BOARD OF FIRE COMMISSIONERS

LOWER TOWNSHIP FIRE DISTRICT #2

TOWNSHIP OF LOWER, NEW JERSEY

AUDIT REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2014

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TOWNSHIP OF LOWER FIRE DISTRICT #2
YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

	Exhibit	Page #
Independent Auditor's Report		1 - 2
Required Supplemental Information - Part I		
Management Discussion and Analysis		3 - 7
Statement of Net Position	A	8
Statement of Activities	B	9
Balance Sheet - Governmental Funds	C	10
Reconcilation of the Governmental Fund Balance Sheet	D	11
Statement of Revenue, Expenditures and Changes in Fund Balance	E	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances	F	13
Statement of Fiduciary Net Assets	G	14
Notes to Financial Statements		15 - 20
Required Supplemental Information - Part II		
Statement of Revenue, Expenditures and Changes in Fund Balance Budget to Actual	H	21
Other Supplementary Information		
Independent Auditor's Report - Government Auditing Standards		22 - 23
General Comments & Recommendations		24
Schedule of Findings and Responses		25
Status of Prior Year Findings		26

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FINANCIAL SECTION

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Independent Auditor's Report

The Board of Commissioners
of Lower Township Fire District #2
North Cape May, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Lower Fire District #2, State of New Jersey, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the 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.

Auditor's Responsibility

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

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

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

Basis of Qualified Opinion

As described in Note 8 of the financial statements, the District participates in a Length of Service Award Program (LOSAP) for its volunteer fire and rescue personnel. The amount reflected in the trust fund statements of $381,233.45 was not audited and, therefore, we express no opinion on the LOSAP program.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion" paragraph, 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 Township of Lower Fire District #2, State of New Jersey, as of December 31, 2014, and the respective changes in financial position for the year 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 and budgetary comparison information identified in the table of contents 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2015 on our consideration of the Township of Lower Fire District #2'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 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 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 Township of Lower Fire District #2's internal control over financial reporting and compliance.

Very truly yours,

FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

October 5, 2015

REQUIRED SUPPLEMENTARY INFORMATION - PART I

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MANAGEMENT DISCUSSION & ANALYSIS

The discussion and analysis of the Township of Lower Fire District #2's financial performance provides an overall review of the Fire District's financial activities for the fiscal year ended December 31, 2014. The intent of this discussion and analysis is to look at the Fire District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the Fire District's financial performance.

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified by the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued in June 1999. Certain comparative information between the current year (2014) and the prior year (2013) is required to be presented in the MD&A.

Overview:

The Township of Lower Fire District #2, hereafter referred to as the "Fire District," is a primary governmental entity located in the Township of Lower, State of New Jersey. The Fire District is run by a board of commissioners who are elected into office by the registered voters of District #2 in the Township of Lower.

The Fire District is responsible for establishing a budget and maintaining fiscal control over public funds that are used to provide for the safety and welfare of the residents located within District #2 in the Township of Lower. Under existing statute, the Fire District is exempt from both Federal and State taxes.

The accounts of the Fire District are maintained in accordance with the principles of "fund accounting." The General Fund is used to account for all revenues and expenditures applicable to the general operations of the Fire District. A Capital Fund is also maintained for accounting of expenditures for property, plant and equipment financed by debt authorized.

Funding is acquired through property tax levies. In 2014 the total tax levy was $908,690, which corresponds to a property tax rate of 0.062 per $100 of assessed valuation.

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net position increased $101,209.79, which represents approximately a 3.1% increase from 2013, as noncurrent liabilities significantly decreased due to the District's lease for a pumper almost being completely paid off in full within the next two years.
- General Revenues in the form of property tax assessments accounted for $908,690 or 98% of the total revenues of $925,179.
- Total assets of governmental activities increased by $110,396.46 as cash and cash equivalents increased by $101,310.77. Capital assets decreased $302,576.23.
- The Fire District had $823,969.21 in expenses. General revenues (primarily property tax assessments) were in the amount of $925,179.

Reporting the Fire District as a Whole

The Statement of Net Position and the Statement of Activities report information about the District as a whole. These statements include all assets and liabilities using the full accrual basis of accounting. All of the current year's revenues and expenses are taken into account when the revenue is earned or the expense is incurred. These two statements report the District's net position and changes in them. One can think of the District's net position, the difference between assets and liabilities, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial position is improving or deteriorating. The reader will, however, need to consider other non-financial factors, such as changes in the District's tax base, to assess the overall health of the District.

The District's activities are reported as governmental activities. The District is primarily financed through the levying of property taxes.

The District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances remaining at year-end that are available for spending. The fund is reported using the modified accrual method 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 District's general government 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 the District's programs. We describe the differences between governmental activities and governmental funds in a reconciliation detailed on Exhibit F.

The Fire District as a Whole

Recall that the Statement of Net Position provides the perspective of the Fire District as a whole. Net Position may serve over time as a useful indicator of a government's financial position.

The Fire District's financial position is the product of several financial transactions including the net results of activities, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table 1 provides a summary of the Fire District's net position for 2014 and 2013.

Table 1
Net Position

	2014	2013
Assets		
Cash and Cash Equivalents	$ 1,744,746.42	$ 1,643,435.65
Taxes Receivable	90,869.00	-
Capital Assets	1,988,561.73	2,291,137.96
Total Assets	3,824,177.15	3,934,573.61
Liabilities		
Other Liabilities	458,104.32	669,710.57
Total Liabilities	458,104.32	669,710.57
Net Assets		
Invested in Capital Assets	1,588,106.46	1,103,339.96
Reserved for Equipment Purchases	9,406.10	9,406.10
Reserved for Capital Projects	907,368.77	747,368.77
Unrestricted	861,191.50	1,404,748.21
Total Net Position	$ 3,366,072.83	$ 3,264,863.04

The Fire District's combined net position was $3,366,072.83 on December 31, 2014. This was a 3.1% increase from 2013.

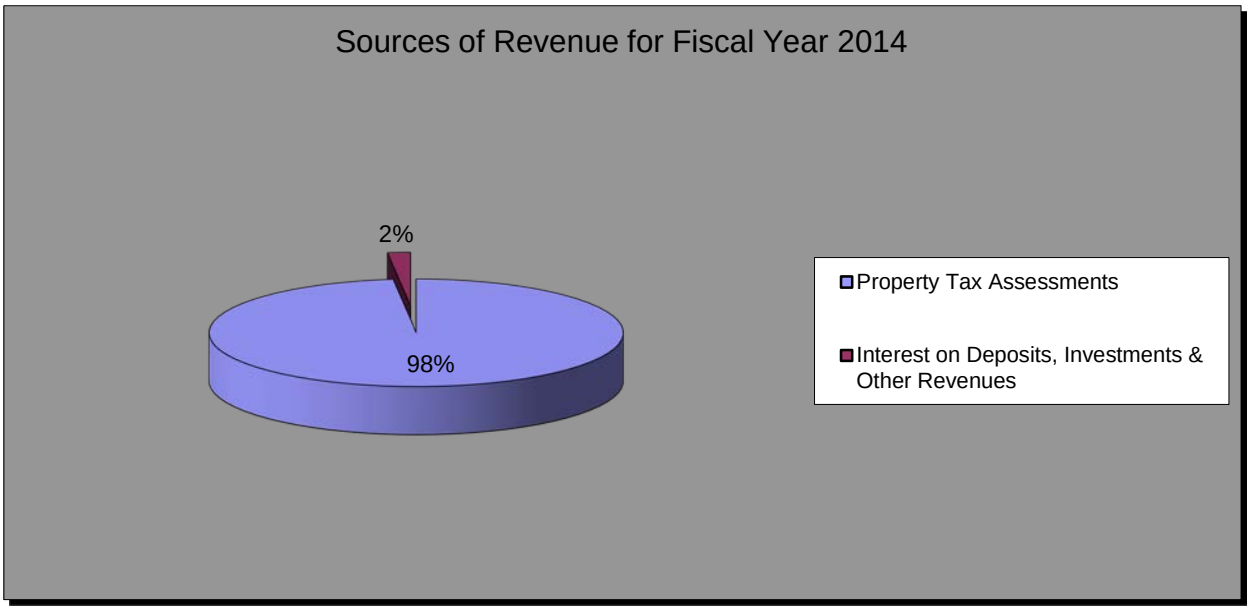
Table 2 shows changes in net position for fiscal year 2014 with a comparative analysis of 2013 data.

Table 2
Changes in Net Position

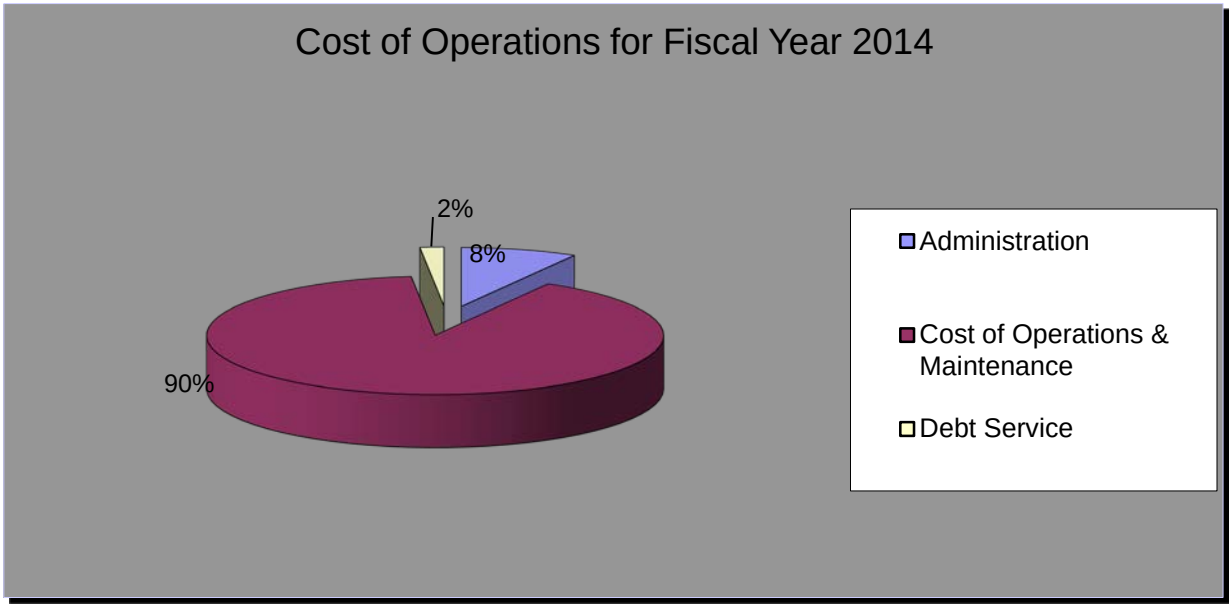
	2014	2013
Revenues		
General Revenues:		
Property Tax Assessments	$ 908,690.00	$ 898,238.00
Supplemental Fire Services Aid	3,918.72	3,918.72
Interest on Investments	460.31	1,073.49
Other	12,109.97	5,884.66
Total Revenues	925,179.00	909,114.87
Program Expenses		
Administration	67,963.27	62,234.28
Cost of Operations	742,147.75	772,521.32
Debt Service	13,858.19	17,741.50
Total Expenses	823,969.21	852,497.10
Increase (Decrease) in Net Position	$ 101,209.79	$ 56,617.77

Governmental Activities

The property tax assessments made up 98% of revenues while investment earnings, supplemental fire services revenues and other revenues made up the remaining 2% of revenues for fiscal year 2014. The Fire District's total revenues were $925,179 for the year ended December 31, 2014.



The total cost of operations was $823,969.21.



The Fire District's Funds

The governmental fund (general fund presented in the fund-based statements) is accounted for using the modified accrual basis of accounting. Total revenues amounted to $925,179 and expenditures were $823,969.21.

As demonstrated by the various statements and schedules included in the financial section of this report, the Fire District continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds for the fiscal year ended December 31, 2014, and the amount and percentage of total revenues compared to prior year revenues.

Revenue		2014 Amount	Percentage of Total		2013 Amount	Percentage of Total
Property Taxes	$	908,690.00	98.22%	$	898,238.00	98.80%
Supplemental Fire Services Aid		3,918.72	0.42%		3,918.72	0.43%
Investment Earnings		460.31	0.05%		1,073.49	0.12%
Miscellaneous		12,109.97	1.31%		5,884.66	0.65%
Total	$	925,179.00	100.00%	$	909,114.87	100.00%

The following schedule represents a summary of general fund expenditures for the fiscal year ended December 31, 2014, and the percentage of total expenditures compared to prior year amounts.

Expenditures	2014 Amount	Percentage of Total	2013 Amount	Percentage of Total
Current Expense:				
Administration	$ 67,963.27	8.25%	$ 62,234.28	7.30%
Operation & Maintenance	742,147.75	90.07%	772,521.32	90.62%
Debt Service	13,858.19	1.68%	17,741.50	2.08%
Total	$ 823,969.21	100.00%	$ 852,497.10	100.00%

General Fund Budgeting Highlights

The Fire District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

For the Future

The Township of Lower Fire District #2 is in good financial condition presently.

In conclusion, the Township of Lower Fire District #2 has committed itself to financial excellence for many years. The Fire District plans to continue its sound fiscal management to meet the challenges of the future.

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Fire District's finances and to show the Fire District's accountability for the money it receives. If you have questions about this report or need additional information, contact Lewis H. Conley, Jr., Secretary of the Board of Commissioners at Township of Lower Fire District #2, P.O. Box 724, North Cape May, NJ 08204.

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FINANCIAL STATEMENTS

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Exhibit A

TOWNSHIP OF LOWER FIRE DISTRICT #2
STATEMENT OF NET POSITION
DECEMBER 31, 2014

		Governmental Activities
ASSETS		
Cash and Cash Equivalents	$	1,744,746.42
Taxes Receivable		90,869.00
Capital Assets:		
Capital Assets Being Depreciated, Net		1,988,561.73
Total Assets	$	3,824,177.15
LIABILITIES		
Accounts Payable	$	54,124.05
Accrued Interest Payable		3,525.00
Noncurrent Liabilities		
Due Within One Year		197,931.63
Due Beyond One Year		202,523.64
Total Liabilities	$	458,104.32
NET POSITION		
Invested in Capital Assets		1,588,106.46
Restricted for:		
Equipment		9,406.10
Capital Projects		907,368.77
Unrestricted		861,191.50
Total Net Position	$	3,366,072.83

The Accompanying Notes to the Financial Statements are an integral part of this Statement

Exhibit B

TOWNSHIP OF LOWER FIRE DISTRICT #2
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

	Expenses	Program Revenue Fees, Fines & Charges For Services	Net (Expenses)/Revenues and Changes in Net Position Governmental Activities
Governmental Activities:			
Fire Protection:			
Administration	$ 67,963.27	$	$ (67,963.27)
Cost of Providing Services	742,147.75		(742,147.75)
Interest on Long-Term Debt	13,858.19		(13,858.19)
Total Expenses	823,969.21	-	(823,969.21)
Total Governmental Activities	823,969.21	-	(823,969.21)
General Revenues:			
Taxes			908,690.00
Interest			460.31
Other Revenue			16,028.69
Total General Revenues			925,179.00
Change in Net Position			101,209.79
Net Position - Beginning			3,264,863.04
Net Position - Ending			$ 3,366,072.83

The Accompanying Notes to the Financial Statements are an integral part of this Statement

Exhibit C

TOWNSHIP OF LOWER FIRE DISTRICT #2
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	$ 1,744,746.42	$	$ 1,744,746.42
Taxes Receivable	90,869.00		90,869.00
Due from Other Funds		907,368.77	907,368.77
			-
Total Assets	$ 1,835,615.42	$ 907,368.77	$ 2,742,984.19
LIABILITIES AND FUND BALANCES			
Accounts payable	$ 54,124.05	$	$ 54,124.05
Due to other funds	907,368.77		907,368.77
Total Liabilities	961,492.82	-	961,492.82
FUND BALANCE			
Restricted Fund Balance:			
Reserved for Equipment	9,406.10		9,406.10
Reserved for Capital Projects		907,368.77	907,368.77
Unassigned Fund Balance	864,716.50		864,716.50
	874,122.60	907,368.77	1,781,491.37
Total Liabilities and Fund Balances	$ 1,835,615.42	$ 907,368.77	$ 2,742,984.19

The Accompanying Notes to the Financial Statements are an integral part of this Statement

Exhibit D

TOWNSHIP OF LOWER FIRE DISTRICT #2
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2014

Total fund balances for governmental funds	$	1,781,491.37
Capital assets used in governmental activities are not resources and therefore are not reported in the funds. The cost of the assets is $5,875,358.57 and the accumulated depreciation is $3,886,796.84		1,988,561.73
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(400,455.27)
Interest on long-term debt in the statement of activities is accrued, regardless of when due.		(3,525.00)
Total net position of governmental actiivites	$	3,366,072.83

The Accompanying Notes to the Financial Statements are an integral part of this Statement

Exhibit E

TOWNSHIP OF LOWER FIRE DISTRICT #2
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Property taxes	$ 908,690.00	$ -	$ 908,690.00
Supplemental Fire Services Aid	3,918.72		3,918.72
Interest	460.31		460.31
Miscellaneous	12,109.97		12,109.97
Total Revenues	925,179.00		925,179.00
EXPENDITURES			
Administrative	67,963.27		67,963.27
Fire Protection	364,929.47		364,929.47
Non-Bondable Assets	56,746.32		56,746.32
Debt Service:			
Principal	193,444.00		193,444.00
Interest	13,778.19		13,778.19
Cancellation of Prior Year Payables	(8,104.54)		(8,104.54)
Total Expenditures	688,756.71	-	688,756.71
Excess/(Deficit) of revenues over expenditures	236,422.29	-	236,422.29
Other Financing Sources/(Uses)			
(LOSAP) - Contribution (PL 1997, C 388)	(26,000.00)		(26,000.00)
Capital Outlay - Reserve for Future Capital Outlays	(160,000.00)	160,000.00	-
Total Other Financing Sources/(Uses)	(186,000.00)	160,000.00	(26,000.00)
Net Change in Fund Balance	50,422.29	160,000.00	210,422.29
Fund balance beginning	823,700.31	747,368.77	1,571,069.08
Fund balance ending	$ 874,122.60	$ 907,368.77	$ 1,781,491.37

The Accompanying Notes to the Financial Statements are an integral part of this Statement

Exhibit F

TOWNSHIP OF LOWER FIRE DISTRICT #2
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

Net change in fund balance - total governmental funds	$	210,422.29
The change in net position for governmental activities in the statement of activities is different because:		
Capital outlays are reported in governmental funds as expenditures. However, on 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 current fiscal year.		
Depreciation expense		(323,307.23)
Additions		20,730.73
Deletions		-
Repayment of lease or bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.		
Bonds/Leases Payable		193,444.00
In the statement of activities, interest on long-term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is a deduction in the reconciliation.		(80.00)
Change in Net Assets of Governmental Activities	$	101,209.79

The Accompanying Notes to the Financial Statements are an integral part of this Statement

Exhibit G

TOWNSHIP OF LOWER FIRE DISTRICT #2
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2014
(UNAUDITED)

	Expendable Trust Fund
ASSETS	
Investments	$ 381,233.45
Total Assets	$ 381,233.45
NET ASSETS	
Held in Trust for LOSAP	$ 381,233.45

The Accompanying Notes to the Financial Statements are an integral part of this Statement

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NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Commissioners of Lower Township Fire District #2 operates with an elected Board of Commissioners. The District performs fire protection services in the Township of Lower, Cape May County, New Jersey.

The financial statements of Township of Lower Fire District #2 (the "District"), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the District are discussed below.

A. Reporting Entity

The District is an instrumentality/subordinate entity of the State of New Jersey, established to function as a taxing entity to provide fire suppression in the Town Bank area of Lower Township. The Board consists of five (5) elected officials and is responsible for the fiscal control of the District. A secretary and treasurer are appointed by the Board and are responsible for the administrative control of the District.

The District is not a component unit of any other financial reporting entity nor does the Fire District have any component units to be presented in accordance with Governmental Accounting Standards Board standards.

B. Basic Financial Statements -Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District has no business type activities. In the government-wide Statement of Net Position, the governmental column (a) is presented on a consolidated basis by column, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position is reported in three parts—invested in capital assets, net of related debt, restricted and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc). The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities.

C. Basic Financial Statements—Fund Financial Statements

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the District:

Governmental Funds:
The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District:

a. A General fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

b. A Capital Fund is maintained for the District, in which expenditures for property, plant, and equipment financed by debt is contained, as is the related debt issued and outstanding.

Fiduciary Funds of the District are:

a. Expendable trust funds are used to account for assets held by the District as a trustee for Individuals, other governments or other entities. Expendable trust funds account for assets where both the principal and interest may be spent.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:
The government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:
The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

E. Financial Statement Amounts

1. Cash and Cash Equivalents:
The District has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent.

2. Capital Assets:
Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

3. Fund Balances – Governmental Funds:
In the fund financial statements, governmental funds report the following classifications of fund balance:

- Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

- Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

- Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of Commissioners, the District's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of Commissioners.

- Assigned – includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's policy, amounts may be assigned by the Board of Commissioners.

- Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The District reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

4. Revenues:
Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue. In applying GASB standards to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

5. Expenditures:
Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are purchased.

F. Budgets/Budgetary Control

Annual appropriated budgets are prepared each year for the general fund. The budgets are submitted to the Bureau of Authority Regulations Division of Local Government Services and are voted upon at the annual District's election. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. All budget transfers must be approved by resolution of the Fire Commissioners, as well as the State of New Jersey. No material budget transfers were made during the year.

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

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Recent Accounting Pronouncements Not Yet Effective

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27". This statement, which is effective for fiscal periods beginning after June 15, 2014, will not have any effect on the District's financial reporting.

In November 2013, Governmental Accounting Standards Board (GASB) issued Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014. This statement will not have any effect on the District's financial reporting.

NOTE 2: INVESTMENTS

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk. New Jersey Statutes 40A:5-15.1(a) limits District investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer.

Unaudited Investments

As more fully described in Note #8, the District has created a Length of Service Award Program (LOSAP) for emergency service volunteers. The LOSAP investments are similar to those allowed in a deferred compensation program as specified in NJSA 43:15B-1 et. seq. except that all investments are retained in the name of the District. All investments are valued at contract value. In accordance with NJAC 5:30-14.37 the investments are maintained by Lincoln Financial Advisors, which is an authorized provider approved by the Division of Local Government Services. Information on the investments is not available at this time.

NOTE 3: CASH

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The municipality's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, all demand deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the District in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds or funds that may pass to the District relative to the happening of a future condition. As of December 31, 2014, $0 of the District's bank balance of $1,759,734.64 was exposed to custodial credit risk.

NOTE 4: GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the year ended December 31, 2014 follows:

Governmental Activities	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 100,545.37			$ 100,545.37
Equipment	1,388,691.93	6,781.00		1,395,472.93
Fire Boat	768,994.00			768,994.00
Motor Vehicles	675,110.80	$ 13,950.00		689,060.80
Building & Improvements	2,921,285.47			2,921,285.47
Totals at Historical Cost	5,854,627.57	20,731.00	-	5,875,358.57
Less Accumulated Depreciation for:				
Equipment	(179,434.70)	(13,749.01)		(193,183.71)
Fire Boat	(9,688.59)	(51,385.26)		(61,073.85)
Motor Vehicles	(145,749.93)	(12,410.50)		(158,160.43)
Building & Improvements	(3,228,616.39)	(245,762.46)		(3,474,378.85)
Total Accumulated Depreciation	(3,563,489.61)	(323,307.23)	-	(3,886,796.84)
Governmental Activities Capital Assets, Net	$ 2,291,137.96	$ (302,576.23)	$ -	$ 1,988,561.73

NOTE 5: DEBT SERVICE

The following tabulation presents the principal and interest requirements for the following year of district debt issued and outstanding:

Capital Leases

The Fire District entered into an agreement in 2014 to purchase a 2013 Pierce Velocity Pumper, totaling $593,899. This agreement, in substance, is reported as a capital lease obligation.

The following schedule presents future minimum lease payments as of December 31, 2014:

Year	Principal	Interest	Total
2015	$ 197,931.63	$ 9,290.56	$ 207,222.19
2016	202,523.64	4,698.55	207,222.19
	$ 400,455.27	$ 13,989.11	$ 414,444.38

NOTE 6: RELATED PARTY TRANSACTIONS

The Fire District has signed an agreement with Town Bank Volunteer Fire Company. This agreement states that Town Bank Volunteer Fire Company will provide Lower Township Fire District #2 with necessary fire extinguishment services including manpower for a fee that is approved annually.

NOTE 7: RISK MANAGEMENT

The Fire District is exposed to various risks of loss related to torts, theft, casualty, errors and omissions and other losses for which the District carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the past two years and there has been no decrease in coverage.

NOTE 8: LENGTH OF SERVICE AWARDS PROGRAM (UNAUDITED)

During the year 2001, the voters of Lower Township Fire District #2 approved establishment of a Length of Service Awards Program (LOSAP) deferred compensation plan. This plan is made available to all bona fide eligible volunteers who are performing qualified services which are defined as fire fighting and prevention services, emergency medical services and ambulance services pursuant to Section 457 of the Internal Revenue Code of 1986, as amended, except for provisions added by reason of the LOSAP as enacted into federal law in 1997. The establishment of this LOSAP will also comply with New Jersey Public Law 1997, Chapter 388 and the LOSAP document. The plan is administered by Lincoln Life Insurance Company and Lincoln Financial Group, its agent. The LOSAP Deferred Compensation Plan has not been audited.

NOTE 9: NET POSITION

As of December 31, 2014, net position amounted to $3,366,072.83.

NOTE 10: SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 5, 2015, the date which the financial statements were available to be issued and no items were noted for disclosure.

REQUIRED SUPPLEMENTARY INFORMATION - PART II

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TOWNSHIP OF LOWER FIRE DISTRICT #2
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2014

	Budget	Adjusted Final Budget	Actual	Variance - Over (Under)
Revenues:				
District Taxes	$ 908,690.00	$ 908,690.00	$ 908,690.00	$ -
Fund Balance Appropriated	172,000.00	172,000.00	-	(172,000.00)
Supplemental Fire Services Aid		-	3,918.72	3,918.72
Interest on Deposits and Investments		-	460.31	460.31
Miscellaneous		-	12,109.97	12,109.97
Total Revenues	1,080,690.00	1,080,690.00	925,179.00	(155,511.00)
Expenditures:				
Operating and Maintenance:				
Administration:				
Salaries and Wages	25,667.00	25,667.00	25,427.00	240.00
Election	4,500.00	4,500.00	3,816.56	683.44
Office Expenses	2,000.00	2,000.00	1,099.93	900.07
Professional Services	33,300.00	33,300.00	10,799.00	22,501.00
Contracted Services Interlocal Agreement	20,000.00	20,000.00	20,000.00	-
Contingent	7,500.00	7,500.00	6,820.78	679.22
Total Administration	92,967.00	92,967.00	67,963.27	25,003.73
Cost of Operations & Maintenance:				
Advertising	1,600.00	1,600.00	1,536.50	63.50
Insurance Premiums	90,000.00	90,000.00	66,959.91	23,040.09
Maintenance and Repairs	123,200.00	123,200.00	82,461.46	40,738.54
Membership Dues	2,100.00	2,100.00	1,795.75	304.25
Supplies	5,500.00	5,500.00	4,947.71	552.29
Training and Education	14,900.00	14,900.00	7,976.72	6,923.28
Travel Expenses	2,000.00	2,000.00	449.68	1,550.32
Utilities	142,000.00	142,000.00	110,094.94	31,905.06
Contracted Services - Joint Purchasing Agreements	3,700.00	3,700.00	3,700.00	-
Contracted Services - By Volunteer Fire Companies	21,500.00	21,500.00	14,666.94	6,833.06
Buildings and Equipment Service Agreements	71,000.00	71,000.00	55,339.86	15,660.14
Fire Bureau Reserve	15,000.00	15,000.00	15,000.00	-
Non-Bondable Assets	73,000.00	73,000.00	56,746.32	16,253.68
Total Cost of Operations and Maintenance	565,500.00	565,500.00	421,675.79	143,824.21
Debt Service:				
General Obligation Bonds - Principal	193,444.00	193,444.00	193,444.00	-
General Obligation Bonds - Interest	13,779.00	13,779.00	13,778.19	0.81
Total Debt Service	207,223.00	207,223.00	207,222.19	0.81
Cancellation of Prior Year Payables			(8,104.54)	
Total Expenditures	865,690.00	865,690.00	688,756.71	168,828.75
Excess (Deficiency) of Revenues Over Expenditures	215,000.00	215,000.00	236,422.29	21,422.29
Other Financing (Uses):				
Operating Transfers (Out):				
Capital Outlay - Reserve for Future Capital Outlays	(160,000.00)	(160,000.00)	(160,000.00)	-
(LOSAP) - Contribution (PL 1997, C 388)	(55,000.00)	(55,000.00)	(26,000.00)	29,000.00
Total Other Financing (Uses)	(215,000.00)	(215,000.00)	(186,000.00)	29,000.00
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	-	50,422.29	50,422.29
Fund Balances - Beginning of Year	823,700.31	823,700.31	823,700.31	-
Fund Balances - End of Year	$ 823,700.31	$ 823,700.31	$ 874,122.60	$ 50,422.29

See Accompanying Auditor's Report

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OTHER SUPPLEMENTARY INFORMATION

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FORD-SCOTT
& ASSOCIATES, L.L.C.
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Independent Auditor's Report

To the Board of Commissioners
Lower Township Fire District #2
North Cape May, NJ 08204

We have audited, in accordance with auditing standards generally accepted in the United States of America, standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), the financial statements of the Township of Lower Fire District #2, State of New Jersey (the "District"), as of and for the year ended December 31, 2014, 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 October 5, 2015, which was qualified for the inclusion of unaudited LOSAP information.

Internal Control over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We identified no deficiencies in internal control that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the 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.

District's Responses to Findings

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

FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

October 5, 2015

GENERAL COMMENTS:

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

N.J.S. 40A:11-4 states, "Every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate $26,000 except by contract or agreement."

Our examination of expenditures did not reveal payments in excess of $26,000 "for the performance of any work or the furnishing or hiring of any materials or supplies" other than those where bids had been previously sought by public advertisement, awarded under state or county cooperative purchasing agreements, or where a resolution had been previously adopted under the provisions of **N.J.S. 40A:11-6**.

OTHER COMMENTS:

None

RECOMMENDATIONS:

None

Very truly yours,

FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

October 5, 2015

THE BOARD OF COMMISSIONERS OF LOWER TOWNSHIP FIRE DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
Schedule of Financial Statement Findings

None

THE BOARD OF COMMISSIONERS OF LOWER TOWNSHIP FIRE DISTRICT #2
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
AND RESPONSES AS PREPARED BY MANAGEMENT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

STATUS OF PRIOR YEAR FINDINGS

There were no prior year findings.