

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3**

**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2011**

**TOWNSHIP OF HANOVER**  
**FIRE DISTRICT NUMBER 3**

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**TOWNSHIP OF HANOVER**  
**FIRE DISTRICT NUMBER 3**

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## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**



# VM ASSOCIATES, INC.

Vincent M. Montanino, RMA, PSA  
Michael S. Zambito, CPA, RMA  
Antonia Russo, Associate

## INDEPENDENT AUDITOR'S REPORT

The Honorable President and  
Members of the Board of Fire Commissioners  
Township of Hanover Fire District Number 3  
County of Morris, New Jersey

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Hanover Fire District Number 3 as of and for the year ended December 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Hanover Fire District Number 3's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 requirements as 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

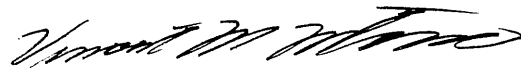
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Hanover Fire District Number 3 as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2012 on our consideration of the Township of Hanover Fire District Number 3'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 the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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The Management's Discussion and Analysis and budgetary comparison information on schedule C-1 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our Audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hanover Fire District Number 3's basic financial statements. The accompanying other supplementary information such as the combining and individual fund financial statements, long-term debt schedules and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and long-term debt schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



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Certified Public Accountant  
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May 8, 2012

**REQUIRED SUPPLEMENTARY INFORMATION -  
PART I**



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Township of Hanover Fire District No. 3's financial activities for the year ended December 31, 2011. Please read it in conjunction with the District's financial statements.

### FINANCIAL HIGHLIGHTS

- The District's net assets increased \$46,817.00 as a result of this year's operations. Net assets of our governmental activities increased by \$ 46,817.00 or 2.92 percent.
- Total cost of all of the District's programs was \$1,047,125.35 in 2011 compared to \$933,285.56 in 2010.
- During the year, the District had expenses for governmental activities that were \$46,817.00 less than the \$1,093,942.35 generated in tax and other revenues.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District as a whole and present a longer-term view on the District's finances. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the District's operation in more detail than the government-wide statements by providing information about the District's most financially significant funds

#### Reporting the District as a Whole

##### The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the District's finances is "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in them. You can think of the District's net assets, 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 assets are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's property tax base, and the condition of the District's capital assets to assess the overall *health* of the District.

In the Statement of Net Assets and the Statement of Activities, we divide the District into two kinds of activities:

- Governmental activities: most of the District's basic services are reported here, including general administration. Local taxes, fees, and state aid finance most of these activities.
- Business-type-activities: the District has no proprietary funds.

#### Reporting the District's Most Significant Funds

##### Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the District as a whole. Some funds are required to be established by State law.

*Governmental funds:* most of 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 left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* 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 one 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 relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation.

**The District as Trustee**

**Reporting the District’s Fiduciary Responsibilities**

The District is the trustee, or *fiduciary*, for the Fire Prevention and Agency Funds. All of the District’s fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. We exclude these activities from the District’s other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**THE DISTRICT AS A WHOLE**

The District’s net assets changed from a year ago, *increasing* from \$1,602,027.66 to \$1,648,844.66. Looking at the net assets and net expenses of governmental activities, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the District’s governmental activities as of December 31.

**Table 1**  
**Net Assets**

	Governmental		Total	
	Activities		Primary Government	
	2011	2010	2011	2010
Current and Other Assets	\$ 854,339.88	\$ 734,747.15	\$ 854,339.88	\$ 734,747.15
Capital Assets	802,808.92	867,280.51	802,808.92	867,280.51
Total Assets	1,657,148.80	1,602,027.66	1,657,148.80	1,602,027.66
Long-term Debt Outstanding	-	-	-	-
Other Liabilities	8,304.14	-	8,304.14	-
Total Liabilities	8,304.14	-	8,304.14	-
Net Assets:				
Invested in Capital Assets, Net				
of Debt	802,808.92	867,280.51	802,808.92	867,280.51
Restricted	157,839.17	157,839.17	157,839.17	157,839.17
Unrestricted	688,196.57	576,907.98	688,196.57	576,907.98
Total Net Assets	\$ 1,648,844.66	\$ 1,602,027.66	\$ 1,648,844.66	\$ 1,602,027.66

Net assets of the District’s governmental activities increased by 2.92 percent. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements –increased \$111,288.59. Restricted net assets, those restricted mainly for capital projects did not change from the prior year. The investment in capital assets, net of debt category decreased by \$64,471.59.

**Table 2**  
**Changes in Net Assets**

	<u>Governmental</u>		<u>Total</u>	
	<u>Activities</u>		<u>Primary Government</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<u>Revenues</u>				
Program Revenues:				
Operating Grants and Contributions	\$ 18,500.00	\$ 26,492.28	\$ 18,500.00	\$ 26,492.28
General Revenues:				
Property Taxes	881,705.00	839,550.00	881,705.00	839,550.00
State Aid	2,197.00	2,197.50	2,197.00	2,197.50
Interest and Investment Earnings	1,272.33	1,815.22	1,272.33	1,815.22
Other General Revenues	<u>190,268.02</u>	<u>98,463.62</u>	<u>190,268.02</u>	<u>98,463.62</u>
Total Revenues:	<u>1,093,942.35</u>	<u>968,518.62</u>	<u>1,093,942.35</u>	<u>968,518.62</u>
<u>Program Expenses Including Indirect Expenses</u>				
Administration:				
Salaries	16,186.60	15,949.00	16,186.60	15,949.00
Other Expenses	22,581.46	18,819.37	22,581.46	18,819.37
Cost of Providing Services:				
Salaries	405,367.74	338,180.14	405,367.74	338,180.14
Fringe Benefits	224,815.81	236,328.49	224,815.81	236,328.49
Other Expenses	359,384.74	297,516.28	359,384.74	297,516.28
Uniform Fire Safety Act:				
Salaries	18,000.00	18,000.00	18,000.00	18,000.00
Other Expenses	500.00	1,692.28	500.00	1,692.28
Homeland Security Grant	-	6,800.00	-	6,800.00
Prior Year Orders	<u>289.00</u>	<u>-</u>	<u>289.00</u>	<u>-</u>
Total Expenses	<u>1,047,125.35</u>	<u>933,285.56</u>	<u>1,047,125.35</u>	<u>933,285.56</u>
Increase (Decrease) in Net Assets	<u>\$ 46,817.00</u>	<u>\$ 35,233.06</u>	<u>\$ 46,817.00</u>	<u>\$ 35,233.06</u>

**THE DISTRICT'S FUNDS**

**Governmental Activities**

**Table 3**

**Information below compares revenues and expenditures for all governmental fund types for 2011 and 2010.**

<u>Revenues by Source:</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Local Sources:			
Local Tax Levy	\$ 881,705.00	\$ 839,550.00	5.02%
Interest on Investments	1,272.33	1,815.22	-29.91%
Municipal Assistance	35,000.00		0.00%
EMS Services	142,984.92		0.00%
Miscellaneous	12,283.10	98,463.62	-87.53%
Total - Local Sources	1,073,245.35	939,828.84	14.20%
State Sources	20,697.00	28,689.78	-27.86%
Total Revenues	<u>\$ 1,093,942.35</u>	<u>\$ 968,518.62</u>	12.95%

<u>Expenditures by Function:</u>	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Administration:			
Salaries	\$ 16,186.60	\$ 15,949.00	1.49%
Other Expenses	22,581.46	18,819.37	19.99%
Cost of Providing Services:			
Salaries	405,367.74	338,180.14	19.87%
Fringe Benefits	224,815.81	236,328.49	-4.87%
Other Expenses	294,913.15	231,867.70	27.19%
Uniform Fire Safety Act:			
Salaries	18,000.00	18,000.00	0.00%
Other Expenses	500.00	1,692.28	-70.45%
Homeland Security Grant	-	6,800.00	-100.00%
Capital Outlay	-	9,700.00	100.00%
Total Expenditures	<u>\$ 982,364.76</u>	<u>\$ 877,336.98</u>	11.97%

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets  
Table 4  
Capital Assets at Year-end  
(Net of Depreciation)**

	Governmental		Totals	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00	\$ 7,500.00
Land Improvements	21,700.00	21,700.00	21,700.00	21,700.00
Buildings and Improvements	497,951.83	497,951.83	497,951.83	497,951.83
Machinery and Equipment	<u>1,117,642.60</u>	<u>1,117,642.60</u>	<u>1,117,642.60</u>	<u>1,117,642.60</u>
Subtotal	1,644,794.43	1,644,794.43	1,644,794.43	1,644,794.43
Accumulated Depreciation	<u>(841,985.51)</u>	<u>(777,513.92)</u>	<u>(841,985.51)</u>	<u>(777,513.92)</u>
Totals	<u>\$ 802,808.92</u>	<u>\$ 867,280.51</u>	<u>\$ 802,808.92</u>	<u>\$ 867,280.51</u>

The District's 2012 capital budget anticipates spending \$340,000.00 for future capital projects. More detailed information about the District capital assets is presented in notes to the basic financial statements

**DEBT**

At year end the District had no debt outstanding.

**BUDGETS**

There were some variances between the originally adopted budget for the year 2011 and the final budget. See Exhibit C-1 for more detailed information regarding the 2011 budget.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Commissioners, Township of Hanover Fire District No. 3, P.O. Box 153, Cedar Knolls, New Jersey 07927.

## **BASIC FINANCIAL STATEMENTS**

**SECTION A**  
**DISTRICT – WIDE FINANCIAL STATEMENTS**

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
STATEMENT OF NET ASSETS  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	<b><u>Governmental Activities</u></b>	<b><u>Total</u></b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 256,180.39	\$ 256,180.39
Interfund Receivable	20,320.32	20,320.32
Receivables from Other Governments	-	-
Restricted Assets:		
Cash and Cash Equivalents	577,839.17	577,839.17
Capital Assets, Net	<u>802,808.92</u>	<u>802,808.92</u>
Total Assets	<u>1,657,148.80</u>	<u>1,657,148.80</u>
 <b>LIABILITIES</b>		
Interfund Accounts Payable	<u>8,304.14</u>	<u>8,304.14</u>
Total Liabilities	<u>8,304.14</u>	<u>8,304.14</u>
 <b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	802,808.92	802,808.92
Restricted for:		
Capital Projects	157,839.17	157,839.17
Unrestricted	<u>688,196.57</u>	<u>688,196.57</u>
Total Net Assets	<u>\$ 1,648,844.66</u>	<u>\$ 1,648,844.66</u>

**The accompanying Notes to Basic Financial Statements are an integral part of this statement.**



**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
STATEMENT OF ACTIVITIES  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
Governmental Activities:					
Administration:					
Salaries	\$ 16,186.60	-	-	\$ (16,186.60)	\$ (16,186.60)
Other Expenses	22,581.46	-	-	(22,581.46)	(22,581.46)
Cost of Providing Services:					
Salaries	405,367.74			(405,367.74)	(405,367.74)
Fringe Benefits	224,815.81			(224,815.81)	(224,815.81)
Other Expenses	359,384.74			(359,384.74)	(359,384.74)
Uniform Fire Safety Act:				-	-
Salaries	18,000.00	18,000.00		-	-
Other Expenses	500.00	500.00		-	-
Total Governmental Activities	1,046,836.35	18,500.00	-	(1,028,336.35)	(1,028,336.35)
Total Primary Government	\$ 1,046,836.35	\$ 18,500.00	\$ -	\$ (1,028,336.35)	\$ (1,028,336.35)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes				\$ 881,705.00	\$ 881,705.00
State Aid Not Restricted				2,197.00	2,197.00
Investment Earnings				1,272.33	1,272.33
Miscellaneous Income				190,268.02	190,268.02
Additional Prior Year Orders				(289.00)	(289.00)
Total General Revenues				1,075,153.35	1,075,153.35
Change in Net Assets				46,817.00	46,817.00
Net Assets—Beginning				1,602,027.66	1,602,027.66
Net Assets—Ending				\$ 1,648,844.66	\$ 1,648,844.66

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**SECTION B**  
**FUND FINANCIAL STATEMENTS**

**GOVERNMENTAL FUNDS**

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$256,180.39	\$577,839.17	\$ 834,019.56
Interfunds Receivable	<u>20,320.32</u>	<u>-</u>	<u>20,320.32</u>
Total Assets	<u>\$276,500.71</u>	<u>\$577,839.17</u>	<u>\$ 854,339.88</u>
<b>FUND BALANCES</b>			
Liabilities:			
Interfunds Payable	<u>8,304.14</u>		<u>8,304.14</u>
Total Liabilities	<u>8,304.14</u>		<u>8,304.14</u>
Fund Balances:			
Reserved for:			
Designated Capital Projects	\$ -	\$157,839.17	\$ 157,839.17
Unreserved/Unassigned, Reported in:			
General Fund	268,196.57		268,196.57
Capital Projects Fund	<u>-</u>	<u>420,000.00</u>	<u>420,000.00</u>
Total Fund Balances	<u>268,196.57</u>	<u>577,839.17</u>	846,035.74
Total Liabilities and Fund Balances	<u>\$276,500.71</u>	<u>\$577,839.17</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 \$1,644,794.43 and the accumulated depreciation is \$841,985.51.

802,808.92

Net assets of governmental activities

\$ 1,648,844.66

**The accompanying Notes to Basic Financial Statements are an integral part of this statement.**

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Local Sources:			
Local Tax Levy	\$ 881,705.00	\$ -	\$ 881,705.00
Interest Earned on Investments	1,272.33		1,272.33
Municipal Assistance	35,000.00		35,000.00
EMS Services	142,984.92		142,984.92
Miscellaneous	<u>12,283.10</u>	<u>-</u>	<u>12,283.10</u>
Total - Local Sources	1,073,245.35		1,073,245.35
State Sources	<u>20,697.00</u>	<u>-</u>	<u>20,697.00</u>
Total Revenues	<u>1,093,942.35</u>	<u>-</u>	<u>1,093,942.35</u>
<b>EXPENDITURES</b>			
Current:			
Administration:			
Salaries	16,186.60		16,186.60
Other Expenses	22,581.46		22,581.46
Cost of Providing Services:			
Salaries	405,367.74		405,367.74
Fringe Benefits	224,815.81		224,815.81
Other Expenses	294,913.15		294,913.15
Uniform Fire Safety Act:			
Salaries	18,000.00		18,000.00
Other Expenses	<u>500.00</u>		<u>500.00</u>
Total Expenditures	<u>982,364.76</u>	<u>-</u>	<u>982,364.76</u>
Excess of Revenues over Expenditures	<u>111,577.59</u>	<u>-</u>	<u>111,577.59</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>			
Additional Prior Year Orders	(289.00)		(289.00)
Transfers In	-	80,000.00	80,000.00
Transfers (Out)	<u>(80,000.00)</u>	<u>-</u>	<u>(80,000.00)</u>
Total Other Financing Sources and (Uses)	<u>(80,289.00)</u>	<u>80,000.00</u>	<u>(289.00)</u>
Net Change in Fund Balances	31,288.59	80,000.00	111,288.59
Fund Balance—January 1	<u>236,907.98</u>	<u>497,839.17</u>	<u>734,747.15</u>
Fund Balance—December 31	<u>\$ 268,196.57</u>	<u>\$ 577,839.17</u>	<u>\$ 846,035.74</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

**Total net change in fund balances - governmental funds (from B-2)** **\$ 111,288.59**

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

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

Depreciation expense	\$ (64,471.59)	
Capital Outlays	<u>          -</u>	(64,471.59)

Repayment of debt 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.

-

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 difference in accrued interest is an addition in the reconciliation. (+)

Interest paid	-
Interest accrued	<u>          -</u>

-

**Change in net assets of governmental activities**

\$ 46,817.00

**The accompanying Notes to Financial Statements are an integral part of this statement.**

**PROPRIETARY FUNDS**

**NOT APPLICABLE**

## **FIDUCIARY FUNDS**



**TOWNSHIP OF HANOVER  
 FIRE DISTRICT NUMBER 3  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	<b><u>Fire Prevention Fund</u></b>	<b><u>Agency Funds</u></b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 54,399.09	\$ 459.26
Interfund Receivable - General Fund	<u>-</u>	<u>8,304.14</u>
Total Assets	<u>\$ 54,399.09</u>	<u>\$ 8,763.40</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ -	\$ 8,635.36
Payable to General Fund	<u>20,192.28</u>	<u>128.04</u>
Total Liabilities	<u>\$ 20,192.28</u>	<u>\$ 8,763.40</u>
<b>NET ASSETS</b>		
Reserved for Fire Prevention	<u>\$ 34,206.81</u>	<u>\$ -</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**TOWNSHIP OF HANOVER**  
**FIRE DISTRICT NUMBER 3**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	<b>Fire Prevention Fund</b>
<b>ADDITIONS</b>	
Contributions:	
Fees	<u>\$ 13,819.13</u>
Investment Earnings:	
Interest	<u>151.00</u>
Net Investment Earnings	<u>151.00</u>
Total Additions	<u>13,970.13</u>
<b>DEDUCTIONS</b>	
Administrative Expenses	<u>42.00</u>
Total Deductions	<u>42.00</u>
Change in Net Assets	<u>13,928.13</u>
Net Assets—Beginning	<u>20,278.68</u>
Net Assets—Ending	<u>\$ 34,206.81</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Fire District (Board) of the Township of Hanover Fire District Number 3 (“the District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the District has chosen not to do so. The more significant accounting policies established in GAAP and used by the District are discussed below.

In June 2007, The Governmental Standards Board (GASB) issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 51 are not applicable for the Authority.

In June 2008, The Governmental Standards Board (GASB) issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The Reporting and Disclosure Requirements Promulgated by GASB Statement No. 53 are not applicable for the Authority.

In March 2009, the Governmental Accounting Standards Board (GASB) adopted Statement No.54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement will become effective for fiscal periods beginning after June 15, 2010. The effective date for the Authority is the fiscal year beginning December 1, 2010. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and clarifying the existing fund balance type definitions.

B. Reporting Entity

The Board is an instrumentality of the State of New Jersey, established to function as a Fire District. The Board consists of elected officials and is responsible for the fiscal control of the District. A treasurer is appointed by the Board and is responsible for the administrative control of the District.

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

The primary criterion for including activities within the District reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the District over which the Board exercises operating control. The operations of the District include fire houses located in the Township of Hanover. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

C. Basic Financial Statements- Government-Wide Statements

The statement of net assets and the statement of activities display information about the District. These statements include the financial activities of the District, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

D. 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.

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Basic Financial Statements- Fund Financial Statements (Continued)

The following fund types are used by the District:

Governmental Fund Types

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:

General Fund – The 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. Included are certain expenditures for vehicles and movable instructional or noninstructional equipment which are classified in the Capital Outlay sub fund.

Accounting principles generally accepted in the United States of America as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The financial resources are derived from temporary notes or serial bonds that are specially authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs.

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

Fiduciary Fund Types (Continued)

The District's fiduciary funds are presented in the fiduciary fund financial statements by type (Fire Protection). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

E. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, property taxes, grants entitlements and donations.

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

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

F. Budgets/Budgetary Control

Annual budgets are adopted on a basis consistent with the requirements of law and the rules and regulations of the State of New Jersey, Department of Community Affairs, Local Finance Board. The Budgets, both operating and capital, can be considered statement of the financial plans of the District.

The annual budget is required to be balanced and fire districts are permitted to utilize unreserved fund balance to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unreserved fund balance or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Budgets/Budgetary Control (Continued)

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

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

G. Assets, Liabilities and Fund Equity

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be investments. U.S. Treasury and Agency Obligations and Certificate of Deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey fire districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 40A:5-15.1 provides a list of permissible investments that may be purchased by New Jersey fire districts.

2. Short – term Interfund Receivables/Payables

Short – term interfund receivables/payables represents 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.

3. Inventories

Inventories, which benefit future periods, other than those recorded in the enterprise fund are recorded as expenditure during the year of purchase.

4. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more 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.



TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

4. Capital Assets (Continued)

Depreciation on the following assets is provided on the straight – line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and Equipment	5-10 years
Improvements	10-20 years
Other Infrastructure	10-50 years

Land and Construction in Progress are not depreciated.

GASBS No. 34 required the District to report and depreciate new infrastructure assets effective for fiscal year ending December 31, 2004. Neither their historical cost nor related depreciation had historically been reported in the financial statements. The District elected to implement the general provisions of GASBS No. 34 in the fiscal year ending December 31, 2004.

5. Long – term Obligations

Long – term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long – term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government – wide presentations.

6. Fund Equity

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

7. Use of Estimates

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

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note II: Reconciliation of Government Wide and Fund Financial Statements

Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Assets

"Total fund balances" of the District's governmental funds in B-1 differs from "net assets" of governmental activities reported in the statement of net assets in A-1. This difference primarily results from the long - term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets

<u>Assets</u>	Total Governmental Funds	Long - term Assets Liabilities (1)	Reclassifications and Eliminations	Statement of Net Assets Totals
Cash and Cash Equivalents	\$ 834,019.56		\$ (577,839.17)	\$ 256,180.39
Interfund Receivables	20,320.32			20,320.32
Restricted Assets:				
Cash and Cash Equivalents	-		577,839.17	577,839.17
Capital Assets, Net	-	<u>802,808.92</u>	-	<u>802,808.92</u>
Total Assets	<u>\$ 854,339.88</u>	<u>\$802,808.92</u>	<u>\$ -</u>	<u>\$1,657,148.80</u>
 <u>Liabilities</u>				
Interfunds Payable	\$ 8,304.14	\$ -	\$ -	\$ 8,304.14
Total Liabilities	<u>\$ 8,304.14</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,304.14</u>
 <u>Fund Balances/Net Assets</u>				
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt		802,808.92		802,808.92
Restricted for:				
Capital Projects	157,839.17			157,839.17
Unrestricted	<u>688,196.57</u>	-	-	<u>688,196.57</u>
Total Fund Balances/Net Assets	<u>846,035.74</u>	<u>802,808.92</u>	-	<u>1,648,844.66</u>
Total Liabilities and Fund Balances/Net Assets	<u>\$ 854,339.88</u>	<u>\$802,808.92</u>	<u>\$ -</u>	<u>\$1,657,148.80</u>

+

1. When Capital Assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the cost of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the District as a whole.

Cost of Capital Assets	\$ 1,644,794.43
Accumulated Depreciation	<u>(841,985.51)</u>
	<u>\$ 802,808.92</u>

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note II: Reconciliation of Government Wide and Fund Financial Statements (Continued)

Explanation of Differences between Governmental Funds Operating Statement of Activities

The "net change in fund balances" for governmental funds in B-2 differs from the "change in net assets" for governmental activities reported in the statement of activities in A-2. The difference arise primarily for the long - term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The effect of the differences is illustrated below.

Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities

<u>Revenues and Other Sources</u>	<u>Total Governmental Funds</u>	<u>Long - term Revenue, Expenses (1)</u>	<u>Capital Related Items (2)</u>	<u>Long - term Debt Transactions (3)</u>	<u>Statement of Activities Totals</u>
Local Tax Levy	\$ 881,705.00	\$ -	\$ -	\$ -	\$ 881,705.00
Interest Earned on Investments	1,272.33				1,272.33
Municipal Assistance	35,000.00				35,000.00
EMS Services	142,984.92				142,984.92
Miscellaneous	12,283.10				12,283.10
State Sources	20,697.00				20,697.00
Total	<u>\$1,093,942.35</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,093,942.35</u>
 <u>Expenditures</u>					
Current:					
Administration:					
Salaries	16,186.60				16,186.60
Other Expenses	22,581.46				22,581.46
Cost of Providing Services:					
Salaries	405,367.74				405,367.74
Fringe Benefits	224,815.81				224,815.81
Other Expenses	294,913.15		64,471.59		359,384.74
Uniform Fire Safety Act:					
Salaries	18,000.00				18,000.00
Other Expenses	500.00				500.00
Total	<u>982,364.76</u>	<u>-</u>	<u>64,471.59</u>	<u>-</u>	<u>1,046,836.35</u>
 Other Financing Uses/Changes in Net Assets:					
Prior Year Orders	<u>(289.00)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(289.00)</u>
Total	<u>(289.00)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(289.00)</u>
Net Change for the Year	<u>\$ 111,288.59</u>	<u>\$ -</u>	<u>\$ (64,471.59)</u>	<u>\$ -</u>	<u>\$ 46,817.00</u>

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

Depreciation Expense	\$ (64,471.59)
Capital Outlays	-
	<u>\$ (64,471.59)</u>

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

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

N.J.S.A. 17:9-41 et. Seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (GUDPA). Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

At December 31, 2011 the District's cash and cash equivalent's amounted to \$920,841.92. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$155,248.08 was covered by a collateral pool maintained by the banks as required by GUDPA.

At December 31, 2011 the District's participation in the State of New Jersey Cash Management Fund amounted to \$515,593.84.

Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures* ("GASB 40"), the District's operating cash accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the District would not be able to recover the value of its deposits and investments). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by a pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name.

As of December 31, 2011, \$515,593.84 of the District's cash and cash equivalents of \$920,841.92 was exposed to custodial credit.

Uninsured and collateral held by public depository  
or by its' trust department not in the Township of  
Hanover Fire District's name

\$515,593.84

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the District to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the Board of Commissioners of any fire district may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the fire district;

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the fire district or bonds or other obligations of local unit or units within which the fire district is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by the fire district;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

The District had no investments as described in Note I:G.1 at December 31, 2011.

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

B. Interfund Receivables and Payables

As of December 31, 2011, interfund receivables and payables resulting from various interfund transactions were as follows:

	<u>Due from</u> <u>Other Funds</u>	<u>Due to</u> <u>Other Funds</u>
General Fund	\$20,320.32	\$ 8,304.14
Trust and Agency Fund	<u>8,304.14</u>	<u>20,320.32</u>
	<u>\$28,624.46</u>	<u>\$28,624.46</u>

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

C. Capital Assets

Capital asset activity for the year ended December 31, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirement</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 7,500.00	\$ -	\$ -	\$ 7,500.00
Land Improvements	<u>21,700.00</u>	<u>-</u>	<u>-</u>	<u>21,700.00</u>
Total Capital Assets Not Being Depreciated	<u>29,200.00</u>	<u>-</u>	<u>-</u>	<u>29,200.00</u>
Buildings and Improvements	497,951.83		-	497,951.83
Machinery and Equipment	<u>1,117,642.60</u>	<u>-</u>	<u>-</u>	<u>1,117,642.60</u>
Totals at Historical Cost	<u>1,615,594.43</u>	<u>-</u>	<u>-</u>	<u>1,615,594.43</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(187,850.00)	(7,225.00)		(195,075.00)
Machinery and Equipment	<u>(589,663.92)</u>	<u>(57,246.59)</u>	<u>-</u>	<u>(646,910.51)</u>
Total Accumulated Depreciation	<u>(777,513.92)</u>	<u>(64,471.59)</u>	(1) <u>-</u>	<u>(841,985.51)</u>
Net Capital Assets Being Depreciated	<u>838,080.51</u>	<u>(64,471.59)</u>	<u>-</u>	<u>773,608.92</u>
Governmental Activities Capital Assets, Net	<u>\$ 867,280.51</u>	<u>\$ (64,471.59)</u>	<u>\$ -</u>	<u>\$ 802,808.92</u>

(1) Depreciation expense was charged to governmental functions as follows:

Cost of Providing Services	<u>\$ 64,471.59</u>
	<u>\$ 64,471.59</u>

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The District has no commitments to lease fire and rescue equipment under operating leases.

B. Long - Term Liabilities

The District has no long term liabilities for the year ended December 31, 2011.



TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note V: Pension Plans

Description of Systems

Substantially all of the District employees participate in one of the following contributory defined benefit public employee retirement systems which have been established by State statute: the Public Employees' Retirement System (PERS), the Police and Fireman's Retirement System (PFRS). These systems are sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS and PFRS are considered cost sharing multiple-employer defined benefit plans.

The Public Employees' Retirement System (PERS) was established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, fire district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits.

The Police and Fireman's Retirement System (PFRS) was established in July 1944, under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full time county and municipal police or firemen and State Firemen appointed after June 30, 1944. Membership is mandatory for such employees with vesting occurring after 10 years of membership.

According to the state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement systems terminate. The State of New Jersey, Department of Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the above systems. These reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

Retirement Benefits

For PERS employees, the benefits will be 1/55 of the average of the three highest year compensation for each year of service. However, for PERS who are veterans of the U.S. armed forces, the benefits will be 1/55 of final compensation for each year of service.

For PFRS employees, the benefits will be various percentages of final compensation depending upon the number of years of service.

Significant Legislation

Chapter 89, P.L. 2008, effective November 1, 2008, increased the PERS retirement age. If a person becomes a member on or after November 1, 2008 that person must be at least 62 years of age in order to retire without a reduction in their retirement allowance.

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note V: Pension Plans (Continued)

Significant Legislation (Continued)

Chapter 78, P.L. 2011, effective June 28, 2011 implements changes to the PERS. PERS employee pension contribution rates will increase from 5.5% to 6.5% of salary

The second phase of the contribution rate increase from 6.5% to 7.5% is to be phased in equally over a 7 year period beginning July 2012. The contribution rate will increase by 0.14% each year with the first payroll of July until the 7.5% contribution rate is reached in July 2018.

The increase in the PERS employee contribution rate will also increase the minimum repayment amount for pension loans or the cost for a purchase of service credit if certified after the employee's increased contribution becomes effective.

Under a provision of Chapter 78, P.L. 2011, Cost of Living Adjustments (COLA) are suspended for all current and future retirees of all retirement systems. There is no reduction to any COLA increases that were already added to retiree benefits prior to the effective date of the law.

Contribution Requirements

The contribution policy is set by New Jersey State Statutes and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The various pension funds provide for employee contributions based on percentages ranging from 5.5 percent for PERS to 8.50 percent for PFRS of employees' annual compensation, as defined. The PERS pension fund provides for employee contribution rates to increase from 5.50 percent of employees' annual compensation to 6.5%, effective with the first payroll amount to be paid on or after October 1, 2011. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PFRS and PERS.

For PFRS and PERS, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Note V: Pension Plans (Continued)

Contribution Requirements

The District's total payroll for the year ended December 31, 2011 was \$460,785.116 and covered payroll was \$102,092.00 for PERS and \$256,392.00 for PFRS. Contributions to the PERS and the PFRS for the last three years ended December 31 were as follows:

	<u>PERS</u>	<u>Percent of Covered Payroll</u>	<u>PFRS</u>	<u>Percent of Covered Payroll</u>
Employees – 2011	\$6,163.17	6.04%	\$22,754.79	8.88%
-2010	5,879.25	5.84%	21,077.73	8.50%
-2009	5,924.14	5.85%	21,120.55	8.50%
District –2011	10,638.68	10.42%	37,051.96	14.45%
-2010	8,154.00	8.10%	30,987.00	12.50%
-2009	4,073.00	4.03%	15,755.00	6.34%

The District elected in 2009 to defer 50% of its regular pension contributions, which amounted to \$3,262.00 for PERS and \$13,675.00 for PFRS.

Note VI: Post Retirement Medical Benefits

P.L. 1997, C.330 provides State paid post-retirement health benefits to qualified retirees of the Police and Firemen's Retirement System and the Consolidated Police and Firemen's Pension Fund and to dependents of qualified retirees. The State is responsible for 80% of the premium for the category of coverage elected by the retiree under the State managed care plan or a health maintenance organization participating in the program, whichever provides the lower charge. The State contributed \$28.8 million for the fiscal year 2010 to provide benefits under Chapter 330 to qualified retirees.

PERS employees do not receive post-retirement medical benefits.

Note VII Subsequent Events

The District's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through the date of audit.

## **STATISTICAL INFORMATION**

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

STATISTICAL INFORMATION

Following is a tabulation of district assessed valuation, tax levies and property tax rates per \$100 of assessed valuations for the current and preceding ten years:

<u>Fiscal Year</u>	<u>Assessed Valuations</u>	<u>Total Tax Levy</u>	<u>Property Tax Rate</u>
2011	\$ 719,390,300	\$ 881,705.00	0.122
2010	720,886,100	839,550.00	0.116
2009	729,131,800	806,000.00	0.110
2008	728,830,422	806,000.00	0.111
2007	736,451,758	734,000.00	0.100
2006	734,393,899	734,000.00	0.100
2005	763,368,402	763,000.00	0.100
2004	765,304,175	841,830.00	0.110
2003	764,449,800	686,000.00	0.090
2002	758,218,016	604,000.00	0.080

Unreserved/Unassigned Fund Balance:

<u>Fiscal Year Ended</u>	<u>End of Fiscal Year</u>	<u>Utilized In Budget of Succeeding Year</u>
December 31, 2011	\$268,196.57	\$ 94,000.00
December 31, 2010	236,907.98	98,000.00
December 31, 2009	206,026.34	92,600.00
December 31, 2008	277,203.41	258,866.00
December 31, 2007	323,529.03	262,480.00
December 31, 2006	418,339.47	283,640.14
December 31, 2005	413,709.49	203,302.14
December 31, 2004	408,405.01	121,500.14
December 31, 2003	344,023.27	195,272.14
December 31, 2002	219,409.46	134,849.14

## **ROSTER OF OFFICIALS**

**TOWNSHIP OF HANOVER**  
**FIRE DISTRICT NUMBER 3**

**ROSTER OF OFFICIALS**

Board of Commissioners

Thomas Harrington	Commissioner (Chairman)
Thomas Quirk	Commissioner (Vice-Chairman)
Paul Pilipie	Commissioner (Secretary)
Gary Keyser	Commissioner (Treasurer)
Peter DeNigris	Commissioner

Other Officials

James C. Davidson	Fire Chief
Richard Braslow, Esq.	Attorney

Surety Company

American Alternative Insurance Company package Policy No. VFIS-TR-0400150-0 expiring 1/9/12 includes a Blanket Honesty Bond on the Board of Fire Commissioners in the amount of \$350,000.00

**REQUIRED SUPPLEMENTARY INFORMATION -  
PART II**



**SECTION C**  
**BUDGETARY COMPARISON SCHEDULES**

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	Original <u>Budget</u>	Budget <u>Transfers</u>	Final <u>Budget</u>	<u>Actual</u>	Variance Final to <u>Actual</u>
<b>REVENUES:</b>					
Local Sources:					
District Taxes	\$ 881,705.00	\$ -	\$ 881,705.00	\$ 881,705.00	\$ -
Interest on Investments	1,500.00	-	1,500.00	1,272.33	(227.67)
Municipal Assistance	35,000.00	-	35,000.00	35,000.00	-
EMS Services				142,984.92	142,984.92
Miscellaneous	-	-	-	<u>12,283.10</u>	<u>12,283.10</u>
Total Revenues - Local Sources	<u>918,205.00</u>	<u>-</u>	<u>918,205.00</u>	<u>1,073,245.35</u>	<u>155,040.35</u>
State Sources:					
Uniform Fire Safety Act	23,699.00	-	23,699.00	18,500.00	(5,199.00)
Homeland Security Grant	6,800.00	-	6,800.00		(6,800.00)
Supplemental Fire Services Program	<u>2,935.00</u>	<u>-</u>	<u>2,935.00</u>	<u>2,197.00</u>	<u>(738.00)</u>
Total State Sources	<u>33,434.00</u>	<u>-</u>	<u>33,434.00</u>	<u>20,697.00</u>	<u>(12,737.00)</u>
Total Revenues	<u>951,639.00</u>	<u>-</u>	<u>951,639.00</u>	<u>1,093,942.35</u>	<u>142,303.35</u>
<b>EXPENDITURES:</b>					
Current Expense:					
Administration:					
Salaries and Wages	16,188.00	-	16,188.00	16,186.60	1.40
Other Expenses:					
Elections	1,200.00	-	1,200.00	1,276.18	(76.18)
Office Supplies and Postage	6,000.00	-	6,000.00	9,702.82	(3,702.82)
Fire Prevention Bureau	6,000.00	-	6,000.00	2,115.13	3,884.87
Public Events	4,000.00	-	4,000.00	4,042.85	(42.85)
Office Services	2,750.00	-	2,750.00	3,162.81	(412.81)
Recruitment and Retention	<u>2,500.00</u>	<u>-</u>	<u>2,500.00</u>	<u>2,281.67</u>	<u>218.33</u>
Total Administration Other Expenses	<u>22,450.00</u>	<u>-</u>	<u>22,450.00</u>	<u>22,581.46</u>	<u>(131.46)</u>
Total Administration Expenses	<u>38,638.00</u>	<u>-</u>	<u>38,638.00</u>	<u>38,768.06</u>	<u>(130.06)</u>

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	Original <u>Budget</u>	Budget <u>Transfers</u>	Final <u>Budget</u>	Actual	Variance Final to <u>Actual</u>
EXPENDITURES (Continued):					
Current Expense Continued):					
Cost of Providing Services:					
Salaries and Wages	\$ 399,111.00	\$ -	\$ 399,111.00	\$ 405,367.74	\$ (6,256.74)
Employee Benefits	225,703.00	-	225,703.00	224,815.81	887.19
Other Expenses:					
Advertising	1,500.00	-	1,500.00	1,673.94	(173.94)
Insurance Premiums	45,000.00	-	45,000.00	34,984.12	10,015.88
Maintenance and Repairs	60,000.00	-	60,000.00	64,676.69	(4,676.69)
Memberships, Dues and Subscriptions	4,500.00	-	4,500.00	7,617.15	(3,117.15)
Professional Services	20,000.00	-	20,000.00	42,272.00	(22,272.00)
Other Rentals	450.00	-	450.00	450.00	-
Training and Education	6,000.00	-	6,000.00	7,274.45	(1,274.45)
Travel Expenses	1,000.00	-	1,000.00	171.12	828.88
Uniforms and Personal Equipment	5,000.00	-	5,000.00	5,676.52	(676.52)
Utilities and Related Services	48,000.00	-	48,000.00	46,157.14	1,842.86
Reimbursement for Expenses and Losses	30,000.00	-	30,000.00	28,687.60	1,312.40
Permits, Licenses and Fees	500.00	-	500.00	301.94	198.06
Other Outside Services	5,000.00	-	5,000.00	1,230.54	3,769.46
Supplemental Fire Safety Act	3,000.00	-	3,000.00	3,000.00	-
Physicals	24,000.00	-	24,000.00	23,122.00	878.00
Conference/Convention	4,000.00	-	4,000.00	4,770.00	(770.00)
Other Assets - Non Bondable	25,000.00	-	25,000.00	22,847.94	2,152.06
Total Cost of Providing Services Other Expenses	<u>282,950.00</u>	<u>-</u>	<u>282,950.00</u>	<u>294,913.15</u>	<u>(11,963.15)</u>
Total Cost of Providing Services	<u>907,764.00</u>	<u>-</u>	<u>907,764.00</u>	<u>925,096.70</u>	<u>(17,332.70)</u>

**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011  
(CONCLUDED)**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
Current Expense (Continued):					
Uniform Fire Safety Act:					
Salaries and Wages:					
Fire Fighter/Official	\$ 18,000.00	\$ -	\$ 18,000.00	\$ 18,000.00	\$ -
Other Expenses	<u>5,237.00</u>	<u>-</u>	<u>5,237.00</u>	<u>500.00</u>	<u>4,737.00</u>
Total Uniform Fire Safety Act	<u>23,237.00</u>	<u>-</u>	<u>23,237.00</u>	<u>18,500.00</u>	<u>4,737.00</u>
Total Current Expense	<u>969,639.00</u>	<u>-</u>	<u>969,639.00</u>	<u>982,364.76</u>	<u>(12,725.76)</u>
Total Expenditures	<u>969,639.00</u>	<u>-</u>	<u>969,639.00</u>	<u>982,364.76</u>	<u>(12,725.76)</u>
 Excess or (Deficiency) of Revenues Over/(Under) Expenditures	 <u>(18,000.00)</u>	 <u>-</u>	 <u>(18,000.00)</u>	 <u>111,577.59</u>	 <u>129,577.59</u>
 Other Financing Sources (Uses):					
Additional Prior Year Orders				(289.00)	(289.00)
Operating Transfers (Out)	<u>(80,000.00)</u>		<u>(80,000.00)</u>	<u>(80,000.00)</u>	<u>-</u>
	<u>(80,000.00)</u>		<u>(80,000.00)</u>	<u>(80,289.00)</u>	<u>(289.00)</u>
 Excess or (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	 (98,000.00)	 -	 (98,000.00)	 31,288.59	 129,288.59
 FUND BALANCE, JANUARY 1	 <u>236,907.98</u>	 <u>-</u>	 <u>236,907.98</u>	 <u>236,907.98</u>	 <u>-</u>
 FUND BALANCE, DECEMBER 31	 <u>\$ 138,907.98</u>	 <u>\$ -</u>	 <u>\$ 138,907.98</u>	 <u>\$268,196.57</u>	 <u>\$129,288.59</u>

**OTHER SUPPLEMENTARY INFORMATION**

**SECTION D**  
**CAPITAL PROJECTS FUND**

**TOWNSHIP OF HANOVER  
 FIRE DISTRICT NUMBER 3  
 CAPITAL PROJECTS FUND  
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	<u>Total</u>	Capital Improvement <u>Fund</u>	<u>Building Improvements</u>	Repair of Fire <u>Apparatus</u>
Fund Balances at Beginning of Year	\$ 497,839.17	\$ 340,000.00	\$ 156,348.17	\$ 1,491.00
Increased by:				
Operating Transfers In	<u>80,000.00</u>	<u>80,000.00</u>	<u>-</u>	<u>-</u>
	<u>80,000.00</u>	<u>80,000.00</u>	<u>-</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 577,839.17</u>	<u>\$ 420,000.00</u>	<u>\$ 156,348.17</u>	<u>\$ 1,491.00</u>

**SECTION E**  
**FIDUCIARY FUNDS**



**TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3  
AGENCY FUNDS  
SCHEDULE OF RECEIPTS AND DISBURSEMENTS  
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2011**

	Balance			Balance
	<u>Jan. 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2011</u>
Reserve for Fire Prevention	\$ 20,278.68	\$ 13,970.13	\$ 42.00	\$ 34,206.81
Revenue Due to General Fund	1,692.28	18,500.00		20,192.28
Interest Due to General Fund	1,350.78	128.04	1,350.78	128.04
Payroll Excess Due to/(from) General Fund	31,313.89	8,072.61	47,690.64	(8,304.14)
Payroll Accounts Payable	6,224.51	2,410.85	-	8,635.36
Advance Due to General Fund	<u>-</u>	<u>497,128.78</u>	<u>497,128.78</u>	<u>0.00</u>
	<u>\$ 60,860.14</u>	<u>\$ 540,210.41</u>	<u>\$ 546,212.20</u>	<u>\$ 54,858.35</u>

**SECTION F**  
**LONG – TERM DEBT**

**REPORTS PURSUANT TO GOVERNMENT AUDITING  
STANDARDS**

Vincent M. Montanino, RMA, PSA  
Michael S. Zambito, CPA, RMA  
Antonia Russo, Associate

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"

The Honorable President and  
Members of the Board of Fire Commissioners  
Township of Hanover Fire District Number 3  
County of Morris, New Jersey

We have audited the financial statements of the Township of Hanover Fire District Number 3 as of and for the year ended December 31, 2011 and have issued our report thereon dated May 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 requirements prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township of Hanover Fire District Number 3's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township of Hanover Fire District Number 3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township of Hanover Fire District Number 3's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

111 Howard Boulevard  
Suite 212  
P.O. Box 397  
Mt. Arlington, NJ 07856  
Phone: 973-770-5491  
Fax: 973-770-5494  
[vm\\_associates@msn.com](mailto:vm_associates@msn.com)

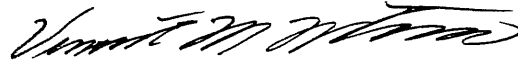
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting. Finding 11-01.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Township of Hanover Fire District Number 3'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.

This report is intended solely for the information and use of management, the Township of Hanover Fire District Number 3, Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey and other state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Vincent M. Montanino  
Registered Municipal Accountant  
License No. CR000375



Michael S. Zambito  
Certified Public Accountant  
License No. 20CC00789500

May 8, 2012

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2011

Part I – Summary of Auditor’s Report

**Financial Statement Section**

- A) Type of auditor’s report issued: Unqualified
- B) Internal Control over financial reporting:
- 1) Material weakness(es) identified? \_\_\_\_\_yes        X  no
- 2) Were significant deficiencies identified  
        that were not considered to be material  
        weaknesses?   X  yes      \_\_\_\_\_no
- C) Noncompliance material to basic financial  
    statements noted? \_\_\_\_\_yes        X  no

**Federal Awards Section**

Not Applicable

**State Financial Assistance Section**

Not Applicable

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Part 2 – Schedule of Financial Statement Findings

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 Chapter 5.18 of Government Auditing Standards.

Finding 11-1

Criteria or specific requirement:

Management is responsible for establishing and maintaining an internal control system to ensure compliance with requirements of laws, regulations, contracts and grants.

Condition:

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Certain functions by the Fire District are handled by one person.

Questioned Costs:

Not Applicable

Context:

While this situation is not unusual in operations the size of the Fire District management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Effect:

Our audit did not reveal any significant errors or irregularities resulting from this lack of segregation of employee duties and responsibilities.

Recommendation:

Not Applicable

TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED DECEMBER 31, 2011  
(CONTINUED)

Part 3 – Schedule of Federal Awards and State Financial Assistance Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04.

Not Applicable



TOWNSHIP OF HANOVER  
FIRE DISTRICT NUMBER 3

SUMMARY SCHEDULE OF PRIOR-YEAR AUDIT FINDINGS  
AND RESPONSES AS PREPARED BY MANAGEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2011

This section identifies the status of prior-year findings related to the basic financial statements and federal awards and state financial assistance that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, U.S. OMB Circular A-133 (section .315 (a) (b) and New Jersey OMB's Circular 04-04.

STATUS OF PRIOR YEAR FINDINGS

FINDING 10-1

Condition

Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties, so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction. Consequently, the possibility exists that unintentional or intentional errors or irregularities could exist and not be promptly detected. Certain functions by the Fire District are handled by one person.

Current Status

Unchanged. See Finding #11-1.

**GENERAL COMMENTS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2011**

## GENERAL COMMENTS

### CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER N.J.S.A 40A: 11-4

N.J.S.A. 40A:11-4 states "Whenever any work to be performed or materials to be furnished in or about any improvement or works to be made under the provisions of this article shall involve an expenditure of a sum of money exceeding the amount under which a contracting unit may award contracts or make purchases or agreements without public advertising pursuant to the provisions of Section 3 of P.L. 1971, c. 198 (C. 40A11-3), the municipal bodies or boards of the contracting municipalities, by their official action taken in joint meeting as herein provided, shall designate a time when they will meet at their usual place of meeting to receive proposals in writing, for doing the work or furnishing the materials,....."

The governing body of the Township of Hanover Fire District Number 3 has the responsibility of determining whether the expenditures in any category will exceed the statutory limit within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Attorney's opinion should be sought before a commitment is made.

Effective April 17, 2000 N.J.S.A. 40A:11-1 et seq. (Local Public Contracts Law) was revised by P.L. 1999, c.440 (originally known as Assembly bill No. 3519). The Division of Local Government Services in the Department of Community Affairs, after consultation with the Commissioner of Education, shall prescribe rules and procedures to implement the requirements of the law.

Effective July 1, 2010 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is \$26,000.00, however effective January 1, 2011 the bid threshold for entities without a qualified purchasing agent was rolled back to \$17,500.00.

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

The results of our examination of expenditures did not reveal any individual payments, contracts or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

### EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy and proper approvals.

The review and inquiry indicate good scrutiny on the part of the Fire District and Fire District Officials regarding expenditures.

### BUDGET APPROPRIATIONS

The District inadvertently overexpended its budget for the year 2011 in the amount of \$12,725.76. The District did discover this prior to the final adoption of its 2012 and amended the Budget to include \$13,384.00 to be raised as a deferred charge to provide for this overexpenditure.

### PAYROLL

It was noted that the District has not been properly analyzing the pension deductions from employees and either not remitting them, collecting the proper amounts and or refunding them to the affected employees.

RECOMMENDATIONS

The District should periodically review its budget status report to insure that overcommitments/overexpenditures do not occur.

The District should monitor its payroll deductions to insure that they are properly remitted or returned.

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APPRECIATION

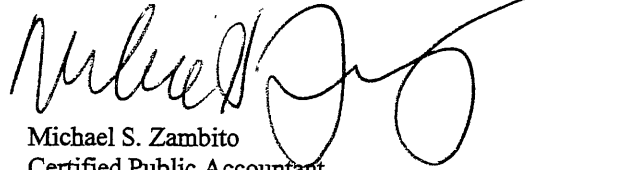
We wish to express our appreciation for the assistance and courtesies extended to us during the course of the audit.

Should any question arise as to our audit comments or you need any assistance in implementing our recommendations, please do not hesitate to call us

Respectfully submitted,



Vincent M. Montanino  
Registered Municipal Accountant  
License No. CR000375



Michael S. Zambito  
Certified Public Accountant  
License No. 20CC00789500

May 8, 2012