

**TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2**

**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

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TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT



VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Fire Commissioners
Township of Parsippany-Troy Hills Fire District Number 2
County of Morris, New Jersey

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Parsippany-Troy Hills Fire District Number 2 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 Township of Parsippany-Troy Hills Fire District Number 2's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

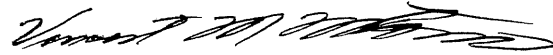
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Parsippany-Troy Hills Fire District Number 2 as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 April 9, 2012 on our consideration of the Township of Parsippany-Troy Hills Fire District Number 2's internal control over financial reporting and on 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. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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The Management's Discussion and Analysis and budgetary comparison information on schedule C-1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Parsippany-Troy Hills Fire District Number 2's basic financial statements. The accompanying other supplementary information such as the combining and individual fund financial statements, long-term debt schedules and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and long-term debt schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 9, 2012

**REQUIRED SUPPLEMENTARY INFORMATION -
PART I**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Parsippany-Troy Hills Fire District Number 2's financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's net assets increased \$47,213.17 as a result of this year's operations. Net assets of our governmental activities increased by \$47,213.17 or 3.19 percent.
- Total cost of all of the District's programs was \$217,886.14 in 2011 compared to \$219,775.59 in 2010.
- During the year, the District had expenses for governmental activities that were \$47,213.17 less than the \$265,159.31 generated in tax and other revenues.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view on the District's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operation in more detail than the government-wide statements by providing information about the District's most financially significant funds

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

- Governmental activities: most of the District's basic services are reported here, including general administration. Local taxes, fees, and state aid finance most of these activities.
- Business-type-activities: the District has no proprietary funds.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the District as a whole. Some funds are required to be established by State law.

Governmental funds: most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation.

THE DISTRICT AS A WHOLE

The District's net assets changed from a year ago, increasing from \$1,481,652.92 to \$1,528,926.09. Looking at the net assets and net expenses of governmental activities, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District's governmental activities as of December 31.

Table 1
Net Assets

	Governmental		Total	
	Activities		Primary Government	
	2011	2010	2011	2010
Current and Other Assets	\$ 540,919.88	\$ 437,816.04	\$ 540,919.88	\$ 437,816.04
Capital Assets	988,006.21	1,043,836.88	988,006.21	1,043,836.88
Total Assets	<u>1,528,926.09</u>	<u>1,481,652.92</u>	<u>1,528,926.09</u>	<u>1,481,652.92</u>
Net Assets:				
Invested in Capital Assets, Net				
of debt	988,006.21	1,043,836.88	988,006.21	1,043,836.88
Restricted	415,748.03	318,848.03	415,748.03	318,848.03
Unrestricted	125,171.85	118,968.01	125,171.85	118,968.01
Total Net Assets	<u>\$ 1,528,926.09</u>	<u>\$ 1,481,652.92</u>	<u>\$ 1,528,926.09</u>	<u>\$ 1,481,652.92</u>

Net assets of the District's governmental activities increased 3.19 percent. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$6,203.84. Restricted net assets increased by \$96,900.00. The investment in capital assets, net of debt category decreased \$55,830.67.

Table 2
Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Revenues</u>				
General revenues:				
Property Taxes	\$ 260,400.00	\$ 253,900.00	\$ 260,400.00	\$ 253,900.00
State Aid	-	-	-	1,110.00
Interest and Investment Earnings	2,802.31	1,956.20	2,802.31	1,956.20
Dedicated Fines	750.00	-	750.00	-
Other General Revenues	<u>1,207.00</u>	<u>3,398.59</u>	<u>1,207.00</u>	<u>3,398.59</u>
Total Revenues:	<u>265,159.31</u>	<u>259,254.79</u>	<u>265,159.31</u>	<u>260,364.79</u>
 <u>Program expenses including indirect expenses</u>				
Administration:				
Other Expenses	53,169.76	51,646.37	53,169.76	51,646.37
Cost of Providing Services:				
Other Expenses	<u>164,716.38</u>	<u>168,129.22</u>	<u>164,716.38</u>	<u>168,129.22</u>
Total Expenses	<u>217,886.14</u>	<u>219,775.59</u>	<u>217,886.14</u>	<u>219,775.59</u>
Increase (Decrease) in Net Assets	<u>\$ 47,273.17</u>	<u>\$ 39,479.20</u>	<u>\$ 47,273.17</u>	<u>\$ 40,589.20</u>

THE DISTRICT'S FUNDS
Governmental Activities

Table 3

Information below compares revenues and expenditures for all governmental fund types for 2011 and 2010.

<u>Revenues by Source:</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Local Sources:			
Local Tax Levy	\$ 260,400.00	\$ 253,900.00	2.56%
Interest on Investments	2,802.31	1,956.20	43.25%
Dedicated Fines	750.00	-	100.00%
Miscellaneous	1,207.00	3,398.59	-64.49%
Total - Local Sources	<u>265,159.31</u>	<u>259,254.79</u>	2.28%
Total Revenues	<u>\$ 265,159.31</u>	<u>\$ 259,254.79</u>	2.28%

<u>Expenditures by Function:</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Administration:			
Other Expenses	\$ 40,765.01	\$ 51,646.37	-21.07%
Cost of Providing Services:			
Other Expenses	121,290.46	168,129.22	-27.86%
Capital Outlay	-	-	100.00%
Total Expenditures	<u>\$ 162,055.47</u>	<u>\$ 219,775.59</u>	-26.26%

CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital Assets
Table 4**

**Capital Assets at Year-end
(Net of Depreciation)**

	<u>Governmental</u> <u>Activities</u>		<u>Totals</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Buildings and Improvements	\$ 496,190.00	\$ 496,190.00	\$ 496,190.00	\$ 496,190.00
Machinery and Equipment	<u>1,489,364.17</u>	<u>1,489,364.17</u>	1,489,364.17	1,489,364.17
Subtotal	1,985,554.17	1,985,554.17	1,985,554.17	1,985,554.17
Accumulated Depreciation	<u>(997,547.96)</u>	<u>(941,717.29)</u>	<u>(997,547.96)</u>	<u>(941,717.29)</u>
Totals	<u>\$ 988,006.21</u>	<u>\$ 1,043,836.88</u>	<u>\$ 988,006.21</u>	<u>\$ 1,043,836.88</u>

There were no major capital asset additions in the Governmental Activities for 2011.

More detailed information about the District capital assets is presented in the notes to the basic financial statements

BUDGETS

The significant variances between the originally adopted budget for 2011 and the final budget were as follows:

Administration:	
Operating Materials and Supplies	\$(7,010.00)
Public Events	7,500.00
Cost of Providing Services:	
Maintenance and Repairs	(27,935.00)
Operating Materials and Supplies	22,585.00
Training and Education	(8,500.00)
Promotions	9,050.00

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Commissioners, Township of Parsippany-Troy Hills Fire District Number 2, 1 Rainbow Trail, Denville, New Jersey 07834.

BASIC FINANCIAL STATEMENTS

SECTION A

DISTRICT – WIDE FINANCIAL STATEMENTS

**TOWNSHIP OF PARSIPPANY-TROY HILLS
 FIRE DISTRICT NUMBER 2
 STATEMENT OF NET ASSETS
 FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011**

	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	\$ 540,919.88	\$ 540,919.88
Capital Assets, Net (Note III:B.):	<u>988,006.21</u>	<u>988,006.21</u>
Total Assets	<u>1,528,926.09</u>	<u>1,528,926.09</u>
 NET ASSETS		
Invested in Capital Assets, Net of Related Debt	988,006.21	988,006.21
Restricted for:		
Capital Projects	415,748.03	415,748.03
Unrestricted	<u>125,171.85</u>	<u>125,171.85</u>
 Total Net Assets	 <u>\$ 1,528,926.09</u>	 <u>\$ 1,528,926.09</u>

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

TOWNSHIP OF PARSIPPANY-TROY HILLS
 FIRE DISTRICT NUMBER 2
 STATEMENT OF ACTIVITIES
 FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities Total
Governmental Activities:				
Administration:				
Other Expenses	\$ 53,169.76			\$ (53,169.76)
Cost of Providing Services:				
Other Expenses	164,716.38			(164,716.38)
Total Governmental Activities	<u>217,886.14</u>	-	-	<u>(217,886.14)</u>
Total Primary Government	\$ <u>217,886.14</u>	\$ -	\$ -	\$ <u>(217,886.14)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes			\$ 260,400.00	\$ 260,400.00
Investment Earnings			2,802.31	2,802.31
Miscellaneous Income			1,207.00	1,207.00
Dedicated Fines			<u>750.00</u>	<u>750.00</u>
Total General Revenues, Special Items, Extraordinary Items and Transfers			<u>265,159.31</u>	<u>265,159.31</u>
Change in Net Assets			47,273.17	47,273.17
Net Assets—Beginning			<u>1,481,652.92</u>	<u>1,481,652.92</u>
Net Assets—Ending			<u>\$ 1,528,926.09</u>	<u>\$ 1,528,926.09</u>

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

SECTION B
FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

**TOWNSHIP OF PARSIPPANY-TROY HILLS
 FIRE DISTRICT NUMBER 2
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 125,171.85	\$ 415,748.03	\$ 540,919.88
Total Assets	<u>125,171.85</u>	<u>415,748.03</u>	<u>540,919.88</u>
LIABILITIES AND FUND BALANCES			
Fund Balances:			
Unreserved, reported in:			
General Fund	125,171.85		125,171.85
Capital Projects Fund	<u>-</u>	<u>415,748.03</u>	<u>415,748.03</u>
Total Fund Balances	<u>125,171.85</u>	<u>415,748.03</u>	540,919.88
Total Liabilities and Fund Balances	<u>\$ 125,171.85</u>	<u>\$ 415,748.03</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$1,985,554.17 and the accumulated depreciation is \$997,547.96.

	<u>988,006.21</u>
Net assets of governmental activities	<u>\$ 1,528,926.09</u>

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

**TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
REVENUES			
Local Sources:			
Local Tax Levy	\$ 260,400.00	\$ -	\$ 260,400.00
Interest Earned on Investments	2,802.31	-	2,802.31
Dedicated Fines	750.00		750.00
Miscellaneous	<u>1,207.00</u>	<u>-</u>	<u>1,207.00</u>
Total - Local Sources	<u>265,159.31</u>	<u>-</u>	<u>265,159.31</u>
Total Revenues	<u>265,159.31</u>	<u>-</u>	<u>265,159.31</u>
EXPENDITURES			
Current:			
Administration:			
Other Expenses	40,765.01		40,765.01
Cost of Providing Services:			
Other Expenses	<u>121,290.46</u>		<u>121,290.46</u>
Total Expenditures	<u>162,055.47</u>	<u>-</u>	<u>162,055.47</u>
Excess (Deficiency) of Revenues over Expenditures	<u>103,103.84</u>	<u>-</u>	<u>103,103.84</u>
OTHER FINANCING SOURCES AND (USES)			
Transfers In	-	96,900.00	96,900.00
Transfers (Out)	<u>(96,900.00)</u>	<u>-</u>	<u>(96,900.00)</u>
Total Other Financing Sources and (Uses)	<u>(96,900.00)</u>	<u>96,900.00</u>	<u>-</u>
Net Change in Fund Balances	6,203.84	96,900.00	103,103.84
Fund Balance—January 1	<u>118,968.01</u>	<u>318,848.03</u>	<u>437,816.04</u>
Fund Balance—December 31	<u>\$ 125,171.85</u>	<u>\$ 415,748.03</u>	<u>\$ 540,919.88</u>

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

**TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011**

Total net change in fund balances - governmental funds (from B-2) **\$ 103,103.84**

Amounts reported for governmental activities in the statement of activities (A-2) are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which capital outlays exceeded depreciation in the period.

	Depreciation expense	\$ (55,830.67)	
	Capital outlays	<u> -</u>	
			<u>(55,830.67)</u>

Change in net assets of governmental activities **\$ 47,273.17**

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

PROPRIETARY FUNDS

NOT APPLICABLE

FIDUCIARY FUNDS

NOT APPLICABLE

NOTES TO BASIC FINANCIAL STATEMENTS

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Fire District (Board) of the Township of Parsippány-Troy Hills Fire District Number 2 (“the 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 District is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 2007, The Governmental Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 51 are not applicable for the Authority.

In June 2008, The Governmental Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 53 are not applicable for the Authority.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will become effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority is the fiscal year beginning December 1, 2010. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance type definitions.

B. Reporting Entity

The Board is an instrumentality of the State of New Jersey, established to function as a Fire District. The Board consists of elected officials and is responsible for the fiscal control of the District. A treasurer is appointed by the Board and is responsible for the administrative control of the District.

The primary criterion for including activities within the Township of Parsippány-Troy Hills Fire District Number 2 reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the District over which the Board exercises operating control. The operations of the District includes one fire house located in the Township of Parsippány-Troy Hills. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year.

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

C. Basic Financial Statements- Government-Wide Statements

The statement of net assets and the statement of activities display information about the District. These statements include the financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

D. Basic Financial Statements- Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

Governmental Fund Types

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

General Fund – The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or noninstructional equipment which are classified in the Capital Outlay sub fund.

Accounting principles generally accepted in the United States of America as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Basic Financial Statements- Fund Financial Statements (Continued)

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The financial resources are derived from temporary notes or serial bonds that are specially authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

E. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund 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 at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, property taxes, grants entitlements and donations.

Government funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Ad Valorem (Property) Taxes are susceptible to accrual as under New Jersey State Statute a municipality is required to remit to its district the entire balance of taxes in the amount voted upon or certified, prior to the end of the year. The 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 District is entitled to receive moneys under the established payment schedule and the unpaid amount is considered to be an “accounts receivable”.

F. Budgets/Budgetary Control

Annual budgets are adopted on a basis consistent with the requirements of law and the rules and regulations of the State of New Jersey, Department of Community Affairs, Local Finance Board. The Budgets, both operating and capital, can be considered statement of the financial plans of the District.

The annual budget is required to be balanced and fire districts are permitted to utilize unrestricted net assets to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unrestricted net assets or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Budgets/Budgetary Control (Continued)

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

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 or liabilities but rather commitments related to unperformed contracts for goods and services

G. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents includes 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. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be Investments. U.S. Treasury and Agency Obligations and Certificate of Deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey fire districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 40A:5-15.1 et. seq. provides a list of permissible investments that may be purchased by New Jersey fire districts.

2. Inventories

Inventories, which benefit future periods, other than those recorded in the enterprise fund are recorded as expenditure during the year of purchase.

3. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on the following assets is provided on the straight – line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and Equipment	5-10 years
Improvements	10-20 years
Other Infrastructure	10-50 years

Land and Construction in Progress are not depreciated.

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

3. Capital Assets (Continued)

GASBS No. 34 required the District to report and depreciate new infrastructure assets effective for fiscal year ending December 31, 2006. Neither their historical cost nor related depreciation had historically been reported in the financial statements. The District elected to implement the general provisions of GASBS No. 34 in the fiscal year ending December 31, 2006.

4. Long – term Obligations

Long – term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long – term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government – wide presentations.

5. Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

6. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note II: Reconciliation of Government Wide and Fund Financial Statements

Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets

"Total fund balances" of the District's governmental funds in B-1 differs from "net assets" of governmental activities reported in the statement of net assets in A-1. This difference primarily results from the long - term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

<u>Assets</u>	<u>Balance Sheet/Statement of Net Assets</u>			<u>Statement</u>
	<u>Total</u>	<u>Long - term</u>	<u>Reclassifications</u>	<u>of Net</u>
	<u>Governmental</u>	<u>Assets</u>	<u>and Eliminations</u>	<u>Assets</u>
	<u>Funds</u>	<u>Liabilities (1)</u>		<u>Totals</u>
Cash and Cash Equivalents	\$ 540,919.88	\$ -	\$ -	\$ 540,919.88
Capital Assets, Net	-	988,006.21	-	988,006.21
Total Assets	<u>540,919.88</u>	<u>988,006.21</u>	<u>-</u>	<u>1,528,926.09</u>
<u>Fund Balances/Net Assets</u>				
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt		988,006.21		988,006.21
Restricted for:				
Capital Projects	415,748.03			415,748.03
Unrestricted	<u>125,171.85</u>	-	-	<u>125,171.85</u>
Total Fund Balances/Net Assets	<u>540,919.88</u>	<u>988,006.21</u>	<u>-</u>	<u>1,528,926.09</u>
Total Liabilities and Fund Balances/Net Assets	<u>\$ 540,919.88</u>	<u>\$ 988,006.21</u>	<u>\$ -</u>	<u>\$ 1,528,926.09</u>

1. When Capital Assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the District as a whole.

Cost of Capital Assets	\$ 1,985,554.17
Accumulated Depreciation	<u>(997,547.96)</u>
	<u>\$ 988,006.21</u>

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note II: Reconciliation of Government Wide and Fund Financial Statements (Continued)

Explanation of Differences between Governmental Funds Operating Statement of Activities

The "net change in fund balances" for governmental funds in B-2 differs from the "change in net assets" for governmental activities reported in the statement of activities in A-2. The difference arise primarily for the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

<u>Revenues and Other Sources</u>	Total Governmental Funds	Capital Related Items (1)	Statement of Activities Totals
Local Tax Levy	\$ 260,400.00	\$ -	\$260,400.00
Interest Earned on Investments	2,802.31		2,802.31
Miscellaneous	1,207.00	-	1,207.00
Total	<u>\$ 265,159.31</u>	<u>\$ -</u>	<u>\$265,159.31</u>
 <u>Expenditures</u>			
Current:			
Administration:			
Other Expenses	40,765.01	12,404.75	53,169.76
Cost of Providing Services:			
Other Expenses	121,290.46	43,425.92	164,716.38
Capital Outlay	-	-	-
Total	<u>162,055.47</u>	<u>55,830.67</u>	<u>217,886.14</u>
 Net Change for the Year	 <u>\$ 103,103.84</u>	 <u>\$ (55,830.67)</u>	 <u>\$ 47,273.17</u>

1. Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount which capital outlays exceeded depreciation in the period.

Depreciation Expense	\$ (55,830.67)
Capital Outlays	-
	<u>\$ (55,830.67)</u>

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

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 (GUDPA). 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.

At December 31, 2011 the District's cash and cash equivalent's amounted to \$563,773.74. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$313,773.74 was covered by a collateral pool maintained by the banks as required by GUDPA.

At December 31, 2011 the District did not participate in the State of New Jersey Cash Management Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of December 31, 2011 none of the District's cash and cash equivalents of \$563,773.74 was exposed to custodial credit risk.

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the District to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the Board of Commissioners of any fire district may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the fire district;

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the fire district or bonds or other obligations of local unit or units within which the fire district is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by fire district;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments (Continued)

The District had no investments at December 31, 2011

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Corporation (S&P). U.S. government debt is considered to have no credit risk.

The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party. Since certificates of deposits are covered by F.D.I.C. and GUDPA and U. S. government debt is guaranteed, there is no custodial credit risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. There are no restrictions in the amount that can be invested in a single issuer.

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement/ Adjustment</u>	<u>Ending Balance</u>
Governmental activities:				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets Not Being Depreciated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Buildings and Improvements	496,190.00	-		496,190.00
Machinery and Equipment	<u>1,489,364.17</u>	<u>-</u>	<u>-</u>	<u>1,489,364.17</u>
Totals at Historical Cost	<u>1,985,554.17</u>	<u>-</u>	<u>-</u>	<u>1,985,554.17</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(362,833.25)	(12,404.75)		(375,238.00)
Machinery and Equipment	<u>(578,884.04)</u>	<u>(43,425.92)</u>	<u>-</u>	<u>(622,309.96)</u>
Total Accumulated Depreciation	<u>(941,717.29)</u>	<u>(55,830.67)</u> (1)	<u>-</u>	<u>(997,547.96)</u>
Net Capital Assets Being Depreciated	<u>1,043,836.88</u>	<u>(55,830.67)</u>	<u>-</u>	<u>988,006.21</u>
Governmental Activities Capital Assets, Net	<u>\$1,043,836.88</u>	<u>\$ (55,830.67)</u>	<u>\$ -</u>	<u>\$ 988,006.21</u>

(1) Depreciation expense was charged to governmental functions as follows:

Administration	\$ 12,404.75
Cost of Providing Services	<u>43,425.92</u>
	<u>\$ 55,830.67</u>

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The District has no commitments to lease equipment under operating leases.

B. Long - Term Liabilities

The District has no Long - Term liability for the year ended December 31, 2011.

STATISTICAL INFORMATION

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

STATISTICAL INFORMATION

Following is a tabulation of district assessed valuation, tax levies and property tax rates per \$100 of assessed valuations for the current and preceding ten years:

<u>Fiscal Year</u>	<u>Assessed Valuations</u>	<u>Total Tax Levy</u>	<u>Property Tax Rate</u>
2011	\$ 686,079,000	\$ 260,400.00	0.038
2010	691,578,300	253,900.00	0.037
2009	707,340,500	243,956.00	0.035
2008	783,874,200	258,500.00	0.033
2007	806,733,000	258,500.00	0.032
2006	795,609,700	223,000.00	0.028
2005	855,741,100	214,278.00	0.025
2004	861,844,700	215,461.00	0.025
2003	870,298,700	217,575.00	0.025
2002	303,506,000	183,100.00	0.060

Unreserved Fund Balance:

<u>Fiscal Year Ended</u>	<u>End of Fiscal Year</u>	<u>Utilized In Budget of Succeeding Year</u>
December 31, 2011	\$ 125,171.85	\$ 60,500.00
December 31, 2010	118,968.01	58,100.00
December 31, 2009	120,558.14	24,500.00
December 31, 2008	102,940.20	34,444.00
December 31, 2007	201,393.00	129,736.00
December 31, 2006	186,364.16	0.00
December 31, 2005	170,068.58	0.00
December 31, 2004	137,063.19	0.00
December 31, 2003	124,393.75	0.00
December 31, 2002	97,683.61	0.00

ROSTER OF OFFICIALS

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

ROSTER OF OFFICIALS

Board of Commissioners

Eugene Caulfield	Commissioner (Chairman)
George Appel	Commissioner (Treasurer)
George Robinson	Commissioner (Secretary)
Peter Deegan	Commissioner
Donald Denise	Commissioner

**REQUIRED SUPPLEMENTARY INFORMATION -
PART II**

SECTION C
BUDGETARY COMPARISON SCHEDULES

**TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
COMBINED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011**

	Original <u>Budget</u>	Budget <u>Transfers</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Final to <u>Actual</u>
REVENUES:					
Local Sources:					
District Taxes	\$ 260,400.00	\$ -	\$ 260,400.00	\$ 260,400.00	\$ -
Interest on Investments	-	-	-	2,802.31	2,802.31
Dedicated Fines	-	-	-	750.00	750.00
Miscellaneous	-	-	-	1,207.00	1,207.00
Total Revenues - Local Sources	<u>260,400.00</u>	<u>-</u>	<u>260,400.00</u>	<u>265,159.31</u>	<u>4,759.31</u>
Total Revenues	<u>260,400.00</u>	<u>-</u>	<u>260,400.00</u>	<u>265,159.31</u>	<u>4,759.31</u>
 EXPENDITURES:					
Current Expense:					
Administration:					
Other Expenses:					
Professional Services	2,400.00	3,600.00	6,000.00	5,992.00	8.00
Advertising	200.00	110.00	310.00	307.73	2.27
Operating Materials and Supplies	41,500.00	(7,010.00)	34,490.00	30,372.18	4,117.82
Public Events	-	7,500.00	7,500.00	4,093.10	3,406.90
Total Administration-					
Other Expenses	<u>44,100.00</u>	<u>4,200.00</u>	<u>48,300.00</u>	<u>40,765.01</u>	<u>7,534.99</u>
Total Administration Expenses	<u>44,100.00</u>	<u>4,200.00</u>	<u>48,300.00</u>	<u>40,765.01</u>	<u>7,534.99</u>

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
COMBINED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Final to Actual
EXPENDITURES (Continued):					
Current Expense (Continued):					
Cost of Providing Services:					
Other Expenses:					
Insurance Premiums	\$ 36,000.00	\$ 1,100.00	\$ 37,100.00	\$ 37,093.68	\$ 6.32
Enhanced TGR Support	9,000.00	(500.00)	8,500.00	386.53	8,113.47
Training and Education	8,500.00	(8,500.00)			-
Promotion		9,050.00	9,050.00	9,035.00	15.00
Operating Materials and Supplies	28,000.00	22,585.00	50,585.00	43,108.08	7,476.92
Utilities and Related Services	12,000.00	-	12,000.00	9,340.16	2,659.84
Maintenance and Repairs	<u>84,000.00</u>	<u>(27,935.00)</u>	<u>56,065.00</u>	<u>22,327.01</u>	<u>33,737.99</u>
Total Cost of Providing					
Services Other Expenses	<u>177,500.00</u>	<u>(4,200.00)</u>	<u>173,300.00</u>	<u>121,290.46</u>	<u>52,009.54</u>
Total Cost of Providing Services	<u>177,500.00</u>	<u>(4,200.00)</u>	<u>173,300.00</u>	<u>121,290.46</u>	<u>52,009.54</u>

**TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2
COMBINED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011
(CONCLUDED)**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
Current Expense (Continued):					
Total Current Expense	<u>221,600.00</u>	<u>-</u>	<u>221,600.00</u>	<u>162,055.47</u>	<u>59,544.53</u>
Total Expenditures	<u>221,600.00</u>	<u>-</u>	<u>221,600.00</u>	<u>162,055.47</u>	<u>59,544.53</u>
Excess or (Deficiency) of Revenues Over/(Under) Expenditures	<u>38,800.00</u>	<u>-</u>	<u>38,800.00</u>	<u>103,103.84</u>	<u>64,303.84</u>
Other Financing Sources (Uses):					
Operating Transfers (Out)	<u>(96,900.00)</u>		<u>(96,900.00)</u>	<u>(96,900.00)</u>	<u>-</u>
	<u>(96,900.00)</u>		<u>(96,900.00)</u>	<u>(96,900.00)</u>	<u>-</u>
Excess or (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	<u>(58,100.00)</u>	<u>-</u>	<u>(58,100.00)</u>	<u>6,203.84</u>	<u>64,303.84</u>
FUND BALANCE, JANUARY 1	<u>118,968.01</u>	<u>-</u>	<u>118,968.01</u>	<u>118,968.01</u>	<u>-</u>
FUND BALANCE, DECEMBER 31	<u>\$ 60,868.01</u>	<u>\$ -</u>	<u>\$ 60,868.01</u>	<u>\$ 125,171.85</u>	<u>\$ 64,303.84</u>

OTHER SUPPLEMENTARY INFORMATION

SECTION D
CAPITAL PROJECTS FUND

**TOWNSHIP OF PARSIPPANY-TROY HILLS
 FIRE DISTRICT NUMBER 2
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUND
 FOR THE CALENDAR YEAR ENDED DECEMBER 31, 2011**

	<u>Total</u>	Capital Improvement <u>Fund</u>	Purchase of Fire <u>Apparatus</u>
Fund Balances at Beginning of Year	\$ 318,848.03	\$ 318,773.54	\$ 74.49
Increased by:			
Operating Transfers In	96,900.00	96,900.00	
Interest on Investments	<u>-</u>	<u>-</u>	<u>-</u>
	<u>96,900.00</u>	<u>96,900.00</u>	<u>-</u>
	<u>415,748.03</u>	<u>415,673.54</u>	<u>74.49</u>
Decreased by:			
Expended In 2011	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 415,748.03</u>	<u>\$ 415,673.54</u>	<u>\$ 74.49</u>

SECTION E
FIDUCIARY FUNDS
NOT APPLICABLE

SECTION F
LONG – TERM DEBT
NOT APPLICABLE

**REPORTS PURSUANT TO GOVERNMENT AUDITING
STANDARDS**

Vincent M. Montanino, RMA, PSA
Michael S. Zambito, CPA, RMA
Antonia Russo, Associate

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"

The Honorable President and
Members of the Board of Fire Commissioners
Township of Parsippany-Troy Hills Fire District Number 2
County of Morris, New Jersey

We have audited the financial statements of the Township of Parsippany-Troy Hills Fire District Number 2 as of and for the year ended December 31, 2011 and have issued our report thereon dated April 9, 2012. 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 prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township of Parsippany-Troy Hills Fire District Number 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 Township of Parsippany-Troy Hills Fire District Number 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Parsippany-Troy Hills Fire District Number 2's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. Finding 11-01.

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 deficiencies, significant deficiencies or material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township of Parsippany-Troy Hills Fire District Number 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.

This report is intended solely for the information and use of management, the Township of Parsippany-Troy Hills Fire District Number 2, Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 9, 2012

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011

Part I – Summary of Auditor’s Report

Financial Statement Section

- | | |
|---|--------------------------|
| A) Type of auditor’s report issued: | Unqualified |
| B) Internal Control over financial reporting: | |
| 1) Material weakness(es) identified? | _____yes <u> X </u> no |
| 2) Were significant deficiencies identified
that were not considered to be material
weaknesses? | _____X yes _____no |
| C) Noncompliance material to basic financial
statements noted? | _____yes <u> X </u> no |

Federal Awards Section

Not Applicable

State Financial Assistance Section

Not Applicable

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Part 2 – Schedule of Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

Finding 11-1

Criteria or specific requirement:

Management is responsible for establishing and maintaining an internal control system to ensure compliance with requirements of laws, regulations, contracts and grants.

Condition:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Certain functions by the Fire District are handled by one person.

Questioned Costs:

Not Applicable

Context:

While this situation is not unusual in operations the size of the Fire District management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Effect:

Our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities.

Recommendation:

Not Applicable

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2011
(CONTINUED)

Part 3 – Schedule of Federal Awards and State Financial Assistance Findings and Responses

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including responses, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04.

Not Applicable

TOWNSHIP OF PARSIPPANY-TROY HILLS
FIRE DISTRICT NUMBER 2

SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS
AND RESPONSES AS PREPARED BY MANAGEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

This section identifies the status of prior-year findings related to the basic financial statements and federal awards and state financial assistance that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, U.S. OMB Circular A-133 (section .315 (a) (b) and New Jersey OMB's Circular 04-04.

STATUS OF PRIOR YEAR FINDINGS

FINDING 10-1

Condition

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Certain functions by the Fire District are handled by one person.

Current Status

Unchanged. See Finding #11-1.

**GENERAL COMMENTS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2011**

GENERAL COMMENTS

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

N.J.S.A. 40A:11-4 states “Whenever any work to be performed or materials to be furnished in or about any improvement or works to be made under the provisions of this article shall involve an expenditure of a sum of money exceeding the amount under which a contracting unit may award contracts or make purchases or agreements without public advertising pursuant to the provisions of Section 3 of P.L. 1971, c. 198 (C. 40A11-3), the municipal bodies or boards of the contracting municipalities, by their official action taken in joint meeting as herein provided, shall designate a time when they will meet at their usual place of meeting to receive proposals in writing, for doing the work or furnishing the materials,.....”

The governing body of the Township of Parsippany-Troy Hills Fire District Number 2 has the responsibility of determining whether the expenditures in any category will exceed the statutory limit within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Attorney’s opinion should be sought before a commitment is made.

Effective April 17, 2000 N.J.S.A. 40A:11-1 et seq. (Local Public Contracts Law) was revised by P.L. 1999, c.440 (originally known as Assembly bill No. 3519). The Division of Local Government Services in the Department of Community Affairs, after consultation with the Commissioner of Education, shall prescribe rules and procedures to implement the requirements of the law.

Effective July 1, 2010 the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is \$26,000.00.

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed. None were disclosed.

The results of my examination of expenditures did not reveal any individual payments, contracts or agreements were made “for the performance of any work or the furnishing or hiring of any materials or supplies,” in excess of the statutory limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy and proper approvals.

The review and inquiry indicate good scrutiny on the part of the Fire District and Fire District Officials regarding expenditures.

RECOMMENDATIONS

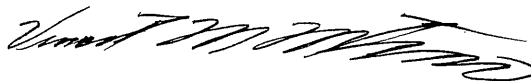
None

APPRECIATION

We wish to express our appreciation for the assistance and courtesies extended to us during the course of the audit.

Should any question arise as to our audit comments, please do not hesitate to call us

Respectfully submitted,



Vincent M. Montanino
Registered Municipal Accountant
License No. CR000375



Michael S. Zambito
Certified Public Accountant
License No. 20CC00789500

April 9, 2012