

**FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
FRANKLINVILLE, NEW JERSEY**

REPORT OF AUDIT

For the Year Ended December 31, 2012

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**FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR DECEMBER 31, 2012
(UNAUDITED)**

As management of the Franklin Township Fire District No. 5 (Fire District), we offer readers of the Fire District's financial statements this narrative overview and analysis of the financial activities of the Fire District for the year ending December 31, 2012. The intent of this discussion and analysis is to look at the Fire District's financial performance as a whole. Readers should read it in conjunction with the notes to the financial statements and the financial statements to enhance their understanding of the Fire District's financial performance.

Financial Highlights

- The assets of the Fire District exceeded its liabilities at the close of the most recent year by \$551,708.63 (net assets).
- As of the close of the current year, the Fire District's governmental funds reported combined ending fund balances of \$89,616.26, a decrease of \$35,307.94 in comparison with the prior year. The decrease in fund balance was the net result of unanticipated revenues of \$10,378.15, unexpended balance of 2012 budget appropriations of \$1,613.84, and the appropriation of \$150,000.00 of fund balance towards the acquisition of the new aerial fire apparatus.
- At the end of the current year, the fund balance for the general fund was \$51,116.19, a decrease of \$28,808.01 or (36.04) under the prior year. It was comprised of \$11,500.00 reserved for subsequent year's expenditures and \$39,616.19 of unreserved fund balance.
- At the end of the current year, the fund balance for the debt service fund was \$0.07, an increase of \$0.07 or (100.00%) over the prior year. It was all unreserved fund balance
- The total debt of the Fire District increased by \$608,413.49 as the net result of a budgeted debt payment and the issuance of a capital lease in the amount of \$622,300.00 for the acquisition of an aerial fire apparatus.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fire District's financial statements. The Fire District's financial statements comprise of three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

District-wide financial statements. The *district-wide financial statements* are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the Fire District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the Fire District changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. reserve for future post-retirements benefits).

Both of the district-wide financial statements distinguish functions of the Fire District that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Fire District include fire-fighting services that are provided to the citizens of the Fire District.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fire District constitute one fund type, governmental funds.

• **Governmental funds.** All of the Fire District’s activities are reported in governmental funds, which focus on how much money flows into and out of those funds and the balances left at year-end available for spending in the future periods. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Fire District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance fire-fighting services.

The Fire District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the special revenue fund, capital projects fund, and the debt service fund.

The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is reconciled in the financial statements.

Also, the Fire District adopts an annual budget in accordance with N.J.S.A. 40A:14:78-3. Budgetary comparison schedules have been provided to demonstrate compliance with this budget.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements are an integral part of the financial statements.

District-wide financial analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Fire District, assets exceeded liabilities by \$551,708.63 at the close of the most recent year.

The largest portion of the Fire District’s net assets 87.04% reflects its investment in capital assets (i.e. buildings and equipment). The Fire District uses these assets to provide fire-fighting services to the citizens of the Fire District. Consequently, these assets are not available for future spending. Although the Fire District’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Statement of Net Assets

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|----------------------|----------------------|
| Assets: | | |
| Current and other assets | \$ 129,214.91 | \$ 153,344.15 |
| Capital assets | <u>1,158,491.56</u> | <u>469,016.47</u> |
| Total assets | <u>1,287,706.47</u> | <u>622,360.62</u> |
| Liabilities: | | |
| Long-term liabilities outstanding | 610,035.94 | 55,993.49 |
| Other liabilities | <u>125,961.90</u> | <u>43,756.69</u> |
| Total liabilities | <u>735,997.84</u> | <u>99,750.18</u> |
| Net assets | <u>\$ 551,708.63</u> | <u>\$ 522,610.44</u> |

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Analysis of net assets: | | |
| Reserve for capital assets, net of related debt | \$ 480,198.07 | \$ 399,136.47 |
| Deferred charges: | | |
| Future capital outlay | - | 45,000.00 |
| Capital projects | 38,500.00 | - |
| Subsequent year's expenditures | 11,500.00 | 15,000.00 |
| Unreserved fund balance | <u>21,510.56</u> | <u>63,473.97</u> |
| Total net assets | <u>\$ 551,708.63</u> | <u>\$ 522,610.44</u> |

\$11,500.00 of the unreserved fund balance has been dedicated for expenditures in the 2013 budget.

In total, assets of governmental activities increased by \$665,345.85 primarily due to current year's changes in fixed assets and the results operations offset by the increase in long-term debt. For the year 2012, capital assets are now reported net of accumulated depreciation that as of December 31, 2012 was \$887,103.05.

Governmental activities. The statement of activities shows the cost of the governmental activities program services and the charges for services and grants offsetting those services. Key elements of the decrease in governmental activities are as follows:

| | <u>2011</u> | <u>2010</u> |
|---|----------------------|----------------------|
| Expenses: | | |
| Operating expenses: | | |
| Administration | \$ 14,605.05 | \$ 8,984.00 |
| Cost of operations and maintenance | 105,078.69 | 96,630.65 |
| Contribution to length of service award program | 18,400.00 | 15,300.00 |
| Interest on long-term debt | 18,225.89 | 1,901.52 |
| Unallocated depreciation | <u>41,824.91</u> | <u>45,983.91</u> |
| Total program expenses | 198,134.54 | 168,800.08 |
| Revenues: | | |
| Operating grants and contributions | <u>1,193.58</u> | <u>1,193.58</u> |
| Net program expenses | <u>196,940.96</u> | <u>167,606.50</u> |
| General revenues: | | |
| Taxes: | | |
| Property taxes, levied for general purposes | 200,850.00 | 176,683.00 |
| Property taxes, levied for special revenue fund | 154.00 | 151.00 |
| Property taxes, levied for debt service | 15,457.00 | 35,000.00 |
| Prior year refund | 9,950.00 | - |
| Unrestricted interest earned | <u>428.15</u> | <u>498.66</u> |
| Total general revenues | <u>226,839.15</u> | <u>212,332.66</u> |
| Other adjustments to net assets: | | |
| Prior period adjustment - accounts payable | <u>(800.00)</u> | <u>-</u> |
| Total other adjustments to net assets | <u>(800.00)</u> | <u>-</u> |
| Increase in net assets | 29,098.19 | 44,726.16 |
| Net assets - January 1 | <u>522,610.44</u> | <u>477,884.28</u> |
| Net assets - December 31 | <u>\$ 551,708.63</u> | <u>\$ 522,610.44</u> |

Property taxes constituted 94.93% of revenues for governmental activities for the Fire District for the year 2012.

Cost of operations and maintenance comprises 53.03% of the Fire District's expenses, with administration comprising 7.37%.

Financial Analysis of the Governmental Funds

As stated earlier, the Fire District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund. The focus of the Fire District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Fire District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year and as a useful measure of permitting a governmental unit to maintain cash flow in anticipation of tax collections.

As of the end of the current year, the Fire District's governmental funds reported combined ending fund balances of \$89,616.26, a decrease of \$35,307.94 in comparison with the prior year.

Of the combined ending fund balances of \$89,616.26, unreserved fund balance constituted \$51,116.26. Of the unreserved fund balance, \$11,500.00 has been utilized in the 2013 budget for the Fire District. The remaining fund balance of \$38,500.00 is reserved for capital outlay.

The general fund is the main operating fund of the Fire District. At the end of the current year, unreserved fund balance of the general fund was \$51,116.19, while the total fund balance was the same.

The fund balance of the Fire District's general fund decreased by \$28,808.01 during the current year. Key factors are as follows:

- The amount realized for miscellaneous revenues was \$10,378.15 more than the amount anticipated in the 2012 budget. This represents the amount realized for interest on investments and a prior year budget appropriation refund.
- The amount expended under the administrative budget category was \$4,455.05 more than budget appropriations. Variations in budget appropriation amounts are detailed on Exhibit C-1.
- The amount expended under the operating and maintenance budget category was \$8,468.89 less than budget appropriations. Variations in budget appropriation amounts are detailed on Exhibit C-1.

During the year under audit, the Fire District's capital projects fund showed a net decrease of \$6,500.00. This resulted from the transfer of \$105,000.00 of fund balance from the operating fund and the entrance into a new capital lease in the amount of \$622,300.00. The District entered into a purchase contract for a new aerial fire apparatus with a net cost of \$733,600.00. By paying for the acquisition upon ordering, the District saved \$79,722.00 through credits and discounts.

General Fund Budgetary Highlights

During the course of the year 2012, the Fire District did not modified its general fund budget in conformance with statute.

There were no items of variance from the original budget to the final budget.

The final budgetary basis revenue estimate was \$200,850.00. The original budgetary estimate was the same.

During the year 2012, the Fire District budgeted revenues as follows:

- Property taxes (local tax levy) was \$200,850.00.

Special Revenue Budgetary Highlights

- State aid from supplemental fire safety grant was \$1,193.58.

The final budgetary basis expenditures appropriation estimate was \$215,850.00. The original budgeted appropriations were the same as the final appropriations.

The final budgetary basis expenditures appropriation estimate exceeded the final budgetary basis revenues by \$15,000.00. This is attributable to the use of spendable fund balance from December 31, 2011 of \$15,000.00 to fund the legally adopted budget for 2012.

Capital Assets and Debt Administration

Capital Assets. The Fire District’s investment in capital assets for its governmental activities as of December 31, 2012 amounts to \$1,158,491.56 (net of accumulated depreciation). This investment in capital assets includes vehicles and firefighting equipment. Capital assets in the amount of \$731,300.00 were acquired in the year 2012 through the proceeds of a capital lease.

At the end of 2012, the Fire District had \$2,045,594.81 invested in vehicles and firefighting equipment. The accumulated depreciation on these items was \$887,103.05.

**Capital Assets
At December 31, 2012 and 2011**

| | 2011 | 2010 |
|--------------------------|------------------------|------------------------|
| Vehicles | \$ 883,935.50 | \$ 883,935.50 |
| Firefighting equipment | 430,359.11 | 430,359.11 |
| Construction in progress | 731,300.00 | - |
| Total capital assets | <u>\$ 2,045,594.61</u> | <u>\$ 1,314,294.61</u> |

Additional information on the Fire District’s capital assets can be found in Note 5 in the notes to the financial statements.

Long-Term Obligations. The Fire District has no outstanding serial bonds at December 31, 2012.

As of December 31, 2012, the Fire District has an obligation under a capital lease agreement in the amount of \$55,993.49; this represents the principal on the cost of the acquisition of miscellaneous fire equipment. The principal, along with applicable interest, will be paid in a five installments of \$15,456.93 between the years 2012 and 2016.

As of December 31, 2012, the Fire District has an obligation under a capital lease agreement in the amount of \$622,300.00; this represents the principal on the cost of the acquisition of aerial fire apparatus. The principal, along with applicable interest, will be paid in ten installments of \$71,766.16 between the years 2013 and 2022.

As of December 31, 2012, the Fire District had no obligations under operating leases.

The Fire District has no obligation for compensated absences pertaining to unused sick time.

Economic Factors and Next Year’s Budget

For the year 2012, the Fire District was able to sustain its budget through the district tax levy and other sources of revenue. Approximately 94.93% of total revenue is from the local tax levy, while the remaining 5.07% is from other sources.

The Board of Fire Commissioners adopted the 2013 budget on January 9, 2013 and the voters subsequently approved the budget at the annual Fire District election held on February 16, 2013.

Requests for Information

This financial report is designed to provide a general overview of the Fire District’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Brian Zummer, Secretary, Franklin Township Fire District No. 5, Post Office Box 306, Franklinville, New Jersey.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
Statement of Net Assets
December 31, 2012

ASSETS:

| | |
|---------------------------|---------------------|
| Cash and cash equivalents | \$ 90,714.91 |
| Restricted assets | |
| Cash and cash equivalents | 38,500.00 |
| Capital assets, net | 1,158,491.56 |
| Total assets | <u>1,287,706.47</u> |

LIABILITIES:

| | |
|--------------------------|-------------------|
| Accounts payable | 39,598.65 |
| Accrued interest payable | 18,105.70 |
| Noncurrent liabilities: | |
| Due within one year | 68,257.55 |
| Due beyond one year | 610,035.94 |
| Total liabilities | <u>735,997.84</u> |

NET ASSETS:

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 480,198.07 |
| Reserve for: | |
| Subsequent year's expenditures | 11,500.00 |
| Capital projects | 38,500.00 |
| Unrestricted | 21,510.56 |
| Total net assets | <u>\$ 551,708.63</u> |

The accompanying notes to financial statements are an integral part of this statement.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
Statement of Activities
For the Year Ended December 31, 2012

PROGRAM EXPENSES:

Operating appropriations:

| | |
|---|-------------------|
| Administration | \$ 14,605.05 |
| Cost of operations and maintenance | 105,078.69 |
| Length of service awards program (L.O.S.A.P.) | 18,400.00 |
| Interest on long-term debt | 18,225.89 |
| Unallocated depreciation | 41,824.91 |
| Total program expenses | <u>198,134.54</u> |

PROGRAM REVENUES:

Operating grants and contributions

| | |
|------------------------|-----------------|
| 1,193.58 | |
| Total program revenues | <u>1,193.58</u> |

| | |
|----------------------|-------------------|
| Net program expenses | <u>196,940.96</u> |
|----------------------|-------------------|

GENERAL REVENUES:

Taxes:

| | |
|---|-------------------|
| Property taxes, levied for general purposes | 200,850.00 |
| Special revenue fund | 154.00 |
| Taxes, levied for debt service | 15,457.00 |
| Prior year refund | 9,950.00 |
| Interest on investments | 428.15 |
| Total general revenues | <u>226,839.15</u> |

OTHER ADJUSTMENTS TO NET ASSETS:

Prior period adjustment to accounts payable

| | |
|---------------------------------------|-----------------|
| (800.00) | |
| Total other adjustments to net assets | <u>(800.00)</u> |

| | |
|-----------------------------------|-----------|
| Increase (decrease) in net assets | 29,098.19 |
|-----------------------------------|-----------|

| | |
|------------------------|-------------------|
| Net assets - January 1 | <u>522,610.44</u> |
|------------------------|-------------------|

| | |
|--------------------------|-----------------------------|
| Net assets - December 31 | <u><u>\$ 551,708.63</u></u> |
|--------------------------|-----------------------------|

The accompanying notes to financial statements are an integral part of this statement.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5

Balance Sheet

Governmental Funds

December 31, 2012

| | General Fund | Special Revenue Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|----------------------|-----------------------|-------------------|--------------------------|
| ASSETS: | | | | | |
| Cash and cash equivalents | \$ 88,214.84 | \$ 0.00 | \$ 41,000.00 | \$ 0.07 | \$ 129,214.91 |
| Due from capital projects fund | 2,500.00 | 0.00 | 0.00 | 0.00 | 2,500.00 |
| Total assets | \$ 90,714.84 | \$ 0.00 | \$ 41,000.00 | \$ 0.07 | \$ 131,714.91 |
| LIABILITIES AND FUND BALANCES: | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 39,598.65 | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 39,598.65 |
| Due to general fund | 0.00 | 0.00 | 2,500.00 | 0.00 | 2,500.00 |
| Total liabilities | 39,598.65 | 0.00 | 2,500.00 | 0.00 | 42,098.65 |
| Fund balances: | | | | | |
| Reserved: | | | | | |
| Future capital outlay | 0.00 | 0.00 | 38,500.00 | 0.00 | 38,500.00 |
| Subsequent year's expenditures | 11,500.00 | 0.00 | 0.00 | 0.00 | 11,500.00 |
| Unreserved: | | | | | |
| Undesignated, reported in: | | | | | |
| General fund | 39,616.19 | 0.00 | 0.00 | 0.07 | 39,616.26 |
| Total fund balances | 51,116.19 | 0.00 | 38,500.00 | 0.07 | 89,616.26 |
| Total liabilities and fund balances | \$ 90,714.84 | \$ 0.00 | \$ 41,000.00 | \$ 0.07 | \$ 131,714.91 |

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

Interest on long-term debt in the statement of activities is accrued regardless of when due

(18,105.70)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$2,045,594.61 and the accumulated depreciation is \$887,103.05

1,158,491.56

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

(678,293.49)

\$ 551,708.63

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2012

| | General Fund | Special Revenue Fund | Capital Projects Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|----------------------|-----------------------|-------------------|--------------------------|
| REVENUES: | | | | | |
| Operating grant revenue | \$ 0.00 | \$ 1,193.58 | \$ 0.00 | \$ 0.00 | \$ 1,193.58 |
| Amount to be raised by taxation to support the district budget | 200,850.00 | 154.00 | 0.00 | 15,457.00 | 216,461.00 |
| Non-budgetary revenues | 10,378.15 | 0.00 | 0.00 | 0.00 | 10,378.15 |
| Total revenues | 211,228.15 | 1,347.58 | 0.00 | 15,457.00 | 228,032.73 |
| EXPENDITURES: | | | | | |
| Operating appropriations: | | | | | |
| Administration | 12,105.05 | 0.00 | 2,500.00 | 0.00 | 14,605.05 |
| Cost of operations and maintenance | 103,731.11 | 1,347.58 | 0.00 | 0.00 | 105,078.69 |
| Contribution to length of service awards program (L.O.S.A.P.) | 18,400.00 | 0.00 | 0.00 | 0.00 | 18,400.00 |
| Capital outlay | 0.00 | 0.00 | 731,300.00 | 0.00 | 731,300.00 |
| Debt service: | | | | | |
| Principal | 0.00 | 0.00 | 0.00 | 13,886.51 | 13,886.51 |
| Interest and other charges | 0.00 | 0.00 | 0.00 | 1,570.42 | 1,570.42 |
| Total expenditures | 134,236.16 | 1,347.58 | 733,800.00 | 15,456.93 | 884,840.67 |
| Excess (deficiency) of revenues over (under) expenditures | 76,991.99 | 0.00 | (733,800.00) | 0.07 | (656,807.94) |
| OTHER FINANCIAL SOURCES (USES) : | | | | | |
| Operating transfers out - capital | (105,000.00) | 0.00 | 105,000.00 | 0.00 | 0.00 |
| Prior period adjustment - accounts payable | (800.00) | 0.00 | 0.00 | 0.00 | (800.00) |
| Proceeds of capital lease | 0.00 | 0.00 | 622,300.00 | 0.00 | 622,300.00 |
| Total other financial sources (uses) | (105,800.00) | 0.00 | 727,300.00 | 0.00 | 621,500.00 |
| Net change in fund balance | (28,808.01) | 0.00 | (6,500.00) | 0.07 | (35,307.94) |
| Fund balance - January 1 | 79,924.20 | 0.00 | 45,000.00 | 0.00 | 124,924.20 |
| Fund balance - December 31 | \$ 51,116.19 | \$ 0.00 | \$ 38,500.00 | \$ 0.07 | \$ 89,616.26 |

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended December 31, 2012

| | | |
|--|----|-------------|
| Total net change in fund balances - governmental funds (from B-2) | \$ | (35,307.94) |
|--|----|-------------|

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

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

| | | | |
|----------------------|----|-------------------|------------|
| Depreciation expense | \$ | (41,824.91) | |
| Capital outlay | | <u>731,300.00</u> | 689,475.09 |

| | |
|---|-----------|
| Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities. | 13,886.51 |
|---|-----------|

| | |
|---|--------------|
| Proceeds from debt issues are a financing source in the governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net assets. | |
| Capital lease proceeds | (622,300.00) |

| | |
|--|--------------------|
| In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation. | <u>(16,655.47)</u> |
|--|--------------------|

| | | |
|---|----|-------------------------|
| Change in net assets of governmental activities | \$ | <u><u>29,098.19</u></u> |
|---|----|-------------------------|

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Reporting Entity

Franklin Township Fire District No. 5 is a political subdivision of the Township of Franklin, County of Gloucester, State of New Jersey. It was formed through the adoption of a Township ordinance. A board of 5 commissioners oversees all operations of the Fire District. The length of each commissioner's term is 3 years with the annual election held on the third Saturday of each February.

Fire districts are governed by N.J.S.A. 40A:14-70 et al. and are organized as a taxing authority charged with the responsibility of providing the resources necessary to provide fire fighting services to the residents within its territorial location. Franklin Township Fire District No. 5 has 1 fire company within its jurisdiction - the Star Cross Fire Company.

Component Units

The Governmental Accounting Standards (GASB) Statement No. 14, The Financial Reporting Entity, provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units. As of December 31, 2012, it has been determined by the Fire District that no component units exist.

Basis of Presentation

The financial statements of the Fire 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 more significant of the Fire District's accounting policies are described in this Note.

The Fire District's financial statements consist of district-wide statements including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

District-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Fire District as a whole. These statements include the financial activities of the government. The statement of net assets presents the financial condition of the governmental activities of the Fire District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Fire District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. The policy of the Fire District is to not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Fire District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Fire District.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Concluded)

Fund Financial Statements - During the year, the Fire District segregates transactions related to certain Fire District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Fire District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. The Fire District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For fire districts, only one category of funds exists, that being governmental.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Fire District's major governmental funds:

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

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, which 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 the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Measurement Focus

District-Wide Financial Statements - The district-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Fire District are included on the statement of net assets.

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 balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and use (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the district-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds uses the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Fire District, available means expected to be received within thirty days of year-end.

Non-exchange transactions, in which the Fire District receives value without directly giving equal value in return, include Ad Valorem (property) taxes, grants, entitlements, and donations. Ad Valorem (property) taxes are susceptible to accrual, as 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 fire district year. The Fire 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 Fire District is entitled to receive moneys under the following established payment schedule: on or before April 1, an amount equaling 21.25% of all moneys assessed; on or before July 1, an amount equaling 22.5% of all moneys assessed; on or before October 1, an amount equaling 25% of all moneys assessed; and on or before December 31, an amount equaling the difference between the total of all moneys so assessed and the total amount of moneys previously paid over. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Fire District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Fire District on a reimbursement basis.

Under the modified accrual basis, the following revenues sources are considered to be both measurable and available at year-end: grants, fees, and rentals.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgets/Budgetary Control

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

The fire commissioners must introduce and approve the annual budget not later than sixty days prior to the annual election. At introduction, the commissioners shall fix the time and place for a public hearing on the budget and must advertise the time and place at least ten days prior to the hearing in a newspaper having substantial circulation in the Fire District. The public hearing must not be held less than twenty-eight days after the date the budget was introduced. After the hearing has been held, the fire commissioners may, by majority vote, adopt the budget.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets/Budgetary Control (Concluded)

Amendments may be made to the Fire District budget in accordance with N.J.S.A. 40A:14-78.3. The budget may be amended subsequent to its final adoption and approval for revenues and offsetting appropriations not available at the time the budget was adopted.

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

Fire districts have a prescribed budgetary basis to demonstrate legal compliance. However, budgets are adopted on principally the same basis of accounting utilized for the preparation of the fire district's financial statements.

Amounts reported under "final budget" on Exhibits C-1, C-2 and I-3, includes modifications to the adopted budget that were made during the last two months of the year as approved by the Board of Commissioners.

Exhibit C-3 presents a reconciliation of the general fund and special revenue fund revenues and expenditures from the budgetary basis of accounting as presented in the general fund budgetary comparison schedule and the special revenue fund budgetary comparison schedule to the GAAP basis of accounting as presented in the statement of revenues, expenditures, and changes in fund balances - governmental funds. Note that the Fire District does not report encumbrances outstanding at year end as expenditures in the general fund since the general fund budget follows modified accrual basis of accounting.

Encumbrances

Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds other than in the special revenue fund are reported as reservations of fund balances at year end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services. The Franklin Township Fire District No. 5 does not currently operate a full encumbrance accounting system.

Open encumbrances in the special revenue fund for which the Fire District has received advances are reflected in the balance sheet as deferred revenues at year end.

The encumbered appropriation authority carries over into the next year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current year end.

Cash, Cash Equivalents, and Investments

Cash and cash equivalents include petty cash, change funds, cash in banks all highly liquid investments with a maturity of three months or less at the time of purchase are stated at cost plus accrued interest. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governments are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey governments.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents, and Investments (Concluded)

Additionally, the Fire District adopted a cash management plan which requires it to deposit fund in public depositories protected from loss under the provisions of the Government Unit Deposit Protection Act. The Act was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in the State of New Jersey.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include state or federally chartered banks, savings banks or associations located in the State of New Jersey or state or federally chartered banks, savings and banks or associations located in another state with a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

Inventories and Prepaid Expenses - Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out method.

The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed.

Inventories recorded on the district-wide financial statement are recorded as expenditures when consumed rather than when purchased. As of December 31, 2012, no inventories exist.

Prepaid expenses recorded in the governmental fund types, which benefit future periods, are recorded as an expenditure during the year of purchase. Prepaid expenses recorded on the district-wide financial statements represent payments made to vendors for services that will benefit periods beyond December 31, 2012. The Fire District has no prepaid expenses.

Short-Term Interfund Receivables/Payables

Short-term interfund receivables/payables represent amounts that are owed, other than charges for goods and services rendered to/from a particular fund in the Fire District and that are due within one year. These amounts are eliminated in the governmental column of the Statement of Net Assets.

Capital Assets

Capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Fire District does not have a capitalization threshold. The Fire District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

FRANKLIN TOWNSHIP FIRE DISTRICT NO. 5
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Concluded)

Assets of the Fire District, acquired prior to 2004, were recorded on the books at estimated cost. Beyond 2004, assets are recorded at cost.

Depreciation is computed using the straight-line method over the following useful lives:

- Buildings and improvements - 40 years
- Vehicles - 20 years/10 years
- Firefighting equipment and fixtures - 10 years
- Computer equipment - 5 years

N.J.S.A. 40A:14-84 governs the procedures for the acquisition of property and equipment for fire districts, and N.J.S.A. 40A:14-85 to 87 governs procedures for the issuance of any debt related to such purchases. In summary, fire districts may purchase fire fighting apparatus and equipment and land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000 or two percent of the assessed valuation of property, whichever is larger.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the district-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Fire District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Fire District applies restricted resources when an expense is incurred for purchases for which both restricted and unrestricted net assets are available.