

**FIRE DISTRICT NO. 3
OF THE TOWNSHIP OF OLD BRIDGE**

Financial Statements

For the year ended December 31, 2011

(With Independent Auditors' Report thereon)

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
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CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit Of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	3-4
Management's Discussion and Analysis	5-11
District Wide Statement of Net Assets	12
District Wide Statement of Activities	13
Governmental Funds Balance Sheet	14
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	15-16
Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	17
Fiduciary Funds Statement of Net Assets	18
Fiduciary Funds Statement of Changes in Fiduciary Net Assets	19
Notes to Financial Statements	20-36
Budgetary Comparison Schedule	37-38
General Comments and Recommendations	39-41

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire District No. 3 of the Township of Old Bridge financial statements as a whole. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HOLMAN & FRENIA, P.C.
HOLMAN & FRENIA, P.C.
Certified Public Accountants

April 06, 2012
Toms River, New Jersey

Fire District No. 3 of the Township of Old Bridge's response to the findings identified in our audit is described in the accompanying general comments and recommendations. We did not audit Fire District No. 3 of the Township of Old Bridge's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of Fire District No. 3 of the Township of Old Bridge's management and respective state agencies and is not intended to be and should not be used by anyone other than these specified parties.

HOLMAN & FRENIA, P.C.
HOLMAN & FRENIA, P.C.
Certified Public Accountants

April 06, 2012
Toms River, New Jersey

**TOWNSHIP OF OLD BRIDGE FIRE DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

The discussion and analysis of Township of Old Bridge Fire District No. 3's financial performance provides an overall review of the District's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999.

Financial Highlights

Key financial highlights for 2011 are as follows:

In total, net assets increased \$341,173 from 2010.

General revenues accounted for \$1,451,996 or 88.14 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$195,296 or 11.86 percent of total revenues of \$1,647,292.

Total assets of governmental activities increased by \$271,550 as cash and cash equivalents increased by \$313,363, prepaid expenses decreased \$4,830; grant receivable decreased \$9,483, net capital assets decreased by \$27,500.

The District had \$1,296,636 in expenses; only \$195,296 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$1,451,996 and fund balance were adequate to provide for these programs.

Among governmental funds, the General Fund had \$1,188,115 in revenues, \$1,110,631 in expenditures and \$9,483 for prior period adjustment. The General Fund's fund balance increased \$68,001 over 2010.

Using this Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Township of Old Bridge Fire District No. 3 as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

District-Wide Financial Statements (Statement of Net Assets and Statement of Activities)

These statements provide both short-term and long-term information about the District's overall financial status.

Fund Financial Statements

Fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

- The governmental funds statements tell how basic services were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

**Figure A-1
Major Features of District-Wide and Fund Financial Statements**

	<u>District-wide Statements</u>	<u>Fund Financial Statements Governmental Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary	Instances in which the district administers resources on behalf of someone else
Required financial statements	•Statement of net assets •Statement of activities	•Balance sheet •Statement of revenues, expenditures, and changes in fund balances	•Statement of fiduciary net assets •Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets or long-term liabilities included	All assets and liabilities, both short-term, and long-term. The District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions, during the year, regardless of when cash is received or paid

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. In the case of Township of Old Bridge Fire District No. 3, the General Fund is by far the most significant fund.

Reporting the District as a Whole Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District, as a whole looks at all financial transactions and asks the question, "How did we do financially during 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position of the District has improved or diminished. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the District's property tax base, current laws in New Jersey restricting revenue growth, facility condition, required programs and other factors.

Reporting the District's Most Significant Funds Fund Financial Statements

Fund financial reports provide detailed information about the District's funds. The District uses many funds to account for a multitude of financial transaction. The District's governmental funds are the General Fund and Capital Projects Fund.

Governmental Funds

The District's activities are reported in governmental funds, which focus on how money flows in and out of those funds and the balances left at year-end available for spending in the future years. 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 the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. Net assets may serve over time as a useful indicator of a government's financial position. The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Table A-1
Summary of Net Assets**

	Governmental Activities		Percentage Change 2010-2011
	<u>2011</u>	<u>2010</u>	
Current and Other Assets	\$ 2,697,366	\$ 2,398,316	12.47%
Capital Assets	1,808,551	1,836,051	(1.50)%
Total Assets	\$ 4,505,917	\$ 4,234,367	6.41%
Long-Term Liabilities	\$ 2,141	\$ 82,644	(97.41)%
Other Liabilities	113,934	103,054	10.56%
Total Liabilities	\$ 116,075	\$ 185,698	(37.49)%
Net Assets:			
Invested in capital assets, net of related debt	\$ 1,727,934	\$ 1,678,227	2.96%
Restricted	1,783,586	1,359,916	31.15%
Unrestricted	878,322	1,010,526	(13.08)%
Total Net Assets	\$ 4,389,842	\$ 4,048,669	8.43%

**Table A-2
Summary of Changes in Net Assets**

	Governmental Activities		Percentage Change 2010-2011
	<u>2011</u>	<u>2010</u>	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 195,296	\$ 182,959	6.74%
General Revenues:			
Property Taxes	1,428,000	1,427,624	(0.03)%
State Formula Aid	9,486	9,483	(0.03)%
Other	14,510	14,985	(3.17)%
Total Revenues	\$ 1,647,292	\$ 1,635,051	0.75%
EXPENSES:			
Administration	\$ 203,465	\$ 198,174	2.67%
Cost of Operations and Maintenance	823,083	742,381	10.87%
Operating Appropriations Offset with Revenues	174,361	192,393	(9.37)%
Interest	3,561	6,972	(48.92)%
Length of Services Award Program	92,166	92,198	(0.03)%
Total Expenses	\$ 1,296,636	\$ 1,232,118	5.24%
Increase (Decrease) in Net Assets	\$ 350,656	\$ 402,933	12.97%

Governmental Activities

The unique nature of property taxes in New Jersey creates the legal requirements to annually seek voter approval for the District operations. Property taxes made up 86.69% of revenues for governmental activities for Township of Old Bridge Fire District No. 3 for 2011. The District's total revenues were \$1,647,292 for the year ended December 31, 2011. Charges for services accounted for 11.86% of revenue, state aid accounted for another 0.57% of revenue, other miscellaneous revenue accounted for the remaining .88%.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

**Table A-3
Cost of Services vs Net Cost of Services**

	Total Cost of Services <u>2011</u>	Net Cost of Services <u>2011</u>	Total Cost of Services <u>2010</u>	Net Cost of Services <u>2010</u>
Administration	\$ 203,465	\$ 203,465	\$ 198,174	\$ 198,174
Cost of Operations and Maintenance	823,083	627,787	742,381	559,422
Operating Appropriations Offset with Revenues	174,361	174,361	192,393	192,393
Interest	3,561	3,561	6,972	6,972
Length of Service Awards Program	92,166	92,166	92,198	92,198
Total Expenses	\$ 1,296,636	\$ 1,101,340	\$ 1,232,118	\$ 1,049,159

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

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

The District's Funds

All governmental funds (i.e., general fund, capital projects fund and debt service fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. Total revenues amounted to \$1,647,292, expenditures were \$1,344,808 and a prior period adjustment was 9,483. The change in fund balance for the year in the general fund was an increase of \$68,001 and an increase of \$225,000 in the capital projects fund.

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

**Table A-4
Summary of Revenues-General Fund**

<u>Revenues:</u>	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease) from 2010</u>	<u>Percent of Increase (Decrease)</u>
Local Sources:				
Miscellaneous Revenue	\$ 14,510	\$ 14,985	\$ (475)	(3.17)%
Revenues Offset with Appropriations	195,296	182,959	12,337	6.74%
Amount to be Raised by Taxation	968,823	1,083,446	(114,623)	(10.58)%
State Sources	9,486	9,483	3	(0.03)%
Total	\$ 1,188,115	\$ 1,290,873	\$ (102,758)	-7.96%

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

**Table A-5
Summary of Expenditures-General Fund**

<u>Expenditures:</u>	<u>2011</u>	<u>2010</u>	<u>Increase (Decrease) from 2010</u>	<u>Percent of Increase (Decrease)</u>
Administration	\$ 203,351	\$ 198,162	\$ 5,189	2.62%
Cost of Operations and Maintenance	640,753	643,614	(2,861)	(0.44)%
Operating Appropriations Offset Revenues	174,361	192,393	(18,032)	(9.37)%
Length of Service Award Program	92,166	92,198	(32)	(.03)%
Total	\$ 1,110,631	\$ 1,126,367	\$ (15,736)	(1.40)%

Capital Assets

At the end of the year 2011, the District had \$4,206,076 invested in buildings, furniture and equipment, and vehicles. Table 6 shows 2011 balances compared to 2010.

**Table A-6
Summary of Capital Assets
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Increase (Decrease) from 2010</u>	<u>Percent of Increase (Decrease)</u>
	<u>2011</u>	<u>2010</u>		
Construction in Progress	\$ 150,000	\$ -	\$ 150,000	100.00%
Buildings and Building Improvements	328,382	352,737	(24,355)	(6.90)%
Vehicles	1,238,374	1,419,239	(180,865)	(12.74)%
Equipment	91,795	64,075	27,720	43.26%
Total	\$ 1,808,551	\$ 1,836,051	\$ (27,500)	(1.50)%

For the Future

The Township of Old Bridge Fire District No. 3 is in good financial condition presently. The District is proud of its community support.

In conclusion, the Township of Old Bridge Fire District No. 3 has committed itself to financial excellence for many years. In addition, the District's system for financial planning, budgeting, and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenge of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 information, contact the Treasurer, at the Township of Old Bridge Fire District No. 3, 913 Englishtown Road, Old Bridge, NJ 08857.

Concluded

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Statement of Net Assets
December 31, 2011
(With comparative totals for December 31, 2010)

	Governmental Activities	
	<u>2011</u>	(Memorandum Only) <u>2010</u>
Assets:		
Current assets:		
Cash	\$ 2,640,567	\$ 2,327,204
Prepaid expenses	56,799	61,629
Grant receivable	-	9,483
Total current assets	<u>2,697,366</u>	<u>2,398,316</u>
Fixed assets (net of depreciation)	<u>1,808,551</u>	<u>1,836,051</u>
Total assets	<u>4,505,917</u>	<u>4,234,367</u>
Liabilities:		
Current liabilities:		
Accounts payable	25,583	16,566
Payroll deductions payable	3,911	2,032
Interfund payable	262	279
Accrued interest on capital lease	3,561	6,970
Capital lease payable	<u>80,617</u>	<u>77,207</u>
Total current liabilities	<u>113,934</u>	<u>103,054</u>
Non-current liabilities:		
Compensated absences	2,141	2,027
Capital lease payable	<u>-</u>	<u>80,617</u>
Total non-current liabilities	<u>2,141</u>	<u>82,644</u>
Total liabilities	<u>116,075</u>	<u>185,698</u>
Net assets:		
Investments in capital assets	1,727,934	1,678,227
Restricted net assets:		
Encumbrances	465,838	421,319
Capital	860,737	838,597
Designated for subsequent year's expenditures - general	232,011	100,000
Designated for subsequent year's expenditures - capital	225,000	-
Unreserved	<u>878,322</u>	<u>1,010,526</u>
Total net assets	<u>\$ 4,389,842</u>	<u>\$ 4,048,669</u>

See accompanying notes to financial statements.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Statement of Activities
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u>	
			<u>2011</u>	<u>(Memorandum Only) 2010</u>
Government activities:				
Operation appropriations:				
Administration	\$ 203,465	\$ -	\$ 203,465	\$ 198,174
Costs of operations and maintenance	823,083	195,296	627,787	559,422
Operating appropriations offset with revenues	174,361	-	174,361	192,393
Interest	3,561	-	3,561	6,972
Length of service award contribution	92,166	-	92,166	92,198
	<hr/>	<hr/>	<hr/>	<hr/>
Total government activities	1,296,636	195,296	1,101,340	1,049,159
General revenues:				
Miscellaneous revenue			14,510	14,985
Operating grant revenues			9,486	9,483
Amount raised by taxation			1,428,000	1,427,624
			<hr/>	<hr/>
Total general revenues			1,451,996	1,452,092
Excess of revenues over expenditures			350,656	402,933
Net assets, January 1			4,048,669	3,645,736
Prior period adjustment			(9,483)	-
			<hr/>	<hr/>
Net assets, January 1 (restated)			4,039,186	3,645,736
Net assets, December 31			<u>\$ 4,389,842</u>	<u>\$ 4,048,669</u>

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Governmental Funds
Balance Sheet
December 31, 2011
(With comparative totals for December 31, 2010)

	General Fund	Capital Projects Fund	Debt Service Fund	Totals	
				December 31, 2011	(Memorandum Only) December 31, 2010
Assets:					
Current assets:					
Cash	\$ 974,694	\$ 1,665,873	\$ -	\$ 2,640,567	\$ 2,327,204
Grant receivable	-	-	-	-	9,483
Interfund receivable	196,381	-	-	196,381	195,000
Total assets	1,171,075	1,665,873	-	2,836,948	2,531,687
Liabilities, equity and other credits:					
Accounts payable	25,583	-	-	25,583	16,566
Payroll deductions payable	3,911	-	-	3,911	2,032
Interfund payable	262	196,381	-	196,643	195,279
Total liabilities	29,756	196,381	-	226,137	213,877
Fund balances:					
Restricted for:					
Capital	-	860,737	-	860,737	838,597
Subsequent year's expenditures - capital	-	225,000	-	225,000	-
Committed for:					
Other purposes	-	383,755	-	383,755	405,895
Assigned for:					
Subsequent year's expenditures	232,011	-	-	232,011	244,498
Other purposes	82,083	-	-	82,083	15,424
Unassigned, reported in:					
General fund	827,225	-	-	827,225	813,396
Total fund balance	1,141,319	1,469,492	-	2,610,811	2,317,810
Total liabilities and fund balance	\$ 1,171,075	\$ 1,665,873	\$ -		

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

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

56,799 61,629

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$4,206,076 and the accumulated depreciation is \$2,397,525.

1,808,551 1,836,051

Accrued interest not recorded in current financial statements.

(3,561) (6,970)

Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported as liabilities in the funds.

(82,758) (159,851)

\$ 1,779,031 \$ 1,730,859

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>	
				<u>December 31, 2011</u>	<u>(Memorandum Only) December 31, 2010</u>
Revenues:					
Miscellaneous anticipated revenue:					
Investment income	\$ 9,820	\$ -	\$ -	\$ 9,820	\$ 14,269
Other revenue	4,690	-	-	4,690	716
Total miscellaneous revenues	14,510	-	-	14,510	14,985
Operating grant revenues:					
Supplemental fire service act	9,486	-	-	9,486	9,483
Total operating grant revenue	9,486	-	-	9,486	9,483
Miscellaneous revenues offset with appropriations:					
Uniform fire safety act revenues:					
Annual registration fee	25,703	-	-	25,703	26,449
Penalties and fines	21,718	-	-	21,718	22,275
Other revenues	147,875	-	-	147,875	134,235
Total uniform fire safety act revenues	195,296	-	-	195,296	182,959
Total miscellaneous revenues offset with appropriations	195,296	-	-	195,296	182,959
Total revenues	219,292	-	-	219,292	207,427
Amount raised by taxation to support district budget	968,823	375,000	84,177	1,428,000	1,427,624
Total anticipated revenues	1,188,115	375,000	84,177	1,647,292	1,635,051
Expenditures:					
Operating appropriations:					
Administration:					
Salaries and wages	80,974	-	-	80,974	79,729
Fringe benefits	49,713	-	-	49,713	49,773
Other expenditures:					
Professional fees	27,858	-	-	27,858	31,999
Elections	3,253	-	-	3,253	236
Utilities	11,403	-	-	11,403	9,236
Office supplies	30,150	-	-	30,150	27,189
Total administration	203,351	-	-	203,351	198,162
Cost of operations and maintenance:					
Other expenditures:					
Rental charges	119,155	-	-	119,155	119,155
Insurance	90,811	-	-	90,811	89,504
Advertising	3,485	-	-	3,485	5,422
Training and education	18,410	-	-	18,410	16,025
Uniforms	3,560	-	-	3,560	7,687
Maintenance and repairs	154,531	-	-	154,531	132,633
Fire protection services	167,138	-	-	167,138	167,138
Other non-bondable assets	83,663	-	-	83,663	106,050
Total cost of operations and maintenance	640,753	-	-	640,753	643,614

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	Totals (Memorandum Only)	
				<u>December 31, 2011</u>	<u>December 31, 2010</u>
Operating appropriations offset with revenues:					
Salaries and wages	85,008	-	-	85,008	95,332
Fringe benefits	59,063	-	-	59,063	73,105
Other expenditures	30,290	-	-	30,290	23,956
Total operating appropriations offset with revenues	174,361	-	-	174,361	192,393
Length of service award program	92,166	-	-	92,166	92,198
Total operating appropriations	1,110,631	-	-	1,110,631	1,126,367
Capital expenditures:					
Vehicles	-	150,000	-	150,000	28,946
Total capital expenditures	-	150,000	-	150,000	28,946
Debt service for capital appropriations:					
Capital leases	-	-	77,207	77,207	73,940
Interest on capital leases	-	-	6,970	6,970	10,238
Total debt service for capital appropriations	-	-	84,177	84,177	84,178
Total governmental expenditures	1,110,631	150,000	84,177	1,344,808	1,239,491
Excess of revenues over expenditures	77,484	225,000	-	302,484	395,560
Fund balance, January 1	1,073,318	1,244,492	-	2,317,810	1,922,250
Prior period adjustment	(9,483)	-	-	(9,483)	-
Fund balance, January 1 (restated)	1,063,835	1,244,492	-	2,308,327	1,922,250
Fund balance, December 31	\$ 1,141,319	\$ 1,469,492	\$ -	\$ 2,610,811	\$ 2,317,810

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance in
the Governmental Funds to the Statement of Activities
December 31, 2011

Total net changes in Fund Balance-Governmental Funds (B-2)	\$	302,484
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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.

Capital Outlays-Capital Project Fund	150,000	
Capital Outlays-General Fund	65,001	
Depreciation Expense	<u>(242,501)</u>	(27,500)

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.		77,207
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Accrual of interest on capital leases and bonds is not an expenditure in the governmental funds, but the adjustment is charged to expense and is reported in the statement of activities.

Prior year	6,970	
Current year	<u>(3,561)</u>	3,409

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

Prior year	(61,629)	
Current year	<u>56,799</u>	(4,830)

In the statement of activities, certain operating expenses, e.g., compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used, essentially, the amounts actually paid. This year, the increase in sick leave paid was \$114.

		<u>(114)</u>
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Changes in net assets of governmental activities	\$	<u>350,656</u>
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FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
 Fiduciary Funds
 Statement of Fiduciary Net Assets
 December 31, 2011
 (With comparative totals for December 31, 2010)

	Length of Service Award Program	Unemployment Compensation	Totals	
			December 31, 2011	(Memorandum Only) December 31, 2010
Assets:				
Cash	\$ -	\$ 53,930	\$ 53,930	\$ 47,833
Investments	594,080	-	594,080	520,430
Interfund accounts receivable	-	262	262	279
Total assets	<u>594,080</u>	<u>54,192</u>	<u>648,272</u>	<u>568,542</u>
Net assets:				
Reserved:				
For unemployment claims	-	54,192	54,192	48,112
For Length of Service Award Program	594,080	-	594,080	520,430
Total net assets	<u>\$ 594,080</u>	<u>\$ 54,192</u>	<u>\$ 648,272</u>	<u>\$ 568,542</u>

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Fiduciary Funds
Statement of Changes in Fiduciary Net Assets
For the year ended December 31, 2011
(With comparative totals for the year ended December 31, 2010)

	Length of Service Award Program	Unemployment Compensation	Totals	
			December 31, 2011	(Memorandum Only) December 31, 2010
Revenues and other financing sources:				
Employee contributions	\$ -	\$ 262	\$ 262	\$ 279
District contributions	92,166	5,721	97,887	97,906
Rollover and other contributions	14,869	-	14,869	1,095
Total contributions	107,035	5,983	113,018	99,280
Investment earnings:				
Interest	20,437	97	20,534	18,732
Total investment earnings	20,437	97	20,534	18,732
Total revenues and other financing sources	127,472	6,080	133,552	118,012
Expenditures:				
Withdrawals and administrative fees	53,822	-	53,822	30,636
Total expenditures	53,822	-	53,822	30,636
Excess of revenues and other financing sources over expenditures	73,650	6,080	79,730	87,376
Net assets, January 1	520,430	48,112	568,542	481,166
Net assets, December 31	594,080	54,192	648,272	\$ 568,542

See accompanying notes to financial statements.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements
For the year ended December 31, 2011

NOTE 1: GENERAL INFORMATION

A. Description of Reporting Entity

Fire District No. 3 of the Township of Old Bridge is a political subdivision of the Township of Old Bridge, County of Middlesex, State of New Jersey. A board of five commissioners oversees all of the operations of the Fire District. The length of each commissioner's term is three years with the annual election held the third Saturday of every February.

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

Fire District No. 3 of the Township of Old Bridge is not a component unit of any other financial reporting entity nor does the Fire District have any component units to be presented in accordance with Governmental Accounting Standards Board Statement No. 14.

B. District Officials

The District is governed by a board of five commissioners. The following were in office at December 31, 2011:

<u>Officials</u>	<u>Term Expires</u> <u>March</u>
Chester T. Hammel	2012
Martin F. Ruane	2013
Bertus A. Shelters, IV	2013
Kenneth A. Totten	2012
Kenneth R. Totten	2014

C. Accounting Records

The official accounting records of the Fire District No. 3 of the Township of Old Bridge are maintained in the office of the District.

D. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Fire District conform to generally accepted accounting principles (GAAP) applicable to governmental funds of state and local governments in accordance with the provisions of N.J.A.C. 5:31-7-1. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (continued)

The basic financial statements report using the economic resources measurement focus and the accrual basis of accounting generally includes the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using the same focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The tax revenues are recognized in the year for which they are levied (see Note 2 N) while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon thereafter, within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

B. Fund Accounting

The accounts of the district are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn is divided into separate "fund types."

Governmental Funds:

General Fund

The General Fund is the general operating fund of the Fire District and is used to account for the inflows and outflows of financial resources. The acquisition of certain capital assets, such as fire fighting apparatus and equipment, is accounted for in the General Fund when it is responsible for the financing of such expenditures.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities such as firehouses and fire fighting apparatus. Generally, the financial resources of the Capital Projects Fund are derived from the issuance of debt or by the reservation of fund balance, which must be authorized by the voters as a separate question of the ballot either during the annual election or at a special election.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Debt Service Fund

The Debt Service Fund is used to account for resources that will be used to service general long-term debt.

Fiduciary Funds:

Trust and Agency Fund

The Trust and Agency Fund is used to account for assets held by the Fire District on behalf of outside parties, including other governments, or on behalf of other funds within the Fire District.

C. District Wide and Fund Financial Statements

District Wide Financial Statements

The District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments as of January 1, 2004. The District’s basic financial statements reflect the implementation.

The district-wide financial statements (A-1 and A-2) include the statement of net assets and the statement of activities. These statements report financial information of the District as a whole excluding the fiduciary activities. All inter-fund activity, excluding the fiduciary funds, has been eliminated in the statement of activities. Individual funds are not displayed but the statements distinguish governmental activities as generally supported through taxes and user fees.

Fund Financial Statements

The fund financial statements provide detail of the governmental and fiduciary funds.

D. Budgets and Budgetary Accounting

The Fire District must adopt an annual budget in accordance with N.J.S.A. 40A: 14-78.1 et al.

The fire commissioners must introduce and approve the annual budget no later than sixty days prior to the annual election. At introduction, the commissioners shall fix the time and place for a public hearing on the budget and must advertise the time and place at least ten days prior to the hearing in a newspaper having substantial circulation in the Fire District. The public hearing must not be held less than twenty-eight days after the date the budget was introduced. After the hearing has been held, the fire commissioners may, by majority vote, adopt the budget.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets and Budgetary Accounting (continued)

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

Subsequent to the adoption of the Fire District budget, the amount of money to be raised by taxation in support of the Fire District budget must appear on the ballot for the annual election for approval of the legal voters.

Fire Districts have a prescribed budgetary basis to demonstrate legal compliance. However, budgets are adopted on principally the same basis of accounting utilized for the preparation of the Fire Districts general-purpose financial statements.

E. Encumbrances

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

Encumbered appropriations carry over into the next fiscal year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the adopted budget by the outstanding encumbrance amounts as of the current year-end. The encumbrance at December 31, 2011 totaled \$82,083 in the general fund and \$383,755 in the capital projects fund for a total encumbered balance of \$465,838.

F. Cash and Cash Equivalents

Cash and cash equivalents include petty cash, change funds and cash in banks. All certificates of deposit are recorded as cash regardless of the date of maturity. Fire Districts are required by N.J.S.A. 40A: 5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey organized under the laws of the United States or of the State of New Jersey or with the New Jersey Cash Management Fund. N.J.S.A. 40A: 5-15.1 provides a list of investments that may be purchased by Fire Districts.

N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the provision 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 the State of New Jersey.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Cash and Cash Equivalents (continued)

Public funds are defined as the funds of any governmental unit. Public depositories include savings and loan institutions, banks (both State and National banks) and savings banks the deposits of which they are federally insured. All public depositories must pledge collateral, having a market value of five percent of its average daily balance of collected public funds, to secure the deposits of governmental units. If 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.

G. Prepaid Expenses

Prepaid expenses that benefit future periods are recorded as an expenditure during the year of purchase.

H. Debt Limitation

N.J.S.A.40A:14-84 governs procedures for the issuance of any debt related to such purchases. In summary, Fire Districts may purchase fire fighting apparatus, equipment, land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000 or 2 percent of the assessed valuation of property, whichever is larger.

I. Capital Assets

Capital assets, which include land, building, improvements, and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District has set capitalization thresholds for reporting capital assets of \$2,000.

Depreciation is recorded on the straight-line method (with no depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

Station and Improvements	5 to 25 Years
Equipment	5 to 15 Years
Mobile Equipment	5 to 15 Years

J. Inventory, Materials and Supplies

The inventory on hand at any time is small. Accordingly, purchases are charged directly to fixed assets or to maintenance costs, as applicable.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Interfund Receivable/Payable

Interfund receivables and payables that arise from transactions between funds that are due within one year are recorded by all funds affected by such transactions in the periods in which the transaction is executed.

L. Compensated Absences

Fire District employees are entitled to vacation and sick leave. Unused vacation may be accumulated up to one week with prior approval from the Board of Commissioners and unused sick leave may be accumulated up to a maximum of 280 days. Benefits paid in any future year will be calculated according to formulas outlined in the Fire District's agreement with the employee's union and included in the current year's budget.

The liability for vested compensated absences is recorded as a non-current liability in the governmental activities fund. The current portion of the compensated absence balance is not considered material to the applicable fund's total liabilities, and is therefore not shown separately from the long-term liability balance of compensated absences.

M. Revenues and Expenditures

Revenues are recorded when they are determined to be both available and measurable. Generally, fees and other non-tax revenues are recognized when qualifying expenditures are incurred.

Expenditures are recorded when the related liability is incurred, if measurable, except for un-matured interest on general long-term debt, which is recognized when due.

N. Fire District Taxes

Upon proper certification to the assessor of the municipality in which the Fire District is located, the assessor shall assess the amount of taxes to be realized in support of the Fire District's budget in the same manner as all other municipal taxes. The collector or treasurer of the municipality shall then pay over to the treasurer or custodian of funds of the Fire District the taxes assessed in accordance with the following schedule: on or before April 1, an amount equaling 21.25% of all monies assessed, on or before July 1, an amount equaling 22.5% of all monies assessed, on or before October 1, an amount equaling 25% of all monies assessed and on or before December 31 an amount equal to the difference between the total of all monies assessed and the total of monies previously paid over.

O. Fund Equity

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Q. Unrealized Gains and Losses

Governmental Accounting Standards Board (GASB) has established GASB-31, which requires public agencies to report the financial effect of all unrealized gains and losses on invested funds. As of December 31, 2011, the unrealized gains for the Fire District were not considered to be material to the financial statements taken as a whole, and accordingly, has not been reflected in the financial statements.

R. Subsequent Events

The District has evaluated subsequent events through April 06, 2012, the date the financial statements were available to be issued.

NOTE 3: CASH

The Fire District is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2011, and reported at fair value are as follows:

Deposits:

Demand deposits	<u>\$ 2,694,497</u>
Total deposits	<u>\$ 2,694,497</u>

Reconciliation to Governmental Fund Statements:

Governmental Funds	\$ 2,640,567
Fiduciary Funds	<u>53,930</u>
Total	<u>\$ 2,694,497</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2011, the District's bank balance of \$2,736,029 was insured or collateralized as follows:

Insured	\$ 250,000
Collateralized in the District's name under GUDPA (See Note 5)	<u>2,486,029</u>
Total	<u>\$ 2,736,029</u>

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 4: INVESTMENTS

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Fire District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fire District, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fire District's name. All of the District's investments are held in the name of the District and are collateralized by GUDPA.

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Fire District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at December 31, 2011, are provided in the above schedule.

C. Investment Credit Risk

The Fire District has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or 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 obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Fire District or bonds or other obligations of the local unit or units within which the Fire District is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Fire District;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 4: INVESTMENTS (continued)

C. Investment Credit Risk (continued)

As of December 31, 2011, the Fire District had the following investments and maturities:

<u>Investment</u>	<u>Maturities</u>	<u>Rating</u>	<u>Fair Value</u>
LOSAP Annuity Contract			\$ <u>594,080</u>

NOTE 5: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA)

The Fire District has deposited cash in 2011 with an approved public fund depository qualified under the provisions of the Government Unit Deposit Protection Act.

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236, was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the 6 month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the 6 month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by F.D.I.C. or any other U.S. agency which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s) which, in the aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after the default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each such governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 5: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA) (continued)

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months, June 30th and December 31st, with the Commissioner of Banking. Any public depository which refuses or neglects to give any information so requested may be excluded by the Commissioner from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The Fire District should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

NOTE 6: FIXED ASSETS

N.J.S.A. 40A: 14-84 governs the procedures for the acquisition of property and equipment for the Fire Districts, and the N.J.S.A. 40A: 14-85-87 governs procedures for the issuance of any debt related to such purchases. In summary, Fire Districts may purchase fire fighting apparatus, equipment, land, and buildings to house such property in an amount not exceeding five mills on the dollar of the least assessed valuation of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000 or two percent of the assessed valuation of property, whichever is larger.

Fixed assets consisted of the following at December 31, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets that are not being depreciated:				
Construction in progress	\$ -	\$ 150,000	\$ -	\$ 150,000
Total capital assets not being depreciated	<u>-</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Buildings and improvements	566,355	-	-	566,355
Vehicles	3,225,529	-	-	3,225,529
Equipment	<u>199,191</u>	<u>65,001</u>	<u>-</u>	<u>264,192</u>
Totals at historical cost	<u>3,991,075</u>	<u>65,001</u>	<u>-</u>	<u>4,056,076</u>

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 6: FIXED ASSETS (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Less: accumulated depreciation				
Buildings and improvements	(213,618)	(24,355)	-	(237,973)
Vehicles	(1,806,290)	(180,865)	-	(1,987,155)
Equipment	<u>(135,116)</u>	<u>(37,281)</u>	<u>-</u>	<u>(172,397)</u>
Total accumulated depreciation	<u>(2,155,024)</u>	<u>(242,501)</u>	<u>-</u>	<u>(2,397,525)</u>
Total capital assets being depreciated net of accumulated depreciation	<u>1,836,051</u>	<u>(177,500)</u>	<u>-</u>	<u>1,658,551</u>
Government activities capital assets, net	<u>\$ 1,836,051</u>	<u>\$ (27,500)</u>	<u>\$ -</u>	<u>\$ 1,808,551</u>

NOTE 7: NONCURRENT LIABILITIES

During the fiscal year ended December 31, 2011 the following changes occurred in liabilities reported in long-term debt:

	<u>Balance 12/31/10</u>	<u>Accrued/ increases</u>	<u>Retired/ decreases</u>	<u>Balance 12/31/11</u>	<u>Due within one year</u>
Capital leases	\$ 157,824	\$ -	\$ 77,207	\$ 80,617	\$ 80,617
Compensated absences	<u>2,027</u>	<u>114</u>	<u>-</u>	<u>2,141</u>	<u>-</u>
Total	<u>\$ 159,851</u>	<u>\$ 114</u>	<u>\$ 77,207</u>	<u>\$ 82,758</u>	<u>\$ 80,617</u>

Capital Leases

The following is a schedule of future minimum capital lease payments at December 31, 2011:

<u>Fiscal Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 80,617	\$ 3,561	\$ 84,178
Total	<u>\$ 80,617</u>	<u>\$ 3,561</u>	<u>\$ 84,178</u>

NOTE 8: VESTED EMPLOYEE BENEFITS

In accordance with GASB-16 and NCGA-1 (Governmental Accounting and Financial Reporting Principles), the portion of estimated future payments for compensated absences that will use current expendable resources is reported as a current fund liability in the governmental activities fund and the balance of the liability is reported as non-current liability in the governmental activities fund. For the year ended December 31, 2011, the District did not have a current liability for compensated absences. The amounts included in the long-term liabilities consists of the following:

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 8: VESTED EMPLOYEE BENEFITS (continued)

	<u>2011</u>
Total Compensated Absences	\$ 2,141

NOTE 9: PENSION

A. Plan Description

Fire District No. 3 of the Township of Old Bridge contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System (P.E.R.S.), administered by the State of New Jersey, Division of Pensions and Benefits. It provides retirement, disability, medical and death benefits to plan members and beneficiaries.

The Public Employees' Retirement System (P.E.R.S.) was established in January 1955 under the provisions of *N.J.S.A.43:15A*. The plan was set up to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plans. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

B. Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by *N.J.S.A.43:15A* and *43.3B*. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 78, P.L. 2011 changed this for employees enrolled after June 28, 2011. See Note 9C below.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 9: PENSION (continued)

C. Significant Legislation

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by $\frac{1}{2}$ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the District's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits; accordingly, the pension costs for PERS were reduced.

New Legislation signed by the Acting Governor (Chapter 133, Public Laws 2001) changed the formula for calculating retirement benefits for all current and future non-veteran retirees from N/60 to N/55 (a 9.09% increase). This legislation, signed June 29, 2001, provides that all members of the PERS will have their pensions calculated on the basis of years of credit divided by 55. It also provides that all current retirees will have their original pension recalculated under the N/55 formula. Starting February 1, 2002, pension cost of living adjustments will be based on the new original pension.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service.

All cost of living adjustments are frozen until the pension fund reaches a "target funded ratio".

Chapter 78 also requires all covered employees to contribute a prescribed percentage towards their health costs.

D. Contribution Requirements

The contribution policy is set by *N.J.S.A.43:15A*, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and *N.J.S.A.18:66*, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 6.5%, effective October 1, 2011, of employees' annual compensation as defined. The rate will increase over the next seven years to 7.5%. Employers are required to contribute at an actuarially determined rate in both PFRS and PERS. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 10: DEFERRED COMPENSATION PLAN

The Township of Old Bridge Fire District No. 3 Deferred Compensation Plan was established pursuant to section 457 of the Internal Revenue Code and in accordance with Applicable New Jersey Statutes and the New Jersey Administrative Code *N.J.A.C. 5:37*. The plan is an arrangement whereby a public employer may establish a plan and permit its employees to voluntarily authorize a portion of their current salary to be withheld and invested in one or more of the types of investments permitted under governing regulations. The plan is offered by the District through the program administrators the Variable Annuity Life Insurance Company.

All monies deferred and any other assets or income of the plan funds held in trust, or one or more annuity contracts or one or more custodial accounts are for the exclusive benefit of the participating employees and their beneficiaries.

NOTE 11: LENGTH OF SERVICE AWARDS PROGRAM

The Fire District's Length of Service Awards Program (LOSAP) provides tax deferred income benefits to active volunteer firefighters. The plan is intended to comply with Section 457(e)(11)(A)(ii) of the Internal Service Code of 1986, as amended.

The District has a contractual obligation to pay the LOSAP benefits to eligible members. Assets that are designated to pay the LOSAP benefits are available to the unsecured creditors of the District. As such, the assets and liabilities of the LOSAP are included in the financial statements of the District as an agency fund.

Accrued plan benefits are those future periodic payments in accordance with the plan document as calculated by an independent actuary. Accrued plan benefits under the Plan are based on (a) length of credited service, (b) life expectancy, (c) entitlement age assumption of 62, and (d) an investment return of 6%. The actuarial present value of accrued plan benefits as of December 31, 2011, the date of the most recent actuarial valuation, is determined by an actuary from JUF Actuarial Services, Inc. This amount was \$975,291. The unfunded LOSAP obligation, totaling \$679,162, will be provided by the District on an ongoing annual basis as determined by an actuarial calculation.

The assets of the plan are invested in a fixed-income Group Annuity Contract with Hartford Life Insurance Company under which Hartford pools funds invested for various Length of Service Awards Program customers along with funds in The Hartford's general account. Interest income is provided at an average rate of return of approximately 4% for 2011 and there is a guaranteed minimum return of 3%.

NOTE 12: INTERFUND RECEIVABLE/PAYABLE

As of December 31, 2011, the following interfund balances remained on the balance sheet:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 196,381	\$ 262
Capital	-	196,381
Unemployment compensation	<u>262</u>	<u>-</u>
Total	<u>\$ 196,643</u>	<u>\$ 196,643</u>

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 12: INTERFUND RECEIVABLE/PAYABLE (continued)

The purpose of these interfunds are for short-term borrowing.

NOTE 13: FUNDING

The activities of the Board of Commissioners are primarily funded by the striking of the fire tax on the property owners of the Fire District, as provided for by the state statute. For the year ended December 31, 2011, the fire tax rate on the Fire District No. 3 was approximately \$.083 per \$100 of assessed valuation.

The tax revenue is supplemented by income earned on surplus funds invested in a money market fund and investments during the year. The District also participates in the Supplemental Fire Services Program and received a basic entitlement grant of approximately \$9,486.

NOTE 14: RISK MANAGEMENT

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

A. Property and Liability Insurance

The District maintains commercial insurance coverage for property, liability and surety bonds. Insurance coverage was maintained in amounts consistent with prior years. The District did not have any claims that exceeded coverage.

B. New Jersey Unemployment Compensation Insurance

The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State. The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's expendable trust fund for the current and prior two years:

<u>Fiscal Year</u>	<u>Interest Earned</u>	<u>District Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
12/31/11	\$ 97	\$ 5,721	\$ 262	\$ -	\$ 54,192
12/31/10	89	5,708	279	-	48,112
12/31/09	244	5,272	276	-	42,036

NOTE 15: POST-RETIREMENT BENEFITS

The District participates in the New Jersey State Health Benefits Program ("the SHBP"), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" ("OPEB"). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 15: POST-RETIREMENT BENEFITS (continued)

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the District of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis.

NOTE 16: PRIOR PERIOD ADJUSTMENT

In 2011, it was determined that the District's budgetary records as of December 31, 2010 were not recorded in accordance with *N.J.A.C. 5:31-7-1*. The District recorded a receivable for its supplemental fire service grant, overstating its assets by \$9,483. The District corrected this with an adjustment to the prior year's net assets.

A prior period adjustment was also needed for budgetary basis fund balances.

The general fund had recorded a receivable for its supplemental fire service grant and therefore overstated the assets by \$9,483.

NOTE 17: GASB #54 FUND BALANCE DISCLOSURE

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by external parties, constitutional provision or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Administrator.
- Unassigned – includes balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Notes to Financial Statements (continued)
For the year ended December 31, 2011

NOTE 17: GASB #54 FUND BALANCE DISCLOSURE (continued)

General Fund – Of the \$1,141,319 General Fund fund balance at December 31, 2011, \$232,011 has been assigned to be designated for subsequent year's expenditures; \$82,083 is assigned for other purposes; and \$827,225 is unassigned.

Capital Projects Fund – Of the \$1,469,492 Capital Projects Fund fund balance at December 31, 2011, \$860,737 is restricted for Capital; \$225,000 is restricted for subsequent year's expenditures – Capital; and \$383,755 is committed for other purposes.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available, unless prohibited by law or regulation.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Budgetary Comparison Schedule
For the year ended December 31, 2011

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Miscellaneous anticipated revenue:				
Investment income	\$ 10,000	\$ 10,000	9,820	(180)
Other revenue	-	-	4,690	4,690
Total miscellaneous revenues	<u>10,000</u>	<u>10,000</u>	<u>14,510</u>	<u>4,510</u>
Operating grant revenues:				
Supplemental fire service act	<u>9,000</u>	<u>9,000</u>	<u>9,486</u>	<u>486</u>
Total operating grant revenue	<u>9,000</u>	<u>9,000</u>	<u>9,486</u>	<u>486</u>
Miscellaneous revenues offset with appropriations:				
Uniform fire safety act revenues:				
Annual registration fee	21,223	21,223	25,703	4,480
Penalties and fines	2,500	2,500	21,718	19,218
Other revenues	<u>100,000</u>	<u>100,000</u>	<u>147,875</u>	<u>47,875</u>
Total uniform fire safety act revenues	<u>123,723</u>	<u>123,723</u>	<u>195,296</u>	<u>71,573</u>
Total miscellaneous revenues offset with appropriations	<u>123,723</u>	<u>123,723</u>	<u>195,296</u>	<u>71,573</u>
Total revenues	<u>142,723</u>	<u>142,723</u>	<u>219,292</u>	<u>76,569</u>
Amount raised by taxation to support district budget	<u>1,428,000</u>	<u>1,428,000</u>	<u>1,428,000</u>	<u>-</u>
Total anticipated revenues	<u>1,570,723</u>	<u>1,570,723</u>	<u>1,647,292</u>	<u>76,569</u>
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	87,024	87,024	80,974	6,050
Fringe benefits	68,853	68,853	49,713	19,140
Other expenditures:				
Professional fees	30,000	30,000	27,858	2,142
Elections	7,000	7,000	3,253	3,747
Utilities	16,000	15,000	11,403	3,597
Office supplies	45,000	47,000	30,150	16,850
Volunteers length of service	<u>1,050</u>	<u>1,050</u>	<u>-</u>	<u>1,050</u>
Total administration	<u>254,927</u>	<u>255,927</u>	<u>203,351</u>	<u>52,576</u>

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF OLD BRIDGE
Budgetary Comparison Schedule
For the year ended December 31, 2011

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Cost of operations and maintenance:				
Other expenditures:				
Rental charges	119,155	119,155	119,155	-
Insurance	150,000	150,000	90,811	59,189
Advertising	9,000	9,000	3,485	5,515
Training and education	33,150	32,950	18,410	14,540
Uniforms	36,735	20,535	3,560	16,975
Maintenance and repairs	156,000	174,424	154,531	19,893
Fire protection services	167,138	167,138	167,138	-
Contingencies	100	300	-	300
Other non-bondable assets	110,775	110,775	83,663	27,112
Total cost of operations and maintenance	<u>782,053</u>	<u>784,277</u>	<u>640,753</u>	<u>143,524</u>
Operating appropriations offset with revenues:				
Salaries and wages	131,122	131,122	85,008	46,114
Fringe benefits	69,040	69,040	59,063	9,977
Other expenditures	38,900	38,900	30,290	8,610
Total operating appropriations offset with revenues	<u>239,062</u>	<u>239,062</u>	<u>174,361</u>	<u>64,701</u>
Length of service award program	80,000	92,200	92,166	34
Capital appropriations	<u>375,000</u>	<u>780,895</u>	<u>150,000</u>	<u>630,895</u>
Debt service for capital appropriations:				
Capital leases	77,207	77,207	77,207	-
Interest on capital leases	6,972	6,972	6,970	2
Total debt service for capital appropriations	<u>84,179</u>	<u>84,179</u>	<u>84,177</u>	<u>2</u>
Total operating appropriations	<u>1,815,221</u>	<u>2,236,540</u>	<u>1,344,808</u>	<u>891,732</u>
Excess (efficiency) of revenues over (under) expenditures	(244,498)	(665,817)	302,484	968,301
Fund balance, January 1	2,317,810	2,317,810	2,317,810	-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(9,483)</u>	<u>(9,483)</u>
Fund balance, January 1 (restated)	<u>2,317,810</u>	<u>2,317,810</u>	<u>2,308,327</u>	<u>(9,483)</u>
Fund balance, December 31	<u><u>2,073,312</u></u>	<u><u>1,651,993</u></u>	<u><u>2,610,811</u></u>	<u><u>958,818</u></u>

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate.

Finding 2011-01:

N.J.S.A. 40A11-6.1 states that all contracts that, in aggregate, are less than the bid threshold but 15 percent or more of that amount must retain at least two competitive quotations. The District did not obtain competitive quotations for four contracts over the quote threshold of \$2,650.

Recommendation:

The District must comply with N.J.S.A. 40A11-6.1 and obtain at least two quotations for aggregate purchases over the quote threshold of \$2,650.

Management's Response:

This will be corrected in 2012.

Property, Plant & Equipment

During our review of the District's fixed assets, we noted the following:

***Finding 2011-02:**

The District does not maintain a complete and accurate fixed asset listing in accordance with N.J.A.C. 5:30-5.6 and calculate depreciation according to generally accepted accounting principles.

Recommendation:

The District must properly maintain a complete and accurate fixed asset listing.

Management's Response:

This will be corrected in 2012.

Finding 2011-03:

Employees and volunteers of the District borrow fixed assets for personal use, resulting in the possible misuse of public equipment.

Recommendation:

A policy should be implemented to regulate the custody and use of District equipment.

Management's Response:

This will be corrected in 2012.

Follow-up on Prior Years' Findings

In accordance with *Government Auditing Standards* we have included a review of prior year findings. The previous year's audit findings have been corrected with the exception of the finding above marked with an asterisk (*).

Acknowledgment

We received the complete cooperation of all the staff of the District and we greatly appreciate the courtesies extended to the members of the audit team.

During our review, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions, please contact us.



HOLMAN & FRENIA, P.C.
Certified Public Accountants

April 06, 2012
Toms River, New Jersey