TOWNSHIP OF FREEHOLD FIRE DISTRICT #2

COUNTY OF MONMOUTH, NEW JERSEY

REPORT OF AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2018

Prepared by:
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For the Firm of:
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TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
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INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Township of Freehold Fire District No. 2
County of Monmouth
State of New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Freehold Fire District No. 2 (the "District") as of and for the year ended which collectively comprise the Fire District's basic financial statements as listed in the table of contents December 31, 2018.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and auditing standards prescribed by the Division of Local Government Service, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

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

Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of December 31, 2018, and the respective changes on financial position where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated April 15, 2019 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Basis for Disclaimer of Opinion on Length of Service Award Program Fund ("LOSAP")

The financial statements of the Length of Service Award Program Fund ("LOSAP") have not been audited, and we were not required by the Division to audit nor were we engaged to audit the LOSAP financial statements as part of our audit of the District's financial statements.

Due to the fact that we were not required by the Division to audit nor were we engaged to audit the LOSAP financial statements as part of our audit of the District's financial statements, we do not express an opinion of the LOSAP financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements of the District taken as a whole. The information included in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements, but is presented as additional analytical data as required by the Local Finance Board. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Gerard Stankiewicz
Certified Public Accountant

SAMUEL KLEIN AND COMPANY

Freehold, New Jersey
April 15, 2019

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS – STATUTORY BASIS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Fire Commissioners
Township of Freehold Fire District No. 2
County of Monmouth
State of New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements and the related notes to the financial statements of the Township of Freehold Fire District No. 2, County of Monmouth, State of New Jersey (the "District") as of and for the year ended December 31, 2018, which comprise the District's basic financial statements and have issued our report thereon dated April 15, 2019.

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) to determine the 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS – STATUTORY BASIS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Our consideration of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information of the District and its management, and other federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Gerard Stankiewicz
Certified Public Accountant

SAMUEL KLEIN AND COMPANY

Freehold, New Jersey
April 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Township of Freehold Fire District #2's (District) annual financial report, the management of the District provides narrative discussion and analysis of the financial activities of the District for the audit year ending December 31, 2018.

The District's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

Discussion of Financial Statements Included in Annual Audit

The District prepares and presents its financial statements on several different bases, because of accounting requirements and for internal use purposes.

The first set of statements which consist of the Statement of Net Position, the Statement of Activities and Change in Net Position is prepared on an accrual basis and is in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. These statements are the official financial statements of the Township of Freehold Fire District #2.

After the first set of statements and the "Notes to the Financial Statements" that follow is the second set of statements. These statements are considered "Supplemental Information".

The District has historically presented its financial statements on a "GAAP Basis", and continues to do so because it relates more fairly to the annual budget for the same period. The annual budget records all encumbrances as charges against the adopted appropriation even if the items or services have not been received.

Contained in the supplemental information are statements that report the Statement of Net Position, Statement of Revenues, Expenditures and Change in Net Position and Statement of Expenditures Compared to Budget. These statements compare the "Budget" revenues and expenses to "Actual" revenues and expenses. They include operating revenues and expenses, nonoperating revenues and nonoperating expenses. Principal and Interest are reported in this statement as Debt Service expense, and depreciation is not reported as an expense. On the "GAAP" based and "Modified GAAP" based, Depreciation Expense is included, and only the Interest Expense component of the Debt Service expense is reported.

The Budget to Actual statement is a very important statement to the District management, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Other information or statements incorporated within the annual audit report are the Schedules of Cash and Cash Equivalents and Investments – Restricted and Unrestricted.

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the official statements of the District, those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report.

Township of Freehold Fire District #2

Comparative Statement of Net Position

The Township of Freehold Fire District #2 has total assets $3,013,681 and total liabilities of $963,687. Assets exceed liabilities by $2,049,994 compared to 2017 where the assets exceeded liabilities by $1,470,864.

The Township of Freehold Fire District #2's Net Position of $2,049,994 are comprised of the following:

1. Invested in Capital Assets is $604,366.

2. Net Position of $1,212,587 is reserved for offsetting future capital expenses.

3. Unrestricted Net Position of $233,041 represents the portion available to maintain the District's continuing obligations to the residents of its municipality area, its creditors and employees and budgeted as revenue in the subsequent year, of Net Defined Pension Liability.

Comparative Statement of Net Position (Continued)

Net Position increased by $579,130.

	As of December 31,	
	2018	2017
Total Current Assets	$ 1,196,728	$ 1,273,382
Total Restricted Assets	1,212,587	1,012,587
Capital Assets	604,366	705,160
Total Assets	$ 3,013,681	$ 2,991,129
Total Current Liabilities Payable from Current Assets	$ 566,471	$ 696,552
Net Defined Pension Liability	397,217	823,713
Total Liabilities	$ 963,688	$ 1,520,265
Net Position		
Restricted:		
Invested in Capital Assets	$ 604,366	$ 705,160
Capital	1,212,587	1,225,919
Unrestricted (Deficit)	233,041	(460,215)
Net Position	$ 2,049,994	$ 1,470,864

Comparative Statement of Revenues, Expenses and Change in Net Position

There was an increase in Operating Revenues from taxation. The Revenue increased $20,900 or 1.70% from the prior year.

Total Operating Expenses exclusive of depreciation increased $681,292, or 56.00% from the prior year. Depreciation charged has decreased by $116,881 due to the full depreciation of assets acquired over ten (10) years ago at December 31, 2017.

Total Operating Revenues less Total Operating Expenses produced an income of $556,254. The reduction related primarily to the LOSAP liability at the net adjustment for the present value accounting.

Net Position as of December 31, 2018 increased from $1,470,864 to $2,049,994, most of which was caused by a decrease in the accrued liability for the LOSAP.

	Year Ending December 31,	
	2018	2017
Total Operating Revenues	$ 1,191,491	$ 1,173,291
Operating Expenses	$ 534,443	$ 1,215,735
Depreciation	100,794	217,675
Total Operating Expenses	$ 635,237	$ 1,433,410
Operating Income/(Loss)	$ 556,254	$ (260,119)
Nonoperating Revenues - Net	22,876	21,205
Change in Net Position - Increase/(Decrease)	$ 579,130	$ (238,914)
Net Position, Beginning	1,470,864	1,709,778
Net Position, Ending	$ 2,049,994	$ 1,470,864

Core Competencies

The Freehold Township Fire District #2 governs an all volunteer fire company serving mainly the eastern portion of Freehold Township in the County of Monmouth and also some of the surrounding townships and boros. The Board of Fire Commissioners is made up of 5 members who are charged with serving the community by raising money through the budget process and expanding those funds for the protection of the township's residents.

The Fire District supports 3 firehouse - a main base and 2 annexes and 12 pieces of fire apparatus, the last of which was purchased in 2012. Other expenses are incurred in the maintaining the volunteers with the best equipment to fight fires and maintaining the fire apparatus in top shape to provide a maximum amount of safety to the volunteers and residents.

The District's budget is voted on at the Annual Fire District Election which is by statute on the third Saturday of February. The budget process begins in October with preparing the details and is finalized and introduced in November and a public hearing is held in December. If the voters defeat the budget, then the Mayor and Township Committee have the right to set the budget. The budget is prepared on a calendar year basis.

The District has a contract with the fire company for use of their building. The Fire Company has approximately 72 volunteer members. The District also participates on a mutual aid consortium for assistance to and from neighboring municipalities.

The main revenue of the District is property taxes which are subject to the annual fire district election. The other sources of revenue are surplus and miscellaneous revenue which accrues to the fund balance of the District.

The majority of the budget relates to insurance, Bay rentals and repair and maintenance of fire trucks.

Accountability

The Township of Freehold Fire District #2's mission statement is:

The Mission Statement:

Our mission for the Township of Freehold Fire District #2 is to provide the ultimate in fire protection services. Always responsive to the residents' needs and the growing community, in compliance with the applicable laws, rules and regulations, the District will continue to set and exceed the standards for the protection of the property, while operating the most efficient system and maintaining a cost effective budget.

As the mission reads, this is who and what the District is accountable to. The District's accountability, first and foremost, is to protect the property. The goal is to provide a cost effective and reliable service, and at the same time to protect the property. This means the District is accountable to the residents, the agencies and people served using the same principles: cost effective, efficient, reliable and protective.

As a district, the District is also guided by or accountable to state government and the applicable rules and regulations that govern the Township of Freehold Fire District #2. More specifically, the District is accountable to the Department of Community Affairs, Division of Local Government Services.

Management of the District

The Commissioners manage the daily operations of the District in conjunction with the Chief of Fire. The Treasurer of the District handles the bookkeeping operations.

Funding of Infrastructure and Debt Management

The District is required by statute to present it's capital projects or capital assets acquisition to the voters of the District for approval. Once approved, the District can proceed to put the required financing in place; however, subject to the Local Finance Board's approval.

Auditors

The District Auditor is Gerard Stankiewicz, CPA of Samuel Klein and Company.

Audits can be obtained by contacting the Township of Freehold Fire District #2.

FINANCIAL STATEMENTS

Exhibit A-1

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
COUNTY OF MONMOUTH
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	Balance December 31, 2018
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$ 856,291.01
Investments	252,750.30
Prepaid Insurance	87,686.78
Total Current Assets	$ 1,196,728.09
Restricted Assets:	
Investments	$ 1,212,587.01
Total Restricted Assets	$ 1,212,587.01
Noncurrent Assets:	
Capital Assets	$ 604,365.90
Total Noncurrent Assets	$ 604,365.90
Total Assets	$ 3,013,681.00
LIABILITIES	
Current Liabilities Payable from Current Assets:	
Accounts Payable	$ 66,470.57
Accrued Liability	500,000.00
Total Current Liabilities Payable from Current Assets	$ 566,470.57
Noncurrent Liabilities:	
Net Defined Benefit Liability	397,216.90
Total Noncurrent Liabilities	$ 397,216.90
Total Liabilities	$ 963,687.47
NET POSITION	
Restricted:	
Invested in Capital Assets	$ 604,365.90
Unrestricted:	
Reserved	1,212,587.01
Unreserved	233,040.62
Net Position	$ 2,049,993.53

See accompanying Notes to Financial Statements.

Exhibit A-2

FREEHOLD TOWNSHIP FIRE DISTRICT #2
COUNTY OF MONMOUTH
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

Functions/Programs		Total Government Activities Net (Expense)/ Revenue and Change in Net Position
Expenditures:		
Administrative		$ 114,516.63
Cost of Providing Services:		
Insurance	$ 154,685.57	
LOSAP	(191,975.29)	
Maintenance and Repairs	156,162.82	
Rental Charge	62,500.00	
Fire Protection	62,500.00	
Supplies	42,679.04	
Building Utilities and Maintenance	96,342.89	
Remediation	37,032.61	
Unallocated Depreciation	100,793.80	520,721.44
Total Governmental Activities		$ 635,238.07
General Revenues		
Taxes	$ 1,186,868.00	
Investment Earnings	20,065.50	
State Grant	4,623.45	
Miscellaneous	2,810.87	$ 1,214,367.82
Change in Net Position		$ 579,129.75
Net Position - Beginning		1,470,863.78
Net Position - Ending		$ 2,049,993.53

See accompanying Notes to Financial Statements.

REQUIRED SUPPLEMENTARY INFORMATION – PART I

Exhibit B-1

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
COUNTY OF MONMOUTH
GOVERNMENTAL FUNDS
COMBINED STATEMENT OF NET POSITION
DECEMBER 31, 2018

	General Fund	Capital Projects Fund	Total
Current Assets:			
Unrestricted Assets:			
Cash and Cash Equivalents	$ 856,291.01		$ 856,291.01
Investments	252,750.30		252,750.30
Prepaid Insurance	87,686.78		87,686.78
	1,196,728.09		1,196,728.09
Restricted Assets:			
Investments		$ 1,212,587.01	$ 1,212,587.01
Total Current Assets	$ 1,196,728.09	$ 1,212,587.01	$ 2,409,315.10
Current Liabilities Payable from Unrestricted Assets:			
Accounts Payable	$ 66,470.57		$ 66,470.57
Accrued Liability for Remediation	500,000.00		500,000.00
Total Current Liabilities	$ 566,470.57		$ 566,470.57
Net Position:			
Restricted	$ 278,278.00	$ 1,212,587.01	$ 1,490,865.01
Unrestricted	351,979.52		351,979.52
Net Position	$ 630,257.52	$ 1,212,587.01	$ 1,842,844.53
Net Position above:			$ 1,842,844.53

Amounts reported for *governmental activities* in the Statement of Net Position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of capital assets is $4,835,673.99 and the accumulated depreciation is $4,231,308.09 (see Note 4).	604,365.90
Net Defined Pension Liability (see Note 5)	397,216.90
Net Position of governmental activities (A-1)	$ 2,049,993.53

See Accompanying Notes to Financial Statements

Exhibit B-2

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
COUNTY OF MONMOUTH
GOVERNMENTAL FUNDS
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN NET POSITION
DECEMBER 31, 2018

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
REVENUES				
Amount to be Raised by Taxation	$ 986,868.00		$ 200,000.00	$ 1,186,868.00
EXPENDITURES				
Operating	$ 726,418.56	$ 4,623.45		$ 731,042.01
LOSAP	229,898.00			229,898.00
Total Expenditures	$ 956,316.56	$ 4,623.45	-	$ 960,940.01
Excess of Revenues over Expenditures	$ 30,551.44	$ (4,623.45)	$ 200,000.00	$ 225,927.99
OTHER FINANCING SOURCES				
Miscellaneous Revenues	$ 2,810.87	$ 4,623.45		$ 7,434.32
Interest on Investments	20,065.44			20,065.44
Total Other Financing Sources	22,876.31	4,623.45		27,499.76
Net Position, beginning	$ 576,829.77		$ 1,012,587.01	$ 1,589,416.78
Net Position, ending	$ 630,257.52	-	$ 1,212,587.01	$ 1,842,844.53

See Accompanying Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. REPORTING ENTITY

This report includes the financial statements of the Township of Freehold Fire District #2 (the "District"), within the County of Monmouth, in the State of New Jersey and reflects the activities for the District that are under the control of the Board of Fire Commissioners.

The District was established in accordance with the provisions of N.J.S.A. 40A:14-70.

The District is not a component unit of any other financial reporting entity nor does the District have any component units to be presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

Reporting Entity

The Freehold Township Fire District #2 is a political subdivision of the Township of Freehold, Monmouth County, New Jersey. The District functions independently through a Board of Fire Commissioners. The Board is comprised of five members elected to three-year terms. The annual Fire District election is held the third Saturday of February.

The primary criterion for including activities within the District's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the organization is legally separate (can sue or be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is a fiscal dependency by the organization on the District

Based on the aforementioned criteria, the District has no component units.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 government-wide financial statements (i.e., the statement of net position and the statement of change in net position) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements.

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

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

Basis of Accounting

The accrual basis of accounting is followed. Revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the fiscal period. Expenditures are recognized in the period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

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

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

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 fire houses and fire fighting apparatus. Generally, the financial resources of the Capital Projects Fund are derived from the issuance of debt or by the reservation of fund balance that must be authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

Debt Service Fund – The Debt Service Fund is used to account for resources that will be used to service general noncurrent liabilities.

Capital Assets, Net – Property, plant and equipment purchased by the general fund and the capital projects fund are recorded as expenditures at the time of purchase. The historical cost, or if such cost is not practically determinable, the estimated historical cost, of such fixed assets is reflected in the Capital Assets account.

Net Position

Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Restricted net position represents plans for future use of financial resources.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the Statement on Net Position.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the stated net position. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Budgets/Budgetary Control

Annual appropriated budgets are prepared in the fall of each preceding year for the general, special revenue, and debt service funds. The budgets are submitted to the State, Department of Community Affairs, Division of Local Government Services, Bureau of Authority Regulation for approval and are voted upon by the registered voters of the Township at the annual fire district election on the third Saturday in February. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts. Transfers of appropriations may be made by District resolution at any time during the last two months of the fiscal year.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets/Budgetary Control (Continued)

Formal budgetary integration into the accounting system is employed as a management control device during the year. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

Subsequent Events

Management has reviewed and evaluated all events and transactions from December 31, 2018 through April 15, 2019, the date that the financial statements are issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the Authority that would require disclosure.

Note 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

A. Cash

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

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities that mature or are redeemed within one year. Twenty-five percent of the Fund may be invested in eligible securities that mature within two years provided, however, the arbitrage maturity of all investments in the Fund shall not exceed one year. Collateralization of Fund investments is generally not required.

In addition, by regulation of the Division of Local Government Services, fire districts are allowed to deposit funds in Government Money Market Mutual Funds purchased through state registered brokers/dealers and banks.

Note 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

A. Cash (Continued)

In accordance with the provisions of the Governmental Unit Deposit Protection Act of New Jersey, public depositories are required to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal five percent of the average daily balance of public funds or,

If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

All collateral must be deposited with the Federal Reserve Bank, The Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than $25,000,000.00.

The amount on deposit of District's cash and cash equivalents at December 31, 2018 was $862,351.28.

B. Investments

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

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the local unit or school districts of which the local unit is a part.

Note 3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments.
- Local government investment pools, such as New Jersey CLASS and the New Jersey Arbitrage Rebate Management Program.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

In addition, a variety of State laws permit local governments to invest in a wide range of obligations issued by State governments and its agencies. The District has an investment in a Certificate of Deposit of $1,465,337.31 purchased on May 27, 2018 maturing May 30, 2019 at 1.291%.

C. Risk Analysis

All bank deposits, as of the net position date, are entirely insured or collateralized by a collateral pool maintained by public depositories as required by the Governmental Unit Deposit Protection Act.

Note 4. CAPITAL ASSETS

All reported capital assets except for land are depreciated. At December 31, 2018, capital assets and the useful lives used for determination of annual depreciation were as follows:

	Balance December 31, 2017	Current Year's Activity Increase	Current Year's Activity Decrease	Balance December 31, 2018	Useful Life
Non Depreciable:					
Land	$ 25,000.00			$ 25,000.00	
Depreciable:					
Buildings	490,000.00			490,000.00	20-40 Years
Trucks	3,892,096.00			3,892,096.00	10 Years
Equipment	282,103.00			282,103.00	10 Years
Vehicles	146,474.99			146,474.99	5 Years
	$ 4,835,673.99			$ 4,835,673.99	
Less: Accumulated Depreciation	4,130,514.29	$ 100,793.80		4,231,308.09	
	$ 705,159.70	$ (100,793.80)		$ 604,365.90	

Depreciation expense for the years ended December 31, 2018 and 2017 were $100,793.80 and $217,675.10, respectively.

Note 5. DEFINED CONTRIBUTION BENEFIT PLAN (LOSAP)

Effective July 1, 1990 The Board of Fire Commissioners established a defined benefit length of service awards program to provide retirement income and life insurance for volunteers in recognition of their service. The plan calls for the accrual of benefits based on length of service with a ten (10) year vesting schedule. The plan is designated for participants between the ages of 19 and 59 with ancillary benefits for participants over 60. There are approximately 40 participants as of June 30, 2018. Contributions in respect of 2018 were $226,898.00 and were consistent with actuarial determinations for minimum funding. In addition a contribution of $96,000.00 has made to provide additional funding towards and achieving a higher level of funding to avoid deficiencies.

Plan Data

Initial effective date	July 1, 1990
Plan year begins	July 1, 2015
Plan year ends	June 30, 2016
Valuation (measurement) date	July 1, 2015

Eligibility Requirements

Waiting period (months)	12
Minimum age	19

Normal Entitlement Age

Minimum age	65
Minimum years of service	0
Minimum years of participation	1
Retirement date	1st of month following

Benefits

Pension formula:	Benefit formula
Unit type:	Dollar
Unit based on:	Accrual
First tier:	$25.00
Second tier:	None
Third tier:	None
Maximum credit:	
Past years	30
Total years	30

Note 5. DEFINED CONTRIBUTION BENEFIT PLAN (LOSAP) (CONTINUED)

Vesting 4/40

Actuarial Assumptions

	Pre-retirement	Post-retirement
Interest:	4.75%	4.75%
Mortality and Setbacks:		
Male	1984 Unisex Pensioners - 4	1984 Unisex Pensioners - 4
Female	1984 Unisex Pensioners - 4	1984 Unisex Pensioners - 4

Funding Method: Entry age normal frozen initial liability

	June 30, 2018
Present Value of Accrued Benefits as of Measurement Date (June 30, 2018)	$ 1,996,804.00
Plan Assets (December 31, 2018)	$ 1,599,587.10
Net Defined Pension Benefit Liability	$ 397,216.90
Funded Ratio	75.20%

The activity in the bank account maintained by plan during the year 2018 is as follows:

	December 31, 2017
Beginning Balance (December 31, 2017)	$ 1,283,205.51
Increased by:	
Contributions	325,989.00
Earnings	41,781.78
	$ 1,650,976.29
Decreased by:	
Payments	51,389.19
Ending Balance (December 31, 2018)	$ 1,599,587.10

Note 6. ACCRUED LIABILITIES – REMEDIATION

This represents the uninsured 5 year estimate from environmental engineers of the cost of testing and analysis of soil samples and consultation concerning soil contamination at the East Freehold Fire Co. 191 Dutch Lane Road, Freehold, New Jersey, and the resulting lawsuit from such contamination. The ongoing cost of the project is being borne by the Freehold Board of Fire Commissioners. Presently the Board's participation is 12.95% of certain costs and up to 50% of other costs, some of which may be subject to further reimbursement. During 2015 the District entered into an agreement with one of its insurance companies to provide a reserve of $100,000.00 for in final settlement of potential claims. The funds are held in trust and are not included in the financial statement of the District. The balance on the bank statement as of December 31, 2018 is $101,080.27, which is the original deposit of $100,000.00 plus $1,080.27 of interest earned.

Note 7. LONG TERM DEBT

There is presently no long term debt outstanding of the District.

Note 8. PENSION – POST-RETIREMENT

There are presently no employees who are eligible to receive pension benefits or post-retirement benefits.

Note 9. NET POSITION

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt to the extent expended consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Note 10. FUND BALANCE APPROPRIATED

Basic Financial Statements

General Fund

Of the $630,257.52 General Fund balance at December 31, 2018, $278,278.00 has been appropriated and included as anticipated revenue for the year ended December 31, 2018.

Capital Projects Fund

The Capital Projects Fund balance of $1,212,587.01 was supplemented by a voter approved increase on April 10, 2018 at the annual fire district election in the amount of $200,000.00.

At the annual fire election on February 17, 2018, the voters approved the acquisition of a new Class A Pumper in 2019, not to exceed $750,000.00 funded by reserve for future capital outlay which was provided for in the 2019 district budget as adopted.

On November 20, 2018, the voters approved (via a special meeting in accordance with NJSA 40A:14-84) the acquisition of a New Chief Command Vehicle in an amount not to exceed $85,000.00 funded by the Reserve for Future Capital Outlay which was provided for in the 2019 district budget as adopted.

Note 11. BAY RENTAL

The District leases space from the volunteer fire company to house some of its trucks and serve as headquarters for the District operation. The lease for 2018 required payments of $62,500.00 and is renewed annually.

Note 12. COMMITMENTS AND CONTINGENCIES

Litigation – The District's attorney representation has revealed no material contingent liability for the District. A special counsel for the firm has responded that there are issues related to the remediation problems which a provision has been made for (refer Note 6).

Note 13. SERVICE CONTRACT

The District has a service contract with the volunteer fire company for fire protection that covers the area. The annual contract is for $62,500.00.

REQUIRED SUPPLEMENTARY INFORMATION – PART II

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
COUNTY OF MONMOUTH
GENERAL FUND
STATEMENT OF EXPENDITURES COMPARED TO BUDGET
DECEMBER 31, 2018

	Budget as Adopted	Budget as Modified	Actual	Variance Favorable (Unfavorable)
General Fund				
Operating Appropriations:				
Administrative:				
Salaries	$ 41,000.00	$ 42,000.00	$ 42,000.00	
Office Supplies	12,000.00	16,700.00	16,638.42	$ 61.58
Membership Dues	200.00	600.00	600.00	
Professional Services	44,000.00	37,425.00	21,107.45	16,317.55
Physicals	40,000.00	40,000.00	17,498.64	22,501.36
Training	11,000.00	11,000.00	4,876.79	6,123.21
Elections	1,200.00	1,675.00	1,675.00	
Welfare	200.00	200.00		200.00
Special Purchase	4,500.00	4,500.00	415.88	4,084.12
Cell Phone	10,000.00	10,000.00	5,679.22	4,320.78
Telephone	2,400.00	2,400.00	925.23	1,474.77
Donations	200.00	200.00		200.00
Uniforms	14,900.00	14,900.00	640.00	14,260.00
Convention	1,000.00	1,000.00		1,000.00
Shipping	200.00	200.00		200.00
New Building	2,734.00	2,734.00		2,734.00
Special Meeting	1,000.00	1,000.00		1,000.00
Fire Prevention	3,066.00	3,066.00	325.00	2,741.00
Secretary	2,400.00	2,400.00	2,135.00	265.00
Subtotal:	192,000.00	192,000.00	114,516.63	77,483.37
Cost of Providing Services:				
Insurance	225,000.00	148,000.00	154,685.57	(6,685.57)
Maintenance and Repair	229,000.00	226,000.00	137,807.92	88,192.08
Radio Maintenance	30,000.00	30,000.00	18,353.90	11,646.10
Rental Charge	62,500.00	62,500.00	62,500.00	
Fire Protection	62,500.00	62,500.00	62,500.00	
Supplies	75,000.00	75,000.00	42,679.04	32,320.96
Building Utilities and Maintenance:				
Dutch Lane Road	20,000.00	20,000.00	14,565.41	5,434.59
Pond Road	30,000.00	30,000.00	27,818.92	2,181.08
Daniels Way	60,000.00	60,000.00	53,958.56	6,041.44
Remediation	55,000.00	55,000.00	37,032.61	17,967.39
Subtotal:	849,000.00	769,000.00	611,901.93	157,098.07

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
COUNTY OF MONMOUTH
GENERAL FUND
STATEMENT OF EXPENDITURES COMPARED TO BUDGET
DECEMBER 31, 2018

	Budget as Adopted	Budget as Modified	Actual	Variance Favorable (Unfavorable)
Total Operating	$ 1,041,000.00	$ 961,000.00	$ 726,418.56	$ 234,581.44
LOSAP	159,000.00	239,000.00	229,898.00	9,102.00
Total	1,200,000.00	1,200,000.00	956,316.56	243,683.44
Capital:				
Reserve for Future Capital Outlay	200,000.00	200,000.00	200,000.00	
Total Appropriation	$ 1,400,000.00	$ 1,400,000.00	$ 1,156,316.56	$ 243,683.44

Analysis of Actual:

Cash Disbursed:	
Operating	$ 570,493.81
LOSAP	229,898.00
Accounts Payable	66,470.57
Prepaid Insurance Applied	89,454.18
Transfer to Capital Projects Fund	200,000.00
	$ 1,156,316.56

SUPPLEMENTARY INFORMATION

Schedule 1

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
COUNTY OF MONMOUTH
GOVERNMENTAL FUNDS
SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH, CASH EQUIVALENTS AND INVESTMENTS
YEAR ENDED DECEMBER 31, 2018

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Receipts:				
District Taxes	$ 986,868.00		$ 200,000.00	$ 1,186,868.00
Interest on Investments	20,065.44			20,065.44
Other Grants or Entitlements		$ 4,044.00		4,044.00
Miscellaneous	2,810.87			2,810.87
	$ 1,009,744.31	$ 4,044.00	$ 200,000.00	$ 1,213,788.31
Disbursements:				
Accounts Payable	$ 192,574.88	$ 3,397.49		$ 195,972.37
Operating Appropriations	570,493.81	4,623.45		575,117.26
LOSAP	229,898.00			229,898.00
Prepaid Insurance	87,686.78			87,686.78
	$ 1,080,653.47	$ 8,020.94		$ 1,088,674.41
Increase in Cash and Cash Equivalents	$ (70,909.16)	$ (3,976.94)	$ 200,000.00	$ 125,113.90
Cash and Cash Equivalents, January 1, 2018	1,179,950.47	3,976.94	1,012,587.01	2,196,514.42
Cash and Cash Equivalents, December 31, 2018	$ 1,109,041.31		$ 1,212,587.01	$ 2,321,628.32
Analysis of Cash and Cash Equivalents:				
Cash - Checking	$ 884.77			$ 884.77
Savings	855,406.24			855,406.24
Sub Total	856,291.01		-	856,291.01
Investments - Certificate of Deposit	252,750.30		$ 1,212,587.01	$ 1,465,337.31
	$ 1,109,041.31		$ 1,212,587.01	$ 2,321,628.32

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2
STATISTICAL INFORMATION
DECEMBER 31, 2018

Property Tax Levies

Following is a tabulation of the District's assessed valuations, tax levies and property tax rates per $100 of assessed valuations for the current and preceding four years:

Fiscal Year	Assessed Valuation	Total Tax Levy	Property Tax Rates
2018	$ 2,833,624,500.00	$ 1,186,865.00	0.042
2017	2,760,783,500.00	1,163,400.00	0.043
2016	2,696,484,000.00	1,121,715.00	0.042
2015	2,616,845,600.00	1,094,897.00	0.042
2014	2,446,602,300.00	1,070,166.00	0.044

Unrestricted Net Position

Fiscal Year Ended	End of Fiscal Year	Utilization in Subsequent Year Budget
December 31, 2018	$ 630,257.52	$ 278,278.00
December 31, 2017	576,750.71	221,620.00
December 31, 2016	588,798.30	221,620.00
December 31, 2015	496,987.58	221,620.00
December 31, 2014	498,186.21	221,620.00

Restricted Net Position (for Future Capital Outlay)

Fiscal Year Ended	End of Fiscal Year	Utilization in Subsequent Year Budget
December 31, 2018	$ 1,212,587.01	$ 835,000.00
December 31, 2017	1,012,587.01	None
December 31, 2016	812,587.01	None
December 31, 2015	612,587.01	None
December 31, 2014	412,587.01	None

BOARD OF FIRE COMMISSIONERS

TOWNSHIP OF FREEHOLD FIRE DISTRICT #2

ROSTER OF OFFICIALS

DECEMBER 31, 2018

Board of Commissioners	Position
David Goldstein	Chairman
Jeffrey M. Allen	Vice Chairman
Patrick Coburn	Secretary *
Dennis Polo	Treasurer
Ryan Baillie	Clerk

Other Officials	
Charles Parker, Esq.	Board Attorney
Freehold Savings Bank	Official Depository

* Surety Company

Selective Insurance Company of America

Bond #VFIS TR 2065763 - 02/000

All officals covered with a limit of liabilty of $600,000

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS AND RECOMMENDATIONS
DECEMBER 31, 2018

Scope of Examination and Conditions of Records

Our examination covered the funds of the Board of Fire Commissioners, Fire District #2, Township of Freehold handled by the Treasurer.

The financial records were maintained in good condition.

Minutes of Board meetings were properly maintained by the Recording Secretary.

Cash and Cash Equivalents and Investments

The balances in banks at December 31, 2018 were verified with the bank and reconciliations and/or statements issued by the depositories.

Our examination revealed that the Fire District maintains its investable funds in a money market fund and a certificate of deposit.

Examination of Claims

In verifying expenditures, computations were tested on claims approved and paid. No attempt was made in this connection to establish proof of rendition, character or extent of services, nor quantities, nature, propriety of prices or receipt of materials, these elements being left necessarily to internal review in connection with approval of claims.

Claims paid during the period under audit were examined on a test basis to determine that they are submitted on Board vouchers, audit, itemized, signed by the officials as to approval for payment, allocation to the proper accounts and charged to the proper fiscal period, and in agreement with bill lists set forth in the approved minutes of the Board. There were a few minor exceptions.

It is suggested that for all expenditures greater than $2,625.00 (Local Public Contracts Law quote threshold) documentation as to quotes or reason for lack of quotes be allotted to the paid bills. A preprinted form would be enhance the process.

Contracts and Agreements Required to be Advertised for N.J.S. 40A:11-4 (as amended)

N.J.S. 40A:11-4 (as amended) states, "Every contract or agreement, for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only after public act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding $17,500.00 since the District does not employ a Qualified Purchasing Agent ("QPA") except by contract or agreement."

The members of the Township of Freehold Fire District #2 have the responsibility of determining whether any contract or agreement might result in violation of the statute and, when necessary, the District Attorney's opinion should be sought before a commitment is made.

The minutes indicate there were bids requested by public advertising for the year as follow:

Paving of Daniels Way

In addition, the following items were purchased under state contract:

Fire Equipment

Inasmuch as the system of records did not provide for any 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.

The results of our examination indicated that no individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies", in excess of the statutory thresholds where there had been no advertising for bids in accordance with provisions of N.J.S.A. 40A:11-21.

Financial Procedures

It is suggested that for all financial processes within each function that a review, updating and documentation of all procedures be done in order to be in compliance with recent accounting and auditing requirements related to internal control.

GENERAL COMMENTS AND RECOMMENDATIONS (CONTINUED)
DECEMBER 31, 2018

General Ledger

The District does not maintain a general ledger as required by the General Accounting Office (GAO). It should be noted that an adequate trail exists for the cash receipts, cash disbursements records and the bank reconciliation process.

Miscellaneous

An exit conference was held in accordance with Auditing Standards Generally Accepted in the United States of America for governmental entities.

Acknowledgment

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

RECOMMENDATIONS

None.

The problems and weaknesses noted in our audit were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole. However, the items referred to in the Comments and Recommendations need to be addressed by the Board.

Respectfully submitted,

Gerard Stankiewicz, CPA, RMA
For The Firm
SAMUEL KLEIN AND COMPANY