

PARSIPPANY-TROY HILLS FIRE DISTRICT #2

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2023

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
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INTRODUCTORY SECTION

PARSIPPANY-TROY HILLS FIRE DISTRICT TWO

Board Of Fire Commissioners

1 Rainbow Trail

Denville, NJ 07834

April 4, 2024

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #2
Township of Parsippany
Parsippany, NJ

Dear Fire Commissioners:

The annual financial report of the Parsippany-Troy Hills Fire District #2 (the “District”) for the year ended December 31, 2023 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the District. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The annual financial report is presented in five sections: introductory, financial, supplementary information, *Government Auditing Standards* and comments and recommendations. The introductory section includes this transmittal letter, and a list of principal officials. The financial section includes the financial statements, the Management Discussion & Analysis and the auditors' report thereon. The auditor's report on internal control and compliance with applicable laws, regulations, contracts and grants along with findings and responses, are included in the *Government Auditing Standards* section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Parsippany-Troy Hills Fire District #2 is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (“GASB”) in codification section 2100. All funds of the District are included in this report.

The Fire District #2, Township of Parsippany is a public body corporate and politic of the State of New Jersey governed by five members elected by the registered voters of the District.

The District was created in 1934 pursuant to New Jersey Title 40A:14-70. The District is an instrumentality of the Township of Parsippany, State of New Jersey, established to function as a fire district, to provide for fire and rescue services to the Township's citizens. The District consists of elected officials and is responsible for the fiscal control of the District. A president is appointed by the District and is responsible for the administrative control of the District.

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2023, the Commissioners experienced another strong year. The District also experienced the following:

- The District continued to upgrade its equipment and facility.

The Honorable Commissioners of
Parsippany-Troy Hills Fire District #2
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April 4, 2024

INTERNAL ACCOUNTING CONTROLS:

Management of the District is responsible for establishing and maintaining an internal control system designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a potential recipient of federal and state awards, the District would be responsible for ensuring that an adequate internal control system is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control system is also subject to periodic evaluation by the District's management.

As part of a District's single audit, tests would be made to determine the adequacy of the internal control system, including that portion related to federal and state award programs, as well as to determine that the District has complied with applicable laws and regulations.

BUDGETARY CONTROLS:

In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the District. An annual appropriated budget is adopted for the general fund. The final budget amount as amended for the year is reflected in the supplementary information section.

ACCOUNTING SYSTEM AND REPORTS:

The District's accounting records reflect generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the District is organized on the basis of funds. The applicable fund is explained in the "Notes to the Financial Statements," Note 1.

CASH MANAGEMENT:

The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 3. The District has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT:

The District carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.

The Honorable Commissioners
Parsippany-Troy Hills Fire District #2
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April 4, 2024

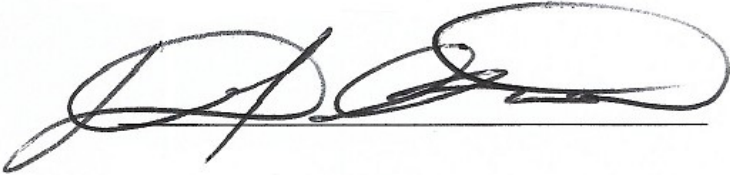
OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP was selected by the District. The auditors' report on the financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Commissioners of Fire District #2 Township of Parsippany for their concern in providing fiscal accountability to the citizens of the Township of Parsippany and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,



Donald Denise
Chairman



James Murphy
Treasurer

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2023

Commissioners:

Donald Denise
Peter Deegan
Charles Iantosca
James Murphy
Matthew Miller

Chairman
Commissioner
Commissioner
Treasurer
Secretary

Consultants and Advisors:

AUDIT FIRM

Nisivoccia LLP
Mount Arlington, New Jersey

ATTORNEY

Anthony M. Bucco, Esq.
Murphy McKeon PC
Riverdale, NJ

FINANCIAL SECTION



Mount Arlington, NJ
Newton, NJ
Bridgewater, NJ
973.298.8500
nisivoccia.com
Independent Member
BKR International

Independent Auditors' Report

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #2
Parsippany, NJ

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Parsippany-Troy Hills Fire District #2 (the "District"), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of December 31, 2023, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #2
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards* and audit requirements prescribed by the Division will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and audit requirements prescribed by the Division, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #2
Page 3

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2024 on our consideration of the District'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 solely 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
April 4, 2024

Nisivoccia LLP
NISIVOCCIA LLP

Man C Lee

Man C. Lee
Certified Public Accountant
Registered Municipal Accountant No. 562

MANAGEMENT DISCUSSION AND ANALYSIS

This section presents management's analysis of the District's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the District's financial position to be strong for a Fire District. The District is functioning within its stringent financial policies and guidelines as set forth by the District members.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net position; a statement of activities, a balance sheet and a statement of revenue, expenditures and changes in fund balance – governmental funds and notes to the financial statements.

The *statement of net position* presents the financial position of the District on a full accrual historical cost basis. The statement of net position presents information on all of the District's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of activities* presents the results of the District's activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *supplementary information schedules* provide detailed comparison of budget to actual expenses.

Financial Conditions

2023 was a relatively good year for the District and it is in excellent shape to meet its future financial demands. The District's total net position increased from the prior year by \$188,787 or 7.33%. The analysis below focuses on the District's net position (Table I) and changes in net position (Table II) during the year.

Table I
Condensed Statement of Net Position

	Dec. 31, 2023	Dec. 31, 2022	Increase/ (Decrease) from 2022	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 825,171	\$ 636,251	\$ 188,920	
Capital Assets, Net	1,940,647	1,940,780	(133)	
Total Assets	<u>2,765,818</u>	<u>2,577,031</u>	<u>188,787</u>	7.33%
Investment in Capital Assets	1,940,647	1,940,780	(133)	
Restricted	663,978	518,978	145,000	
Unrestricted	<u>161,193</u>	<u>117,273</u>	<u>43,920</u>	
Total Net Position	<u>\$ 2,765,818</u>	<u>\$ 2,577,031</u>	<u>\$ 188,787</u>	7.33%

Changes in the District's net position can be determined by reviewing the following condensed Statement of Activities for the year.

Table II
Condensed Statement of Activities

	Dec. 31, 2023	Dec. 31, 2022	Increase/ (Decrease) from 2022	Percent of Increase/ (Decrease)
Amount to be Raised by Taxation	\$ 622,093	\$ 609,896	\$ 12,197	
Other Revenue	10,084	3,906	6,178	
Total Revenue	<u>632,177</u>	<u>613,802</u>	<u>18,375</u>	2.99%
Operating Expense	300,499	347,551	(47,052)	
Depreciation	142,891	123,433	19,458	
Total Expenses	<u>443,390</u>	<u>470,984</u>	<u>(27,594)</u>	(5.86%)
Change in Net Position	188,787	142,818	45,969	
Beginning Net Position	<u>2,577,031</u>	<u>2,434,213</u>	<u>142,818</u>	
Ending Net Position	<u>\$ 2,765,818</u>	<u>\$ 2,577,031</u>	<u>\$ 188,787</u>	7.33%

Results of Operations

Revenues: The increase in revenues is mainly due to an increase in the amount to be raised by taxation to support the District budget.

Expenses: Total expenses decreased 5.86% from 2022 mainly due to decreases in certain maintenance costs. The District maintains its policy of careful spending to stay within the budget.

Capital Assets: As of December 31, 2023, the District had \$1,940,647 invested in capital assets, including a firehouse, several fire trucks, vehicles, and equipment and machinery. The amount represents a decrease of \$133 from the prior year due to capital asset additions offset by current year depreciation.

The following table summarizes the District's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2023. These changes are presented in detail in Note 5 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	December 31,		Increase/ (Decrease) From 2022	Percent of Increase/ (Decrease)
	2023	2022		
Building and Building Improvements	\$ 714,677	\$ 672,351	\$ 42,326	
Vehicles and Fire Trucks	2,006,827	2,006,827	-0-	
Machinery and Equipment	792,568	692,136	100,432	
Total	<u>3,514,072</u>	<u>3,371,314</u>	142,758	4.23%
Less: Accumulated Depreciation	<u>1,573,425</u>	<u>1,430,534</u>	142,891	9.99%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,940,647</u>	<u>\$ 1,940,780</u>	<u>\$ (133)</u>	(0.01%)

Budgetary Highlights: Over the course of the year, the District's Board of Commissioners approved transfers to cover overages in certain budget line items.

Cash Flow Activity: The cash and cash equivalents at year-end 2023 increased by \$188,920 from the previous year. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

Final Comments: The District is moving forward with plans to upgrade its equipment over the next few years.

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
STATEMENT OF NET POSITION
DECEMBER 31, 2023

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Current Assets:	
Unrestricted Cash and Cash Equivalents	\$ 161,193
Restricted Cash and Cash Equivalents	663,978
Total Current Assets	<u>825,171</u>
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>1,940,647</u>
Total Noncurrent Assets	<u>1,940,647</u>
Total Assets	<u>2,765,818</u>
<u>NET POSITION:</u>	
Investment in Capital Assets	1,940,647
Restricted for Future Capital Outlays	663,978
Unrestricted	<u>161,193</u>
Total Net Position	<u><u>\$ 2,765,818</u></u>

THE ACCOMPANYING NOTES TO THE
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023

	Governmental Activities
Expenses:	
Operating Appropriations:	
Administration	\$ 61,428
Cost of Operations and Maintenance	239,071
Depreciation	142,891
Total Expenses	443,390
General Revenues:	
Amount to be Raised by Taxation to Support Budget	622,093
Interest Earnings	7,232
Miscellaneous Revenue	2,852
Total General Revenues	632,177
Change in Net Position	188,787
Net Position - Beginning of Year	2,577,031
Net Position - End of Year	\$ 2,765,818

THE ACCOMPANYING NOTES TO THE
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023

	General Fund	Capital Projects Fund	Total Governmental Funds
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 141,827	\$ 683,344	\$ 825,171
Interfund Accounts Receivable	19,366		19,366
Total Assets	<u>\$ 161,193</u>	<u>\$ 683,344</u>	<u>\$ 844,537</u>
 <u>LIABILITIES:</u>			
Interfund Accounts Payable		\$ 19,366	\$ 19,366
Total Liabilities		19,366	19,366
 <u>FUND BALANCES:</u>			
Restricted for Future Capital Outlay		663,978	663,978
Unassigned	\$ 161,193		161,193
Total Fund Balances	161,193	663,978	825,171
Total Liabilities and Fund Balances	<u>\$ 161,193</u>	<u>\$ 683,344</u>	
 Amounts reported in the Statement of Activities are different because:			
Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not Reported in the General Fund.			1,940,647
Net Position of Governmental Activities			<u>\$ 2,765,818</u>

THE ACCOMPANYING NOTES TO THE
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUE:</u>			
Amount to be Raised by Taxation to Support District Budget	\$ 622,093		\$ 622,093
Interest Earned	7,232		7,232
Miscellaneous Revenue	2,852		2,852
Total Revenue	<u>632,177</u>		<u>632,177</u>
<u>EXPENDITURES:</u>			
Operating Appropriations:			
Administration	61,428		61,428
Cost of Operations and Maintenance	239,071		239,071
Capital Outlay	142,758		142,758
Total Expenditures	<u>443,257</u>		<u>443,257</u>
Net Change in Fund Balances Before Transfers	188,920		188,920
Transfers	<u>(145,000)</u>	\$ 145,000	
Net Change in Fund Balances	43,920	145,000	188,920
Fund Balances, Beginning of Year	<u>117,273</u>	<u>518,978</u>	<u>636,251</u>
Fund Balances, End of Year	<u>\$ 161,193</u>	<u>\$ 663,978</u>	<u>\$ 825,171</u>

THE ACCOMPANYING NOTES TO THE
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

Total Net Change in Fund Balances - Governmental Funds (from Page 10)	\$	188,920
Amounts Reported for Governmental Activities in the Statement of Activities (Page 8) 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 depreciation differs from capital outlays in the period.		
Depreciation Expense	\$	(142,891)
Capital Outlays		<u>142,758</u>
		<u>(133)</u>
Change in Net Position of Governmental Activities	\$	<u><u>188,787</u></u>

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

Note 1: Organization and Summary of Significant Accounting Policies

A. Reporting Entity

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

B. Basis of Presentation and Accounting

The financial statements of the Parsippany-Troy Hills Fire District #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-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after the end of the fiscal year. 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.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
 (Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Ad valorem (property) taxes are susceptible to accrual. 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 year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal 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".

The District reports the following governmental funds:

General Fund: The General Fund is the general operating fund of the District and is used to account for all expendable financial resources except those required to be accounted for in another fund.

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.

Fund Balance Restrictions, Commitments and Assignments:

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classifications should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts has been restricted, committed or assigned.

The District has established a fund balance restriction in the Capital Projects Fund.

The District has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body. The Board of Fire Commissioners must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body in order to remove or change the commitment of resources. The District has no committed resources at December 31, 2023.

The assignment of resources is generally made by the District through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Fire Commissioners may allow an official of the District to assign resources through policies adopted by the Board of Fire Commissioners. The District has no assigned resources at December 31, 2023.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

Significant accounting policies include:

1. Grants:

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are unearned.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue. Grants externally restricted for nonoperating purposes are recorded as contributed capital and identified as grants-in-aid. The District was not awarded any grants in the current year.

2. Inventories:

Inventories, which benefit future periods, are recorded as an expenditure during the year of purchase.

3. Accrued Salaries and Wages and Compensated Absences:

Fire Commissioners and officers are paid annual stipends. There are no accrued salaries and wages. The District does not provide any compensation-related benefits for Fire Commissioners or other volunteers.

4. Unearned Revenue:

Unearned revenue represents cash which has been received but not yet earned.

5. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. The District did not have any deferred inflows or outflows of resources at December 31, 2023.

Net position is displayed in three components – investment in capital assets; restricted and unrestricted.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

5. Net Position (Cont'd)

The investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

6. Revenue Recognition

District taxes are received quarterly. Fire Prevention Bureau Inspection customers are billed at the time of service and revenue is recorded net of any discounts, assessments, or abatements, if applicable.

7. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

8. Investments

The District generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

10. Prepaid Expenses

Prepaid expenses represent payments made to vendors for services that will benefit periods beyond December 31, 2023.

Note 2: Pension

The District is not enrolled in the Public Employees' Retirement System (PERS) or the Police and Firemen's Retirement System (PFRS).

Note 3: Cash and Cash Equivalents and Investments

Cash and cash equivalents includes petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less.

The District classifies certificates of deposit and securities which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB requires the disclosure of the level of custodial risk assumed by the District in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the District ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The District limits the investments to those authorized in its cash management plan which are permitted under state statutes as detailed in the section of this note on investments.

Custodial Credit Risk – The District's policy with respect to custodial credit risk requires that the District ensures that District funds are only deposited in financial institutions in which NJ municipalities are permitted to invest their funds.

Deposits:

New Jersey statutes require that fire districts deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation or by any other agency of the United States that insures deposits made in public depositories. Fire districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 3: Cash and Cash Equivalents and Investments (Cont'd)

Deposits: (Cont'd)

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

New Jersey statutes permit the District to purchase the following types of securities:

- (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 local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (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

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 3: Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (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. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties and entities subject to the “Local Authorities Fiscal Control Law”, P.L. 1983 c.313 (C.40A:5A-1 et seq.);
 - (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
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2023, cash and cash equivalents of the Township of Parsippany-Troy Hills Fire District #2 consisted of the following:

<u>Fund</u>	<u>Checking Accounts</u>	<u>Money Market Accounts</u>	<u>Total</u>
General	\$ 141,827		\$ 141,827
Capital Projects		\$ 683,344	683,344
	<u>\$ 141,827</u>	<u>\$ 683,344</u>	<u>\$ 825,171</u>

The carrying amount of the District’s cash and cash equivalents at December 31, 2023 was \$825,171, and the bank balance was \$854,314.

Note 4: Long-Term Liabilities

The District has no long-term liabilities as of December 31, 2023.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 5: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2023:

	<u>Balance</u> <u>12/31/2022</u>	<u>Increases</u>	<u>Adjustments/</u> <u>Deletions</u>	<u>Balance</u> <u>12/31/2023</u>
Capital Assets:				
Building and Building Improvements	\$ 672,351	\$ 42,326		\$ 714,677
Vehicles and Fire Trucks	2,006,827			2,006,827
Machinery and Equipment	692,136	100,432		792,568
Total Capital Assets	<u>3,371,314</u>	<u>142,758</u>		<u>3,514,072</u>
Less Accumulated Depreciation for:				
Building and Building Improvements	(515,305)	(7,102)		(522,407)
Vehicles and Fire Trucks	(70,214)	(65,823)		(136,037)
Machinery and Equipment	(845,015)	(69,966)		(914,981)
	<u>(1,430,534)</u>	<u>(142,891)</u>		<u>(1,573,425)</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,940,780</u>	<u>\$ (133)</u>	<u>\$ -0-</u>	<u>\$ 1,940,647</u>

Property and equipment are recorded at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets are reviewed for impairment.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

	<u>Estimated</u> <u>Useful Life</u>
Buildings and Building Improvements	40 Years
Fire Trucks	20 Years
Vehicles	10 Years
Equipment/Machinery	Various

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 6: Risk Management

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

The District secures all of insurances through private insurance carriers using a broker as their representative. The following coverages were in place in 2023:

- 1. Workers' Compensation
- 2. Motor Vehicle
- 3. General Liability
- 4. Management Liability
- 5. Group Life
- 6. Accident and Sickness/Disability
- 7. Umbrella Policy

Note 7: Contingencies

The District is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury, personnel practices and property damage. In the opinion of the General Counsel to the District, payment of claims by the District, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the District's financial position.

Amounts received or receivable from grantors, principally the federal and state governments are subject to regulatory requirements and adjustments by the agencies. Any disallowed claims, including amounts previously recognized by the District as revenue would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although District officials expect such amounts, if any, to be immaterial.

Note 8: Economic Dependency

The District receives a substantial amount of its support from taxes collected by its local government. A significant reduction in the level of support, if this were to occur, may have an effect on the District's programs and activities.

SUPPLEMENTARY INFORMATION

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS

	General Fund	Capital Projects Fund	Total
Cash Balance January 1, 2023	\$ 135,917	\$ 500,334	\$ 636,251
Cash Receipts:			
Amount to be Raised by Taxation to Support Budget	622,093		622,093
Interest on Investments	1,464	5,768	7,232
Miscellaneous Revenue	2,852		2,852
Total Cash Receipts	626,409	5,768	632,177
Cash Disbursed:			
Operating Appropriations:			
Administration	61,428		61,428
Cost of Operations and Maintenance	239,071		239,071
Capital Outlay	142,758		142,758
Total Cash Disbursements	443,257		443,257
Transfers	(177,242)	177,242	
Cash Balance December 31, 2023	\$ 141,827	\$ 683,344	\$ 825,171

PARSIPPANY - TROY HILLS FIRE DISTRICT #2
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budget	Budget After Modification	Actual	Variance Favorable (Unfavorable)
<u>REVENUE:</u>				
Restricted Fund Balance Utilized	\$ 175,000	\$ 175,000	\$ 175,000	
Unrestricted Fund Balance	8,374	8,374	8,374	
Amount to be Raised by Taxation to Support Budget	622,093	622,093	622,093	
Interest on Investments			7,232	\$ 7,232
Miscellaneous Revenue Not Anticipated			2,852	2,852
Total Revenue	<u>805,467</u>	<u>805,467</u>	<u>815,551</u>	<u>10,084</u>
<u>BUDGETED APPROPRIATIONS:</u>				
Operating Appropriations:				
Administration:				
Commissioner Stipends	15,500	15,500	15,500	
Elections	500	650	639	11
Other (including Incentives)	47,018	45,250	45,222	28
General Supplies	2,000	150	67	83
Total Administration	<u>65,018</u>	<u>61,550</u>	<u>61,428</u>	<u>122</u>
Cost of Operations and Maintenance:				
Officer Stipends	6,875	6,875	6,875	
Maintenance & Repairs:				
Equipment	4,000	3,448	3,441	7
Fuel	12,500	9,250	9,240	10
Vehicle	27,000	15,800	15,742	58
Building	10,000	31,300	31,270	30
Grounds	3,400	4,320	4,314	6
Testing (Hose & Ladder)	4,800	6,920	6,913	7
Material & Supplies	5,500	3,230	3,022	208
Insurance	53,000	58,400	58,391	9
Professional Services	14,000	16,450	16,417	33
Utilities	9,000	12,200	12,150	50
Training & Recruitment:				
Promotion	40,000	42,000	41,715	285
TGR & Education	1,500	300	275	25
Drill Incentives	3,500	3,450	3,307	143
Recruitment	5,000	3,000	2,761	239
Training	8,000	3,000	2,857	143
Small Fire Equipment Support	29,000	20,600	20,381	219
Total Cost of Operations and Maintenance	<u>237,075</u>	<u>240,543</u>	<u>239,071</u>	<u>1,472</u>
Deferred Charges:				
Deferred Charge	8,374	8,374	8,374	
Total Deferred Charges	<u>8,374</u>	<u>8,374</u>	<u>8,374</u>	
Capital Appropriations:				
Firehouse bathrooms refurbishment	75,000	74,500	42,326	32,174
Inter-operative portable radios	100,000	100,500	100,432	68
Reserve for Future Capital Outlays	320,000	320,000	320,000	
Total Capital Appropriations	<u>495,000</u>	<u>495,000</u>	<u>462,758</u>	<u>32,242</u>
TOTAL APPROPRIATIONS	<u>\$ 805,467</u>	<u>\$ 805,467</u>	<u>\$ 763,257</u>	<u>\$ 33,836</u>

GOVERNMENT AUDITING STANDARDS

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

The Board of Fire Commissions
Parsippany-Troy Hills Fire District #2
Parsippany, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (“the Division”), and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Parsippany-Troy Hills Fire District #2, in the County of Morris (the "District") as of and for the year ended December 31, 2023 and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated April 4, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2023-001 and 2023-002 that we consider to be significant deficiencies.

The Board of Fire Commissions
Parsippany-Troy Hills Fire District #2
Parsippany, NJ
Page 2

Report on Compliance and Other Matters

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

The District's Response to the Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The District's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mount Arlington, New Jersey
April 4, 2024

Nisivoccia LLP
NISIVOCCIA LLP

Man C Lee

Man C. Lee
Certified Public Accountant
Registered Municipal Accountant, No. 562

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2023

Summary of Auditors' Results:

- The Independent Auditors’ Report expresses an unmodified opinion on the financial statements of the District.
- Significant deficiencies were disclosed during the audit of the financial statements as reported in the *Independent Auditors’ 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*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of the District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit disclosed the following significant deficiencies required to be reported under Generally Accepted Government Auditing Standards:

Finding 2023-001

Segregation of Duties

Criteria

Concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Condition

The District does not maintain an adequate segregation of duties due to a limited number of personnel.

The functions of handling cash, preparation of cash receipts and cash disbursements records and the general ledger and reconciliation of bank accounts are performed by one individual.

Cause

This is not unusual in operations the size of the District, but management should constantly be aware of this condition and realize the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view.

Effect of Potential Effect

Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to perpetuate errors and prevent detection within a reasonable period of time.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2023

(Continued)

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards: (Cont'd)

Finding 2023-001 (Cont'd)

Recommendation

It is recommended that the District maintains an adequate segregation of duties with respect to the functions of handling cash, preparation of cash receipts and cash disbursements records and the general ledger, and reconciliation of bank accounts.

Management's Response

Finding 2023-001 was evaluated, however, due to budgetary constraints, no resolution can be made at this time.

Finding 2023-002

Encumbrance Accounting System

Accounting Requirements – New Jersey Administrative Code

Criteria

Maintenance of an encumbrance accounting system is required to be in compliance with the New Jersey Administrative Code Accounting Requirements.

Condition

The District does not utilize an encumbrance accounting and reporting system. An encumbrance accounting and reporting system would be useful to identify liabilities of the District and prevent possible overexpenditures of appropriations.

Cause

Even though the District has a formal purchase order encumbrance system in place, it is not being utilized. Although bills are approved prior to the release of payment, there is no prior approval of purchase orders. Formal purchase orders are not prepared.

Effect or Potential Effect

The District is not in compliance with the New Jersey Administrative Code Accounting Requirements. As a result, claimant, receipt of goods and Treasurer's signatures are not obtained on vouchers for all purchases.

Recommendation

It is recommended that a formal purchase order encumbrance system be fully implemented and utilized and that all required signatures are obtained before payments are released.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2023
(Continued)

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards: (Cont'd)

Finding 2023-002 (Cont'd)

Management's Response

The District will make every effort to ensure that a formal purchase order encumbrance system is fully implemented and utilized and that all required signatures are obtained before payments are released.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

The District had one prior year finding 2022-001 regarding segregation of duties which was not resolved during 2023 due to budgetary constraints and is reported in the schedule of findings and responses as finding 2023-001.

COMMENTS AND RECOMMENDATIONS

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S.A. 40A:11-4 et seq.

N.J.S.A. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to Subsection b. of Section 9 of P.L. 1971, C.198 (N.J.S.A. 40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, C.198 (N.J.S.A. 40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, C.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, C.198 (N.J.S.A. 40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S.A. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2020 and thereafter, the bid thresholds in accordance with N.J.S.A. 40A:11-3 are \$17,500 for a contracting unit without a qualified purchasing agent and \$44,000 for a contracting unit with a qualified purchasing agent.

The governing body of the municipality has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the year. Where question arises as to whether any contract or agreement might result in violation of the statute, the District Counsel's opinion should be sought before a commitment is made.

The minutes indicated that bids were requested by public advertising per N.J.S.A. 40A:11-4. The minutes also indicated that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required to be Advertised Per N.J.S.A. 40A:11-4 et seq. (Cont'd)

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing 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. An instance of noncompliance is noted below.

The District refurbish the firehouse bathrooms and purchased portable radios in 2023. Even though quotes were obtained for the firehouse bathroom renovation project, the District did not award the contract through a formal bid process. The District purchased the portable radios through a state contract vendor. However, the award of these contracts were not formally documented in the minutes. It is recommended that the District adheres to the Local Public Contract Law.

Management's Response

The District will ensure that only state approved contract vendors are utilized.

New Jersey Administrative Code Accounting Requirements

The Division of Local Government Services has established three (3) accounting requirements which are prescribed in the New Jersey Administrative Code. They are as follows:

1. Maintenance of an encumbrance accounting system.
2. General ledger accounting and record system.
3. Fixed asset accounting and reporting system.

The District is not in compliance with requirement 1. It is recommended that a formal purchase order encumbrance system be fully implemented and utilized and that all required signatures are obtained on vouchers before payments are released.

Management's Response:

The District will make every effort to ensure that a formal purchase order encumbrance system is fully implemented and utilized and that all required signatures are obtained before payments are released.

Status of Prior Year Recommendations

The Fire District had prior year recommendations regarding segregation of duties, lack of a formal purchase order encumbrance system and adherence to the Local Public Contract Law. The recommendations were not fully resolved during 2023 and are reported as current year recommendations.

PARSIPPANY-TROY HILLS FIRE DISTRICT #2
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The District maintains an adequate segregation of duties with respect to the functions of handling cash, preparation of cash receipts and cash disbursements records and the general ledger, and reconciliation of bank accounts.
2. The District implement a formal purchase order encumbrance system and that all required signatures and supporting documentation are obtained before payments are released.
3. The District adheres to the Local Public Contract Law.