

**FIRE DISTRICT NO. 2
OF THE TOWNSHIP OF MIDDLE**

COUNTY OF CAPE MAY

REPORT OF AUDIT

DECEMBER 31, 2022

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FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE

**ROSTER OF OFFICIALS
DECEMBER 31, 2022**

Board of Commissioners

Officials	Term Expiration
Greg Neil	2025
Conrad Johnson	2026
John Menz	2024
Jean Zimmerman	2025
Robert Zimmerman	2026

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HOLT MCNALLY & ASSOCIATES

Certified Public Accountants & Advisors

INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Fire District No. 2 of the Township of Middle
County of Cape May
Rio Grande, New Jersey

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fire District No. 2 of the Township of Middle, County of Cape May, State of New Jersey, herein referred to as the District, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Fire District No. 2 of the Township of Middle, County of Cape May, State of New Jersey, herein referred to as the District, as of December 31, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 in compliance with audit standards prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* and in accordance with accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey will always detect a material misstatement when it exists. The

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risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards* and in accordance with accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

HOLT MCNALLY & ASSOCIATES, INC.

Certified Public Accountants & Advisors

Medford, New Jersey
October 5, 2023



HOLT MCNALLY & ASSOCIATES

Certified Public Accountants & Advisors

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Board of Fire Commissioners
Fire District No. 2 of the Township of Middle
County of Cape May
Rio Grande, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the governmental activities of the Fire District No. 2 of the Township of Middle, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise Fire District No. 2 of the Township of Middle's basic financial statements, and have issued our report thereon dated October 5, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fire District No. 2 of the Township of Middle'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 Fire District No. 2 of the Township of Middle's internal control. Accordingly, we do not express an opinion on the effectiveness of Fire District No. 2 of the Township of Middle's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of financial statement fundings, Finding 2022-001, that we consider to be a material weakness.

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Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fire District No. 2 of the Township of Middle's financial statements are free from 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs State of New Jersey and which are described in the schedule of financial statement findings as Finding No. 2022-001.

Fire District No. 2 of the Township of Middle's Response to Findings

Fire District No. 2 of the Township of Middle's response to the findings identified in our audit is described in the accompanying Schedule of Financial Statement Findings. Fire District No. 2 of the Township of Middle'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.

HOLT MCNALLY & ASSOCIATES, INC.
Certified Public Accountants & Advisors

Medford, New Jersey
October 5, 2023

**FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

As management of Fire District No. 2 of the Township of Middle, we offer readers of the Fire District No. 2 of the Township of Middle's financial statements this narrative overview and analysis of the financial activities of the Fire District No. 2 of the Township of Middle for the year ended December 31, 2022. The intent of this narrative is to look at Fire District No. 2 of the Township of Middle's overall financial performance in terms easily understood by the lay person. Please read this in conjunction with the District's financial statements which begin on page 15. Notes to the financial statements will provide the reader with additional useful information and they begin on page 21.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at December 31, 2022 by approximately \$3.57 million. In 2021 the excess of assets over liabilities was approximately \$3.39 million. This is an increase of approximately \$178,000.
- During 2022 Fire District No. 2 of the Township of Middle operated at a surplus of approximately \$178,000. In 2021 the district operated at a surplus of approximately \$202,500. This is a decrease of approximately \$24,500.
- The District decreased their liabilities by approximately \$91,000 in 2022, and increased their total assets by approximately \$87,000.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. Fire District No. 2 of the Township of Middle's basic financial statements are comprised of three components: district-wide financial statements; fund financial statements; and notes to the basic financial statements.

Reporting on the District as a Whole

Our analysis of the District as a whole begins on page 8. District-wide financial statements are provided to give the reader a broad overview of the District's financial position and its financial activity for the year. It is presented in a format similar to the private sector to give the reader a familiar point of reference.

The Statement of Net Position presents information on all the assets and liabilities of Fire District No. 2 of the Township of Middle. The difference between the assets and liabilities is reported as the District's net position. Significant increases or decreases in the District's net position can be an indication of the financial health of the District. The Statement of Activities presents financial information about activities that result in the District's net position increasing or decreasing during the year. Financial activities are recorded when the transactions occur rather than when the cash is received or disbursed. As a result, there could be activities that result in cash flow in a future period.

The district-wide financial statements report on the financial data by function. Fire District No. 2 of the Township of Middle has two basic functions: activities that are supported by property taxes; and activities supported by other governmental activities. Fire District No. 2 of the Township of Middle provides firefighting services to the citizens of Middle Township. The District also provides services for the enforcement of the state and local fire codes and fire prevention education.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, Fire District No. 2 of the Township of Middle uses fund accounting to document compliance with finance-related legal matters. Fire District No. 2 of the Township of Middle has two funds, a general fund and capital projects fund.

Governmental Funds

Fire District No. 2 of the Township of Middle's activities are all reported in governmental funds. These funds record the flow of cash in and out of the District during the period and the balances remaining at year end for future periods. The modified accrual basis of accounting is utilized for reporting purposes. This method of accounting measures cash and all other financial assets that can 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 that it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's services.

Fire District No. 2 of the Township of Middle maintains two separate government funds, the General Fund and the Capital Projects Fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital fund.

The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.

As required by N.J.S.A. 40A:14:78-3, Fire District No. 2 of the Township of Middle adopts an annual budget which is voted on by the legal voters of the district on the third Saturday in February. Budgetary comparison schedules have been prepared to document compliance with budgetary requirements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Fire District No. 2 of the Township of Middle's net position is a useful indicator of the District's financial condition. At the end of 2022, the District's assets exceeded its liabilities by approximately \$3.57 million. The largest portion of Fire District No. 2 of the Township of Middle's net position is its investment in capital assets. The District uses these assets to provide fire-fighting services to the community; consequently, these assets are not available for future spending. Fire District No. 2 of the Township of Middle's investment in capital assets is reported net of related debt. Since the capital assets are not available to liquidate the debt, other sources must be utilized for the repayment of the debt.

Statement of Net Position

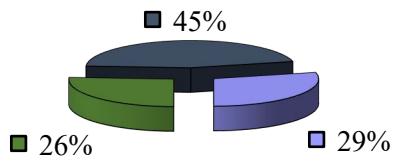
**FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
NET POSITION
DECEMBER 31, 2021**

	<u>2022</u>	<u>2021</u>	<u>\$ Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Current and other assets	\$ 2,616,420	\$ 2,362,067	\$ 254,353	10.8%
Capital assets	<u>1,614,901</u>	<u>1,781,913</u>	<u>(167,012)</u>	<u>-9.4%</u>
Total assets	4,231,321	4,143,980	87,341	2.1%
Total liabilities	<u>(659,676)</u>	<u>(750,729)</u>	91,053	-12.1%
Net position	<u>\$ 3,571,645</u>	<u>\$ 3,393,251</u>	<u>\$ 178,394</u>	5.3%

Analysis of net position

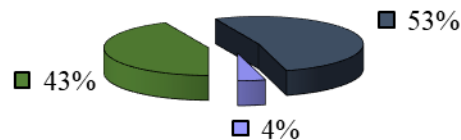
Investment in capital assets	\$ 1,614,901	\$ 1,781,913	\$ (167,012)	-9.4%
Restricted for:				
Capital	929,809	1,466,395	(536,586)	-36.6%
Unrestricted	<u>1,026,935</u>	<u>144,943</u>	<u>881,992</u>	<u>608.5%</u>
	<u>\$ 3,571,645</u>	<u>\$ 3,393,251</u>	<u>\$ 178,394</u>	5.3%

2022 Net Position



- Restricted for Capital
- Invested in Net Assets
- Unrestricted

2021 Net Position



- Restricted for Capital
- Invested in Net Assets
- Unrestricted

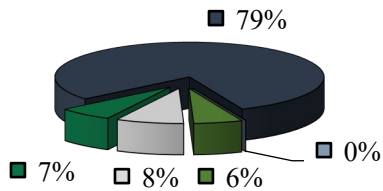
The net position of Fire District No. 2 of the Township of Middle increased approximately \$178,000 as a result of the current year surplus.

Governmental Activities

The Statement of Activities shows the cost of the governmental activities program services and the charges for services and grants offsetting these costs. A summary of these activities follows:

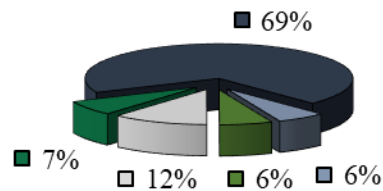
	<u>2022</u>	<u>2021</u>	<u>\$ Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Expenses				
Administrative expenses	\$ 37,861	\$ 40,453	\$ (2,592)	-6.4%
Cost of operations and maintenance	516,759	441,161	75,598	17.1%
Operating appropriations offset with revenues	52,791	73,280	(20,489)	-28.0%
Loss on - sale of asset	-	37,333	(37,333)	-100.0%
Length of service awards contribution	42,595	43,753	(1,158)	-2.6%
Total program expenses	<u>650,006</u>	<u>635,980</u>	<u>14,026</u>	2.2%

2022 Program Expenses



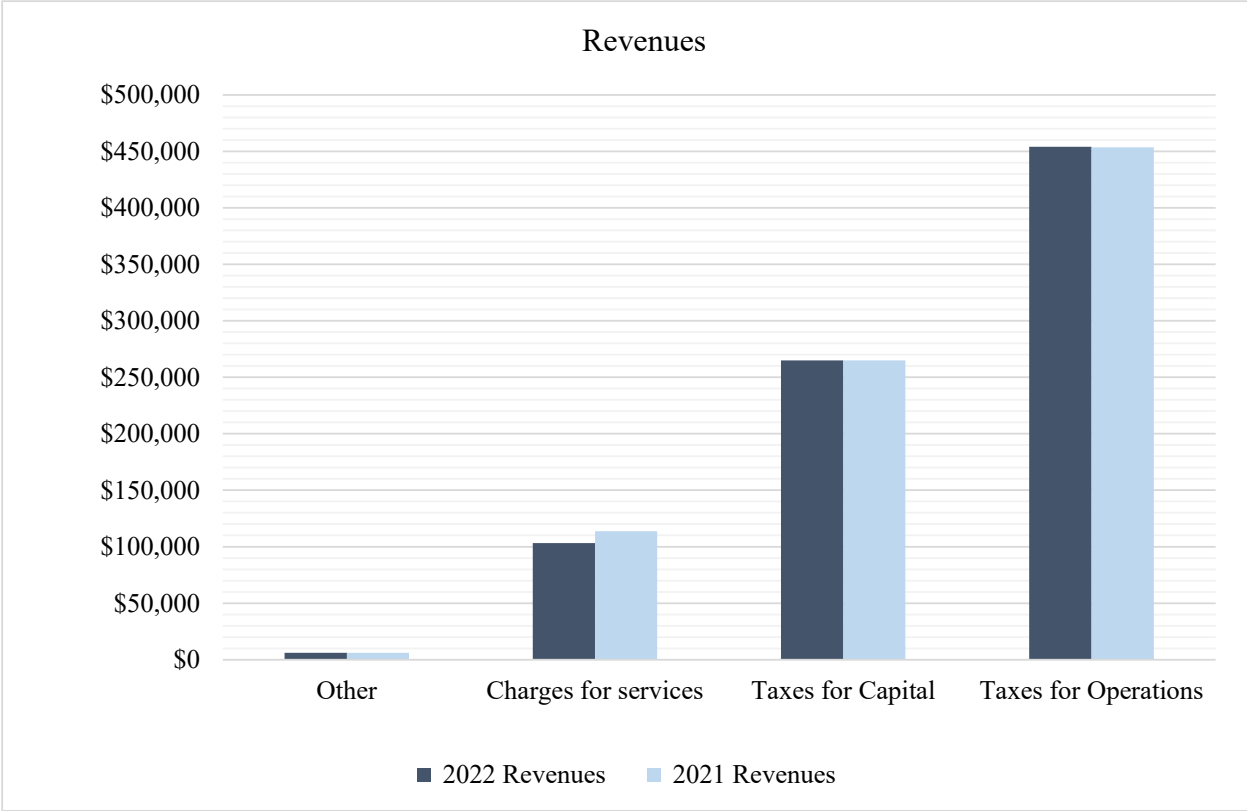
- Administrative
- Expenses offset by Revenues
- LOSAP
- Operations
- Loss on - sale of asset

2021 Program Expenses



- Administrative
- Expenses offset by Revenues
- LOSAP
- Operations
- Loss on - sale of asset

	<u>2022</u>	<u>2021</u>	<u>\$ Increase (Decrease)</u>	<u>% Increase (Decrease)</u>
Revenues				
Program revenues				
Charges for services	\$ 103,268	\$ 113,815	\$ (10,547)	-9.3%
Total program revenues	<u>103,268</u>	<u>113,815</u>	<u>(10,547)</u>	-9.3%
Net program expenses	<u>546,738</u>	<u>522,165</u>	<u>24,573</u>	4.7%
General revenues				
Property taxes levied for:				
General purposes	454,154	453,458	696	0.2%
Capital purchases	265,000	265,000	-	0.0%
Total property taxes levied	<u>719,154</u>	<u>718,458</u>	<u>696</u>	0.1%
Other revenues	5,978	6,191	(213)	-3.4%
Total general revenues	<u>725,132</u>	<u>724,649</u>	<u>483</u>	0.1%
Increase (decrease) in net position	178,394	202,484	(24,090)	-11.9%
Net Position, January 1	<u>3,393,251</u>	<u>3,190,767</u>	<u>202,484</u>	6.3%
Net Position, December 31	<u>\$ 3,571,645</u>	<u>\$ 3,393,251</u>	<u>\$ 178,394</u>	5.3%



Property tax revenue constituted 87% of the total governmental activities revenues received by Fire District No. 2 of the Township of Middle in 2022. In 2021 the property tax revenue constituted 86% of total revenues.

The cost of operations and maintenance was 79% and 69% of the District’s total expenses in 2022 and 2021, respectively. Administration expenses equaled 6% and 6% of the total expenses in 2022 and 2021, respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Fire District No. 2 of the Township of Middle uses fund accounting to document compliance with finance-related legal requirements.

Government Funds

The primary objective of the District's governmental funds is to report on cash flows in and out during the period and the ending balances of the spendable resources. This information is useful to evaluate the performance of the District and to assess its future needs and available resources.

As of December 31, 2022, the combined balance of the governmental cash funds of Fire District No. 2 of the Township of Middle was \$1,154,903.

The combined fund balance of the governmental funds of Fire District No. 2 of the Township of Middle was approximately \$2.60 million. Unassigned fund balance amounted to \$959,403 of that total. Funds of \$347,532 have been designated for use in the 2023 budget.

The general fund is the main operating fund of Fire District No. 2 of the Township of Middle. At the end of 2022, the total fund balance of the general fund was approximately \$1.67 million. Of this balance, approximately \$959,400 of it was unreserved.

During 2022 the general fund balance of Fire District No. 2 of the Township of Middle decreased by \$14,856. The primary reason for this decrease is as follows:

- Loss in value of the LOSAP plan.

At the end of 2022, the District had a capital projects fund balance of approximately \$930,000. This is a decrease of \$536,586. The primary reason for this decrease is as follows:

- Appropriation of fund for the purchase of a fire apparatus.

General Fund Budgetary Highlights

The Board assumes the responsibilities of the Uniform Fire Safety Act (UFSA) in the District. UFSA revenues are a factor of enforcement. The fees charged in 2022 were approximately 12% of the operating revenues.

The 2022 budget had a surplus in revenues and did not require the utilization of unrestricted surplus accumulated from prior years. The unused surplus becomes available for future budget periods as undesignated surplus in the General Fund.

The District had total actual revenues in excess of budgeted revenues of approximately \$26,000 in 2022. The Board anticipates in 2023 that actual revenues will also exceed the budgeted revenues.

Overall, the District spent approximately \$86,000 less than originally anticipated in the operating budget for 2022.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2022, Fire District No. 2 of the Township of Middle had invested in capital assets for government activities of approximately \$1,614,901 (net of accumulated depreciation). Capital assets consist of firehouse improvements, fire apparatus, fire equipment, and office equipment. They purchased \$10,475 of equipment in 2022.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
CAPITAL ASSETS
(NET OF ACCUMULATED DEPRECIATION)
DECEMBER 31, 2022

	<u>2022</u>	<u>2021</u>	<u>\$ Increase (Decrease)</u>
Capital assets			
Land	\$ 232,215	\$ 232,215	\$ -
Apparatus	2,589,139	2,589,139	-
Building improvements	23,575	23,575	-
Fire equipment	126,498	116,023	10,475
Total capital assets	<u>2,971,427</u>	<u>2,960,952</u>	10,475
Accumulated depreciation	<u>(1,356,526)</u>	<u>(1,179,039)</u>	<u>(177,487)</u>
Total capital assets, net	<u>\$ 1,614,901</u>	<u>\$ 1,781,913</u>	<u>\$ (167,012)</u>

Additional information on Fire District No. 2 of the Township of Middle's capital assets can be found in Note 5 in the notes to the financial statements.

Long-term Obligations

At December 31, 2022 the Fire District No. 2 of the Township of Middle had \$642,887 in long-term obligations related to length of service awards program.

ECONOMIC FACTORS

In 2022, Fire District No. 2 of the Township of Middle was able to cover all its appropriations through the fire tax levy and other revenues. In 2022 the fire tax levy amounted to 87% of total revenue collected.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fire District No. 2 of the Township of Middle's finances for all of those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Fire District No. 2 of the Township of Middle, P.O. Box 151, Rio Grande, New Jersey 08242.

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FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Statement of Net Position
December 31, 2022

	<u>Governmental Activities</u>
	<u>December 31, 2022</u>
Assets:	
Current assets:	
Cash and cash equivalents (Note 3)	\$ 1,154,903
Total current assets	<u>1,154,903</u>
Noncurrent assets:	
Investments (Note 4)	818,630
Investment in length of service award program (Note 4)	<u>642,887</u>
Total noncurrent assets	<u>1,461,517</u>
Capital assets, net:	
Nondepreciable (Note 5)	232,215
Depreciable (Note 5)	<u>1,382,686</u>
Total capital assets	<u>1,614,901</u>
Total assets	<u>\$ 4,231,321</u>
Liabilities:	
Current liabilities:	
Accounts payable	\$ 16,789
Total current liabilities	<u>16,789</u>
Noncurrent liabilities:	
Investment in length of service award program payable (Note 7)	<u>642,887</u>
Total noncurrent liabilities	<u>642,887</u>
Total liabilities	<u>659,676</u>
Net position:	
Net investment in capital assets	1,614,901
Restricted net position:	
Capital	929,809
Unrestricted	<u>1,026,935</u>
Total net position	<u>3,571,645</u>
Total liabilities and net position	<u>\$ 4,231,321</u>

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Statement of Activities
For the year ended December 31, 2022

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities December 31, 2022</u>
Government activities:			
Operation appropriations:			
Administration	\$ 37,861	\$ -	\$ 37,861
Costs of operations and maintenance	516,759	103,268	413,491
Operating appropriations offset with revenues	52,791	-	52,791
Length of service award program contribution	42,595	-	42,595
	<u>650,006</u>	<u>103,268</u>	<u>546,738</u>
Total government activities			
General revenues:			
Miscellaneous revenue			5,978
Amount raised by taxation			<u>719,154</u>
Total general revenues			<u>725,132</u>
Changes in net position			178,394
Net position, January 1			<u>3,393,251</u>
Net position, December 31			<u>\$ 3,571,645</u>

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Governmental Funds
Balance Sheet
December 31, 2022

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Totals December 31, 2022</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 1,154,903	\$ -	\$ 1,154,903
Interfund receivable	-	929,809	929,809
Total current assets	<u>1,154,903</u>	<u>929,809</u>	<u>2,084,712</u>
Noncurrent assets:			
Investments	818,630	-	818,630
Investment in length of service award program	642,887	-	642,887
Total noncurrent assets	<u>1,461,517</u>	<u>-</u>	<u>1,461,517</u>
Deferred Charges to Future Taxation:			
Expenditures without Appropriation	-	-	-
Total Deferred Charges to Future Taxation	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 2,616,420</u>	<u>\$ 929,809</u>	<u>\$ 3,546,229</u>
Liabilities, equity and other credits:			
Accounts payable	\$ 16,789	\$ -	\$ 16,789
Interfund payable	929,809	-	929,809
Total liabilities	<u>946,598</u>	<u>-</u>	<u>946,598</u>
Fund balances:			
Restricted for:			
Capital	-	649,809	649,809
Investment in length of service award program	642,887	-	642,887
Assigned for:			
Subsequent year's expenditures	67,532	280,000	347,532
Unassigned:			
General fund	959,403	-	959,403
Total fund balances	<u>1,669,822</u>	<u>929,809</u>	<u>2,599,631</u>
Total liabilities and fund balances	<u>\$ 2,616,420</u>	<u>\$ 929,809</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$2,971,427 and the accumulated depreciation is \$1,356,526.

1,614,901

Long-term liabilities, including length of service award program payable, are not due in the current period and are therefore not reported as liabilities in the funds.

(642,887)

Net position of governmental activities

\$ 3,571,645

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2022

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Totals December 31, 2022</u>
Revenues:			
Miscellaneous anticipated revenue:			
Investment income - unrestricted cash and investments	\$ 1,287	\$ -	\$ 1,287
Investment income - length of service award program	-	-	-
Other revenue	4,691	-	4,691
Total miscellaneous revenues	<u>5,978</u>	<u>-</u>	<u>5,978</u>
Miscellaneous revenues offset with appropriations:			
Uniform Fire Safety Act revenues:			
Annual registration fee	87,004	-	87,004
Penalties and fines	16,264	-	16,264
Total Uniform Fire Safety Act revenues	<u>103,268</u>	<u>-</u>	<u>103,268</u>
Total miscellaneous revenues offset with appropriations	<u>103,268</u>	<u>-</u>	<u>103,268</u>
Total revenues	<u>109,246</u>	<u>-</u>	<u>109,246</u>
Amount raised by taxation to support district budget	<u>454,154</u>	<u>265,000</u>	<u>719,154</u>
Total anticipated revenues	<u>563,400</u>	<u>265,000</u>	<u>828,400</u>
Expenditures:			
Operating appropriations:			
Administration:			
Salaries and wages	15,273	-	15,273
Other expenditures:			
Professional fees	19,255	-	19,255
Elections	1,158	-	1,158
Office expenses	1,674	-	1,674
Advertising	501	-	501
Total administration	<u>37,861</u>	<u>-</u>	<u>37,861</u>

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2022

	General Fund	Capital Projects Fund	Totals
			December 31, 2022
Cost of operations and maintenance:			
Salaries and wages	77,807	-	77,807
Fringe Benefits	20,841	-	20,841
Other expenditures:			
Insurance	20,443	-	20,443
Supplies	1,596	-	1,596
Training and education	65	-	65
Travel expense	300	-	300
Utilities	27,305	-	27,305
Other rentals	69,743	-	69,743
Other operating materials	44,762	-	44,762
Medical costs	7,252	-	7,252
Gas and oil	1,093	-	1,093
Maintenance and repairs	78,540	-	78,540
Total cost of operations and maintenance	349,747	-	349,747
Operating appropriations offset with revenues:			
Salaries and wages	29,500	-	29,500
Fringe benefits	2,000	-	2,000
Other	21,291	-	21,291
Total operating appropriations offset with revenues	52,791	-	52,791
Length of service award program			
Administrative fees	1,159	-	1,159
Depreciation in fair value of investments	112,635	-	112,635
Participant withdrawals	24,063	-	24,063
Total length of service award program	137,857	-	137,857
Capital Appropriations	-	801,586	801,586
Total governmental expenditures	578,256	801,586	1,379,842
Excess (deficiency) of revenues under (over) expenditures	(14,856)	(536,586)	(551,442)
Fund balance, January 1	1,684,678	1,466,395	3,151,073
Fund balance, December 31	\$ 1,669,822	\$ 929,809	\$ 2,599,631

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance
to the Statement of Activities
December 31, 2022

Total net changes in Fund Balances -Governmental Funds (B-2)	\$	(551,442)
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Amounts reported for governmental activities in the statement of activities (A-2) are different because:

Capital Outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

	\$	10,475	
Capital Outlays-General Fund			
Depreciation Expense		(177,487)	(167,012)

Raised deferred charges for capital assets purchased without appropriations are reported in governmental funds, however, in the statement of net position, these charges are shown as capital assets.		801,586
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Length of service award program contribution is not reported in governmental funds as expenditures. However, in the statement of net position, the expense is equal to the amount of contributions to the volunteers accounts as determined by the benefit terms. Change in value of LOSAP investments is not a revenue in the government wide financial statements as it is payable to the volunteers in accordance with the plan benefits.

		(42,595)	
District contribution to length of service award program			
Administrative fees		1,159	
Decrease in fair value of investments		112,635	
Participant withdrawals		24,063	
			95,262

Changes in net position of governmental activities	\$	178,394
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The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements
For the year ended December 31, 2022

NOTE 1: GENERAL INFORMATION

A. Description of Reporting Entity

Fire District No. 2 of the Township of Middle is a political subdivision of the Township of Middle, County of Cape May, State of New Jersey. A board of five commissioners oversees all operations of the Fire District. The length of each commissioner's term is three years with the annual election held the third Saturday of every February.

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

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

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

There were no additional entities required to be included in the reporting entity under the criteria as described above. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

B. Accounting Records

The official accounting records of the Fire District are maintained in the office of Fire District No. 2 of the Township of Middle.

C. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

D. Component Units

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 and GASB Statement No. 61, The Financial Reporting Entity: Omnis - an amendment of GASB Statements No. 14 and No. 34 and GASB Statement No. 80, Blending Requirements for Certain Component Units and GASB Statement No. 90, Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61. The District had no component units as of for the year ended December 31, 2022.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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

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

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

B. Fund Accounting

The accounts of the district are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts.

An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Governmental Funds:

General Fund

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Capital Projects Fund

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

C. Government Wide and Fund Financial Statements

The government-wide financial statements (A-1 and A-2) report information of all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these government-wide statements. District activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Individual funds are not displayed but the statements distinguish governmental activities as generally supported through taxes and user fees.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment or component unit.

Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. The District does not allocate general government (indirect) expenses to other functions.

Net position is restricted when constraints placed on it is either externally imposed or imposed by constitutional provisions or enabling legislation.

Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds, proprietary funds, and similar component units, and major component units. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Government Wide and Fund Financial Statements (continued)

Fund Financial Statements

The fund financial statements provide detail of the governmental funds.

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and private purpose trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net position.

The modified accrual basis of accounting is used for measuring financial position and operating results of all governmental fund types, private purpose trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

In its accounting and financial reporting, the Fire District No. 2 of the Township of Middle follows the pronouncements of the Governmental Accounting Standards Board (GASB).

E. Budgets and Budgetary Accounting

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

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

Amendments may be made to the Fire District budget in accordance with N.J.S.A 40A: 14-78.3.

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

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Encumbrances

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

Encumbered appropriations carry over into the next fiscal year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the adopted budget by the outstanding encumbrance amounts as of the current year-end. There were no encumbrances at December 31, 2022.

G. Cash and Cash Equivalents

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

N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the provision of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in the State of New Jersey.

Public funds are defined as the funds of any governmental unit. Public depositories include savings and loan institutions, banks (both State and National banks) and savings banks the deposits of which they are federally insured. All public depositories must pledge collateral, having a market value of five percent of its average daily balance of collected public funds, to secure the deposits of governmental units. If public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

H. Prepaid Expenses

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Debt Limitation

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

J. Capital Assets

Capital assets, which include land, building, improvements, and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District has set capitalization thresholds for reporting capital assets of \$5,000.

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

Building and Improvements	5 to 40 Yeas
Apparatus	5 to 20 years
Fire Equipment	5 to 10 years

K. Inventory, Materials and Supplies

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

L. Interfund Receivable/Payable

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

M. Revenues and Expenditures

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

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fire District Taxes

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

O. Fund Equity

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fire District No. 2 of the Township of Middle classifies governmental fund balances as follows:

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

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Net Position

Net position, represents the difference between summation of assets and the summation of liabilities. Net position is classified in the following three components:

- Net Investment in Capital Assets – This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for acquisition,
- Restricted – Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted – Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

Q. Use of Estimates

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

R. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

The following GASB Statements became effective for the fiscal year ended December 31, 2022:

Statement No. 87, *Leases*. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. The GASB based the new standard on the principle that leases are financing of the right to use an underlying asset. Statement No. 87 is effective for reporting periods beginning after June 15, 2021. The adoption of this pronouncement had no material effect on the financial statements.

Recently Issued Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future years as shown below:

Statement No. 96, *Subscription-Based Information Technology Arrangements*. Statement No. 96 establishes a single approach to accounting and financial reporting for subscription-based information technology arrangements for government end users. Statement No. 96 is effective for reporting periods beginning after June 15, 2022. Management has not yet determined the potential impact on the District's financial statements.

Statement No. 101, *Compensated Absences*. Statement No. 101 aligns the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Statement No. 101 is effective for reporting periods beginning after December 15,

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

R. Impact of Recently Issued Accounting Principles (continued)

2023. Management has not yet determined the potential impact on the District's financial statements.

S. Unrealized Gains and Losses

Governmental Accounting Standards Board (GASB) has established GASB-31, which requires public agencies to report the financial effect of all unrealized gains and losses on invested funds. As of December 31, 2022, the unrealized gains for the Fire District were not considered to be material to the financial statements taken as a whole, and accordingly, have not been reflected in the financial statements.

T. Fair Value Measurement

The District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level II – Inputs that include quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values.

Subsequent to initial recognition, the District may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The following methods and assumptions were used by the District in estimating the fair value of its financial instruments:

Certificate of Deposit: Valued at the net asset value (NAV) at year end where the NAV is valued at \$1 per unit.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. Fair Value Measurement (continued)

Fixed Account Investment Contract: Valued at the contract's market value as reported by the insurance company.

Registered Investment Companies: Valued at the net asset value (NAV) of shares held by the plan at year end where the NAV is valued at \$1 per unit.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table in Note 4 sets forth by level, within the fair value hierarchy, the District's assets at fair value as of December 31, 2022.

NOTE 3: CASH AND CASH EQUIVALENTS

The Fire District is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2022, and reported at fair value are as follows:

<u>Type</u>	<u>Carrying Value</u>
Deposits:	
Demand deposits	\$ 1,154,903
Total deposits	<u>\$ 1,154,903</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2022, the District's bank balance of \$1,154,886 was insured or collateralized as follows:

Insured	\$ 391,929
Collateralized in the District's name under GUDPA	<u>762,957</u>
Total	<u>\$ 1,154,886</u>

NOTE 4: INVESTMENTS

A. Custodial Credit Risk

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 4: INVESTMENTS (continued)

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Fire District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

C. Investment Credit Risk

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

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

The following table sets forth by level, within the value hierarchy, the District's assets at fair value at December 31, 2022.

Assets at Fair Value as of December 31, 2022

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>Total</u>
Fixed Account	\$ 155,702	\$ -	\$ -	\$ 155,702
Registered Investment Companies	487,185	-	-	487,185
Certificates of Deposit	<u>818,630</u>	<u>-</u>	<u>-</u>	<u>818,630</u>
Total assets at fair value	<u>\$ 1,461,517</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,461,517</u>

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 5: CAPITAL ASSETS

N.J.S.A. 40A: 14-84 governs the procedures for the acquisition of property and equipment for the Fire Districts, and the N.J.S.A. 40A: 14-85-87 governs procedures for the issuance of any debt related to such purchases. In summary, Fire Districts may purchase fire fighting apparatus, equipment, land, and buildings to house such property in an amount not exceeding five mills on the dollar of the least assessed valuation of property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000 or two percent of the assessed valuation of property, whichever is larger. Fixed assets consisted of the following at December 31, 2022:

	<u>Balance</u> <u>12/31/21</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>12/31/22</u>
Governmental Activities:				
Capital assets that are not being depreciated				
Land	\$ 232,215	\$ -	\$ -	\$ 232,215
Total capital assets that are not being depreciated	<u>232,215</u>	<u>-</u>	<u>-</u>	<u>232,215</u>
Capital assets being depreciated:				
Vehicles and apparatus	2,589,139	-	-	2,589,139
Fire equipment	116,023	10,475	-	126,498
Building improvements	23,575	-	-	23,575
Total capital assets being depreciated	<u>2,728,737</u>	<u>10,475</u>	<u>-</u>	<u>2,739,212</u>
Less: accumulated depreciation				
Vehicles and Apparatus	(1,080,673)	(170,416)	-	(1,251,089)
Building improvements	(1,991)	(943)	-	(2,934)
Fire equipment	(96,375)	(6,128)	-	(102,503)
Total accumulated depreciation	<u>(1,179,039)</u>	<u>(177,487)</u>	<u>-</u>	<u>(1,356,526)</u>
Total capital assets, net of accumulated depreciation	<u>1,549,698</u>	<u>(167,012)</u>	<u>-</u>	<u>1,382,686</u>
Total capital assets	<u>\$1,781,913</u>	<u>\$ (167,012)</u>	<u>\$ -</u>	<u>\$1,614,901</u>

NOTE 6: LENGTH OF SERVICE AWARDS PROGRAM

The District's length of service awards program ("LOSAP"), which is reported in the District's general fund, pursuant to Section 457 (e)(11)(B) of the Internal Service Code of 1986, as amended, except for provisions added by reason of the length of service award program as enacted into federal law in 1997. The LOSAP provides tax deferred income benefits to active volunteer firefighters and emergency medical personnel.

The tax deferred income benefits for the active volunteer firefighters serving the residents the Township of Middle come from contributions made solely by the governing body of the District, on behalf of those volunteers who meet the criteria of a plan created by that governing body. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 6: LENGTH OF SERVICE AWARDS PROGRAM (continued)

Contributions – if an active member meets the year of active service requirement, a length of service awards program must provide a benefit between the minimum contribution of \$100 and a maximum contribution of \$1,787 per year. While the maximum amount is established by statute, it is subject to periodic increases that are related to the consumer price index (N.J.S.A. 40A:14-185(f)). The Division of Local Government Services of the State of New Jersey will issue the permitted maximum annually. The District elected to contribute \$1,578 for the year ended December 31, 2022, per eligible volunteer, into the Plan. During the year ended December 31, 2022, the District contributed a total of \$42,595 to the plan. Participants direct the investment of the contributions into various investment options offered by the Plan. The District has no authorization to direct investment contributions on behalf of eligible volunteers nor has the ability to purchase or sell investment options offered by the Plan. The types of investment options, and the administering of such investments, rests solely with the plan administrator.

Participant Accounts – Each participant’s account is credited with the District’s contribution and Plan earnings, and charged with administrative expenses. The benefit to which a participant is entitled is the benefit that can be provided from the participant’s vested account. The District has placed the amounts deferred, including earnings, in a trust maintained by a third-party administrator for the exclusive benefit of the plan participants and their beneficiaries. Such funds, although subject to the claims of the District’s creditors until distributed as benefit payments, are not available for funding the operations of the District. The funds may also be used to pay the administrative fees charged by the Plan Administrator. Lincoln Financial Group (“Plan Administrator”), an approved Length of Service Awards Program provider, is the administrator of the Plan. The District’s practical involvement in administering the Plan is essentially limited to verifying the eligibility of each participant and remitting the funds to the Plan Administrator.

Vesting – Benefits, plus actual earnings thereon, are one hundred percent (100%) vested after five (5) years of service.

Payment of Benefits – Upon retirement or disability, participants may select various payout options, which include lump sum, periodic, or annuity payments. In the case of death, with certain exceptions, any amount invested under the participant's account is paid to the beneficiary or the participant's estate. In the event of an unforeseeable emergency, as outlined in the Plan document, a participant or a beneficiary entitled to vested accumulated deferrals may request the local plan administrator to payout a portion of vested accumulated deferrals. During the year ended December 31, 2022, there were no payouts made to vested participants.

Forfeited Accounts – There were no forfeitures during the year ended December 31, 2022.

Investments – The investments of the length of service awards program reported on the governmental funds balance sheet are recorded at fair value.

Plan Information – Additional information about the Fire District’s length of service awards program can be obtained by contacting the Plan Administrator.

As of December 31, 2022 the net investment in length of service award program is \$642,887.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 7: INTERFUND RECEIVABLE/PAYABLE

As of December 31, 2022, the following other receivable/payable balances remained on the balance sheet:

The purpose of the interfunds is for short-term borrowing. As of December 31, 2022, the following interfund balances remained on the balance sheet:

<u>Fund</u>	<u>Other receivable</u>	<u>Other payable</u>
General	\$ -	\$ 929,809
Capital projects	<u>929,809</u>	<u>-</u>
Totals	<u>\$ 929,809</u>	<u>\$ 929,809</u>

Interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District and that are due within one year.

NOTE 8: FUNDING

The activities of the Board of Commissioners are primarily funded by fire tax on property owners of the Fire District, as provided for by the state statute. For the year ended December 31, 2022, the fire tax rate on the Fire District No. 2 was \$.118 per \$100 of assessed valuation.

NOTE 9: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. There have been no significant reeducation in overage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 10: FUND BALANCE

General Fund – Of the \$1,669,822 General Fund fund balance at December 31, 2022, \$642,887 is restricted for length of service award program; \$67,532 has been assigned to be designated for subsequent year’s expenditures; and \$959,403 is unassigned.

Capital Projects Fund – Of the \$929,809 Capital Projects Fund fund balance at December 31, 2022, \$649,809 is restricted for Capital; and \$280,000 has been assigned to be designated for subsequent year’s expenditures.

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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to Financial Statements (continued)
For the year ended December 31, 2022

NOTE 11: RELATED PARTIES

During the normal course of business, the Fire District purchased various supplies and services from companies associated with a member of the Fire Commission. Which approximated \$609 and \$3,261, for the years ended December 31, 2022 and 2021, respectively.

NOTE 12: SUBSEQUENT EVENTS

The District's management has reviewed and evaluated all events and transactions that occurred between December 31, 2022 and October 5, 2023, the date that the financial statements were available for issuance, for possible disclosure and recognition in the financial statements. No items have come to the attention of the District that would require disclosure.

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FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Budgetary Comparison Schedule
For the year ended December 31, 2022

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Miscellaneous anticipated revenue:				
Investment income	\$ -	\$ -	\$ 1,287	\$ 1,287
Other revenue	-	-	4,691	4,691
Total miscellaneous revenues	-	-	5,978	5,978
Miscellaneous revenues offset with appropriations:				
Uniform fire safety act revenues:				
Annual registration fee	81,500	81,500	87,004	5,504
Penalties and fines	2,500	2,500	16,264	13,764
Total uniform fire safety act revenues	84,000	84,000	103,268	19,268
Total miscellaneous revenues offset with appropriations	84,000	84,000	103,268	19,268
Total revenues	84,000	84,000	103,268	19,268
Amount raised by taxation to support district budget	718,450	718,450	719,154	704
Total anticipated revenues	802,450	802,450	828,400	25,950
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	26,250	26,250	15,273	10,977
Other expenditures:				
Professional fees	20,000	20,000	19,255	745
Elections	1,000	1,000	1,158	(158)
Office expenses	2,500	2,500	1,674	826
Advertising	1,000	1,000	501	499
Travel	300	300		300
Total administration	51,050	51,050	37,861	13,189

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Budgetary Comparison Schedule
For the year ended December 31, 2022

	Original Budget	Modified Budget	Actual Budgetary Basis	Variance
Cost of operations and maintenance:				
Salaries and wages	80,000	80,000	77,807	2,193
Fringe Benefits	23,500	23,500	20,841	2,659
Other expenditures:				
Insurance	25,000	25,000	20,443	4,557
Supplies	2,500	2,500	1,596	904
Training and education	2,000	2,000	65	1,935
Travel expense	500	500	300	200
Utilities	25,000	25,000	27,305	(2,305)
Hydrant rentals	70,000	70,000	69,743	257
Other operating materials	27,675	27,675	44,762	(17,087)
Medical costs	10,000	10,000	7,252	2,748
Gas and oil	4,500	4,500	1,093	3,407
Maintenance and repairs	105,000	105,000	78,540	26,460
Total cost of operations and maintenance	<u>375,675</u>	<u>375,675</u>	<u>349,747</u>	<u>25,928</u>
Operating appropriations offset with revenues:				
Salaries and wages	29,500	29,500	29,500	-
Fringe benefits	2,000	2,000	2,000	-
Supplies	1,500	1,500	4,017	(2,517)
Utilities	12,500	12,500	-	12,500
Other operating materials	38,500	38,500	17,274	21,226
Total operating appropriations offset with revenues	<u>84,000</u>	<u>84,000</u>	<u>52,791</u>	<u>31,209</u>
Length of service award program	<u>58,000</u>	<u>58,000</u>	<u>42,595</u>	<u>15,405</u>
Capital appropriations	<u>1,067,000</u>	<u>1,067,000</u>	<u>-</u>	<u>1,067,000</u>
Total operating appropriations	<u>1,635,725</u>	<u>1,635,725</u>	<u>482,994</u>	<u>1,152,731</u>
Excess (deficiency) of revenues under (over) expenditures	(833,275)	(833,275)	345,406	1,178,681
Fund balance, January 1	<u>1,611,338</u>	<u>1,611,338</u>	<u>1,611,338</u>	<u>-</u>
Fund balance, December 31	<u>\$ 778,063</u>	<u>\$ 778,063</u>	<u>\$ 1,956,744</u>	<u>\$ 1,178,681</u>
Restricted fund balance:				
Capital reserve			\$ 649,809	
Assigned fund balance:				
Designated for subsequent year's expenditures			347,532	
Unassigned fund balance			<u>959,403</u>	
Total - budgetary basis			<u>1,956,744</u>	
Reconciliation to governmental fund statements (GAAP):				
Length of service award program investment balance not recognized on the budgetary basis			642,887	
Total fund balance per governmental funds (GAAP)			<u>\$ 2,599,631</u>	

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
Notes to the Required Supplementary Information
Budget-to-GAAP Reconciliation
For the year ended December 31, 2022

	Total Governmental Funds
Sources/Inflows of Resources:	
Actual Amounts (Budgetary Basis) "Revenue" From the Budgetary Comparison Schedule (C-1)	\$ 828,400
Total Revenues as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (B-2)	\$ 828,400
Uses/Outflows of Resources:	
Actual Amounts (Budgetary Basis) "Total Appropriations" From the Budgetary Comparison Schedule (C-1)	\$ 482,994
Capital Charges raised as a deferred charge in 2022	801,586
<p>Budgetary basis differs from GAAP in that the District is required to budget for contributions to the length of service award program. Expenditures under the current financial resources measurement focus and modified accrual basis of accounting are limited to the benefits paid in accordance with the Plan.</p>	
Length of service award program district contribution	(42,595)
Administrative fees	1,159
Depreciation in fair value of investments	112,635
Participant withdrawals	24,063
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (B-2)	\$ 1,379,842

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HOLT MCNALLY & ASSOCIATES

Certified Public Accountants & Advisors

**FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
SCHEDULE OF FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2022**

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards* and with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Finding 2022-001:

Criteria or specific requirement:

N.J.AC. 5:31-7 requires an effective accounting system to include double- entry accounting for all transactions resulting in a general ledger.

Condition:

The general ledger for all funds was not properly maintained and as a result material audit adjustments were needed in order to achieve proper presentation in the financial statements.

Cause:

Internal control policies and procedures are not in place to properly maintain the Fire District's general ledger.

Effect or potential effect:

Non-compliance with N.J.AC. 5:31-7.

Recommendation:

That the general ledger for all funds be accurately and completely maintained to ensure adequate control over the preparation of the financial statements and related footnotes.

Management's Response:

This will be corrected in 2023.

**FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF MIDDLE
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2022**

This section identifies the status of prior year findings related to the financial statements.

FINANCIAL STATEMENT FINDINGS

Finding No. 2021-001

Condition:

The District did not maintain a complete and accurate general ledger at year end.

Current Status:

This finding has not been corrected. See Finding 2022-001.

Finding No. 2021-002

Condition:

The District did not maintain a complete and accurate capital asset detailed listing.

Current Status:

This finding has been corrected.

Finding No. 2021-003

Condition:

The District over expended multiple line item accounts.

Current Status:

This finding has been corrected.

Finding No. 2021-004

Condition:

The District purchased capital assets without proper voter approval.

Current Status:

This finding has been corrected.

Finding No. 2021-005

Condition:

It was noted during our audit of the District's Capital Projects Fund, that capital appropriations were overspent by \$801,586. This was due to the District's purchase of capital assets that were not included in the 2021 capital budget.

Current Status:

This finding has been corrected.

Acknowledgment

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

HOLT MCNALLY & ASSOCIATES, INC.
Certified Public Accountants & Advisors

Medford, New Jersey
October 5, 2023