

**TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3**

**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
INDEPENDENT AUDITOR'S REPORT	
Independent Auditor's Report on Basic Financial Statements	1-3
REQUIRED SUPPLEMENTARY INFORMATION – PART I	
Management's Discussion and Analysis (Unaudited)	5-10
BASIC FINANCIAL STATEMENTS	
A. District – wide Financial Statements:	
A-1 Statement of Net Position	13
A-2 Statement of Activities	14
B. Fund Financial Statements:	
Governmental Funds:	
B-1 Balance Sheet	17
B-2 Statement of Revenues, Expenditures and Changes in Fund Balances	18
B-3 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Proprietary Funds:	
B-4 Statement of Net Position	N/A
B-5 Statement of Revenues, Expenses and Changes in Fund Net Position	N/A
B-6 Statement of Cash Flows	N/A
Fiduciary Funds:	
B-7 Statement of Fiduciary Net Position	22
B-8 Statement of Changes in Fiduciary Net Position	23
NOTES TO FINANCIAL STATEMENTS	25-50
STATISTICAL INFORMATION	52
ROSTER OF OFFICIALS	54

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

TABLE OF CONTENTS
CONTINUED

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION – PART II	
C. Budgetary Comparison Schedules: C-1 Combined Schedule of Revenues, Expenses, and Changes in Fund Balances – Budget and Actual – General Fund	57-59
OTHER SUPPLEMENTARY INFORMATION	
D. Capital Projects Fund: D-1 Schedule of Revenues, Expenditures and Changes in Fund Balances	62
E. Agency Funds E-1 Schedule of Receipts and Disbursements	64
F. Long – Term Debt F-1 Schedule of Serial Bonds F-2 Schedule of Obligation Under Capital Leases F-3 Combined Schedule of Revenues, Expenses, and Changes in Fund Balances – Debt Service Fund	N/A 66 67
REPORTS PURSUANT TO GOVERNMENT AUDITING STANDARDS	
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”	69-70
Schedules of Findings and Responses	
Part 1 Summary of Auditor’s Results	71
Part 2 Schedule of Financial Statement Findings	72
Part 3 Schedule of Federal Awards and State Financial Assistance Findings and Responses	73
Summary Schedule of Prior-Year Audit Findings and Responses as Prepared by Management	74
GENERAL COMMENTS AND RECOMMENDATIONS	76-77

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

Report on the Financial Statements

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, 2015, and the related notes to the basic financial statements which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 Bureau of Authority Regulation, 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 performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that the audit evidence obtained is sufficient to provide a reasonable basis for our opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Township of Hanover Fire District Number 3 as of December 31, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note V to the basic financial statements, the Fire District implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment to GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68* during the year ended December 31, 2015. Our opinions are not modified with respect to this matter. The implementation resulted in the restatement of certain balances on the Statement of Net Position and the ending balance for Net Position for the Governmental Activities as of December 31, 2014 as detailed in Note VIII to the basic financial statements.

Other Matters

Required Supplementary Information

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 and by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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.

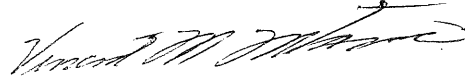
Supplementary and Other Information

Our audit was performed for the purpose of forming opinions on the financial statements of the Township of Hanover Fire District Number 3 that collectively comprise their financial statements. The accompanying supplementary information listed in the table of contents including statistical information and the letter of comments and recommendations section are presented for purposes of additional analysis, as required by the Division of Local Government Services and are not a required part of the financial statements.

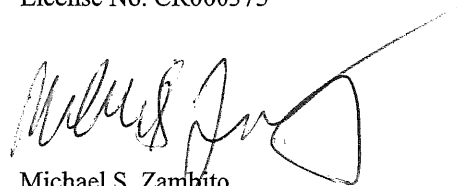
The supplemental information listed in the table of contents are the responsibility of management and were derived from the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole

Other Reporting Required by Government Auditing Standards

In accordance with Governmental Auditing Standards, we have also issued our report dated May 23, 2016 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, 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. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in considering the District's internal control over financial reporting and compliance.



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License No. CR000375



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May 23, 2016

**REQUIRED SUPPLEMENTARY INFORMATION -
PART I**

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3
Management's Discussion and Analysis
For the Fiscal Year Ended December 31, 2015
(UNAUDITED)

Our discussion and analysis of the Township of Hanover Fire District Number 3's financial activities for the year ended December 31, 2015. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's restated net position increased \$161,406.87 as a result of this year's operations or 11.96 percent.
-
- Total cost of all of the District's programs was \$1,550,312.79 in 2015 compared to \$1,424,469.69 in 2014.
-
- During the year, the District had expenses for governmental activities that were \$161,406.87 less than the \$1,711,719.66 generated in tax and other revenues.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position 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 Position 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 Position 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 position* and changes in them. You can think of the District's net position, the difference between assets and liabilities, as one way to measure the District's financial health, or *financial position*. Over time, *increases* or *decreases* in the District's net position are one indicator 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 Position 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 Position and the Statement of Activities) and governmental funds in a 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 Position and Changes in Fiduciary Net Position. 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.

Notes to the Basic Financial Statements: The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

**Major Features of
Township of Hanover
Fire District Number 3
Fund Financial Statements
(Figure A-1)**

Scope	Government wide Statements	Fund Statements	
	Entire District (except fiduciary funds)	Governmental Funds	Fiduciary Funds
Required financial statements	Statement of net position Statement of activities	The activities of the District that are not proprietary or fiduciary, such as food service and student activities Balance sheet Statement of revenues, expenditures, and changes in fund balance	Instances in which the District is the trustee or agent for someone else's resources. Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, liabilities and inflows/outflows both financial and capital, and short-term and long term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both short-term and long-term.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's restated net position changed from a year ago, increasing from \$1,349,483.81 to \$1,510,890.68. Looking at the net position and net expenses of governmental activities, different stories emerge. Our analysis below focuses on the net assets (Table 1) and changes in net position (Table 2) of the District's governmental activities as of December 31.

Table 1
Net Position

	Governmental Activities		Total Primary Government	
	2015	2014	2015	2014
Current and Other Assets	\$ 1,246,310.98	\$ 1,210,887.19	\$ 1,246,310.98	\$ 1,210,887.19
Receivables, Net	737.07	11,158.39	737.07	11,158.39
Capital Assets				
Land & Construction in Progress	325,100.53	175,286.88	325,100.53	175,286.88
Other Assets, Net of Accumulated Depreciation	<u>1,229,084.14</u>	<u>1,257,359.40</u>	<u>1,229,084.14</u>	<u>1,257,359.40</u>
Total Assets	<u>2,801,232.72</u>	<u>2,654,691.86</u>	<u>2,801,232.72</u>	<u>2,654,691.86</u>
Deferred Outflows	<u>339,022.00</u>	<u>46,358.00</u>	<u>339,022.00</u>	<u>46,358.00</u>
Long-term debt outstanding	237,019.90	292,051.05	237,019.90	292,051.05
Other liabilities	<u>1,358,379.14</u>	<u>975,242.00</u>	<u>1,358,379.14</u>	<u>975,242.00</u>
Total liabilities	<u>1,595,399.04</u>	<u>1,267,293.05</u>	<u>1,595,399.04</u>	<u>1,267,293.05</u>
Deferred Inflows	<u>33,965.00</u>	<u>84,273.00</u>	<u>33,965.00</u>	<u>84,273.00</u>
Net Position:				
Net Investment in Capital Assets	300,171.77	127,438.23	300,171.77	127,438.23
Restricted	167,484.93	425,246.63	167,484.93	425,246.63
Unrestricted	<u>1,043,233.98</u>	<u>796,798.95</u>	<u>1,043,233.98</u>	<u>796,798.95</u>
Total Net Position	<u>\$ 1,510,890.68</u>	<u>\$ 1,349,483.81</u>	<u>\$ 1,510,890.68</u>	<u>\$ 1,349,483.81</u>

- Net position of the District's governmental activities increased \$161,406.87 or 11.96%.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased \$246,435.03.
- Restricted net position, those restricted mainly for capital projects decreased by \$257,761.70.
- The net investment in capital assets increased \$172,733.54.

Table 2
Changes in Net Position

	<u>Governmental</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<u>Revenues</u>				
Program Revenues:				
Operating Grants and Contributions	\$ 26,703.12	\$ 34,357.60	\$ 26,703.12	\$ 34,357.60
General Revenues:				
Property Taxes	1,072,057.88	1,016,204.40	1,072,057.88	1,016,204.40
State Aid	2,197.00	2,197.00	2,197.00	2,197.00
Interest and Investment Earnings	2,625.71	2,889.05	2,625.71	2,889.05
EMS Services	523,433.54	504,155.24	523,433.54	504,155.24
Other General Revenues	<u>84,702.41</u>	<u>57,644.69</u>	<u>84,702.41</u>	<u>57,644.69</u>
Total Revenues:	<u>1,711,719.66</u>	<u>1,617,447.98</u>	<u>1,711,719.66</u>	<u>1,617,447.98</u>
<u>Program expenses including indirect expenses</u>				
Administration:				
Salaries	18,075.00	16,213.75	18,075.00	16,213.75
Fringe Benefits	755.00		755.00	-
Other Expenses	19,992.29	24,214.71	19,992.29	24,214.71
Cost of Providing Services:				
Salaries	616,440.42	493,830.47	616,440.42	493,830.47
Fringe Benefits	207,384.28	279,093.17	207,384.28	279,093.17
Other Expenses	660,962.68	576,759.99	660,962.68	576,759.99
Uniform Fire Safety Act:				
Salaries	18,000.00	18,000.00	18,000.00	18,000.00
Other Expenses	-	6,062.00	-	6,062.00
Interest on long-term debt	<u>8,703.12</u>	<u>10,295.60</u>	<u>8,703.12</u>	<u>10,295.60</u>
Total Expenses	<u>1,550,312.79</u>	<u>1,424,469.69</u>	<u>1,550,312.79</u>	<u>1,424,469.69</u>
Increase (Decrease) in Net Position	<u>\$ 161,406.87</u>	<u>\$ 192,978.29</u>	<u>\$ 161,406.87</u>	<u>\$ 192,978.29</u>

THE DISTRICT'S FUNDS

Governmental Activities

Table 3

Information below compares revenues and expenditures for all governmental fund types for 2015 and 2014.

<u>Revenues by Source:</u>	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Local Sources:			
Local Tax Levy	\$ 1,080,761.00	\$1,026,500.00	5.29%
Interest on Investments	2,625.71	2,889.05	-9.12%
EMS Services	523,433.54	504,155.24	3.82%
Local Registration Fees	32,956.50	21,097.93	56.21%
Rental Income	5,958.37	6,500.00	-8.33%
Miscellaneous	39,937.54	30,046.76	32.92%
Total - Local Sources	1,685,672.66	1,591,188.98	5.94%
State Sources	26,047.00	26,259.00	-0.81%
Total Revenues	<u>\$ 1,711,719.66</u>	<u>\$1,617,447.98</u>	5.83%

<u>Expenditures by Function:</u>	<u>2015</u>	<u>2014</u>	<u>% Change</u>
Administration:			
Salaries	\$ 16,500.00	\$ 16,213.75	1.77%
Fringe Benefits	755.00	-	100.00%
Other Expenses	19,992.29	24,214.71	-17.44%
Cost of Providing Services:			
Salaries	583,855.46	493,830.47	18.23%
Fringe Benefits	203,548.28	279,093.17	-27.07%
Other Expenses	524,739.37	447,733.24	17.20%
Uniform Fire Safety Act:			
Salaries	18,000.00	18,000.00	0.00%
Other Expenses	-	6,062.00	-100.00%
Capital Outlay	257,761.70	294,425.75	-12.45%
Debt Service:			
Principal	55,031.15	53,438.67	2.98%
Interest on long-term debt	8,703.12	10,295.60	-15.47%
Total Expenditures	<u>\$1,688,886.37</u>	<u>\$1,643,307.36</u>	2.77%

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Table 4

Net Investment in Capital Assets at Year-end

	Governmental Activities		Totals	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</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	1,996,478.31	1,888,530.26	1,996,478.31	1,888,530.26
Construction-in-Progress	<u>295,900.53</u>	<u>146,086.88</u>	<u>295,900.53</u>	<u>146,086.88</u>
Subtotal	2,819,530.67	2,561,768.97	2,819,530.67	2,561,768.97
Accumulated Depreciation	<u>(1,265,346.00)</u>	<u>(1,129,122.69)</u>	<u>(1,265,346.00)</u>	<u>(1,129,122.69)</u>
Totals	<u>\$ 1,554,184.67</u>	<u>\$ 1,432,646.28</u>	<u>\$ 1,554,184.67</u>	<u>\$ 1,432,646.28</u>

The District's 2016 capital budget anticipates \$244,985 of new appropriations and some previous budgeted items will continue to be expensed. More detailed information about the District capital assets is presented in the notes to the basic financial statements.

DEBT

At year – end the District had total debt of \$1,593,229.86 outstanding versus \$1,267,293.05 last year – an increase of 25.72 percent – as shown in Table 5.

Outstanding Debt, at Year –End

Table 5

	Governmental Activities	
	<u>2015</u>	<u>2014</u>
Capital Leases	\$ 237,019.90	\$ 292,051.05
Compensated Absences	34,159.96	
Net Pension Liability:		
PERS	391,553.00	285,797.00
PFRS	<u>930,497.00</u>	<u>689,445.00</u>
	<u>\$ 1,593,229.86</u>	<u>\$ 1,267,293.05</u>

An analysis of District Debt is presented in the notes to the basic financial statements.

BUDGETS

There were no significant variances between the originally adopted budget and final budget for the year 2015. For more detailed information, please refer to Exhibit C-1.

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 Number 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 POSITION
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2015**

	Governmental Activities	Total
ASSETS		
Cash and Cash Equivalents	\$ 1,053,826.05	\$ 1,053,826.05
Interfund Receivable	737.07	737.07
Restricted Assets:		
Cash and Cash Equivalents	192,484.93	192,484.93
Capital Assets, Net	<u>1,554,184.67</u>	<u>1,554,184.67</u>
Total Assets	<u>2,801,232.72</u>	<u>2,801,232.72</u>
DEFERRED OUTFLOWS		
Pension Deferred Outflows	<u>339,022.00</u>	<u>339,022.00</u>
LIABILITIES		
Interfund Accounts Payable	2,169.18	2,169.18
Net Pension Liability	1,322,050.00	1,322,050.00
Compensated Absences Payable	34,159.96	34,159.96
Noncurrent Liabilities:		
Due Within One Year	56,671.08	56,671.08
Due Beyond One Year	<u>180,348.82</u>	<u>180,348.82</u>
Total Liabilities	<u>1,595,399.04</u>	<u>1,595,399.04</u>
DEFERRED INFLOWS		
Pension Deferred Inflows	<u>33,965.00</u>	<u>33,965.00</u>
NET POSITION		
Net Investment in Capital Assets	300,171.77	300,171.77
Restricted for:		
Capital Projects	167,484.93	167,484.93
Unrestricted/Unassigned	<u>1,043,233.98</u>	<u>1,043,233.98</u>
Total Net Position	<u>\$ 1,510,890.68</u>	<u>\$ 1,510,890.68</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, 2015

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
					<u>Total</u>
Governmental Activities:					
Administration:					
Salaries	\$ 18,075.00	\$ -	\$ -	\$ -	\$ (18,075.00)
Fringe Benefits	755.00				(755.00)
Other Expenses	19,992.29				(19,992.29)
Cost of Providing Services:					
Salaries	616,440.42				(616,440.42)
Fringe Benefits	207,384.28				(207,384.28)
Other Expenses	660,962.68				(660,962.68)
Uniform Fire Safety Act:					
Salaries	18,000.00		18,000.00		-
Interest on Long-term Debt	8,703.12		8,703.12		-
Total Governmental Activities	<u>1,550,312.79</u>	<u>-</u>	<u>26,703.12</u>	<u>-</u>	<u>(1,523,609.67)</u>
Total Primary Government	<u>\$ 1,550,312.79</u>	<u>\$ -</u>	<u>\$ 26,703.12</u>	<u>\$ -</u>	<u>\$ (1,523,609.67)</u>
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					\$ 1,017,026.73
Property Taxes, Levied for Debt Service Principal					55,031.15
State Aid Not Restricted					2,197.00
Investment Earnings					2,625.71
EMS Services					523,433.54
Local Registration Fees					32,956.50
Rental Income					5,958.37
Miscellaneous Income					45,787.54
Total General Revenues					<u>1,685,016.54</u>
Change in Net Position					<u>161,406.87</u>
Net Position—Beginning (Restated)					<u>1,349,483.81</u>
Net Position—Ending					<u>\$ 1,510,890.68</u>

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, 2015**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and Cash Equivalents	\$ 1,053,826.05	\$ -	\$ 1,053,826.05
Interfunds Receivable	737.07	-	737.07
Restricted Cash and Cash Equivalents	<u>-</u>	<u>192,484.93</u>	<u>192,484.93</u>
Total Assets	<u>\$ 1,054,563.12</u>	<u>\$ 192,484.93</u>	<u>\$ 1,247,048.05</u>
LIABILITIES			
Interfunds Payable	<u>\$ 2,169.18</u>	<u>\$ -</u>	<u>\$ 2,169.18</u>
Total Liabilities	<u>2,169.18</u>	<u>-</u>	<u>2,169.18</u>
FUND BALANCES			
Reserved for:			
Designated Capital Projects	-	167,484.93	167,484.93
Unreserved/Unassigned, reported in:			
General Fund	1,052,393.94		1,052,393.94
Capital Projects Fund	<u>-</u>	<u>25,000.00</u>	<u>25,000.00</u>
Total Fund Balances	<u>1,052,393.94</u>	<u>192,484.93</u>	<u>1,244,878.87</u>
Total Liabilities and Fund Balances	<u>\$ 1,054,563.12</u>	<u>\$ 192,484.93</u>	

Amounts reported for *governmental activities* in the statement of net position (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 \$2,819,530.67 and the accumulated depreciation is \$1,265,346.00. 1,554,184.67

Deferred Outflows related to pension contributions subsequent to the Net Pension Liability measurement date and other deferred items are not current financial resources and are not reported in the fund statements. 339,022.00

Deferred Inflows related to pension actuarial gains from experience and differences in actual returns and assumed returns and other deferred items are not reported as liabilities in the fund statements. (33,965.00)

Long-term liabilities, including leases payable and net pension liabilities, are not due and payable in the current period and therefore are not reported as liabilities in the funds. (1,593,229.86)

Net position of governmental activities \$ 1,510,890.68

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, 2015**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Local Sources:				
Local Tax Levy	\$ 1,017,026.73	\$ -	\$ 63,734.27	\$ 1,080,761.00
Interest Earned on Investments	2,625.71			2,625.71
EMS Services	523,433.54			523,433.54
Local Registration Fees	32,956.50			32,956.50
Rental Income	5,958.37			5,958.37
Miscellaneous	<u>45,787.54</u>	<u>-</u>	<u>-</u>	<u>45,787.54</u>
Total - Local Sources	1,627,788.39		63,734.27	1,691,522.66
State Sources	<u>20,197.00</u>	<u>-</u>	<u>-</u>	<u>20,197.00</u>
Total Revenues	<u>1,647,985.39</u>	<u>-</u>	<u>63,734.27</u>	<u>1,711,719.66</u>
EXPENDITURES				
Current:				
Administration:				
Salaries	16,500.00			16,500.00
Fringe Benefits	755.00			755.00
Other Expenses	19,992.29			19,992.29
Cost of Providing Services:				
Salaries	583,855.46			583,855.46
Fringe Benefits	203,548.28			203,548.28
Other Expenses	524,739.37			524,739.37
Uniform Fire Safety Act:				
Salaries	18,000.00			18,000.00
Capital Outlay		257,761.70		257,761.70
Debt Service:				
Principal			55,031.15	55,031.15
Interest and Other Charges	<u>-</u>	<u>-</u>	<u>8,703.12</u>	<u>8,703.12</u>
Total Expenditures	<u>1,367,390.40</u>	<u>257,761.70</u>	<u>63,734.27</u>	<u>1,688,886.37</u>
Net Change in Fund Balances	280,594.99	(257,761.70)	-	22,833.29
Fund Balance—January 1	<u>771,798.95</u>	<u>450,246.63</u>	<u>-</u>	<u>1,222,045.58</u>
Fund Balance—December 31	<u>\$ 1,052,393.94</u>	<u>\$ 192,484.93</u>	<u>\$ -</u>	<u>\$ 1,244,878.87</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, 2015

Total net change in fund balances - governmental funds (from B-2) \$ 22,833.29

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	\$(136,223.31)	
Capital Outlays	<u>257,761.70</u>	121,538.39

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net position and is not reported in the statement of activities. 55,031.15

Pension contributions are reported in governmental funds as expenditures. However in the statement of activities, the contributions are adjusted for actuarial valuation adjustments, including service and interest costs, administrative costs, investment returns and experience or assumptions. This is the amount by which net pension liability and deferred inflows/outflows related to pension changed during the period. (3,836.00)

In the statement of activities, interest on long-term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due. The difference in accrued interest is an addition in the reconciliation. (+)

Interest Paid	8,703.12	
Interest Accrued	<u>(8,703.12)</u>	

In the statement of activities, certain operating expenses, e.g., compensated absences (vacations and unused sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition in the reconciliation (+). (34,159.96)

Change in net position of governmental activities \$ 161,406.87

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 POSITION
FIDUCIARY FUNDS
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2015

	<u>Fire Prevention Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and Cash Equivalents	\$ 90,371.25	\$ (1,432.11)
Due From General Fund	-	2,169.18
Total Assets	<u>\$ 90,371.25</u>	<u>\$ 737.07</u>
LIABILITIES		
Payable to General Fund		<u>\$ 737.07</u>
Total Liabilities		<u>\$ 737.07</u>
NET POSITION		
Reserved for Fire Prevention	<u>\$ 90,371.25</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 POSITION
FIDUCIARY FUNDS
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2015

	Fire Prevention Fund
ADDITIONS	
Contributions:	
Fees	\$ 25,504.69
Investment Earnings:	
Interest	<u>14.84</u>
Net Investment Earnings	<u>14.84</u>
Total Additions	<u>25,519.53</u>
DEDUCTIONS	
Transfer to Operating Fund	<u>18,000.00</u>
Total Deductions	<u>18,000.00</u>
Change in Net Position	<u>7,519.53</u>
Net Position—Beginning	82,851.72
Net Position—Ending	<u>\$ 90,371.25</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, 2015

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.

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.

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 position 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.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

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.

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 non instructional 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 position, financial position and cash flows. The generally accepted accounted principles applicable are those similar to businesses in the private sector.

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

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

Governmental Fund Types (Continued)

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 position and changes in net position and are reported using accounting principles similar to proprietary funds.

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".

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

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).

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.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

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.

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 its 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. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenses/expenditures) until then. The government only has two items that qualifies for reporting in this category. It is deferred charge on refunding of debt and bond issuance costs which results from the loss of debt refunding reported in the government-wide statement of net position. A deferred charge on debt refunding results from the loss on the transaction when the debt's reacquisition price is greater than the carrying value of the refunded debt. This amount is amortized over the shorter of the life of the refunded or refunding debt.

6. Compensated Absences

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the District and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

G. Assets, Liabilities and Fund Equity (Continued)

7. 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.

8. 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.

9. 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

10. Net Position/Fund Balance

The District implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during the current fiscal year. This statement defines net position as the residual of all other elements presented in statement of financial position. It is the difference between (1) assets and deferred outflows of resources and (2) liabilities and deferred inflows of resources. This Statement provides guidance for reporting net position within a framework that includes deferred outflows of resources and deferred inflows of resources, in addition to assets and liabilities.

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements

GASB 72, "*Fair Value Measurement and Application*", will be effective beginning with the fiscal year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 73, "Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

GASB 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments", will be effective beginning with the fiscal year ending June 30, 2016. The objective of this Statement is to identify- in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note II: Reconciliation of Government Wide and Fund Financial Statements

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

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

	<u>Balance Sheet/Statement of Net Position</u>			Statement of Net Position Totals
<u>Assets</u>	Total Governmental Funds	Long - term Assets Liabilities (1)	Reclassifications and Eliminations	
Cash and Cash Equivalents	\$1,053,826.05	\$ -	\$ -	\$1,053,826.05
Interfund Receivables	737.07			737.07
Restricted Assets:				
Cash and Cash Equivalents	192,484.93		-	192,484.93
Capital Assets, Net	-	1,554,184.67	-	1,554,184.67
Total Assets	<u>\$1,247,048.05</u>	<u>\$1,554,184.67</u>	<u>\$ -</u>	<u>\$2,801,232.72</u>
 <u>Deferred Outflows</u>				
Pension Deferred Outflows		\$ 339,022.00		\$ 339,022.00
 <u>Liabilities</u>				
Interfunds Payable	\$ 2,169.18			\$ 2,169.18
Net Pension Liability		1,322,050.00	-	1,322,050.00
Compensated Absences Payable			34,159.96	34,159.96
Noncurrent Liabilities	-	237,019.90	-	237,019.90
Total Liabilities	<u>\$ 2,169.18</u>	<u>\$1,559,069.90</u>	<u>\$ 34,159.96</u>	<u>\$1,595,399.04</u>
 <u>Deferred Inflows</u>				
Pension Deferred Inflows		\$ 33,965.00		\$ 33,965.00
 <u>Fund Balances/Net Position</u>				
<u>Net Position</u>				
Net Investment in Capital Assets	\$ -	\$ 300,171.77	\$ -	\$ 300,171.77
Restricted/Assigned for:				
Capital Projects	167,484.93			167,484.93
Unrestricted/Unassigned	<u>1,077,393.94</u>	-	<u>(34,159.96)</u>	<u>1,043,233.98</u>
Total Fund Balances/Net Position	<u>\$1,244,878.87</u>	<u>\$ 300,171.77</u>	<u>\$ (34,159.96)</u>	<u>\$1,510,890.68</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 position includes those capital assets among the assets of the District as a whole.

Cost of Capital Assets	\$ 2,819,530.67
Accumulated Depreciation	<u>(1,265,346.00)</u>
	<u>\$ 1,554,184.67</u>

Long - term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities - both current and long - term are reported in the statement of net position.

Capital Leases	\$ 1,593,229.86
Compensated Absences	<u>(34,159.96)</u>
	<u>\$ 1,559,069.90</u>

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(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 position" 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	\$ 1,080,761.00	\$ -	\$ -	\$ -	\$ 1,080,761.00
Interest Earned on Investments	2,625.71				2,625.71
EMS Services	523,433.54				523,433.54
Local Registration Fees	32,956.50				32,956.50
Rental Income	5,958.37				5,958.37
Miscellaneous	45,787.54				45,787.54
State Sources	20,197.00	-	-	-	20,197.00
Total	<u>\$ 1,711,719.66</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,711,719.66</u>
 <u>Expenditures</u>					
Current:					
Administration:					
Salaries	\$ 16,500.00	\$ -	\$ -	\$ 1,575.00	\$ 18,075.00
Fringe Benefits	755.00				755.00
Other Expenses	19,992.29				19,992.29
Cost of Providing Services:					
Salaries	583,855.46			32,584.96	616,440.42
Fringe Benefits	203,548.28	3,836.00			207,384.28
Other Expenses	524,739.37		136,223.31		660,962.68
Uniform Fire Safety Act:					
Salaries	18,000.00				18,000.00
Capital Outlay	257,761.70		(257,761.70)		-
Debt Service:					
Principal	55,031.15			(55,031.15)	-
Interest	8,703.12	-	-	-	8,703.12
Total	<u>1,688,886.37</u>	<u>3,836.00</u>	<u>(121,538.39)</u>	<u>(20,871.19)</u>	<u>1,550,312.79</u>
Net Change for the Year	<u>\$ 22,833.29</u>	<u>\$ (3,836.00)</u>	<u>\$ 121,538.39</u>	<u>\$ 20,871.19</u>	<u>\$ 161,406.87</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	\$ (136,223.31)
Capital Outlays	<u>257,761.70</u>
	<u>\$ 121,538.39</u>

3. In the statement of activities, certain operating expenses, e.g. compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation (-); when the paid amount exceeds the earned amount the differences is an addition to the reconciliation (+).

\$ (34,159.96)

3. Payment of long-term liability principal is an expenditure in the government funds, but the payment reduces long - term liabilities in the statement of net position and is not reported in the statement of activities.

Capital Lease Principal	<u>55,031.15</u>
	<u>\$ 20,871.19</u>

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(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, 2015 the District's cash and cash equivalents amounted to \$1,441,286.87. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$1,191,286.87 was covered by a collateral pool maintained by the banks as required by GUDPA.

At December 31, 2015 the District did not participate in the State of New Jersey Cash Management Fund.

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, 2015 none of the District's cash and cash equivalents of \$1,441,286.87 was exposed to custodial credit.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(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, 2015.

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

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

B. Interfund Receivables and Payables

As of December 31, 2015, 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	\$ 737.07	\$2,169.18
Trust and Agency Fund	<u>2,169.18</u>	<u>737.07</u>
	<u>\$2,906.25</u>	<u>\$2,906.25</u>

C. Accounts Receivable

As of December 31, 2015 the District has no accounts receivable.

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

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

D. Capital Assets

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 7,500.00	\$ -	\$ -	\$ 7,500.00
Land Improvements	21,700.00	-	-	21,700.00
Construction in Progress	<u>146,086.88</u>	<u>257,761.70</u>	<u>(107,948.05)</u>	<u>295,900.53</u>
Total Capital Assets Not Being Depreciated	<u>175,286.88</u>	<u>257,761.70</u>	<u>(107,948.05)</u>	<u>325,100.53</u>
Buildings and Improvements	497,951.83			497,951.83
Machinery and Equipment	<u>1,888,530.26</u>	<u>-</u>	<u>107,948.05</u>	<u>1,996,478.31</u>
Totals at Historical Cost	<u>2,386,482.09</u>	<u>-</u>	<u>107,948.05</u>	<u>2,494,430.14</u>
Less Accumulated Depreciation For:				
Buildings and Improvements	(216,750.00)	(7,225.00)		(223,975.00)
Machinery and Equipment	<u>(912,372.69)</u>	<u>(128,998.31)</u>	<u>-</u>	<u>(1,041,371.00)</u>
Total Accumulated Depreciation	<u>(1,129,122.69)</u>	<u>(136,223.31)</u>	<u>(1)</u>	<u>(1,265,346.00)</u>
Net Capital Assets Being Depreciated	<u>1,257,359.40</u>	<u>(136,223.31)</u>	<u>107,948.05</u>	<u>1,229,084.14</u>
Governmental Activities Capital Assets, Net	<u>\$ 1,432,646.28</u>	<u>\$ 121,538.39</u>	<u>\$ -</u>	<u>\$ 1,554,184.67</u>

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

Cost of Providing Services	<u>\$136,223.31</u>
	<u>\$136,223.31</u>

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3
NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(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

Long - Term liability activity for the year ended December 31, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Long - Term debt:					
Capital Leases	\$ 292,051.05	\$ -	\$(55,031.15) (1)	\$ 237,019.90	\$56,671.08
Other Liabilities:					
Compensated Absences		34,159.96		34,159.96	
Net Pension Liability:					
PERS	285,797.00	105,756.00		391,553.00	-
PFRS	689,445.00	241,052.00	-	930,497.00	-
Total Other Liabilities	<u>975,242.00</u>	<u>380,967.96</u>	<u>-</u>	<u>1,356,209.96</u>	<u>-</u>
Governmental Activities					
Long - Term Liabilities	<u>\$1,267,293.05</u>	<u>\$380,967.96</u>	<u>\$(55,031.15)</u>	<u>\$1,593,229.86</u>	<u>\$56,671.08</u>

(1) Paid by Debt Service Fund

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities (Continued)

1. Capital Leases Payable

The District is leasing a fire truck totaling \$397,382.00 under a capital lease. The term of this capital lease is seven years. The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at December 31, 2015.

<u>Year</u>	<u>Amount</u>
2016	\$63,734.27
2017	63,734.27
2018	63,734.27
2019	<u>63,734.27</u>
Total minimum lease payments	254,937.08
Less: Amount representing interest	<u>(17,917.18)</u>
Present value of net minimum Lease payments	<u>\$237,019.90</u>

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(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.

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Summary of Significant Accounting Policies-

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Public Employees' Retirement System (PERS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the District reported a liability of \$391,553 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2014. The District's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2015 and 2014. At June 30, 2015, the District's proportion was 0.001744%, which was an increase of 0.000217% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the District recognized pension expense of \$25,686. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$9,341.00	
Changes of Assumptions	\$42,050.00	
Net difference between Projected and Actual Earnings on Pension Plan Investments		\$6,295.00
Changes in proportion and differences between District Contributions and Proportionate Share of Contributions	\$34,595.00	\$3,450.00
District Contributions Subsequent to the Measurement Date	\$14,996.00	0.00
Total	<u>\$100,982.00</u>	<u>\$9,745.00</u>

\$14,996 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date (i.e. for the calendar year ending December 31, 2015, the plan measurement date is June 30, 2015) has been recognized as a reduction of the net position liability measured as of June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2016	\$8,209.74
2017	8,209.74
2018	8,209.74
2019	13,075.34
2020	<u>7,391.44</u>
Total	<u>\$45,096.00</u>

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Public Employees' Retirement System (PERS) (Continued)

	<u>6/30/14</u>	<u>6/30/15</u>
Collective Deferred Outflows of Resources	\$952,194,675.00	\$ 3,578,755,666.00
Collective Deferred Inflows of Resources	1,479,224,662.00	993,410,455.00
Collective Net Pension Liability (Non-State-Local Group)	18,722,735,003.00	22,447,996,119.00
Fire District's Portion of Net Pension Liability	285,797.00	391,553.00
Fire District's Proportion %	0.00001527%	0.00001744%

Actuarial Assumptions

The collective total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions:

Inflation	3.04%
Salary Increases:	
2012-2021	2.15%-4.40% based on age
Thereafter	3.15%-5.40% based on age
Investment Rate of Return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is unlikely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Public Employees' Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PER's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad US Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

Discount Rate

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Public Employees' Retirement System (PERS) (Continued)

Sensitivity of the Fire District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Fire District's proportionate share of the net pension liability measured as of June 30, 2015, calculated using the discount rate of 4.90%, as well as what the Fire District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.90%) or 1-percentage-point higher (5.90%) than the current rate:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Fire District's proportionate share of the net pension liability	\$486,662	\$391,553	\$311,828

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/financial-rpts-home.shtml>.

During the year ended June 30, 2015, for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

Police and Fire Retirement System (PFRS)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2015, the Fire District reported a liability of \$930,497 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. The Fire District's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PFRS during the years ended June 30, 2015 and 2014. At June 30, 2015, the Fire District's proportion was 0.005586%, which was a decrease of 0.000105% from its proportion measured as of June 30, 2014.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Police and Fire Retirement System (PFRS) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended December 31, 2015, the Fire District recognized pension expense of \$80,291.00. At December 31, 2015, the Fire District reported deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

F	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience		\$8,026.00
Changes of Assumptions	\$171,793.00	
Net difference between Projected and Actual Earnings on Pension Plan Investments		16,194.00
Changes in proportion and differences between Fire District Contributions and Proportionate Share of Contributions	20,838.00	
Fire District Contributions Subsequent to the Measurement Date	<u>45,409.00</u>	<u>0.00</u>
Total	<u>\$238,040.00</u>	<u>\$24,220.00</u>

\$45,409.00 reported as deferred outflows of resources related to pensions resulting from Fire District contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2015, the plan measurement date is June 30, 2015) was recognized as a reduction of the net position liability measured as of June 30, 2015. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2016	\$28,026.80
2017	28,026.80
2018	28,026.80
2019	45,924.30
2020	<u>17,538.30</u>
Total	<u>\$147,573.00</u>

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Police and Fire Retirement System (PFRS) (Continued)

	<u>6/30/14</u>	<u>6/30/15</u>
Collective Deferred Outflows of Resources	\$472,261,128.00	\$ 3,075,206,294.00
Collective Deferred Inflows of Resources	1,283,652,103.00	433,559,708.00
Collective Net Pension Liability (Non-State-Local Group)	13,933,627,178.00	18,117,234,618.00
Fire District's Portion of Net Pension Liability	689,445.00	930,497.00
Fire District's Proportion %	0.00005481%	0.00005586%

Actuarial Assumptions

The collective total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions:

Inflation	3.04%
Salary Increases:	
2012-2021	2.60%-9.48% based on age
Thereafter	3.60%-10.48% based on age
Investment Rate of Return	7.90%

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and one year using Projection Scale BB for male service retirements with adjustments for mortality improvements from the base year based on Projection Scale BB. Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected fourteen years using Projection Scale BB for female service retirements and beneficiaries with adjustments for mortality improvements from the base year of 2014 based on Projection Scale BB.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

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TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Police and Fire Retirement System (PFRS) (Continued)

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PFR's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad US Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex US	3.50%	-0.40%
REIT	4.25%	5.12%

Discount Rate

The discount rate used to measure the total pension liability was 5.79% as of June 30, 2015. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2045. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2045, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Police and Fire Retirement System (PFRS) (Continued)

Sensitivity of the Fire District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Fire District's proportionate share of the net pension liability measured as of June 30, 2015, calculated using the discount rate of 5.79%, as well as what the Fire District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.79%) or 1-percentage-point higher (6.79%) than the current rate:

	1% Decrease (4.79%)	Current Discount Rate (5.79%)	1% Increase (6.79%)
Fire District's proportionate share of the net pension liability	\$1,334,175	\$930,497	\$749,347

Contribution Requirements

A special funding situation exists for the Local employers of the Police and Fire Retirement System of New Jersey. The State of New Jersey, as a nonemployer is required to pay the additional costs incurred by Local employers under Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The June 30, 2015 State special funding situation net pension liability amount of \$1,460,720,421 is the accumulated difference between the annual actuarially determined State obligation under the special funding situation and the actual State contribution through the valuation date. The fiscal year ending June 30, 2015 State special funding situation pension expense of \$182,203,735 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2015. The pension expense is deemed to be a State administrative expense due to the special funding situation.

The contribution policy for PFRS is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. For fiscal year 2015, the State contributed an amount less than the actuarially determined amount.

The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

Note V: Pension Plans (Continued)

Significant Legislation (Continued)

PERS employee contribution rates will increase from 5.5% to 6.5% of salary effective October 2011. 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.

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 7.06 percent for PERS to 10.00 percent for PFRS of employees' annual compensation, as defined. 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.

The District's total payroll for the year ended December 31, 2015 was \$624,646.28 and covered payroll was \$119,842.00 for PERS and \$233,584.00 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	-2015	\$9,507.24	7.93%	\$23,685.30	10.14%
	-2014	8,358.40	7.12%	27,212.80	10.00%
	-2013	7,599.59	7.00%	26,677.60	10.00%
District	-2015	12,584.00	10.50%	42,097.00	18.02%
	-2014	11,699.00	9.96%	39,235.00	14.42%
	-2013	11,870.13	10.93%	39,854.00	14.94%

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

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.

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.

Note VIII: Retroactive Restatement of Net Position

The District adopted GASB No. 68 - Accounting and Financial Reporting for Pensions - An amendment of GASB No. 27 during the 2015 fiscal year as required by the pronouncement. The pronouncement requires the district to record its proportional share of the State of New Jersey's net pension liability on the face of its financial statements as of December 31, 2015 and to record related pension expense in accordance with the pronouncement. In order to correctly reflect pension expense in accordance with GASB No. 68, the beginning Net Position of the district was adjusted to reflect the beginning balance of the net pension liability. Since the measurement date of the net pension liability is June 30, 2015 (as described in Note V), the restatement adjustments to Net Position relate to the beginning net pension liability measured as of June 30, 2014. Also, in accordance with GASB No. 71 - Pension Transition for Contributions Made Subsequent to the Measurement Date, the District restated its Net Position for pension contributions made after the beginning net pension liability measurement date of June 30, 2014 (deferred outflows).

Governmental Activities Net Position

Net Position (per A-2), December 31, 2014	\$ 2,362,640.81
Restatement of Net PERS Pension Liability	(285,797.00)
Restatement of Net PFRS Pension Liability	(689,445.00)
Restatement of PERS Deferred Outflow - Pension	8,987.00
Restatement of PFRS Deferred Outflow - Pension	37,371.00
Restatement of PERS Deferred Inflow - Pension	(13,917.00)
Restatement of PFRS Deferred Inflow - Pension	<u>(70,356.00)</u>
Net Position (per A-2), December 31, 2014, as Restated	<u>\$1,349,483.81</u>

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>
2015	\$1,383,748,500	\$1,080,761.00	0.078
2014	1,339,911,800	1,026,500.00	0.077
2013	1,307,897,100	994,000.00	0.076
2012	1,295,004,700	974,656.00	0.075
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

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, 2015	\$1,052,393.94	\$ 93,557.00
December 31, 2014	771,798.95	-
December 31, 2013	715,232.58	187,000.00
December 31, 2012	601,361.92	260,000.00
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

ROSTER OF OFFICIALS

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

ROSTER OF OFFICIALS

Board of Commissioners

Michael Dugan	Commissioner (Chairman)
Thomas Quirk	Commissioner (Vice-Chairman)
Robert Callas	Commissioner (Secretary)
Peter DeNigris	Commissioner (Treasurer)
Maria Florio	Commissioner

Other Officials

James C. Davidson	Fire Chief (To 4/30/15)
Chad DiGiorgio	Fire Chief (From 5/1/15)
Richard Braslow, Esq.	Attorney

Surety Company

American Alternative Insurance Company package Policy No. VFIS-TR-0400150-0 expiring 1/9/16 includes a Blanket Honesty Bond on the Board of Fire Commissioners in the amount of \$1,000,000.00

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, 2015**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
REVENUES:					
Local Sources:					
District Taxes	\$ 1,017,026.73	\$ -	\$ 1,017,026.73	\$ 1,017,026.73	\$ -
Interest on Investments	2,500.00	-	2,500.00	2,625.71	125.71
EMS Services	450,000.00	-	450,000.00	523,433.54	73,433.54
Local Registration Fees	23,000.00	-	23,000.00	32,956.50	
Rental Income	6,500.00	-	6,500.00	5,958.37	
Miscellaneous	<u>12,700.00</u>	<u>-</u>	<u>12,700.00</u>	<u>45,787.54</u>	<u>33,087.54</u>
Total Revenues - Local Sources	<u>1,511,726.73</u>	<u>-</u>	<u>1,511,726.73</u>	<u>1,627,788.39</u>	<u>106,646.79</u>
State Sources:					
Uniform Fire Safety Act	23,000.00	-	23,000.00	18,000.00	(5,000.00)
Safer Grant	38,000.00	-	38,000.00	-	(38,000.00)
Supplemental Fire Services Program	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,197.00</u>	<u>2,197.00</u>
Total State Sources	<u>61,000.00</u>	<u>-</u>	<u>61,000.00</u>	<u>20,197.00</u>	<u>(40,803.00)</u>
Total Revenues	<u>1,572,726.73</u>	<u>-</u>	<u>1,572,726.73</u>	<u>1,647,985.39</u>	<u>65,843.79</u>
EXPENDITURES:					
Current Expense:					
Administration:					
Salaries and Wages	16,500.00	-	16,500.00	16,500.00	-
Employee Benefits	755.00	-	755.00	755.00	-
Other Expenses:					
Elections	1,300.00	-	1,300.00	1,243.68	56.32
Office Supplies and Postage	8,500.73	1,000.00	9,500.73	9,235.30	265.43
Fire Prevention Bureau	7,500.00	(1,000.00)	6,500.00	4,088.50	2,411.50
Public Events	7,100.00	-	7,100.00	4,448.86	2,651.14
Recruitment and Retention	<u>2,500.00</u>	<u>-</u>	<u>2,500.00</u>	<u>975.95</u>	<u>1,524.05</u>
Total Administration Other Expenses	<u>26,900.73</u>	<u>-</u>	<u>26,900.73</u>	<u>19,992.29</u>	<u>6,908.44</u>
Total Administration Expenses	<u>44,155.73</u>	<u>-</u>	<u>44,155.73</u>	<u>37,247.29</u>	<u>6,908.44</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, 2015**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Final to <u>Actual</u>
EXPENDITURES (Continued):					
Current Expense Continued):					
Cost of Providing Services:					
Salaries and Wages	\$ 591,800.00	\$ -	\$ 591,800.00	\$ 583,855.46	\$ 7,944.54
Employee Benefits	233,445.00	-	233,445.00	203,548.28	29,896.72
Other Expenses:					
Insurance Premiums	93,000.00	-	93,000.00	83,663.70	9,336.30
Maintenance and Repairs - Bldgs.	138,300.00	-	138,300.00	80,154.93	58,145.07
Maintenance and Repairs - Equip.	98,800.00	-	98,800.00	89,929.75	8,870.25
Memberships, Dues and Subscriptions	14,225.00	-	14,225.00	13,811.74	413.26
Professional Services	83,200.00	-	83,200.00	75,801.54	7,398.46
Training and Education	20,000.00	-	20,000.00	20,323.67	(323.67)
Travel Expenses	1,000.00	-	1,000.00		1,000.00
Uniforms and Personal Equipment	13,000.00	-	13,000.00	13,021.86	(21.86)
Utilities and Related Services	47,200.00	-	47,200.00	42,953.44	4,246.56
County Dispatch	23,000.00	-	23,000.00	21,787.00	1,213.00
Reimbursement for Expenses and Losses	21,000.00	-	21,000.00	20,900.60	99.40
Other Outside Services	5,901.00	-	5,901.00	3,737.22	2,163.78
Physicals	22,700.00	-	22,700.00	22,075.00	625.00
Conference/Convention	5,000.00	-	5,000.00	2,037.00	2,963.00
Other Assets - Non Bondable	56,000.00	-	56,000.00	34,541.92	21,458.08
Total Cost of Providing Services Other Expenses	<u>642,326.00</u>	<u>-</u>	<u>642,326.00</u>	<u>524,739.37</u>	<u>117,586.63</u>
Total Cost of Providing Services	<u>1,467,571.00</u>	<u>-</u>	<u>1,467,571.00</u>	<u>1,312,143.11</u>	<u>155,427.89</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, 2015
(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>5,000.00</u>	<u>-</u>	<u>5,000.00</u>	<u>-</u>	<u>5,000.00</u>
Total Uniform Fire Safety Act	<u>23,000.00</u>	<u>-</u>	<u>23,000.00</u>	<u>18,000.00</u>	<u>5,000.00</u>
Safer Grant:					
Other Expenses	<u>38,000.00</u>	<u>-</u>	<u>38,000.00</u>	<u>-</u>	<u>38,000.00</u>
Total Current Expense	<u>1,572,726.73</u>	<u>-</u>	<u>1,572,726.73</u>	<u>1,367,390.40</u>	<u>205,336.33</u>
Total Expenditures	<u>1,572,726.73</u>	<u>-</u>	<u>1,572,726.73</u>	<u>1,367,390.40</u>	<u>205,336.33</u>
Excess or (Deficiency) of Revenues Over/(Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>280,594.99</u>	<u>280,594.99</u>
FUND BALANCE, JANUARY 1	<u>771,798.95</u>	<u>-</u>	<u>771,798.95</u>	<u>771,798.95</u>	<u>-</u>
FUND BALANCE, DECEMBER 31	<u>\$ 771,798.95</u>	<u>\$ -</u>	<u>\$ 771,798.95</u>	<u>\$ 1,052,393.94</u>	<u>\$ 280,594.99</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, 2015

	Total	Capital Improvement Fund	Building Improvements	Radio Communications Upgrade	Acquisition of Two Vehicles
Fund Balances at Beginning of Year	\$ 450,246.63	\$ 25,000.00	\$ 261,318.94	\$ 118,942.35	\$ 44,985.34
Decreased by:					
Expended In 2015	<u>257,761.70</u>	<u>-</u>	<u>257,761.70</u>	<u>-</u>	<u>-</u>
Fund Balances at End of Year	<u>\$ 192,484.93</u>	<u>\$ 25,000.00</u>	<u>\$ 3,557.24</u>	<u>\$ 118,942.35</u>	<u>\$ 44,985.34</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, 2015

	<u>Balance</u> <u>Jan. 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2015</u>
Reserve for Fire Prevention	\$ 82,851.72	\$ 25,519.53	\$ 18,000.00	\$ 90,371.25
Interest Due to General Fund	731.00	6.07		737.07
Payroll Excess Due to General Fund	10,427.39		10,427.39	-
Payroll Deficit Due from General Fund	<u>-</u>	<u>-</u>	<u>2,169.18</u>	<u>(2,169.18)</u>
	<u>\$ 94,010.11</u>	<u>\$ 25,525.60</u>	<u>\$ 30,596.57</u>	<u>\$ 88,939.14</u>

SECTION F
LONG – TERM DEBT

TOWNSHIP OF HANOVER
 FIRE DISTRICT NUMBER 3
 LONG TERM DEBT
 SCHEDULE OF OBLIGATIONS UNDER CAPITAL LEASES
 FOR THE CALENDER YEAR ENDED DECEMBER 31, 2015

Purpose	Amount of Original Issue	Date of Issue	Outstanding Date	Capital Lease		Paid In 2015	Balance Dec. 31, 2015
				Dec. 31, 2015 Amount	Jan. 1, 2015 Balance		
Acquisition of Fire Apparatus	\$ 397,382.00	1/11/2012	1/11/2016	\$ 56,671.08	\$ 292,051.05	\$ 55,031.15	\$ 237,019.90
			1/11/2017	58,359.87			
			1/11/2018	60,099.00			
			1/11/2019	61,889.95			
				\$ 292,051.05		\$ 55,031.15	\$ 237,019.90

**TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE CALENDER YEAR ENDED DECEMBER 31, 2015**

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Final to <u>Actual</u>
REVENUES:					
Local Sources:					
Local Tax Levy	\$ 63,734.27	\$ -	\$ 63,734.27	\$ 63,734.27	\$ -
Total Revenues	<u>63,734.27</u>	<u>-</u>	<u>63,734.27</u>	<u>63,734.27</u>	<u>-</u>
EXPENDITURES:					
Regular Debt Service:					
Principal on Capital Leases	55,031.15	-	55,031.15	55,031.15	-
Interest on Capital Leases	<u>8,703.12</u>	<u>-</u>	<u>8,703.12</u>	<u>8,703.12</u>	<u>-</u>
Total Regular Debt Service	<u>63,734.27</u>	<u>-</u>	<u>63,734.27</u>	<u>63,734.27</u>	<u>-</u>
Total Expenditures	<u>63,734.27</u>	<u>-</u>	<u>63,734.27</u>	<u>63,734.27</u>	<u>-</u>
Fund Balance, January 1	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2015 and have issued our report thereon dated May 23, 2016. 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 opinions 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.

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. A significant deficiency is a deficiency, or 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.

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

Compliance and Other Matters

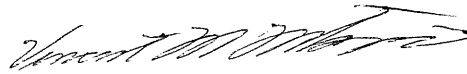
As part of obtaining reasonable assurance about whether the Township of Hanover Fire District Number 3's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Fire District's Response to the Finding

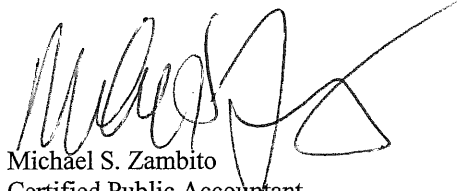
The Fire District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fire District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

May 23, 2016

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015

Part I – Summary of Auditor’s Report

Financial Statement Section

- | | |
|---|--------------------------|
| A) Type of auditor’s report issued: | Unmodified |
| B) Internal Control over financial reporting: | |
| 1) Material weakness(es) identified? | _____yes <u> X </u> no |
| 2) Were reportable conditions(s) identified
that were not considered to be material
weaknesses? | _____yes <u> X </u> no |
| C) Noncompliance material to basic financial
statements noted? | _____yes <u> X </u> 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, 2015
(CONTINUED)

Part 2 – Schedule of Financial Statement Findings

This section identifies the reportable conditions, 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.

NOT APPLICABLE

TOWNSHIP OF HANOVER
FIRE DISTRICT NUMBER 3

SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

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

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance, including responses, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 15-08.

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, 2015

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 15-08.

STATUS OF PRIOR YEAR FINDINGS

NOT APPLICABLE

**GENERAL COMMENTS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2015**

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, 2015 and thereafter the bid threshold in accordance with N.J.S.A. 40A:11-3 (as amended) is \$29,000.00, 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.

RECOMMENDATIONS

NONE

Status of Prior Years' Audit Findings/Recommendations:

Not Applicable

APPRECIATION

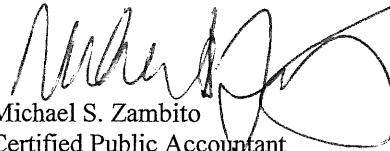
We wish to express our appreciation for the assistance and courtesies extended to us during the course of the audit.

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

Respectfully submitted,



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Registered Municipal Accountant
License No. CR000375



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

May 23, 2016