ASSETS	 <u>\$ 553,142</u>

Additional information on the Fire District capital assets can be found in Note 4 in the notes to financial statements.

Long-Term Obligations

For the 2015 year, the Fire District had no bonded debt.

Economic Factors and Next Year's Budget

For the 2015 year the Fire District was able to sustain its budget through the district tax levy and other sources of revenue. Approximately 96.9% of total revenue is from the local tax levy, while the remaining amount is from other sources.

The Board of Fire Commissioners adopted the 2016 budget January 7, 2016 and the voters subsequently approved the budget at the annual fire district election held on February 20, 2016.

Requests for Information

This financial report is designed to provide a general overview of the Fire District's finances for all of 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: Jonathan Plimpton, Treasurer, Township of Montgomery - Fire District No. 2, P.O. Box 264, Blawenburg, NJ 08504.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

STATEMENT OF NET POSITION

DECEMBER 31, 2015

ASSETS:

Cash and Cash Equivalents	\$ 1,055,406
Prepaid Expenses	29,695
Restricted Assets:	
Restricted Cash and Cash Equivalents	1,147,850
Capital Assets, net (Note 4)	<u>553,142</u>
Total Assets	\$ 2,786,093

LIABILITIES:

Accounts Payable	<u>\$ 533,054</u>
Total Liabilities	\$ 533,054

NET POSITION:

Invested in Capital assets, Net of Related debt.	\$ 553,142
Committed for:	
Capital Projects	1,147,850
General	-
Unassigned:	
General	552,047
Capital	<u>-</u>
Total Net Position	<u><u>\$ 2,253,039</u></u>

See accompanying Accountant's Report and Notes

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Expenses:	
Operating Appropriations:	
Administration	\$ 41,072
Cost of Operations and Maintenance	683,083
Length of Service Award Program (LOSAP)-	
Contribution (P.L. 1997, c. 388)	50,000
Capital Appropriations:	
Intersection Control Devices	30,000
Self Contained Breathing Apparatus	<u>250,000</u>
Total Program Expenses	\$ 1,054,155
Program Revenues:	
Charges for Services	\$ -
Operating Grants and Contributions	<u>1,779</u>
Net Program Expenses	\$ 1,052,376
General Revenues:	
Taxes:	
Property Taxes, Levied for General Purposes	\$ 852,300
Taxes Levied for Debt Service	-
Unrestricted Investment Earnings	3,060
Miscellaneous Income	<u>24,750</u>
Total General Revenues	<u>\$ 880,110</u>
Decrease in Net Position	\$ (172,266)
Net Position, January 1 (Note 9)	2,416,873
Prior Period Adjustment	<u>8,432</u>
Net Position, December 31	<u><u>\$ 2,253,039</u></u>

See accompanying Accountant's Report and Notes

FUND FINANCIAL STATEMENTS

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<u>ASSETS:</u>				
Cash	\$ 663,956	\$ 1,539,300	\$ -	\$ 2,203,256
Total Assets	<u>\$ 663,956</u>	<u>\$ 1,539,300</u>	<u>\$ -</u>	<u>\$ 2,203,256</u>
<u>LIABILITIES:</u>				
Accounts Payable	\$ 141,604		\$ -	\$ 141,604
Accounts Payable: Capital Outlay	<u>-</u>	<u>\$ 391,450</u>		<u>391,450</u>
Total Liabilities	\$ 141,604	\$ 391,450	\$ -	\$ 533,054
<u>FUND BALANCES:</u>				
Committed:				
Capital		\$ 1,147,850		\$ 1,147,850
Assigned:				
Subsequent Year's Expenditures	\$ 25,000			\$ 25,000
Unassigned:				
General	<u>497,352</u>			<u>497,352</u>
Total Fund Balances	<u>\$ 522,352</u>	<u>\$ 1,147,850</u>	<u>\$ -</u>	<u>\$ 1,670,202</u>
Total Liabilities and Fund Balances	<u>\$ 663,956</u>	<u>\$ 1,539,300</u>	<u>\$ -</u>	

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

Prepaid insurance is reported in governmental funds as expenditures. However, in the statement of net position, the cost of those assets is expensed over the term of the policy as insurance expense.

29,695

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$3,731,016 and the accumulated depreciation is \$3,177,874.

553,142

Net Position of Governmental Activities

\$ 2,253,039

See accompanying Accountant's Report and Notes

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Interest	\$ 175	\$ 2,885	\$ -	\$ 3,060
Operating Grant Revenues	1,779			1,779
Fund Balance Appropriated	25,000			25,000
Amount to be Raised by Taxation to Support the District Budget	<u>852,300</u>	<u>-</u>	<u>-</u>	<u>852,300</u>
Total Revenues	\$ 879,254	\$ 2,885	\$ -	\$ 882,139
EXPENDITURES:				
Operating Appropriations:				
Operating & Administration	\$ 41,072	\$ -	\$ -	\$ 41,072
Operations & Maintenance	501,918			501,918
Capital Appropriations	<u>280,000</u>	<u>-</u>	<u>-</u>	<u>280,000</u>
Total Expenditures	<u>\$ 822,990</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 822,990</u>
Excess of Revenues Over Expend.	\$ 56,264	\$ 2,885	\$ -	\$ 59,149
Other Financing Sources (Uses):				
Misc. Revenue Not Anticipated	\$ 24,750	\$ -	\$ -	\$ 24,750
Reserve for Future Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)	<u>\$ 24,750</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,750</u>
Excess of Rev\Other Financing Sources Over Expenditures\Other Financing Uses	\$ 81,014	\$ 2,885	\$ -	\$ 83,899
Fund Balances, January 1, 2015	457,906	1,144,965		1,602,871
Utilization of Fund Balance	(25,000)			(25,000)
Prior Period Adjustment	8,432	-		8,432
Fund Balances, December 31, 2015	<u>\$ 522,352</u>	<u>\$ 1,147,850</u>	<u>\$ -</u>	<u>\$ 1,670,202</u>

See accompanying Accountant's Report and Notes

**TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Total Net Change in Fund Balances - Governmental Funds	\$ 83,899
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Amounts reported for governmental activities in the statement
of activities (A-2) are different because:

Utilization of Unassigned Funds	(25,000)
---------------------------------	----------

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as depreciation expense. This is the adjustment for capital outlay and depreciation for the period.

Capital Outlay	6,531
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Depreciation Expense	(238,517)
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Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.

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In the statement of activities, certain operating expenses, e.g., prepaid Insurance 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 (+).

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Change in Net Position of Governmental Activities	<u>\$ (172,266)</u>
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See accompanying Accountant's Report and Notes

NOTES TO THE FINANCIAL STATEMENTS

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: Summary of Significant Accounting Policies

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

Fire Districts are governed by N.J.S.A. 40A: 14-70 et al. and are organized as a taxing authority charged with the responsibility of providing the resources necessary to provide fire fighting services to the residents within its territorial location.

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 Statement 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, 2015, 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 District-wide Statements, including a Statement of Net Position and a Statement of Activities, and Fund Financial Statements, which provide a more detailed level of financial information.

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

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

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

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 of its financial resources. The acquisition of certain capital assets, such as fire fighting apparatus and equipment, is accounted for in the General Fund when it is responsible for the financing of such expenditures.

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

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for but not limited to the acquisition or construction of major capital facilities such as fire houses and fire fighting apparatus. Generally, the financial resources of the Capital Projects Fund are derived from the issuance of debt or by the reservation of fund balance, which must be authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for and the payment of, general long-term debt principal, interest, and related costs.

Measurement Focus

District-wide Financial Statements - The district-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities 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 district-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

Basis of Accounting - Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-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, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

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.

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.

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

Budgets / Budgetary Control (Continued)

Amounts reported under "final budget" on Exhibit C-1 and D-2 includes modifications to the adopted budgets that were made during the year as approved by the Board of Commissioners.

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, agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost plus accrued interest at maturity. All other investments are stated at fair value.

New Jersey municipal units are required by N.J.S.A. 40A: 5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 14A: 5-15.1 provides a list of investments which may be purchased by New Jersey municipal units.

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 Governmental Unit Deposit Protection Act, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include state or federally chartered financial institutions that are FDIC insured or by any other agency of the United States which insures deposits made in public depositories. 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 and Prepaid Expenses - 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 district-wide financial statements are recorded as expenditures when consumed rather than when purchased. As of December 31, 2015, no inventories exist.

Prepaid expenses recorded in the governmental fund types, which benefit future periods, are recorded as expenditures during the year of purchase. Prepaid expenses recorded on the district-wide financial statements represent payments made to vendors for services that will benefit periods beyond December 31, 2015.

Interfunds - Short-term inter-fund 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 District-wide Statement of Net Position but are not reported in the Fund Financial Statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Fire District maintains a capitalization threshold of \$5,000.00. 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.

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Vehicles	5-10 Years
Firefighting Equipment	5 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 or 2 percent of the assessed valuation of property, whichever is larger.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Accrued Liabilities and Long-Term Obligations - All payables, accrued liabilities, and long-term obligations are reported in the district-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 the 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 finance resources. Bonds are recognized as a liability on the fund financial statements when due.

Net Position - Net position represent the difference between assets and liabilities. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as committed 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.

The Fire District applies committed resources when an expense is incurred for purposes for which both committed and unassigned 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:

Non-spendable -The non-spendable 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 can be spent only for the 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.

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1: Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

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 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 amount in the unassigned fund balance.

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, and then unassigned.

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.

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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. 17:19-41 et seq. requires that the governmental units shall deposit public funds in public depositories protected from loss under the provision of the Governmental Unit Protection Act (GUDPA). Under the Act, the first \$250,000 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 collateralized. Of the Fire District's amount on deposit of \$2,203,256, as December 31, 2015, \$250,000 was insured under FDIC and the remaining balance of \$1,953,256 was collateralized under GUDPA.

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

As of December 31, 2015 the District's cash accounts consisted of:

	<u>2015</u>	<u>2014</u>
First Bank: Capital/Equity MM	\$ 524,351	\$ 2,500
Hopewell Valley Bank: Cap/Equity MM	507,968	500
Hopewell Valley Bank: Operating	14,125	0
PNC Bank: Capital/Equity	1,032,704	1,060,494
PNC Bank: LOSAP	21,179	21,176
PNC Bank: Operating	102,929	102,810
TD Bank: Capital/Equity	0	617,970
TD Bank: Operating	0	30,222
	<u>\$ 2,203,256</u>	<u>\$ 1,835,672</u>

The cash deposits held at financial institutions are classified as to credit risk by the following three categories described below:

<u>Category 1</u>	Deposits which are covered by FDIC, or collateralized by securities held by the Fire District or by its agent, in the Fire District's name.	\$ 250,000
<u>Category 2</u>	Deposits which are collateralized with securities held by the pledging public depository's trust department or agent, in the Fire District's name.	\$ 1,953,256
<u>Category 3</u>	Deposits which are not collateralized or insured.	\$ - 0 -

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 Valuations</u>	<u>Total Tax Levy</u>	<u>Property Tax Rates</u>
2015	\$ 1,907,651,016	\$ 832,300	\$.044
2014	1,867,903,430	737,750	.042
2013	1,844,512,446	791,800	.043
2012	1,840,323,169	769,300	.042
2011	1,840,098,671	766,800	.042

NOTE 4: Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Balance Jan. 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance Dec. 31, 2015</u>
Fire Apparatus/Vehicles	\$ 3,325,247	\$ -	\$ 323,665	\$ 3,001,582
Firefighting Equipment	<u>722,903</u>	<u>6,531</u>	<u>-</u>	<u>729,434</u>
Total Capital Assets being Depreciated	4,048,150	6,531	323,665	3,731,016
Less Accumulated Depreciation:				
Fire Apparatus/Vehicles	2,611,083	219,353	323,665	2,506,771
Firefighting Equipment	<u>651,939</u>	<u>19,164</u>	<u>-</u>	<u>671,103</u>
Total Accumulated Depreciation	3,263,022	238,517	323,665	3,177,874
Total Capital Assets being Depreciated, net of Accumulated Depreciation	<u>785,128</u>	<u>(231,986)</u>	<u>-</u>	<u>553,142</u>
Capital Assets, net	<u>\$ 785,128</u>	<u>\$ (231,986)</u>	<u>\$ -</u>	<u>\$ 553,142</u>

* Depreciation expense was charged to governmental functions as follows:

Cost of Operations and Maintenance	\$ 238,517
Cost of Appropriations Offset with Revenues	<u>-</u>
Total Depreciation Expense	<u>\$ 238,517</u>

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5: Leases

Lease Obligations – At December 31, 2015, the Fire District had a lease agreement in effect for the following:

Operating:

Buildings for the District Office and Housing of Fire Apparatus

Rental payments under the operating lease for the year ended December 31, 2015 were \$192,000.00.

NOTE 6: 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.

NOTE 7: Interfund Receivables and Payables

As of December 31, 2015, no inter-fund receivables or payables existed.

NOTE 8: FUND BALANCES

COMMITTED

For Future Capital Outlays - These funds are committed for 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, 2015, the fund balance is \$1,147,850.

ASSIGNED

General Fund – Subsequent Year's Expenditures – The Fire District has appropriated and assigned a portion of the general fund as of December 31, 2015, \$25,000 will be utilized on the 2016 Fire District Budget.

UNASSIGNED

General Fund – These funds are unassigned and represent funds that have not been restricted, committed or assigned for a specific purpose. As of December 31, 2015 the balance is \$522,352.

NOTE 9: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

For the year ended December 31, 2015, the Fire District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions", GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB issued Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", GASB issued Statement No. 63, "Financial Reporting of Deferred Outlaws of Resources, Deferred Inflows of Resources, and Net Position" and

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 9: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE (Continued)

GASB issued Statement No. 65, "Items Previously Reported as Assets and Liabilities". GASB Statement No. 34 creates new basic financial statements for reporting the Fire District's financial activities. The financial statements now include district-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type.

The beginning net position amount for governmental activities reflects the following changes required by GASB Statement No. 34:

Fund Balances January 1, 2015	\$ 1,602,871
Prepaid Expenses	28,874
Capital Assets, net of Accumulated Depreciation	785,128
Long-term Liabilities	<u>-</u>
Governmental Activities Net Assets, January 1, 2015	<u>\$ 2,416,873</u>

NOTE 10: LENGTH OF SERVICE AWARD PROGRAMS

The Fire District's Length of Service Awards Program ("LOSAP") was created by a Fire District Resolution adopted pursuant to Section 457 (e)(11)(13) of the Internal Revenue Service Code of 1986, as amended, except for provisions added by reason of the Length of Service Award Program as enacted into federal law in 1997. The voters of the Township of Montgomery Fire District No. 2 approved the adoption of the Plan at the annual election held on February 20, 1999 and the first year of eligibility for entrance into the Plan by qualified volunteers was calendar year 1999. The Plan provides tax deferred income benefits to active volunteer firefighters.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the Fire District or its creditors.

As required by N.J.A.C. 5:30-14.48, the Fire District must have an annual review its LOSAP performed in accordance with Statements of Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

REQUIRED SUPPLEMENTARY INFORMATION
PART II

BUDGETARY COMPARISON SCHEDULES

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	BUDGET CHANGES/ TRFRS	FINAL BUDGET	2015 ACTUAL	VARIANCE
<u>REVENUES:</u>					
Miscellaneous Anticipated Revenues:					
Interest on Deposits	\$ 2,500	\$ -	2,500	\$ 175	\$ (2,325)
Fund Balance Appropriated	25,000		25,000	25,000	-
Total Miscellaneous Anticipated Revenues	\$ 27,500	\$ -	\$ 27,500	\$ 25,175	\$ (2,325)
Operating Grant Revenue					
Supplemental Fire Services Act	1,780	-	1,780	1,779	(1)
Total Revenues and Fund Balance Utilized	\$ 29,280	\$ -	\$ 29,280	\$ 26,954	\$ (2,326)
Amount to be Raised by Taxation to Support the District Budget	852,300		852,300	852,300	-
Total Anticipated Revenues	\$ 881,580	\$ -	\$ 881,580	\$ 879,254	\$ (2,326)

(Continued)

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	BUDGET CHANGES/ TRFRS	FINAL BUDGET	2015 ACTUAL	VARIANCE
<u>EXPENDITURES:</u>					
Operating & Administration:					
Advertising	\$ 2,000	\$ 500	\$ 2,500	\$ 2,405	\$ 95
Office Expense	9,000	2,500	11,500	10,992	508
Election Expense	800		800	450	350
Professional Services	32,000		32,000	27,225	4,775
Total Administration	\$ 43,800	\$ 3,000	\$ 46,800	\$ 41,072	\$ 5,728
Cost of Operations and Maintenance:					
Other Expenses:					
Apparatus Housing	\$ 192,000	\$ -	\$ 192,000	\$ 192,000	\$ -
Insurance	80,000	2,000	82,000	81,767	233
Training/Education	50,000		50,000	44,976	5,024
Operating Costs	105,000	20,000	125,000	103,448	21,552
Supplies (Equip. Acqu.)	65,000	(25,000)	40,000	23,948	16,052
Supplemental Fire Service Grant	1,780		1,780	1,779	1
Contingency	10,000		10,000	-	10,000
Total Cost of Operations and Maintenance	\$ 503,780	\$ (3,000)	\$ 500,780	\$ 447,918	\$ 52,862
EMS Equipment	4,000		4,000	4,000	-
Length of Service Award Program	50,000		50,000	50,000	-
Total Operating Appropriations	\$ 601,580	\$ -	\$ 601,580	\$ 542,990	\$ 58,590

(Continued)

See accompanying Accountant's Report and Notes

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	BUDGET CHANGES/ TRFRS	FINAL BUDGET	2015 ACTUAL	VARIANCE
Capital Appropriations:					
Intersection Control Devices	\$ 30,000	\$ -	\$ 30,000	\$ 30,000	\$ -
Self Contained Breathing Apparatus	250,000		250,000	250,000	-
Total Capital Appropriations	\$ 280,000	\$ -	\$ 280,000	\$ 280,000	\$ -
Total Expenditures	\$ 881,580	\$ -	\$ 881,580	\$ 822,990	\$ 58,590
Excess of Revenue Over Expenditures	\$ -	\$ -	\$ -	\$ 56,264	\$ 56,264
Other Financing Sources (Uses):					
Miscellaneous Revenue Not Anticipated	\$ -	\$ -	\$ -	\$ 24,750	\$ 24,750
Other Financing Sources (Uses)	\$ -	\$ -	\$ -	\$ 24,750	\$ 24,750
Excess of Revenues\Other Financing Sources Over Expenditures\Other Financing Uses	\$ -	\$ -	\$ -	\$ 81,014	\$ 81,014
Fund Balances, January 1, 2015				457,906	
Utilization of Fund Balance				(25,000)	
Prior Period Adjustments				8,432	
Fund Balances, December 31, 2015				\$ 522,352	

See accompanying Accountant's Report and Notes

OTHER SUPPLEMENTARY INFORMATION

CAPITAL PROJECTS FUND

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

CAPITAL PROJECTS FUND

BALANCE SHEET

DECEMBER 31, 2015

ASSETS:

Cash	\$ 1,539,300
Total Assets	<u>\$ 1,539,300</u>

LIABILITIES AND FUND BALANCELIABILITIES:

Accounts Payable: Capital Outlay	\$ 391,450
Total Liabilities	\$ 391,450

FUND BALANCES:

Committed Funds: Capital	\$ 1,147,850
Total Fund Balance	<u>\$ 1,147,850</u>
Total Liabilities and Fund Balance	<u>\$ 1,539,300</u>

See accompanying Accountant's Report and Notes

TOWNSHIP OF MONTGOMERY FIRE DISTRICT NO. 2

BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	ORIGINAL BUDGET	BUDGET CHANGES/ TRFRS	FINAL BUDGET	2015 ACTUAL	VARIANCE
REVENUES:					
Miscellaneous Anticipated Revenues:					
Interest on Deposits	\$ -	\$ -	\$ -	\$ 2,885	\$ 2,885
Committed Funds Utilized	-	-	-	-	-
Total Revenues	\$ -	\$ -	\$ -	\$ 2,885	\$ 2,885
EXPENDITURES:					
Capital Appropriations:					
Fire Apparatus	\$ -	\$ -	\$ -	\$ -	\$ -
Total Capital Appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Excess of Revenues Over Expenditures	\$ -	\$ -	\$ -	\$ 2,885	\$ 2,885
Other Financing Sources:					
Reserve for Future Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -
Other Financing Sources	\$ -	\$ -	\$ -	\$ -	\$ -
Excess of Revenues Over Expenditures	\$ -	\$ -	\$ -	\$ 2,885	\$ 2,885
Fund Balances, January 1, 2015				1,144,965	
Utilization of Committed Funds				-	
Fund Balances, December 31, 2015				<u>\$ 1,147,850</u>	

See accompanying Accountant's Report and Notes

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**TOWNSHIP OF MONTGOMERY
FIRE DISTRICT NO. 2**

**SCHEDULE OF FINDINGS AND RECOMMENTATIONS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Schedule of Financial Statement Findings

This section identifies the reportable conditions, 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.

**TOWNSHIP OF MONTGOMERY
FIRE DISTRICT NO. 2**

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS AS
PREPARED BY MANAGEMENT**

Financial Statement Findings

This section identifies the status of prior year findings related to the financial statements and Federal and State awards that are required to be reported in accordance with Government Auditing Standards, OMB Circular A-133 and the State of New Jersey Circular 97-08-OMB.

None.

APPRECIATION

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

Respectfully Submitted,

Solitario & Tierney, CPA, PLLC

Solitario & Tierney, CPA, PLLC
Certified Public Accountants