

PARSIPPANY-TROY HILLS FIRE DISTRICT #1

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2018

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
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INTRODUCTORY SECTION



BOARD OF FIRE COMMISSIONERS

Parsippany Troy-Hills Township

April 6, 2019

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #1
Township of Parsippany
Parsippany, NJ

Dear Fire Commissioners:

The annual financial report of the Parsippany-Troy Hills Fire District #1 (the “Fire District”) for the year ended December 31, 2018 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the District. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Fire District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

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

REPORTING ENTITY AND ITS SERVICES:

The Parsippany-Troy Hills Fire District #1 is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board (“GASB”) in codification section 2100. All funds of the Fire District are included in this report.

The Fire District #1, Township of Parsippany Troy-Hills is a public body corporate and politic of the State of New Jersey governed by five members elected by the registered voters of the Fire District.

The District was created in 1945 pursuant to New Jersey Title 40A:14-70. The District is an instrumentality of the Township of Parsippany Troy-Hills, State of New Jersey, established to function as a fire district, to provide for fire and rescue services to the Township's citizens. The Fire District consists of elected officials and is responsible for the fiscal control of the Fire District. A president is appointed by the District and is responsible for the administrative control of the Fire District.

GENERAL TRENDS AND SIGNIFICANT EVENTS:

During 2018, the Commissioners experienced another stable year. There were no significant events that took place during the year.

The Honorable Commissioners of
Parsippany-Troy Hills Fire District #1
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April 6, 2019

INTERNAL ACCOUNTING CONTROLS:

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

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

As part of the Fire District's single audit, if applicable, tests would be made to determine the adequacy of the internal control system, including that portion related to federal and state award programs, as well as to determine that the Fire District complied with applicable laws and regulations. The Fire District was not subject to a single audit as there were no federal or state award revenue or expenditures during the year.

BUDGETARY CONTROLS:

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

ACCOUNTING SYSTEM AND REPORTS:

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

CASH MANAGEMENT:

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

RISK MANAGEMENT:

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

The Honorable Commissioners
Parsippany-Troy Hills Fire District #1
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OTHER INFORMATION:

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

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Parsippany-Troy Hills Commissioners of Fire District #1 for their concern in providing fiscal accountability to the citizens of the Township of Parsippany and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

Respectfully submitted,

Jeff Berry
President

James Masker
Treasurer

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2018

Commissioners:

Jeff Berry
James Masker
Paul Eisenberg
Louis Ferdinandi
Robert Jamieson

President
Treasurer
Secretary/Commissioner
Commissioner
Commissioner

Consultants and Advisors:

ATTORNEY

Peter J. King, Esq.
Morris Plains, New Jersey

AUDIT FIRM

Nisivoccia, LLP
Mount Arlington, New Jersey

FINANCIAL SECTION



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-298-8500 | 973-298-8501 Fax

Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

To the Board of Fire Commissioners
 Parsippany-Troy Hills Fire District #1
 Township of Parsippany
 Parsippany, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Parsippany-Troy Hills Fire District #1, (the "Fire District") as of and for the year ended December 31, 2018 and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fire District'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 Fire District'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.

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #1
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Opinions

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 Fire District as of December 31, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire District's basic financial statements. The accompanying supplementary information schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Board of Fire Commissioners
Parsippany-Troy Hills Fire District #1
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2019 on our consideration of the Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fire District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
April 6, 2019

NISIVOCCIA LLP

William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant No. 452

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

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

Financial Highlights

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

Overview of Annual Financial Report

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

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

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

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

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

The *supplementary data* provides detailed comparison of budget to actual expenses.

Financial Conditions

2018 was another relatively good year for the District and it is in excellent shape to meet its future financial demands. The District's total net position increased from the prior year by \$217 or 0.02%. This was primarily a result of the District's increase in non-operating revenue of \$88,775 offset by the increase in operating expenses. The analysis below focuses on the District's net position (Table I) and changes in net position (Table II) during the year.

Table I
Condensed Statement of Net Position

	Dec. 31, 2018	Dec. 31, 2017	Increase/ (Decrease) from 2017	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 4,400,032	\$ 674,351	\$ 3,725,681	
Capital Assets, Net	1,439,834	462,105	977,729	
Total Assets	5,839,866	1,136,456	3,725,681	327.83%
Current Liabilities	4,714,761	11,568	4,703,193	
Total Liabilities	4,714,761	11,568	4,703,193	40656.92%
Investment in Capital Assets	1,439,834	462,105	977,729	
Unrestricted/(Deficit)	(314,729)	662,783	(977,512)	
Total Net Position	\$ 1,125,105	\$ 1,124,888	\$ 217	0.02%

Changes in the District's net position can be determined by reviewing the following Condensed Statement of Activities for the years ended December 31, 2018 and 2017.

Table II
Condensed Statement of Activities

	Dec. 31, 2018	Dec. 31, 2017	Increase/ (Decrease) from 2017	Percent of Increase/ (Decrease)
Operating Revenue	\$ 2,700	\$ 4,066	\$ (1,366)	
Non-Operating Revenue	587,299	498,524	88,775	
Total Revenue	589,999	502,590	87,409	17.39%
Operating Expenses:				
Administrative and General Expenses	456,174	435,855	20,319	
Depreciation	133,608	73,051	60,557	
Total Expenses	589,782	508,906	80,876	15.89%
Change in Net Position	217	(6,316)	6,533	
Beginning Net Position	1,124,888	1,131,204	(6,316)	
Ending Net Position	\$ 1,125,105	\$ 1,124,888	\$ 217	0.02%

Results of Operations

Operating Revenues: The decrease in operating revenues is due to a decrease in miscellaneous revenue not anticipated. Non-operating revenue increased mainly due to an increase in the amount to be raised by taxation to support the District budget, an increase in investment income, and the receipt of the bond anticipation note premium.

Expenses: Total expenses increased 15.89% from 2017. The increase was mainly due to the increase in Administrative and General expenses as well as an increase in depreciation expense. The District maintains its policy of careful spending to stay within its budget.

Capital Assets: As of December 31, 2018, the District had \$1,439,834 invested in capital assets, which was for the new building's construction in process, two fire trucks, and various equipment and machinery. The amount represents an increase of \$977,729 from the prior year. These changes are presented in detail in Note 9 to the financial Statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	Dec. 31, 2018	Dec. 31, 2017	Increase/ (Decrease) from 2017	Percent of Increase/ (Decrease)
Building				
Construction in Process	\$ 359,128	\$ 55,071	\$ 304,057	
Vehicles	61,611		61,611	
Fire Truck	1,063,158	449,272	613,886	
Equipment & Machinery	541,295	409,512	131,783	
Total	<u>2,025,192</u>	<u>913,855</u>	1,111,337	121.61%
Less:				
Accumulated Depreciation	<u>585,358</u>	<u>451,750</u>	<u>133,608</u>	29.58%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,439,834</u>	<u>\$ 462,105</u>	<u>\$ 977,729</u>	211.58%

Budgetary Highlights: Over the course of the year, the District's Board of Commissioners did not make any amendments to the original adopted budget.

Cash Flow Activity: The cash and cash equivalents at year-end 2018 increased by \$3,747,885 from the previous year. The increase is primarily due to normal operations plus the cash proceeds received from the bond anticipation note sale. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #1
STATEMENT OF NET POSITION
DECEMBER 31, 2018

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 4,038,207
Investments	125,374
Prepaid Expenses	7,460
Restricted Cash and Cash Equivalents	<u>228,991</u>
Total Current Assets	<u>4,400,032</u>
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>1,439,834</u>
Total Noncurrent Assets	<u>1,439,834</u>
TOTAL ASSETS	<u><u>5,839,866</u></u>
<u>LIABILITIES:</u>	
Accounts Payable - Vendors	4,761
Bond Anticipation Note Payable	<u>4,710,000</u>
Total Liabilities	<u>4,714,761</u>
<u>NET POSITION:</u>	
Investment in Capital Assets	1,439,834
Unrestricted/(Deficit)	<u>(314,729)</u>
Total Net Position	<u><u>\$ 1,125,105</u></u>

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Governmental Activities
Operating Revenue:	
Miscellaneous Revenue Not Anticipated	\$ 2,700
Total Operating Revenue	2,700
Non-Operating Revenue:	
Insurance Claims	6,811
Amount to be Raised by Taxation to Support District Budget	515,865
Investment Income	25,530
Bond Anticipation Note Premium	39,093
Total Non-Operating Revenue	587,299
Operating Expenses:	
Administrative and General Expenses	456,174
Depreciation	133,608
Total Operating Expenses	589,782
Change in Net Position	217
Net Position - Beginning of Year	1,124,888
Net Position - End of Year	\$ 1,125,105

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #1
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General Fund	Capital Fund	Total Governmental Funds
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 4,038,207	\$ 228,991	\$ 4,267,198
Investments		125,374	125,374
Prepaid Expenses	7,460		7,460
Interfund Receivable		3,583,696	3,583,696
Total Assets	\$ 4,045,667	\$ 3,938,061	\$ 7,983,728
<u>LIABILITIES:</u>			
Accounts Payable - Vendors	\$ 4,761		\$ 4,761
Interfund Payable	3,583,696		3,583,696
Bond Anticipation Note Payable		\$ 4,710,000	4,710,000
Total Liabilities	3,588,457	4,710,000	8,298,457
<u>FUND BALANCE:</u>			
Unassigned/(Deficit)	457,210	(771,939)	(314,729)
Total Fund Balances/(Deficit)	457,210	(771,939)	(314,729)
Total Liabilities and Fund Balances	\$ 4,045,667	\$ 3,938,061	

Amounts Reported in the Statement of Net Position are Different Because:

Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not Reported in the Funds.	1,439,834
Net Position of Governmental Activities	\$ 1,125,105

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

PARSIPPANY - TROY HILLS FIRE DISTRICT #1
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUE:</u>			
Amount to be Raised by Taxation to Support District Budget	\$ 515,865		\$ 515,865
Insurance Claims	6,811		6,811
Interest Earned	25,530		25,530
Miscellaneous Revenue Not Anticipated	2,700		2,700
Bond Anticipation Note Premium		\$ 39,093	39,093
Total Revenue	<u>550,906</u>	<u>39,093</u>	<u>589,999</u>
<u>EXPENDITURES:</u>			
Administrative and General	456,174		456,174
Capital Outlay	300,305		300,305
Capital Equipment Purchased for Capital Fund		811,032	811,032
Total Expenditures	<u>756,479</u>	<u>811,032</u>	<u>1,567,511</u>
Net Change in Fund Balances	(205,573)	(771,939)	(977,512)
Fund Balance, January 1, 2018	<u>662,783</u>		<u>662,783</u>
Fund Balance/(Deficit), December 31, 2018	<u>\$ 457,210</u>	<u>\$ (771,939)</u>	<u>\$ (314,729)</u>

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

Note 1: Organization and Summary of Significant Accounting Policies

A. Reporting Entity

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

B. Basis of Presentation and Accounting

The financial statements of Parsippany-Troy Hills Fire District #1 (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

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

Ad valorem (property) taxes are susceptible to accrual. Under New Jersey State Statute, a municipality is required to remit to its fire district the entire balance of taxes in the amount voted upon or certified, prior to the end of the year. The District records the entire approved tax levy as revenue (accrued) at the start of the year, since the revenue is both measurable and available. The District is entitled to receive moneys under the established payment schedule and the unpaid amount is considered to be an "accounts receivable".

The District reports the following governmental funds:

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

Capital Fund: The Capital Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Fund Balance Restrictions, Commitments and Assignments:

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

The District has not established any fund balance restrictions.

The District has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body. The Board of Fire Commissioners must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body in order to remove or change the commitment of resources. The District has no committed resources at December 31, 2018.

The assignment of resources is generally made by the District through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Fire Commissioners may allow an official of the District to assign resources through policies adopted by the Board of Fire Commissioners. The District has no assigned resources at December 31, 2018.

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

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

Deficit Fund Balance:

The District has a deficit in unassigned fund balance of \$771,939 in the Capital Fund and a deficit in Unrestricted Net Position of \$314,729 which is primarily due to bond anticipation note proceeds (which is not realized as revenue under the GAAP basis of accounting).

The deficit in the Capital Fund and Unrestricted Net Position does not mean the District is facing financial difficulties. The deficit in the Capital Fund and Unrestricted Net Position are permitted practices by generally accepted accounting principles.

Significant accounting policies include:

1. Grants

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

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

2. Inventories

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

3. Accrued Salaries and Wages and Compensated Absences

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

4. Unearned Revenue

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

5. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

A deferred outflow of resources is a consumption of net position by the Fire District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Fire District that is applicable to a future reporting period. The Fire District did not have any deferred inflows or outflows of resources at December 31, 2018.

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

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

5. Net Position (Cont'd)

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

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

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

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

6. Revenue Recognition

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

7. Cash and Cash Equivalents

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

8. Investments

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

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

9. Use of Estimates

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

Note 2: Pension

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

Note 3: Cash and Cash Equivalents and Investments

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

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

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

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

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

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

Deposits:

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

Deposits: (Cont'd)

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

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

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

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

Investments:

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located.
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

Investments: (Cont'd)

- (8) Agreements for the repurchase of fully collateralized securities if:
- (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983 c.313 (C.40A:5A-1 et seq.);
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2018, cash and cash equivalents and investments of the Parsippany-Troy Hills Fire District #1 consisted of the following:

<u>Fund</u>	<u>Cash and Cash Equivalents</u>		<u>Investments</u>	<u>Total</u>
	<u>Checking Accounts</u>	<u>Savings Accounts</u>	<u>Certificate of Deposit</u>	
Operating	\$ 4,038,207			\$ 4,038,207
Capital		\$ 228,991	\$ 125,374	354,365
	<u>\$ 4,038,207</u>	<u>\$ 228,991</u>	<u>\$ 125,374</u>	<u>\$ 4,392,572</u>

During the period ending December 31, 2018, the Fire District only invested in Certificates of Deposits. The carrying amount of the District's cash and cash equivalents and investments at December 31, 2018 was \$4,392,572, and the bank balance was \$4,472,808.

Note 4: Long-Term Liabilities

The District had no outstanding long term liabilities as of December 31, 2018.

Note 5: Interfund Receivables and Payables

The following interfund balances remain on the balance sheet at December 31, 2018.

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 5: Interfund Receivables and Payables (Cont'd)

Fund	Interfund Receivable	Interfund Payable
General Fund		\$ 3,583,696
Capital Fund	\$ 3,583,696	
	<u>\$ 3,583,696</u>	<u>\$ 3,583,696</u>

There is \$3,583,969 in the General Fund that is due to the Capital Fund at year end. These are funds paid by the General Fund for the purchases of capital equipment and improvements to facilities net of bond anticipation note proceeds received in the General Fund during the current year.

Note 6: Risk Management

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

The District secures all of its insurances through private insurance carriers using a broker as their representative. The following coverages were in place in 2018:

1. Commissioner's Fidelity Bond
2. Public Officials and Employees' Legal Liability Policy
3. Workers' Compensation
4. Motor Vehicle
5. Umbrella Policy/Commercial Excess
6. Group Term Life

Note 7: Contingencies

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

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018
(Continued)

Note 8: Economic Dependency

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

Note 9: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2018:

	<u>Balance</u> <u>12/31/2017</u>	<u>Increases</u>	<u>Balance</u> <u>12/31/2018</u>
Capital Assets:			
Building and Building Improvements:			
Construction in Process	\$ 55,071	\$ 304,057	\$ 359,128
Vehicles		61,611	61,611
Fire Truck	449,272	613,886	1,063,158
Equipment & Machinery	409,512	131,783	541,295
Total Capital Assets	<u>913,855</u>	<u>1,111,337</u>	<u>2,025,192</u>
Less Total Accumulated Depreciation	<u>451,750</u>	<u>133,608</u>	<u>585,358</u>
	<u>451,750</u>	<u>133,608</u>	<u>585,358</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 462,105</u>	<u>\$ 977,729</u>	<u>\$ 1,439,834</u>

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Capital assets were reviewed for impairment.

	<u>Estimated</u> <u>Useful Life</u>
Building	40 Years
Fire Truck	20 Years
Vehicles	5 Years
Equipment & Machinery	7 Years

Note 10: Short Term Bond Anticipation Note Payable

On April 3, 2018, the District issued a bond anticipation note in the amount of \$4,710,000 with a 2.75% interest rate for cash flow purposes to pay for construction related to the new building and the purchase of a new fire truck. The note matured on April 2, 2019.

SUPPLEMENTARY INFORMATION

PARSIPPANY - TROY HILLS FIRE DISTRICT #1
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS AND INVESTMENTS

	General Fund	Capital Fund	Total
Cash Balance:			
January 1, 2018	\$ 291,301	\$ 353,386	\$ 644,687
Cash Receipts:			
Amount to be Raised by Taxation to Support the District Budget	515,865		515,865
Insurance Claims	6,811		6,811
Interest on Investments	24,551	979	25,530
Miscellaneous Receipts Not Anticipated	2,700		2,700
Bond Anticipation Note Proceeds	4,710,000		4,710,000
Bond Anticipation Note Premium	39,093		39,093
Total Cash Receipts	5,299,020	979	5,299,999
Cash Disbursed:			
Budget Appropriation:			
Operating, Maintenance and Administration	440,777		440,777
Capital Outlay	300,305		300,305
Capital Equipment Purchased for Capital Fund	811,032		811,032
Total Cash Disbursements	1,552,114		1,552,114
Cash Balance December 31, 2018	\$ 4,038,207	\$ 354,365	\$ 4,392,572
Cash and Cash Equivalents	\$ 4,038,207	\$ 228,991	\$ 4,267,198
Investments		125,374	125,374
Cash Balance December 31, 2018	\$ 4,038,207	\$ 354,365	\$ 4,392,572

PARSIPPANY - TROY HILLS FIRE DISTRICT #1
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
- BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018			Variance Favorable (Unfavorable)
	Budget	Budget After Modification	Actual	
<u>REVENUE:</u>				
Amount to be Raised by Taxation to Support the District Budget	\$ 515,865	\$ 515,865	\$ 515,865	
Insurance Claims			6,811	\$ 6,811
Interest Earned			25,530	25,530
Miscellaneous Revenue Not Anticipated			2,700	2,700
Total Revenue	<u>\$ 515,865</u>	<u>\$ 515,865</u>	<u>\$ 550,906</u>	<u>\$ 35,041</u>
<u>BUDGETED APPROPRIATIONS:</u>				
Operating Appropriations:				
Operating, Maintenance and Administration:				
Other Rentals or Leases	\$ 40,000	\$ 40,000	\$ 39,500	\$ 500
Utilities and Related Services	27,300	30,258	30,258	
Chief Officer Expenses and Clerical Support	66,330	83,408	83,408	
Professional Services	15,000	15,000	7,683	7,317
Insurance	102,035	108,955	108,955	
Medical Examinations	15,200	4,115	4,115	
Elections and Legal Advertisements	1,400	1,400	638	762
Incentive and Wet Down Programs	38,000	44,338	44,338	
Education and Training	16,900	16,900	11,287	5,613
Office & Computer Supplies and Postage	6,800	4,955	2,965	1,990
Communication and Alarm Systems	11,900	14,526	14,526	
Maintenance and Repair	161,100	149,760	149,760	
Rehab Trailer	1,000	1,000		1,000
Miscellaneous Expense	1,250	1,250	415	835
New Building Research	11,650			
Total Operating, Maintenance and Administration	<u>515,865</u>	<u>515,865</u>	<u>497,848</u>	<u>18,017</u>
Capital Appropriations:				
Building Improvements	50,000	10,000	8,025	1,975
Equipment	150,000	190,000	188,995	1,005
New Vehicle	65,000	65,000	61,611	3,389
Total Capital Appropriations	<u>265,000</u>	<u>265,000</u>	<u>258,631</u>	<u>6,369</u>
TOTAL APPROPRIATIONS	<u>\$ 780,865</u>	<u>\$ 780,865</u>	<u>\$ 756,479</u>	<u>\$ 24,386</u>

GOVERNMENT AUDITING STANDARDS



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-298-8500 | 973-298-8501 Fax
 Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

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

Independent Auditors' Report

The Board of Fire Commissions
 Parsippany-Troy Hills Fire District #1
 Parsippany, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, (the "Division") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Par-Troy Fire District #1, in the County of Morris (the "Fire District") as of, and for the year ended, December 31, 2018, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements and have issued our report thereon dated April 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fire 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 Fire District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fire District's internal control.

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2018-1 that we consider to be a significant deficiency.

The Board of Fire Commissions
Parsippany-Troy Hills Fire District #1
Parsippany, NJ
Page 2

Compliance and Other Matters

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

The Fire District's Response to the Finding

The Fire District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fire District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Mount Arlington, New Jersey
April 6, 2019

NISIVOCCIA LLP

William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant, No. 452

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion the financial statements of the Fire District.
- A significant deficiency was disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of the Fire District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

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

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

Finding 2018-1

Segregation of Duties

Criteria

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

Condition

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

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

Cause

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

Effect of Potential Effect

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2018
(Continued)

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

Finding 2018-1 (Cont'd)

Recommendation

The District maintain an adequate segregation of duties with respect to the functions of handling cash, preparation of cash receipts and cash disbursements books and the general ledger for the various funds and reconciliation of bank accounts.

Management's Response

Finding 2018-1 was evaluated, however, due to budgetary constraints, no resolution can be made at this time.

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2018

The Fire District had one finding during the prior year (2017-1). Finding 2017-1 regarding segregation of duties was not resolved due to budgetary constraints during 2018 and is reported in the schedule of findings and responses as finding 2018-1.

COMMENTS AND RECOMMENDATIONS

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
COMMENTS AND RECOMMENDATIONS

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

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

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

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

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

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

Effective July 1, 2015 and thereafter, the bid thresholds in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) are \$17,500 for a contracting unit without a qualified purchasing agent and \$40,000 for a contracting unit with a qualified purchasing agent.

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

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

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
COMMENTS AND RECOMMENDATIONS
(Continued)

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

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

Status of Prior Year Recommendations

The prior year recommendation regarding adequate segregation of duties, was not resolved during 2018 and is reported as a current year recommendation.

PARSIPPANY-TROY HILLS FIRE DISTRICT #1
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The District maintain an adequate segregation of duties with respect to the functions of handling cash, preparation of cash receipts and cash disbursements books and the general ledger for the various funds and reconciliation of bank accounts.