

TOWNSHIP OF HANOVER FIRE DISTRICT #3

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2017

TOWNSHIP OF HANOVER FIRE DISTRICT #3
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INTRODUCTORY SECTION

Fire District No. 3

TOWNSHIP OF HANOVER, COUNTY OF MORRIS

May 30, 2018

To the Board of Fire Commissioners
Hanover Township Fire District #3
Township of Hanover
Hanover, NJ

Dear Fire Commissioners:

The annual financial report of the Township of Hanover Fire District #3 (the "District") for the year ended December 31, 2017 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the District. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The annual financial report is presented in five sections: introductory, financial, supplementary information, *Government Auditing Standards* and comments and recommendations. The introductory section includes this transmittal letter, and a list of principal officials. The financial section includes the financial statements, the Management Discussion & Analysis, as well as the auditors' report thereon. Information related to the *Government Auditing Standards* section, including the auditor's report on internal control and compliance with applicable laws, regulations, contracts and grants along with findings and related responses are included in the *Government Auditing Standards* section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Township of Hanover Fire District #3 is an independent reporting entity within the criteria adopted by the Governmental Accounting Standards Board ("GASB") in codification section 2100. All funds of the District are included in this report.

The Fire District #3, Township of Hanover is a public body corporate and politic of the State of New Jersey governed by five members elected by the registered voters of the District.

The District was created in 1936 pursuant to New Jersey Title 40A:14-70. The District is an instrumentality of the Township of Hanover, State of New Jersey, established to function as a fire district, to provide for fire and rescue services to the Township's citizens. The District consists of elected officials and is responsible for the fiscal control of the District. A president is appointed by the District and is responsible for the administrative control of the District.

The Honorable Commissioners of
Fire District #3 Township of Hanover
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May 30, 2018

INTERNAL ACCOUNTING CONTROLS:

Management of the District is responsible for establishing and maintaining an internal control system designed to ensure that the assets of the District are protected from loss, theft or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of state awards, the District is responsible for ensuring that an adequate internal control system is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control system is also subject to periodic evaluation by the District's management.

As part of the District's single audit described earlier, tests are made to determine the adequacy of the internal control system, including that portion related to federal and state award programs, as well as to determine that the District has complied with applicable laws and regulations, if applicable.

BUDGETARY CONTROLS:

In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the District. Annual appropriated budgets are adopted for the general fund. The final budget amount as amended for the fiscal year is reflected in the supplementary information section.

ACCOUNTING SYSTEM AND REPORTS:

The District's accounting records reflect generally accepted accounting principles (GAAP), as promulgated by the Governmental Accounting Standards Board (GASB). The accounting system of the District is organized on the basis of funds. The applicable funds are explained in "Notes to the Financial Statements," Note 1.

CASH MANAGEMENT:

The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 3. The District has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT:

The District carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.

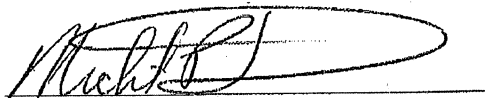
The Honorable Commissioners of
Fire District #3 Township of Hanover
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OTHER INFORMATION:

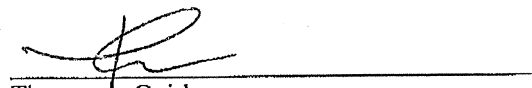
Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia LLP, CPAs, was selected by the District. The auditors' report on the financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Commissioners of Fire District #3 Township of Hanover for their concern in providing fiscal accountability to the citizens of the Township of Hanover and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.



Michael P. Dugan
Chairman



Thomas A. Quirk
Vice-Chairman

TOWNSHIP OF HANOVER FIRE DISTRICT #3
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2017

Commissioners:

Michael P. Dugan
Thomas A. Quirk
Robert Callas
Peter De Nigris
Maria Florio

Chairman
Vice Chairman
Secretary
Treasurer
District Clerk

Other Officials:

James M Schultz
Karen Calabrese

Administrator
Confidential Secretary to the
Board of Fire Commissioners

Consultants and Advisors:

ATTORNEY

Richard Braslow, Esq.
Toms River, New Jersey

AUDIT FIRM

Nisivoccia LLP
Mount Arlington, New Jersey

FINANCIAL SECTION



Mount Arlington Corporate Center
 200 Valley Road, Suite 300
 Mt. Arlington, NJ 07856
 973-328-1825 | 973-328-0507 Fax

Lawrence Business Center
 11 Lawrence Road
 Newton, NJ 07860
 973-383-6699 | 973-383-6555 Fax

Independent Auditors' Report

To the Board of Fire Commissioners
 Hanover Township Fire District #3
 Township of Hanover
 Hanover, NJ

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Hanover Fire District #3 (the "Fire District") as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

To the Board of Fire Commissioners
Township of Hanover Fire District #3
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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, and each major fund of the Fire District as of December 31, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Hanover Township Fire District #3 as of December 31, 2016 were audited by other auditors whose report dated June 26, 2017 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information pension schedules and the related notes be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fire District's basic financial statements. The supplementary information schedules listed in the table of contents and the other information in the introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

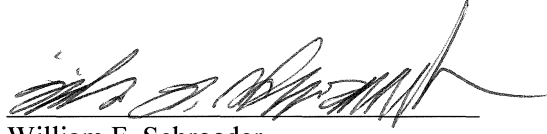
To the Board of Fire Commissioners
Township of Hanover Fire District #3
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2018 on our consideration of the Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
May 30, 2018

NISIVOCCIA LLP

A handwritten signature in black ink, appearing to read 'William F. Schroeder', is written over a horizontal line.

William F. Schroeder
Registered Municipal Accountant No. 452
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

This section presents management's analysis of the District's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Financial Highlights

Management believes the District's financial position to be strong. The District is well within its stringent financial policies and guidelines as set forth by the Fire District members.

Overview of Annual Financial Report

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the audited financial statements and supplementary information. The Management's Discussion and Analysis represents management's examination and analysis of the District's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District's strategic plan, budget, and other management tools were used for this analysis.

The financial statements report information about the District using full accrual accounting as utilized by similar government activities. The financial statements include a statement of net position; a statement of activities, a balance sheet and a statement of revenue, expenditures and changes in fund balance – governmental funds and notes to the financial statements.

The *statement of net position* presents the financial position of the District on a full accrual historical cost basis. The statement of net position presents information on all of the District's assets, deferred inflows and outflows and liabilities, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the District is improving or deteriorating.

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the *statement of activities* presents the results of the District's activities over the course of the year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the District's recovery of its costs.

The *notes to the financial statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information concerning the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *supplementary information schedules* provide detailed comparison of budget to actual expenses.

Financial Conditions

2017 was another relatively good year for the District and it is in excellent shape to meet its future financial demands. The District's total net position decreased from the prior year by \$49,070 or 3.18%. This was primarily a result of a continued trend of total of expenses being greater than the total of revenues. The analysis below focuses on the District's net position (Table I) and changes in net position (Table 2) during the year.

Table I
Condensed Statement of Net Position

	Dec. 31, 2017	(Restated) Dec. 31, 2016	Increase/ (Decrease) from 2016	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 1,272,995	\$ 1,367,883	\$ (94,888)	-6.94%
Capital Assets, Net	1,697,171	1,625,691	71,480	4.40%
Total Assets	<u>2,970,166</u>	<u>2,993,574</u>	<u>(23,408)</u>	-0.78%
Deferred Outflows of Resources	<u>700,545</u>	<u>375,289</u>	<u>325,256</u>	86.67%
Current Liabilities	108,768	1,486,784	(1,378,016)	-92.68%
Non Current Liabilities:				
Due within One Year	60,099	58,360	1,739	
Due Beyond One Year	1,703,463	163,212	1,540,251	943.71%
Total Liabilities	<u>1,872,330</u>	<u>1,708,356</u>	<u>163,974</u>	9.60%
Deferred Inflows of Resources	<u>302,921</u>	<u>115,977</u>	<u>186,944</u>	161.19%
Net Investment in				
Capital Assets	1,575,182	1,445,342	129,840	8.98%
Restricted	121,989	259,675	(137,686)	-53.02%
Unrestricted/(Deficit)	(201,711)	(160,487)	(41,224)	25.69%
Total Net Position	<u>\$ 1,495,460</u>	<u>\$ 1,544,530</u>	<u>\$ (49,070)</u>	-3.18%

Changes in the District's net position can be determined by reviewing the following condensed Statement of Activities for the year.

Table II
Condensed Statement of Activities

	Dec. 31, 2017	(Restated) Dec. 31, 2016	Increase/ (Decrease) from 2016	Percent of Increase/ (Decrease)
Operating Revenue	\$ 629,781	\$ 623,540	\$ 6,241	1.00%
Nonoperating Revenue	<u>1,135,649</u>	<u>1,131,339</u>	<u>4,310</u>	0.38%
Total Revenue	<u>1,765,430</u>	<u>1,754,879</u>	<u>10,551</u>	0.60%
Operating expenses:				
Admin. & General Expenses	1,665,444	1,675,241	(9,797)	-0.58%
Depreciation	143,681	129,306	14,375	11.12%
Capital Lease Interest Payment	<u>5,375</u>	<u>7,063</u>	<u>(1,688)</u>	-23.90%
Total Expenses	<u>1,814,500</u>	<u>1,811,610</u>	<u>2,890</u>	0.16%
Change in Net Position	<u>\$ (49,070)</u>	<u>\$ (56,731)</u>	<u>\$ 7,661</u>	-13.50%

Results of Operations

Operating Revenues: Operating and Non-operating revenues increased marginally.

Expenses: Administrative and General Expenses decreased .68% from 2016. The District maintains its policy of careful spending to stay within the budget.

Capital Assets: As of December 31, 2017, the District had \$1,697,171 invested in capital assets, including several fire trucks, vehicles, equipment and machinery, and furniture and fixtures. The amount represents an increase of \$71,480 from the prior year due to additions to total capital assets being more than current year depreciation.

The following table summarizes the District's capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2017. These changes are presented in detail in Note 5 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	Dec. 31, 2017	Dec. 31, 2016	Increase/ (Decrease) from 2016	Percent of Increase/ (Decrease)
Land	\$ 7,500	\$ 7,500		0.00%
Land Improvements	21,700	21,700		0.00%
Buildings and Improvements	497,952	497,952		0.00%
Construction in Progress	523,600	452,188	\$ 71,412	15.79%
Vehicles and Fire Trucks	1,956,780	1,813,030	143,750	7.93%
Machinery and Equipment	227,973	227,973		0.00%
Total	3,235,505	3,020,343	215,162	7.12%
Less:				
Accumulated Depreciation	1,538,334	1,394,652	143,682	10.30%
Capital Assets, Net of				
Accumulated Depreciation	<u>\$ 1,697,171</u>	<u>\$ 1,625,691</u>	<u>\$ 71,480</u>	4.40%

Cash Flow Activity: The cash and cash equivalents and investments at year-end 2017 decreased by \$94,888 from the previous year. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

Final Comments: The District is moving forward with plans to upgrade its facilities over the next few years.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
STATEMENT OF NET POSITION
DECEMBER 31, 2017

	Governmental Activities
<u>ASSETS:</u>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,151,006
Restricted Cash and Cash Equivalents	121,989
Non Current Assets:	
Capital Assets, Net of Accumulated Depreciation	1,697,171
Total Assets	2,970,166
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Changes in Assumptions - Pensions	227,240
Difference between Expected and Actual Experience - Pensions	17,009
Difference between Projected and Actual Investment Earnings - Pensions	25,655
Contribution Subsequent to Measurement Date - Pensions	84,619
Changes in Proportion - Pensions	431,441
Total Deferred Outflows of Resources	785,964
<u>LIABILITIES:</u>	
Current Liabilities:	
Accounts Payable	108,768
Non Current Liabilities:	
Compensated Absences Payable	46,139
Net Pension Liability:	
Due Beyond One Year	1,595,434
Capital Leases Payable:	
Due Within One Year	60,099
Due Beyond One Year	61,890
Total Liabilities	1,872,330
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Changes in Assumptions - Pensions	275,710
Difference between Expected and Actual Experience - Pensions	7,073
Changes in Proportions - Pensions	105,557
Total Deferred Inflows of Resources	388,340
<u>NET POSITION:</u>	
Net Investment in Capital Assets	1,575,182
Restricted	121,989
Unrestricted/(Deficit)	(201,711)
Total Net Position	\$ 1,495,460

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF HANOVER FIRE DISTRICT #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Governmental Activities</u>
Operating Revenue:	
Fire Prevention Bureau Income	\$ 42,691
New Jersey Uniform Fire Safety Act	28,172
Rental Income	6,500
EMS Services	543,831
Miscellaneous Revenue	<u>8,587</u>
Total Operating Revenue	<u>629,781</u>
Operating Expenses:	
Administrative and General Expenses	1,665,444
Depreciation	143,681
Capital Lease Interest Payment	<u>5,375</u>
Total Operating Expenses	<u>1,814,500</u>
Operating Loss	(1,184,719)
Non-Operating Revenue:	
Interest on Investments	4,343
Amount to be Raised by Taxation to Support District Budget	<u>1,131,306</u>
Total Non-Operating Revenue	<u>1,135,649</u>
Change in Net Position	(49,070)
Net Position - Beginning of Year (Restated)	<u>1,544,530</u>
Net Position - End of Year	<u><u>\$ 1,495,460</u></u>

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF HANOVER FIRE DISTRICT #3
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2017

	General Fund	Capital Fund	Total Governmental Funds
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 1,125,545	\$ 25,461	\$ 1,151,006
Restricted Cash and Cash Equivalents		121,989	121,989
Total Assets	\$ 1,125,545	\$ 147,450	\$ 1,272,995
<u>LIABILITIES:</u>			
Accounts Payable	\$ 21,762	2,387	\$ 24,149
Total Liabilities	21,762	2,387	24,149
<u>FUND BALANCES:</u>			
Restricted for Capital Lease Payments		121,989	121,989
Unassigned	1,103,783	23,074	1,126,857
Total Fund Balances	1,103,783	145,063	1,248,846
Total Liabilities and Fund Balances	\$ 1,125,545	\$ 147,450	

Amounts Reported in the Statement of Activities 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 \$3,235,505 and the Accumulated Depreciation is \$1,538,334.	1,697,171
Long-Term Liabilities, are not Due and Payable in the Current Period and Therefore are not Reported as Liabilities in the Funds.	(46,139)
The Net Pension Liability for PERS is not due and payable in the current period and is not reported in the District Wide Financial Statements.	(1,595,434)

Certain amounts related to the Net Pension Liability are Deferred and Amortized in the Statement of Activities and are not reported in the Governmental Funds:

<u>Deferred Outflows of Resources:</u>	
Changes in Assumptions - Pensions	227,240
Difference Between Expected and Actual Experience - Pensions	17,009
Investment Gains - Pensions	25,655
Changes in Proportions - Pensions	431,441
<u>Deferred Inflows of Resources:</u>	
Changes in Assumptions - Pensions	(275,710)
Difference Between Expected and Actual Experience - Pensions	(7,073)
Changes in Proportions - Pensions	(105,557)
Long-Term Liabilities, Including Lease Payable, are not Due and Payable in the Current Period and Therefore are not Reported as Liabilities in the Funds.	(121,989)
Net Position of Governmental Activities	\$ 1,495,460

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

HANOVER TOWNSHIP FIRE DISTRICT #3
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2017

	<u>Capital Fund</u>	<u>General Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUE:</u>			
Amount to be Raised by Taxation to			
Support District Budget		\$ 1,131,306	\$ 1,131,306
Rental Income		6,500	6,500.00
Interest Earned on Investments		4,343	4,343.00
EMS Services		543,831	543,831.00
Local Registration Fees		31,714	31,714.00
Fire Alarms and Standby Fees		10,977	10,977.00
Miscellaneous		8,587	8,587.00
Uniform Safety Act		28,172	28,172.00
Total Revenue	<u>1,765,430</u>	<u>1,765,430</u>	<u>1,765,430</u>
<u>EXPENDITURES:</u>			
Operating, Maintenance and			
Administration		1,536,689	1,536,689
Capital Lease Payment:			
Principal		58,360	58,360
Interest		5,375	5,375
Capital Outlay	\$ 215,161		215,161
Total Expenditures	<u>215,161</u>	<u>1,600,424</u>	<u>1,815,585</u>
Other Financing Sources/(Uses):			
Transfers In	215,161		215,161
Transfers Out		(215,161)	(215,161)
Total Other Financing Sources/(Uses)	<u>215,161</u>	<u>(215,161)</u>	
Net Change in Fund Balances		(50,155)	(50,155)
Fund Balances, Beginning of Year	191,672	1,107,329	1,299,001
Fund Balances, End of Year	<u>\$ 191,672</u>	<u>\$ 1,057,174</u>	<u>\$ 1,248,846</u>

THE ACCOMPANYING NOTES TO
FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

Note 1: Organization and Summary of Significant Accounting Policies

A. Reporting Entity

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. 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.

B. Basis of Presentation and Accounting

The financial statements of the Township of Hanover Fire District #3 (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The District-wide financial statements (the Statement of Net Position and the Statement of Activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash transaction takes place. Nonexchange transactions, in which the District gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The District considers all revenue reported in the governmental funds to be available if the revenue is collected within sixty days after the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for principal

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

and interest on general long-term debt, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Ad valorem (property) taxes are susceptible to accrual. Under New Jersey State Statute, a municipality is required to remit to its fire district the entire balance of taxes in the amount voted upon or certified, prior to the end of the 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".

The District reports the following governmental funds:

General Fund: The General Fund is the general operating fund of the District and is used to account for all expendable financial resources except those required to be accounted for in another fund.

Fund Balance Restrictions, Commitments and Assignments:

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined for a formal action of the District's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classifications should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts has been restricted, committed or assigned.

The District has the responsibility to formally commit resources for specific purposes through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body. The Board of Fire Commissioners must also utilize a formal motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners at a public meeting of that governing body in order to remove or change the commitment of resources. The District had no committed resources at December 31, 2016.

The assignment of resources is generally made by the District through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Fire Commissioners may allow an official of the District to assign resources through policies adopted by the Board of Fire Commissioners. The District has \$121,989 in restricted resources at December 31, 2017.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

Significant accounting policies include:

1. Grants:

Recognition of revenue from grants is based on the accrual basis of accounting.

Grant related expenditures incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue. Grants externally restricted for nonoperating purposes are recorded as contributed capital and identified as grants-in-aid. The District was not awarded any grants in the current year.

2. Inventories:

Inventories, which benefit future periods, are recorded as an expenditure during the year of purchase.

3. Compensated Absences:

The District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 76), Accounting for Compensated Absences. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Upon termination, employees are paid for accrued vacation. The District's policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement, employees shall be paid by the District for the unused sick leave in accordance with the District's agreements with the various employee unions.

4. Unearned Revenue:

Unearned revenue represents cash which has been received but not yet earned.

5. Net Position:

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

A deferred outflow of resources is a consumption of net position by the Fire District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Fire District that is applicable to a future reporting period. The Fire District had deferred outflows of resources at December 31, 2017 for the changes in

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

5. Net Position (Cont'd)

proportions and assumptions in pensions, the difference between expected and actual pension experience as well as the difference between expected and actual pension investment earnings and the contribution subsequent to the measurement date for pensions.

The Fire District had a deferred inflow of resources at December 31, 2017 for the changes in proportions and assumptions as well as the difference between expected and actual pension experience.

Net position is displayed in three components – net investment in capital assets; restricted and unrestricted.

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

6. Revenue Recognition

District taxes are received quarterly. Fire Prevention Bureau Inspection customers are billed at the time of service and revenue is recorded net of any discounts, assessments, or abatements, if applicable.

7. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

8. Investments

The Fire District generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
 (Continued)

Note 1: Organization and Summary of Significant Accounting Policies (Cont'd)

B. Basis of Presentation and Accounting (Cont'd)

8. Investments (Cont'd)

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

9. Use of Estimates

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

10. Pensions

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 State of New Jersey Public Employees' Retirement System (PERS) and the State of New Jersey Police and Firemen's Retirement System (PFRS) and additions to/deductions from the PERS's and PFRS's net position have been determined on the same basis as they are reported by the PERS and PFRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension Plan investments are reported at fair value.

Note 2: Pension

The Fire District's employees participate in either the Public Employee's Retirement System (PERS) of New Jersey, the Police and Firemen's Retirement System (PFRS), or the Defined Contribution Retirement Program (DCRP), a tax qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

A. Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions/financial-reports.shtml.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 with 25 or more years of service credit before age 62 and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a members retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 50 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. 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 ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. District contributions to PERS amounted to \$15,875 for 2017.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Contributions (Cont'd)

The employee contribution rate was 7.20% effective July 1, 2016 and increased to 7.34% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

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

At June 30, 2017, the District reported a liability of \$390,313 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2017, the District's proportion was 0.00167%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2016.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

For the year ended December 31, 2017, the District recognized actual pension expense of \$31,843. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferral</u> <u>Year</u>	<u>Amortization</u> <u>Period</u> <u>in Years</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Changes in Assumptions	2014	6.44	\$ 4,428	
	2015	5.72	18,651	
	2016	5.57	55,556	
	2017	5.48		\$ (78,346)
				<u>78,635</u>
Changes in Proportion	2014	6.44		(1,898)
	2015	5.72	19,937	
	2016	5.57	5,433	
	2017	5.48		(19,647)
				<u>25,370</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5.00	(4,677)	
	2015	5.00	3,990	
	2016	5.00	16,729	
	2017	5.00	(13,384)	
			<u>2,658</u>	
Difference Between Expected and Actual Experience	2015	5.72	5,175	
	2016	5.57	1,686	
	2017	5.48	2,330	
			<u>9,191</u>	
Authority Contribution Subsequent to the Measurement Date	2017	1.00	15,533	
			<u>\$ 131,387</u>	<u>\$ (99,891)</u>

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion and the District Contribution Subsequent to the measurement date) related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Total</u>
2018	\$ 9,189
2019	13,866
2020	8,402
2021	(11,174)
2022	(8,145)
	<u>\$ 12,138</u>

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	2.25%
Salary Increases:	
2012-2026	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward one year for females).

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Actuarial Assumptions (Cont'd)

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely 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.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2017) 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 rates 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 weighting 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 PERS' target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

A. Public Employees' Retirement System (PERS) (Cont'd)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 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 upon the contribution rate in the most recent fiscal year. The local employers contributed 100% of their 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the District's proportionate share of the collective net pension liability as of June 30, 2017 calculated using the discount rate as disclosed below, as well as what the 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 or 1-percentage-point higher than the current rate:

	June 30, 2017		
	At 1% Decrease (4.00%)	At Current Discount Rate (5.00%)	At 1% Increase (6.00%)
District's proportionate share of the Net Pension Liability	\$ 484,210	\$ 390,313	\$ 312,085

Pension plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

B. Police and Firemen's Retirement System (PFRS)

Plan Description

The State of New Jersey, State of New Jersey Police and Firemen's Retirement System (PFRS), is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey Division of Pensions and Benefits (the Division). For additional information about the PFRS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions/financial-reports.shtml.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:16A. The PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after 4 years of service.

The following represents the membership tiers for PFRS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Contributions

The contribution policy for PFRS is set by N.J.S.A. 43:16A and requires contributions by active members and contributing members. 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 PFRS 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 amounts over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of the assets.

Special Funding Situation

Under N.J.S.A. 43:16A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State if certain circumstances occurred. The legislation which legally obligates the State is as follows: 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

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

amounts contributed on behalf of the local participating employers under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan (except for employer specified financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers related to this legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the local participating employer. The June 30, 2017 State special funding situation net pension liability amount 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 State special funding situation pension expense for the fiscal year ended June 30, 2017 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2017. The pension expense is deemed to be a State administrative expense due to the special funding situation.

Fire District contributions to PFRS amounted to \$37,930 for the year ended December 31, 2017. During the fiscal year ended June 30, 2017, the State of New Jersey contributed \$6,750 to the PFRS for normal pension benefits on behalf of the Fire District, which is less than the contractually required contribution of \$16,512.

The employee contributions for PFRS are 10.00% of employees' annual compensation, as defined.

Pension Liabilities and Pension Expense

At June 30, 2017, the Fire District's liability for its proportionate share of the net pension liability was \$1,205,121. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. The Fire District's proportion of the net pension liability was based on a projection of the Fire District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2017, the Fire District's proportion was .0078%, which was an increase of .003% from its proportion measured as of June 30, 2016.

Additionally, the State's proportionate share of the net pension liability attributable to the Fire District is \$134,984 as of June 30, 2017. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. The State's proportionate share of the net pension liability associated with the Fire District was based on a projection of the Fire District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2017, the State's proportion was .0078%, which was an increase of .003% from its proportion measured as of June 30, 2016 which is the same proportion as the Fire District's.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Fire District's Proportionate Share of the Net Pension Liability	\$ 1,205,121
State's Proportionate Share of the Net Pension Liability Associated with the Fire District	<u>134,984</u>
Total Net Pension Liability	<u>\$ 1,340,105</u>

For the year ended December 31, 2017, the Fire District recognized total pension expense of \$176,616. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferral</u> <u>Year</u>	<u>Amortization</u> <u>Period</u> <u>in Years</u>	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Changes in Assumptions	2014	6.44	\$ 15,474	
	2015	5.72	117,464	
	2016	5.57	15,667	
	2017	5.48	<u>148,605</u>	<u>\$(197,364)</u>
				<u>(197,364)</u>
Changes in Proportion	2014	6.44	4,821	
	2015	5.72	6,463	
	2016	5.57		(84,012)
	2017	5.48	<u>394,787</u>	<u>(84,012)</u>
			<u>406,071</u>	<u>(84,012)</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2014	5.00	(25,051)	
	2015	5.00	26,262	
	2016	5.00	86,395	
	2017	5.00	<u>(64,609)</u>	
			<u>22,997</u>	
Difference Between Expected and Actual Experience	2015	5.72		(6,263)
	2016	5.57		(810)
	2017	5.48	<u>7,818</u>	
			<u>7,818</u>	<u>(7,073)</u>
Fire District Contribution Subsequent to the Measurement Date	2017	1.00	<u>69,086</u>	
			<u>\$ 654,577</u>	<u>\$(288,449)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts including changes in proportion and the Authority contribution subsequent to the measurement date) related to pensions will be recognized in pension expense as follows:

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Total</u>
2018	\$ 14,664
2019	39,715
2020	8
2021	(55,040)
2022	(24,364)
	<u>\$ (25,017)</u>

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016 which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	2.25%
Salary Increases:	
Through 2026	2.10% - 8.98% based on age
Thereafter	3.10% - 9.98% based on age
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2000 Pre-retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and three years using the plan actuary's modified 2014 projection scales and further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then three years using the plan actuary's modified 2014 projection scales and further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability retirement rates were based on the special mortality tables used for the period after disability retirement.

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2017) 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 rates 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 weighting 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 PFRS' target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

Discount Rate – PFRS

The discount rate used to measure the total pension liability was 6.14% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.58% as of June 30, 2017 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 and the nonemployer contributing entity

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

B. Police and Firemen's Retirement System (PFRS) (Cont'd)

Discount Rate – PFRS (Cont'd)

will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their 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 2057. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2057, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Total Net Pension Liability (including the State's proportionate share of the net pension liability attributable to the Fire District) to Changes in the Discount Rate

The following presents the total net pension liability (including the State's proportionate share of the net pension liability attributable to the Fire District) as of June 30, 2017 calculated using the discount rate as disclosed above, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	June 30, 2017		
	At 1% Decrease (5.14%)	At Current Discount Rate (6.14%)	At 1% Increase (7.14%)
Fire District's proportionate share of the NPL and the State's proportionate share of the Net Pension Liability associated with the Fire District	\$ 1,765,698	\$ 1,340,105	\$ 990,431

Pension Plan Fiduciary Net Position - PFRS

Detailed information about the PFRS's fiduciary net position is available in the separately issued PFRS financial statements.

C. Defined Contribution Retirement Program (DCRP)

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or PFRS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 2: Pension (Cont'd)

C. Defined Contribution Retirement Program (DCRP) (Cont'd)

information of the DCRP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

For DCRP, the Authority recognized pension expense of \$3,706 for the year ended December 31, 2017. Employee contributions to DCRP amounted to \$6,794 for the year ended December 31, 2017.

Note 3: Cash and Cash Equivalents and Investments

Cash and cash equivalents includes petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less.

The District classifies certificates of deposit and securities which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB requires the disclosure of the level of custodial risk assumed by the District in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the District ensures that any deposit or investments matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Credit Risk – The District limits the investments to those authorized in its cash management plan which are permitted under state statutes as detailed below and on the following page.

Custodial Credit Risk – The Authority's policy with respect to custodial credit risk requires that the District ensures that District funds are only deposited in financial institutions in which NJ municipalities are permitted to invest their funds.

Deposits:

New Jersey statutes require that fire districts deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation or by any other agency

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3: Cash and Cash Equivalents and Investments (Cont'd)

of the United States that insures deposits made in public depositories. Fire districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

New Jersey statutes permit the District to purchase the following types of securities:

- (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 local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (6) Local government investment pools;

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 3: Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (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. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties and entities subject to the "Local Authorities Fiscal Control Law", P.L. 1983 c.313 (C.40A:5A-1 et seq.);
 - (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
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2017, cash and cash equivalents of the Township of Hanover Fire District #3 consisted of the following:

<u>Fund</u>	<u>Restricted Cash and Cash Equivalents Capital Reserve</u>	<u>Unrestricted Cash and Cash Equivalents</u>	<u>Total</u>
Checking & Savings Accounts	\$ 121,989	\$ 1,151,006	\$ 1,272,995
	<u>\$ 121,989</u>	<u>\$ 1,151,006</u>	<u>\$ 1,272,995</u>

The carrying amount of the District's cash and cash equivalents at December 31, 2017 was \$1,272,995 and the bank balance was \$1,295,053. The Fire District had no investments as of December 31, 2017.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4: Long-Term Liabilities:

During the fiscal year ended December 31, 2017, the following changes occurred in liabilities reported in the District-wide financial statements:

Summary of Long-Term Liabilities - Current Year

	Balance 12/31/2016 (Restated)	Accrued	Retirements	Balance 12/31/2017
Capital Lease Payable	\$ 180,349		\$ 58,360	\$ 121,989
Net Pension Liability:				
PERS	529,243		138,930	390,313
PFRS	888,659	\$ 316,462		1,205,121
Compensated Absence Payable	41,223	4,916		46,139
	<u>\$ 1,639,474</u>	<u>\$ 321,378</u>	<u>\$ 197,290</u>	<u>\$ 1,763,562</u>

A. Capital Lease Payable

A capital lease agreement was entered into with Pierce Manufacturing for the purchase of a Fire Apparatus. The total cost of the Truck was \$497,382. The District made a down payment in the amount of \$100,000 in 2012. The District made its first annual payment of \$63,734 in 2013 and its final payment will be in 2019.

The following schedule of the future minimum capital lease payments and the present value of the net minimum lease payments at December 31, 2017:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 63,734
2019	63,734
	<u>127,468</u>
Less: Amount representing interest	(5,479)
Present Value of Net Minimum Lease Payments	<u>\$ 121,989</u>

The current portion is \$60,099 and the long-term portion is \$61,890.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 4: Long-Term Liabilities: (Cont'd)

B. Net Pension Liability

The Public Employees' Retirement System (PERS) and Police and Firemen's Retirement Systems' (PFRS) net pension liability of the governmental fund types is recorded in the current and long-term liabilities and will be liquidated by the General Fund. The current portion of the PERS net pension liability at December 31, 2017 is \$-0- and the long-term portion is \$390,313. The current portion of the PFRS net pension liability at December 31, 2017 is \$-0- and the long-term portion is \$1,205,121. See Note 2 for further information on the PERS and PFRS.

C. Compensated Absences

The liability for compensated absences of the governmental fund types is recorded in the current and long-term liabilities and will be liquidated by the General Fund. The entire amount of compensated absences payable at December 31, 2017 of \$46,139 is a long-term liability. There is no current portion of the payable.

Note 5: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2017:

	<u>Balance</u> <u>12/31/2016</u>	<u>Increases/</u> <u>(Decreases)</u>	<u>Balance</u> <u>12/31/2017</u>
Capital Assets:			
Land and Land Improvements	\$ 29,200		\$ 29,200
Building and Building Improvements	497,952		497,952
Construction-In-Progress	452,189	\$ 71,411	523,600
Vehicles and Fire Trucks	1,813,029	143,750	1,956,779
Machinery and Equipment	227,973		227,973
Total Capital Assets	<u>3,020,343</u>	<u>215,161</u>	<u>3,235,504</u>
Less Accumulated Depreciation for:			
Building and Building Improvements	279,216	12,449	291,665
Vehicles and Fire Trucks	1,046,133	116,325	1,162,458
Machinery and Equipment	69,303	14,907	84,210
	<u>1,394,652</u>	<u>143,681</u>	<u>1,538,333</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,625,691</u>	<u>\$ 71,480</u>	<u>\$ 1,697,171</u>

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017
(Continued)

Note 5: Capital Assets (Cont'd)

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets were reviewed for impairment.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

	Estimated Useful Life
Building & Building Improvements	40 Years
Fire Trucks	20 Years
Vehicles	10 Years
Equipment/Machinery	Various

Note 6: Risk Management

The District is exposed to various risks of loss related torts, theft of, damage to and destruction of assets, errors, and omissions, injuries to employees, and natural disasters.

The District secures all insurance coverage through private insurance carriers using a broker as their representative. The following coverages were in place in 2017:

1. Property Damage Other Than Motor Vehicles
2. Motor Vehicle
3. General Liability
4. Inland Marine
5. Public Officials Liability
6. Umbrella Policy
7. Workers' Compensation

Note 7: Accounts Payable

Accounts payable as of December 31, 2017 was as follows:

	Governmental Funds	District Contribution Subsequent to the Measurement Date	Total Governmental Activities
Vendors	\$ 24,149		\$ 24,149
State of New Jersey		\$ 84,619	84,619
	\$ 24,149	\$ 84,619	\$ 108,768

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

(Continued)

Note 8: Contingencies

The District is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury, personnel practices and property damage. In the opinion of the General Counsel to the District, payment of claims by the District, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the District's financial position.

Note 9: Economic Dependency

The Fire District receives a substantial amount of its support from its local district taxes. A significant reduction in the level of support, if this were to occur, may have a significant effect on the District's programs and activities.

Note 10: Prior Period Adjustments

The Fire District made a prior year adjustment in the District Wide Financial Statements to amend the compensated absences payable to reflect the \$15,000 maximum allowed per employee for accumulated absences. As a result the District Wide Financial Statements as of December 31, 2016 have been restated as follows:

	Balance 12/31/2016 as Previously Reported	Retroactive Adjustments	Balance 12/31/2016 as Restated
<u>Statement of Net Position:</u>			
<u>Governmental Activities:</u>			
Non Current Liabilities			
Due Beyond one year			
Compensated Absences Payable	101,117	(59,894)	41,223
Net Position:			
Unrestricted	(220,381)	59,894	(160,487)

Required Supplemental Information

HANOVER TOWNSHIP FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED

	Year Ending June 30,		
	2015	2016	2017
District's proportion of the net pension liability	0.0017442649%	0.0017869490%	0.0016767178%
District's proportionate share of the net pension liability	\$ 391,553	\$ 529,243	\$ 390,313
District's covered employee payroll	\$ 114,736	\$ 118,174	\$ 117,856
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	341.26%	447.85%	331.18%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	40.14%	48.10%

HANOVER TOWNSHIP FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF DISTRICT CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED

	Year Ending June 30,		
	2015	2016	2017
Contractually required contribution	\$ 12,584	\$ 14,996	\$ 15,875
Contributions in relation to the contractually required contribution	<u>(12,584)</u>	<u>(14,996)</u>	<u>(15,875)</u>
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
District's covered employee payroll	\$ 113,589	\$ 114,736	\$ 118,174
Contributions as a percentage of covered employee payroll	11.08%	13.07%	13.43%

HANOVER TOWNSHIP FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
POLICE AND FIREMEN'S RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED

	Year Ending June 30,		
	2015	2016	2017
District's proportion of the net pension liability	0.0055863878%	0.0046520436%	0.0078061649%
District's proportionate share of the net pension liability	\$ 930,497	\$ 888,659	\$ 1,205,121
District's covered employee payroll	\$ 269,452	\$ 268,524	\$ 250,248
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	345.33%	330.94%	481.57%
Plan fiduciary net position as a percentage of the total pension liability	56.31%	52.01%	58.60%

HANOVER TOWNSHIP FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF DISTRICT CONTRIBUTIONS
POLICE AND FIREMEN'S RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED

	Year Ending June 30,		
	2015	2016	2017
Contractually required contribution	\$ 42,097	\$ 45,409	\$ 37,930
Contributions in relation to the contractually required contribution	<u>(42,097)</u>	<u>(45,409)</u>	<u>(37,930)</u>
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
District's covered employee payroll	\$ 266,757	\$ 269,452	\$ 268,524
Contributions as a percentage of covered employee payroll	15.78%	16.85%	14.13%

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017
UNAUDITED

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017. The municipal bond rate changed from 2.85% to 3.58%. The long-term expected rate of return on pension plan investments changed from 7.65% to 7.00%.

The inflation rate changed from 3.08% as of June 30, 2016 to 2.25% as of June 30, 2017.

B. POLICE AND FIREMEN'S RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate changed from 5.55% as of June 30, 2016 to 6.14% as of June 30, 2017. The municipal bond rate changed from 2.85% to 3.58%. The long-term expected rate of return on pension plan investments changed from 7.65% to 7.00%.

The inflation rate changed from 3.08% as of June 30, 2016 to 2.25% as of June 30, 2017.

The mortality rates in the July 1, 2015 actuarial valuation were based on the following:

Pre-retirement mortality rates were based on the RP-2000 Pre-retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability retirement rates were based on the special mortality tables used for the period after disability retirement.

The mortality rates in the July 1, 2016 actuarial valuation were based on the following:

Pre-retirement mortality rates were based on the RP-2000 Pre-retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2017
UNAUDITED

Changes of Actuarial Assumptions (Cont'd)

2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and three years using the plan actuary's modified 2014 projection scales and further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then three years using the plan actuary's modified 2014 projection scales and further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability retirement rates were based on the special mortality tables used for the period after disability retirement.

SUPPLEMENTARY INFORMATION

HANOVER TOWNSHIP FIRE DISTRICT #3
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS

	<u>General Fund</u>	<u>Total</u>
Cash Balance:		
January 1, 2017	\$ 1,367,883	\$ 1,367,883
Cash Receipts:		
Township of Hanover - District Taxes	1,131,306	1,131,306
Rental Income	6,500	6,500
Interest on Investments	4,325	4,325
EMS Services	543,831	543,831
Local Registration Fees	31,714	31,714
Fire Alarms and Standby Fees	10,977	10,977
Miscellaneous Receipts	8,587	8,587
Uniform Fire Safety Act	28,172	28,172
Due to General Fund:		
Interest on Investments	18	18
Total Cash Receipts	<u>1,765,430</u>	<u>1,765,430</u>
Cash Disbursed:		
Operating, Maintenance and Administration	685,254	685,254
Salaries and Wages	535,216	535,216
Taxes Withheld	253,242	253,242
Pension Expense	154,897	154,897
Miscellaneous	3,954	3,954
Capital Appropriations	<u>227,755</u>	<u>227,755</u>
Total Cash Disbursements	<u>1,860,318</u>	<u>1,860,318</u>
Cash Balance December 31, 2017	<u>\$ 1,272,995</u>	<u>\$ 1,272,995</u>

HANOVER TOWNSHIP FIRE DISTRICT #3
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2017

	2017			Variance Favorable (Unfavorable)
	Budget	Budget After Modification	Actual	
<u>REVENUE:</u>				
Fund Balance Anticipated - Unrestricted	\$ 300,000	\$ 300,000	\$ 300,000	
Amount To Be Raised By Taxation To Support The District Budget	1,131,306	1,131,306	1,131,306	
Rental Income	6,500	6,500	6,500	
Interest on Investments	2,500	2,500	4,343	\$ 1,843
EMS Services	520,000	520,000	543,831	23,831
Local Registration Fees	23,000	23,000	31,714	8,714
Fire Alarms and Standby Fees	7,500	7,500	10,977	3,477
Miscellaneous Revenue	9,200	9,200	8,587	(613)
Uniform Fire Safety Act	20,000	20,000	28,172	8,172
Total Revenue	<u>2,020,006</u>	<u>2,020,006</u>	<u>2,065,430</u>	<u>45,424</u>
<u>BUDGETED APPROPRIATIONS:</u>				
Operating Appropriations:				
Operating, Maintenance and Administration:				
Administrative:				
Salaries & Wages	68,000	68,000	65,089	2,911
Fringe Benefits	8,000	31,000	26,044	4,956
Office Expenses	9,700	9,700	9,541	159
Election and Recruitment/Retention	3,900	3,900	3,458	442
Fire Prevention Bureau and Public Events	13,500	13,500	9,022	4,478
Operations and Maintenance:				
Salaries & Wages	686,000	710,000	709,166	834
Benefits	224,300	333,300	283,762	49,538
Maintenance, Permits, Rental Charges, Convention, and Expense Reimbursement				
Insurance, Professional Services, Physicals	257,521	148,521	139,060	9,461
Travel, Dues, Advertising, and Training	260,050	213,050	183,703	29,347
Uniforms and Utilities	53,300	53,300	49,986	3,314
Rescue and Firefighting Equipment	52,000	52,000	39,858	12,142
Uniform Fire Safety Act:				
Fire Fighter/Official	20,000	20,000	18,000	2,000
Total Operating, Maintenance and Administration	<u>1,656,271</u>	<u>1,656,271</u>	<u>1,536,689</u>	<u>119,582</u>
Capital Appropriations:				
Capital Outlay	300,000	300,000	215,161	84,839.00
Capital Leases	63,735	63,735	63,735	
Total Capital Appropriations	<u>363,735</u>	<u>363,735</u>	<u>278,896</u>	<u>84,839</u>
TOTAL APPROPRIATIONS	<u>\$ 2,020,006</u>	<u>\$ 2,020,006</u>	<u>\$ 1,815,585</u>	<u>\$ 204,421</u>

TOWNSHIP OF HANOVER FIRE DISTRICT #3
SCHEDULE OF LEASE PAYABLE
SCHEDULE OF LEASE PAYABLE FOR ORIGINAL ISSUE OF \$397,382 WITH PRINCIPAL

Balance 12/31/2016	\$ 180,349
Decreased by:	
Principal Paid	<u>58,360</u>
Balance 12/31/2017	<u><u>\$ 121,989</u></u>

GOVERNMENT AUDITING STANDARDS



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200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
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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*

Independent Auditors' Report

The Board of Fire Commissions
Hanover Township Fire District #3
Hanover, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, (the "Division") and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Hanover Township Fire District #3, in the County of Morris (the "Fire District") as of, and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements and have issued our report thereon dated May 30, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2017-1 that we consider to be a significant deficiency.

The Board of Fire Commissions
Hanover Township Fire District #3
Hanover, NJ
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fire District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests 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

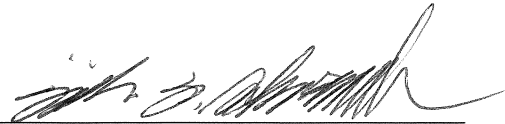
The Fire District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Fire District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 result of that testing, and not to provide an opinion on the effectiveness of the Fire District'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 Fire District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mount Arlington, New Jersey
May 30, 2018

NISIVOCCIA LLP



William F. Schroeder
Certified Public Accountant
Registered Municipal Accountant, No. 452

TOWNSHIP OF HANOVER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion the financial statements of the Fire District.
- A significant deficiency was disclosed during the audit of the financial statements as reported in the *Independent Auditors' 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*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of the Fire District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit disclosed the following significant deficiency required to be reported under Generally Accepted Government Auditing Standards:

Finding 2017-1

Segregation of Duties

Criteria

Concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view.

Condition

The Fire District does not maintain an adequate segregation of duties due to a limited number of personnel.

The functions of handling cash, preparation of cash receipts and cash disbursements books and the general ledger for the various funds and reconciliation of bank accounts are performed by one individual.

Cause

This is not unusual in operations the size of the Fire District, but management should constantly be aware of this condition and realize the concentration of duties and responsibility in a limited number of individuals is not desirable from a control point of view.

Effect of Potential Effect

Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to perpetuate errors and prevent detection within a reasonable period of time.

Management's Response

Finding 2017-1 was evaluated, however, due to budgetary constraints, no resolution can be made at this time.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2017

Finding 2017-2

The collection agency (NBBC) used by the Fire District for delinquent billings does not have a SOC 1, Type 2 Service Organization Control (“SOC”) report. A SOC 1, Type 2 report is a report of the service organization’s controls and whether or not the controls are functioning as intended. It is recommended that the collections agency (NBCC) obtain a SOC 1, Type 2 report or similar report, which covers each calendar year.

Management’s Response

Management will review options to ensure that the collection agency used by the Fire District obtain and appropriate report covering each year.

Finding 2017-3

During the review of the District’s payroll process, it was determined that not all timesheets detailing hours worked, and Paid Time Off (PTO) used, were submitted in a complete and timely manner. It is recommended that all timesheets by employees are submitted in a complete and timely manner.

Management’s Response

Management ensures that all timesheets submitted by employees of the Fire District will be submitted in a complete and timely manner.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2017

The Fire District did not have a finding during the prior year.

COMMENTS AND RECOMMENDATIONS

TOWNSHIP OF HANOVER FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS

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

N.J.S.A. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to Subsection b. of Section 9 of P.L. 1971, C.198 (N.J.S.A. 40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, C.198 (N.J.S.A. 40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, C.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, C.198 (N.J.S.A. 40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S.A. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2015 and thereafter, the bid thresholds in accordance with N.J.S.A. 40A:11-3 and 40A:11-4 (as amended) are \$17,500 for a contracting unit without a qualified purchasing agent and \$40,000 for a contracting unit with a qualified purchasing agent.

The governing body of the municipality has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the District Counsel's opinion should be sought before a commitment is made.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required to be Advertised Per N.J.S.A. 40A:11-4 et seq. (Cont'd)

The minutes indicated that bids were requested by public advertising per N.J.S.A. 40A:11-4. The minutes also indicated that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" and "Extraordinary Unspecifiable Services" per N.J.S.A. 40A:11-5.

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing 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 noted.

New Jersey Administrative Code Accounting Requirements

The Division of Local Government Services has established three (3) accounting requirements which are prescribed in the New Jersey Administrative Code. They are as follows:

1. Maintenance of an encumbrance accounting system.
2. General ledger accounting and record system.
3. Fixed asset accounting and reporting system.

The District is in compliance with the three requirements.

Operating Fund

During our review of transfers made by the district to avoid certain line item over expenditures, it was determined that the transfers were made informally. It is suggested that the Fire District adopt a formal transfer procedure that complies with N.J.S.A. 40A:4-58

Segregation of Duties

The District does not maintain an adequate segregation of duties with respect to the cash handling, preparation of cash receipts and cash disbursements books and the general ledger for the various funds and reconciliation of bank accounts are performed by one individual due to limited personnel. Segregation of duties refers to separating those functions that place too much control over a transaction or class of transactions that would enable a person to perpetuate errors and prevent detection within a reasonable period of time. The functions of handling cash and preparation of cash receipts and cash disbursements books and the general ledger for the various funds and reconciliation of bank accounts are performed by one individual.

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

Recommendation

It is recommended that the District maintains an adequate segregation of duties with respect to the recording and treasury functions.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS
(Continued)

Segregation of Duties (Cont'd)

Management's Response:

The recommendation was evaluated, however due to budgetary constraints no resolution can be made at this time.

SOC 1, Type 2 Report

During the audit of the Hanover Township Fire District #2, it was discovered that the collection agency (NBBC) used by the Fire District for delinquent billings does not have a SOC 1, Type 2 Service Organization Control ("SOC") report. A SOC 1, Type 2 report is a report of the service organization's controls and whether or not the controls are functioning as intended.

Recommendation

It is recommended that the collections agency (NBCC) obtain a SOC 1, Type 2 report or similar report, which covers each calendar year.

Management's Response:

Management will review options to ensure that the collection agency used by the Fire District obtain and appropriate report covering each year.

Payroll

During the review of the District's payroll process, it was determined that not all timesheets detailing hours worked, and Paid Time Off (PTO) used, were submitted in a complete and timely manner.

Recommendation

It is recommended that all timesheets by employees are submitted in a complete and timely manner.

Management's Response

Management ensures that all timesheets submitted by employees of the Fire District will be submitted in a complete and timely manner.

Status of Prior Year Recommendations:

There were no recommendations in the prior year.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The District maintain an adequate segregation of duties with respect to the preparation of cash receipts and cash disbursements books and the cash handling functions.
2. It is recommended that the collections agency (NBCC) obtain a SOC 1, Type 2 report or similar report, which covers each calendar year.
3. It is recommended that all timesheets by employees are submitted in a complete and timely manner.