TOWNSHIP OF HANOVER FIRE DISTRICT #3

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2019

TOWNSHIP OF HANOVER FIRE DISTRICT #3
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2019

INTRODUCTORY SECTION

Fire District No. 3

TOWNSHIP OF HANOVER, COUNTY OF MORRIS

June 15, 2020

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, 2019 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
Page 2
June 15, 2020

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
Page 3
June 15, 2020

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 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.

Respectfully submitted,

Robert E. O'Hare
Chairman

Robert Callas
Vice-Chairman

TOWNSHIP OF HANOVER FIRE DISTRICT #3
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2019

Commissioners:

Robert E. O'Hare	Chairman
Robert Callas	Vice Chairman
Thomas A. Quirk, Jr.	Secretary
Michael P. Dugan	Treasurer
Michael P. Dugan, Jr.	District Clerk

Other Officials:

James M Schultz	Administrator
Karen Calabrese	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

NISIVOCCIA
ASSURANCE · TAX · ADVISORY

200 Valley Road, Suite 300
Mt. Arlington, NJ 07856
973.298.8500

11 Lawrence Road
Newton, NJ 07860
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nisivoccia.com

Independent Member
BKR International

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, 2019 and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

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, 2019, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis which follows this report, and the required supplementary information pension and post-employment benefits 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.

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 basic 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 basic 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
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fire District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
June 15, 2020

NISIVOCCIA LLP

Man C Lee

Man C. Lee
Registered Municipal Accountant No. 562
Certified Public Accountant

MANAGEMENT DISCUSSION AND ANALYSIS

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

2019 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 $83,206 or 5.65%. This was primarily a result of an increase in net pension liability and related deferred inflows of resources. 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, 2019	Dec. 31, 2018	Increase/ (Decrease) from 2018	Percent of Increase/ (Decrease)
Current and Other Assets	$ 1,110,456	$ 1,071,576	$ 38,880	
Capital Assets, Net	1,983,555	1,981,293	2,262	
Total Assets	3,094,011	3,052,869	41,142	1.35%
Deferred Outflows of Resources	862,725	918,522	(55,797)	-6.07%
Current Liabilities	163,538	208,342	(44,804)	
Long-Term Liabilities	1,743,618	1,743,082	536	
Total Liabilities	1,907,156	1,951,424	(44,268)	-2.27%
Deferred Inflows of Resources	659,872	547,053	112,819	20.62%
Net Investment in Capital Assets	1,983,555	1,919,403	64,152	
Restricted		61,890	(61,890)	
Unrestricted/(Deficit)	(593,847)	(508,379)	(85,468)	
Total Net Position	$ 1,389,708	$ 1,472,914	$ (83,206)	-5.65%

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, 2019	Dec. 31, 2018	Increase/ (Decrease) from 2018	Percent of Increase/ (Decrease)
Operating Revenue	$ 722,627	$ 747,975	$ (25,348)	
Nonoperating Revenue	1,253,887	1,190,509	63,378	
Total Revenue	1,976,514	1,938,484	38,030	1.96%
Operating expenses:				
Admin. & General Expenses	1,889,477	1,795,234	94,243	
Depreciation	168,398	162,161	6,237	
Capital Lease Interest Payment	1,845	3,635	(1,790)	
Total Expenses	2,059,720	1,961,030	98,690	5.03%
Change in Net Position	$ (83,206)	$ (22,546)	$ (60,660)	-269.05%

Results of Operations

Revenues: Operating revenues decreased mainly as a result of a decrease in local registration fees income. Non-operating revenues increased as a result of an increase in the amount to be raised by taxation to support the District budget.

Expenses: Administrative and General Expenses increased 5.25% from 2018. The District maintains its policy of careful spending to stay within the budget.

Capital Assets: As of December 31, 2019, the District had $1,983,555 invested in capital assets, including several fire trucks, vehicles, equipment and machinery, and furniture and fixtures. The amount represents an increase of $2,262 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, 2019. These changes are presented in detail in Note 5 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	Dec. 31, 2019	Dec. 31, 2018	Increase/ (Decrease) from 2018	Percent of Increase/ (Decrease)
Land	$ 7,500	$ 7,500		
Land Improvements	34,200	21,700	$ 12,500	
Buildings and Improvements	497,952	497,952		
Construction in Progress	602,123	537,323	64,800	
Vehicles and Fire Trucks	2,474,780	2,389,340	85,440	
Machinery and Equipment	235,893	227,973	7,920	
Total	3,852,448	3,681,788	170,660	4.64%
Less:				
Accumulated Depreciation	1,868,893	1,700,495	168,398	9.90%
Capital Assets, Net of Accumulated Depreciation	$ 1,983,555	$ 1,981,293	$ 2,262	0.11%

Cash Flow Activity: The cash and cash equivalents at year-end 2019 increased by $38,880 from the previous year. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

Long-Term Liabilities: At year end, the District had long-term liabilities outstanding of $1,743,618 – a decrease of $61,354 from last year. This was the result of the District making the final payment of a capital lease, a decrease in net pension liability and an increase in compensated absences payable, as shown in Table IV. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

Table IV
Outstanding Long-Term Debt

	Dec. 31, 2019	Dec. 31, 2018	(Decrease) from 2018	Percent of (Decrease)
Net Pension Liability	$ 1,672,087	$ 1,679,397	$ (7,310)	
Compensated Absences Payable	71,531	63,685	7,846	
Capital Lease Payable		61,890	(61,890)	
	$ 1,743,618	$ 1,804,972	$ (61,354)	-3.40%

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

TOWNSHIP OF HANOVER FIRE DISTRICT #3
STATEMENT OF NET POSITION
DECEMBER 31, 2019

	Governmental Activities
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	$ 1,110,456
Non Current Assets:	
Capital Assets, Net of Accumulated Depreciation	1,983,555
Total Assets	3,094,011
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred Outflows Related to Pensions	738,687
Contribution Subsequent to Measurement Date - Pensions	124,038
Total Deferred Outflows of Resources	862,725
LIABILITIES:	
Current Liabilities:	
Accounts Payable	163,538
Long-Term Liabilities:	
Compensated Absences Payable	71,531
Net Pension Liability	1,672,087
Total Liabilities	1,907,156
DEFERRED INLOWS OF RESOURCES:	
Deferred Inflows Related to Pensions	659,872
Total Deferred Inflows of Resources	659,872
NET POSITION:	
Net Investment in Capital Assets	1,983,555
Unrestricted/(Deficit)	(593,847)
Total Net Position	$ 1,389,708

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, 2019

	Governmental Activities
Operating Revenue:	
Fire Prevention Bureau Income	$ 51,875
New Jersey Uniform Fire Safety Act	30,034
Rental Income	7,042
EMS Services	622,666
Miscellaneous Revenue	11,010
Total Operating Revenue	722,627
Operating Expenses:	
Administrative and General Expenses	1,889,477
Depreciation	168,398
Capital Lease Interest Payment	1,845
Total Operating Expenses	2,059,720
Operating Loss	(1,337,093)
Non-Operating Revenue:	
Interest on Investments	4,004
Amount to be Raised by Taxation to Support District Budget	1,249,883
Total Non-Operating Revenue	1,253,887
Change in Net Position	(83,206)
Net Position - Beginning of Year	1,472,914
Net Position - End of Year	$ 1,389,708

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, 2019

	General Fund	Capital Fund	Total Governmental Funds
ASSETS:			
Cash and Cash Equivalents	$ 1,087,383	$ 23,073	$ 1,110,456
Total Assets	$ 1,087,383	$ 23,073	$ 1,110,456
LIABILITIES:			
Accounts Payable	$ 39,500		$ 39,500
Total Liabilities	39,500		39,500
FUND BALANCES:			
Unassigned	1,047,883	$ 23,073	1,070,956
Total Fund Balances	1,047,883	23,073	1,070,956
Total Liabilities and Fund Balances	$ 1,087,383	$ 23,073	

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.	1,983,555
Long-Term Liabilities, are not Due and Payable in the Current Period and Therefore are not Reported as Liabilities in the Funds.	(71,531)
The Net Pension Liability for PERS and PFRS is not Due and Payable in the Current Period and is not Reported in the Governmental Funds.	(1,672,087)
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:	
Deferred Outflows of Resources Related to Pensions	738,687
Deferred Inflows of Resources Related to Pensions	(659,872)
Net Position of Governmental Activities	$ 1,389,708

HANOVER TOWNSHIP FIRE DISTRICT #3
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2019

	General Fund	Capital Fund	Total Governmental Funds
REVENUE:			
Amount to be Raised by Taxation to Support District Budget	$ 1,249,883		$ 1,249,883
Rental Income	7,042		7,042
Interest Earned on Investments	4,004		4,004
EMS Services	622,666		622,666
Local Registration Fees	35,465		35,465
Fire Alarms and Standby Fees	16,410		16,410
Miscellaneous	11,010		11,010
Uniform Safety Act	30,034		30,034
Total Revenue	1,976,514		1,976,514
EXPENDITURES:			
Operating, Maintenance and Administration	1,710,127		1,710,127
Capital Lease Payment:			
Principal		$ 61,890	61,890
Interest	1,845		1,845
Capital Outlay	170,660		170,660
Total Expenditures	1,882,632	61,890	1,944,522
Net Change in Fund Balances	93,882	(61,890)	31,992
Fund Balances, Beginning of Year	954,001	84,963	1,038,964
Fund Balances, End of Year	$ 1,047,883	$ 23,073	$ 1,070,956

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, 2019

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 year. Expenditures are recorded when the related fund liability is incurred, except for principal

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.

Capital Fund: The Capital Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities.

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 have been restricted, committed or assigned.

The District has not established any fund balance restrictions.

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, 2019.

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 no assigned resources at December 31, 2019.

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

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

Deficit Net Position

The District has a deficit in unrestricted net position of $593,847 which is due to the net pension liability and related deferred inflows and outflows.

The deficit in unrestricted net position does not mean the District is facing financial difficulties. The deficit in unrestricted net position is a permitted practice by generally accepted accounting principles.

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 GASB. 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 and inflows of resources for pensions at December 31, 2019.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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)

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, 2019
(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 one of two contributory defined benefit public employee retirement systems: the Public Employee's Retirement System (PERS) of New Jersey or 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.state.nj.us/treasury/pensions/financial-reports.shtml.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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. The following represents the membership tiers for PERS:

Tier	Definition
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 $1/55^{th}$ 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 $1/60^{th}$ 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 member 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 $17,423 for 2019.

Note 2: Pension (Cont'd)

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

Contributions (Cont'd)

The employee contribution rate was 7.50% effective July 1, 2018.

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

At June 30, 2019, the District reported a liability of $489,425 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. 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, 2019, the District's proportion was 0.00272%, which was an increase of 0.00096% from its proportion measured as of June 30, 2018.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension (Cont'd)

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

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

For the year ended December 31, 2019, the District recognized actual pension expense of $71,320. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2014	6.44	$ 1,293	
	2015	5.72	7,998	
	2016	5.57	39,580	
	2017	5.48		$ (70,259)
	2018	5.63		(56,776)
	2019	5.21		(42,843)
			48,871	(169,878)
Changes in Proportion	2014	6.44		(344)
	2015	5.72	5,277	
	2016	5.57	2,389	
	2017	5.48		(10,877)
	2018	5.63	10,893	
	2019	5.21	176,561	
			195,120	(11,221)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2016	5.00		9,033
	2017	5.00		(10,841)
	2018	5.00		(7,541)
	2019	5.00		1,623
				(7,726)
Difference Between Expected and Actual Experience	2015	5.72	2,219	
	2016	5.57	1,201	
	2017	5.48	2,089	
	2018	5.63		(2,162)
	2019	5.21	3,276	
			8,785	(2,162)
District Contribution Subsequent to the Measurement Date	2019	1.00	26,421	
			$ 279,197	$ (190,987)

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension (Cont'd)

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

Pension Liabilities, Pension Expense, and Deferred Outflows and 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:

Fiscal Year Ending June 30,	Total
2020	$ (14,132)
2021	(45,845)
2022	(40,937)
2023	(19,222)
2024	(1,974)
	$ (122,110)

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. This actuarial valuation used the following actuarial assumptions:

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00 – 6.00% based on years of service
Thereafter	3.00 – 7.00% based on years of service
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee Mortality Table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

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, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Risk Management Strategies	3.00%	4.67%
Cash Equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment Grade Credit	10.00%	4.25%
High Yield	2.00%	5.37%
Private Credit	6.00%	7.92%
Real Assets	2.50%	9.31%
Real Estate	7.50%	8.33%
U.S. Equity	28.00%	8.26%
Non-U.S. Developed Market Equity	12.50%	9.00%
Emerging Markets Equity	6.50%	11.37%
Private Equity	12.00%	10.85%

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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 6.28% as of June 30, 2019. 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 3.50% as of June 30, 2019 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on 100% of actuarially determined contributions for the local employers. 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 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 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, 2019 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, 2019

	At 1% Decrease (5.28%)	At Current Discount Rate (6.28%)	At 1% Increase (7.28%)
District's proportionate share of the Net Pension Liability	$ 622,524	$ 489,425	$ 383,544

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 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.state.nj.us/treasury/pensions/financial-reports.shtml.

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:

Tier	Definition
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 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.

Note 2: Pension (Cont'd)

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

The amounts contributed on behalf of the local participating employers under this legislation are 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, 2019 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, 2019 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2019. The pension expense is deemed to be a State administrative expense due to the special funding situation.

Fire District contributions to PFRS amounted to $96,417 for the year ended December 31, 2019. During the fiscal year ended June 30, 2019, the State of New Jersey contributed $12,583 to the PFRS for normal pension benefits on behalf of the Fire District, which is less than the contractually required contribution of $21,698.

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

Pension Liabilities and Pension Expense

At June 30, 2019, the Fire District's liability for its proportionate share of the net pension liability was $1,182,662. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. 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, 2019, the Fire District's proportion was .0097%, which was a decrease of .0002% from its proportion measured as of June 30, 2018.

Additionally, the State's proportionate share of the net pension liability attributable to the Fire District is $186,745 as of June 30, 2019. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. 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, 2019, the State's proportion was .0097%, which was a decrease of .0002% from its proportion measured as of June 30, 2018 which is the same proportion as the Fire District's.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension (Cont'd)

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

Pension Liabilities and Pension Expense (Cont'd)

Fire District's Proportionate Share of the Net Pension Liability	$ 1,182,662
State's Proportionate Share of the Net Pension Liability Associated with the Fire District	186,745
Total Net Pension Liability	$ 1,369,407

For the year ended December 31, 2019, the Fire District recognized total pension expense of $71,320. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2014	6.17	$ 1,501	
	2015	5.53	30,463	
	2016	5.58	8,560	
	2017	5.59		$ (137,871)
	2018	5.73		(113,585)
	2019	5.92		(130,769)
			40,524	(382,225)
Changes in Proportion	2014	6.17	377	
	2015	5.53	1,353	
	2016	5.58		(37,078)
	2017	5.59	222,767	
	2018	5.73	210,907	
	2019	5.92		(26,069)
			435,404	(63,147)
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2016	5.00		35,652
	2017	5.00		(39,993)
	2018	5.00		(26,044)
	2019	5.00		14,360
				(16,025)
Difference Between Expected and Actual Experience	2015	5.53		(1,624)
	2016	5.58		(442)
	2017	5.59	5,461	
	2018	5.73	4,522	
	2019	5.92		(5,422)
			9,983	(7,488)
Fire District Contribution Subsequent to the Measurement Date	2019	1.00	97,617	
			$ 583,528	$ (468,885)

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 2: Pension (Cont'd)

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

Pension Liabilities and Pension Expense (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:

Fiscal Year Ending June 30,	Total
2020	$ (62,002)
2021	(130,152)
2022	(92,175)
2023	(45,436)
2024	(25,466)
	$ (355,231)

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018 which was rolled forward to June 30, 2019. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through all future years	3.25% - 15.25% based on years of service
Investment Rate of Return	7.00%

Pre-retirement mortality rates were based on the RP-2010 Safety Employee Mortality Table with a 105.6% adjustment for males and 102.5% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 Safety Retiree Below-Median Income Weighted Retiree mortality table with a 96.7% adjustment for males and a 96.0% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. For beneficiaries (contingent annuitants), the Pub-2010 General Retiree Below-Median Income Weighted mortality table was used, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Disability rates were based on the Pub-2010 Safety Disabled Retiree mortality table with a 152.0% adjustment for males and 109.3% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 to June 30, 2018.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(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, 2019) 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, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Risk Management Strategies	3.00%	4.67%
Cash Equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment Grade Credit	10.00%	4.25%
High Yield	2.00%	5.37%
Private Credit	6.00%	7.92%
Real Assets	2.50%	9.31%
Real Estate	7.50%	8.33%
U.S. Equity	28.00%	8.26%
Non-U.S. Developed Market Equity	12.50%	9.00%
Emerging Markets Equity	6.50%	11.37%
Private Equity	12.00%	10.85%

Discount Rate – PFRS

The discount rate used to measure the total pension liability was 6.85% as of June 30, 2019. 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 3.50% as of June 30, 2019 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, 2019
(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 70% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. 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 2076. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through 2076, 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, 2019 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, 2019	At 1% Decrease (5.85%)	At Current Discount Rate (6.85%)	At 1% Increase (7.85%)
Fire District's proportionate share of the NPL and the State's proportionate share of the Net Pension Liability associated with the Fire District	$ 1,850,938	$ 1,369,407	$ 970,869

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 information of the DCRP.

Note 2: Pension (Cont'd)

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

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 District recognized pension expense of $6,114 for the year ended December 31, 2019. Employee contributions to DCRP amounted to $11,209 for the year ended December 31, 2019.

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 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.

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

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, 2019
(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, 2019, cash and cash equivalents of the Township of Hanover Fire District #3 consisted of the following:

Fund	Cash and Cash Equivalents	Total
Checking & Savings Accounts	$ 1,110,456	$ 1,110,456
	$ 1,110,456	$ 1,110,456

The carrying amount of the District's cash and cash equivalents at December 31, 2019 was $1,110,456 and the bank balance was $1,127,180. The Fire District had no investments as of December 31, 2019.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 4: Long-Term Liabilities:

During the year ended December 31, 2019, the following changes occurred in liabilities reported in the District-wide financial statements:

Summary of Long-Term Liabilities - Current Year

	Balance 12/31/2018	Accrued	Retirements	Balance 12/31/2019
Capital Lease Payable	$ 61,890		$ 61,890	
Net Pension Liability:				
PERS	344,886	$ 144,539		$ 489,425
PFRS	1,334,511		151,849	1,182,662
Compensated Absence Payable	63,685	7,846		71,531
	$ 1,804,972	$ 152,385	$ 213,739	$ 1,743,618

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 final payment of $61,890 in 2019.

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, 2019 is $-0- and the long-term portion is $489,425. The current portion of the PFRS net pension liability at December 31, 2019 is $-0- and the long-term portion is $1,182,662. 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, 2019 of $71,531 is a long-term liability. There is no current portion of the payable.

D. Net OPEB Liability

The State's proportionate share of the net OPEB liability attributable to the District at June 30, 2019 was $1,112,106. See Note 10 for further information on this net OPEB liability.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 5: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2019:

	Balance 12/31/2018	Increases	Balance 12/31/2019
Capital Assets:			
Land	$ 7,500		$ 7,500
Land Improvements	21,700	$ 12,500	34,200
Building and Building Improvements	497,952		497,952
Construction-In-Progress	537,323	64,800	602,123
Vehicles and Fire Trucks	2,389,340	85,440	2,474,780
Machinery and Equipment	227,973	7,920	235,893
Total Capital Assets	3,681,788	170,660	3,852,448
Less Accumulated Depreciation for:			
Land Improvements		833	833
Building and Building Improvements	304,114	12,449	316,563
Vehicles and Fire Trucks	1,297,263	139,077	1,436,340
Machinery and Equipment	99,118	16,039	115,157
	1,700,495	168,398	1,868,893
Capital Assets, Net of Accumulated Depreciation	$ 1,981,293	$ 2,262	$ 1,983,555

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

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

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 2019:

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, 2019 was as follows:

	Governmental Funds	District Contribution Subsequent to the Measurement Date	Total Governmental Activities
	General Fund		
Vendors	$ 39,500		$ 39,500
State of New Jersey		$ 124,038	124,038
	$ 39,500	$ 124,038	$ 163,538

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.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 10: Postemployment Benefits Other Than Pensions (OPEB)

State Health Benefit Local Government Retired Employees Plan

General Information about the OPEB Plan

Plan Description

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at https://www.state.nj.us./treasury/pensions/financial-reports.shtml.

Benefits Provided

The Plan provides medical and prescription drug coverage to retirees and their dependents of the participating employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

Note 10: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

Contributions

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Special Funding Situation

Under Chapter 330, P.L. 1997, the State shall pay the premium or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 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, there is no net OPEB liability, deferred outflows of resources, or deferred inflows of resources 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 OPEB liability that is associated with the local participating employer.

Allocation Methodology

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB (benefit)/expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB (benefit)/expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB (benefit)/expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2018 through June 30, 2019. Employer and nonemployer allocation percentages were rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer and nonemployer may result in immaterial differences.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 10: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

OPEB Expense

The net OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019.

At June 30, 2019, the State's proportionate share of the net OPEB liability attributable to the District at June 30, 2019 was $1,112,106. At June 30, 2019, the State's proportion related to the District was .020126%. This is the percentage of the total State share of the net OPEB liability of the Plan.

During the year ended June 30, 2019, the State of New Jersey's OPEB expense related to the District was $14,741.

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.50%
Salary Increases*:	
Public Employees' Retirement System (PERS)	
Initial fiscal year applied	
Rate through 2026	2.00% - 6.00%
Rate thereafter	3.00% to 7.00%
Police and Firemen's Retirement System (PFRS)	
Rate for all future years	3.25% to 15.25%

* - Salary increases are based on years of service within the respective plan.

Mortality:

PERS	Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019
PFRS	Pub-2010 Safety classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2019
(Continued)

Note 10: Postemployment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

Actuarial Assumptions and Other Inputs (Cont'd)

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2013 to June 30, 2018 and July 1, 2014 – June 30, 2018, respectively.

100% of active members are considered to participate in the Plan upon retirement.

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially is 5.7% and decreases to a 4.5% long term trend rate after eight years. For post 65 medical benefits, the actual fully-insured Medicare Advantage trend rate for fiscal year 2020 is reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long term rate after eight years.

Discount Rate

The discount rate for June 30, 2019 was 3.50%. The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond rate as chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Note 11: Subsequent Events

The COVID-19 outbreak in the U.S. and specifically in New Jersey has caused disruption of normal financial operations at the District with offices being closed to the public. Though the impact on the District's operations cannot be reasonably estimated at this date, it is likely that there may be a timing impact on the collection of taxes from the Township.

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 FIVE YEARS

	Year Ending June 30,				
	2015	2016	2017	2018	2019
District's proportion of the net pension liability	0.0017442649%	0.0017869490%	0.0016767178%	0.0017516239%	0.0027162385%
District's proportionate share of the net pension liability	$ 391,553	$ 529,243	$ 390,313	$ 344,886	$ 489,425
District's covered employee payroll	$ 118,174	$ 117,856	$ 119,588	$ 128,846	$ 193,020
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	331.34%	449.06%	326.38%	267.67%	253.56%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	40.14%	48.10%	53.60%	56.27%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ending December 31, 2015.

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

	Year Ending June 30,				
	2015	2016	2017	2018	2019
Contractually required contribution	$ 12,584	$ 14,996	$ 15,875	$ 15,533	$ 17,423
Contributions in relation to the contractually required contribution	(12,584)	(14,996)	(15,875)	(15,533)	(17,423)
Contribution deficiency/(excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
District's covered employee payroll	$ 119,842	$ 116,164	$ 123,012	$ 163,850	$ 175,518
Contributions as a percentage of covered employee payroll	10.50%	12.91%	12.91%	9.48%	9.93%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ending December 31, 2015.

39

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 FIVE YEARS

	Year Ending June 30,				
	2015	2016	2017	2018	2019
District's proportion of the net pension liability	0.0055863878%	0.0046520436%	0.0078061649%	0.0098621451%	0.0096639913%
District's proportionate share of the net pension liability	$ 930,497	$ 888,659	$ 1,205,121	$ 1,334,511	$ 1,182,662
District's covered employee payroll	$ 268,524	$ 250,248	$ 333,261	$ 351,490	$ 327,540
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	346.52%	355.11%	361.61%	379.67%	361.07%
Plan fiduciary net position as a percentage of the total pension liability	56.31%	52.01%	58.60%	62.48%	65.00%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ending December 31, 2015.

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

	Year Ending June 30,				
	2015	2016	2017	2018	2019
Contractually required contribution	$ 42,097	$ 45,409	$ 37,930	$ 69,086	$ 96,417
Contributions in relation to the contractually required contribution	(42,097)	(45,409)	(37,930)	(69,086)	(96,417)
Contribution deficiency/(excess)	$ -0-	$ -0-	$ -0-	$ -0-	$ -0-
District's covered employee payroll	$ 233,584	$ 298,248	$ 371,857	$ 327,540	$ 327,540
Contributions as a percentage of covered employee payroll	18.02%	15.23%	10.20%	21.09%	29.44%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ending December 31, 2015.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST THREE YEARS

	Year Ending June 30,		
	2017	2018	2019
State's proportion of the net OPEB liability	0.017963%	0.021115%	0.020126%
State's proportionate share of the net OPEB liability	$ 1,561,957	$ 1,312,053	$ 1,112,106
Plan fiduciary net position as a percentage of the total OPEB liability	1.03%	1.97%	1.98%

Note: This schedule does not contain ten years of information as GASB No. 75 was implemented during the year ended December 31, 2018.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF STATE CONTRIBUTIONS
STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST THREE YEARS

	Year Ending June 30,		
	2017	2018	2019
Statutorily required contribution	$ 111,783	$ 39,717	$ 14,741
Contributions in relation to the contractually required contribution	(111,783)	(39,717)	(14,741)
Contribution deficiency/(excess)	$ -0-	$ -0-	$ -0-

Note: This schedule does not contain ten years of information as GASB No. 75 was implemented during the year ended December 31, 2018.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 5.66% as of June 30, 2018 to 6.28% as of June 30, 2019. The municipal bond rate changed from 3.87% to 3.50%.

The inflation rate was 2.25% as of June 30, 2018. As of June 30, 2019, the inflation rate was as follows – Price – 2.75% and Wage – 3.25%. The salary increases as of June 30, 2018 were as follows: Through 2026 – 1.65% - 4.15% based on age and Thereafter – 2.65% - 5.15% based on age. The salary increases as of June 30, 2019 are as follows: Through 2026 – 2.00% - 6.00% based on years of service and Thereafter – 3.00% - 7.00% based on years of service.

The July 1, 2017 actuarial valuation utilized the following mortality rate assumptions:

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 Conduent modified 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. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and a generational approach based on the plan actuary's modified MP-2014 projection scale thereafter. 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).

The July 1, 2018 actuarial valuation utilized the following mortality rate assumptions:

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee Mortality Table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

B. POLICE AND FIREMEN'S RETIREMENT SYSTEM

Benefit Changes

There were none.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019
(Continued)

B. POLICE AND FIREMEN'S RETIREMENT SYSTEM (Cont'd)

Changes of Actuarial Assumptions

The discount rate changed from 6.51% as of June 30, 2018 to 6.85% as of June 30, 2019. The municipal bond rate changed from 3.87% to 3.50%.

The inflation rate was 2.25% as of June 30, 2018. As of June 30, 2019, the inflation rate was as follows – Price – 2.75% and Wage – 3.25%. The salary increases as of June 30, 2018 were as follows: Through 2026 – 2.10% - 8.98% based on age and Thereafter – 3.10% - 9.98% based on age. The salary increases as of June 30, 2019 are as follows: Through all future years – 3.25% - 15.25% based on years of service.

The July 1, 2017 actuarial valuation utilized the following mortality rate assumptions:

Pre-retirement mortality rates were based on the RP-2000 Combined Healthy mortality tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB and the Conduent modified 2014 projection scale thereafter. For pre-retirement accidental mortality, a custom table with representative rates was used and there is no mortality improvement assumed. Post-retirement mortality rates for male service retirements are based on the RP-2000 Combined Healthy Mortality Tables projected on a generational basis using Projection Scale AA from base year of 2012 to 2013 and the Conduent modified 2014 projection scale thereafter. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB and the Conduent modified 2014 projection scales thereafter. Disability retirement rates were based on a custom table with representative rates and no mortality improvement assumed.

The July 1, 2018 actuarial valuation utilized the following mortality rate assumptions:

Pre-retirement mortality rates were based on the RP-2010 Safety Employee Mortality Table with a 105.6% adjustment for males and 102.5% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 Safety Retiree Below-Median Income Weighted Retiree mortality table with a 96.7% adjustment for males and a 96.0% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. For beneficiaries (contingent annuitants), the Pub-2010 General Retiree Below-Median Income Weighted mortality table was used, unadjusted, and with future improvement from the base year of 2010 on a generational basis. Disability rates were based on the Pub-2010 Safety Disabled Retiree mortality table with a 152.0% adjustment for males and 109.3% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

C. STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN

Benefit Changes

There were none.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019
(Continued)

C. STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN (Cont'd)

Change of Assumptions

The discount rate for June 30, 2019 was 3.50%. The discount rate for June 30, 2018 was 3.87%.

Salary Increases, Mortality and Health Care Trend Assumptions – June 30, 2017 Actuarial Valuation:

Salary Increases*:

Through 2026	1.65% - 8.98%
Thereafter	2.65% to 9.98%

*- Salary increases are based on the defined benefit plan that the member is enrolled in and his or her age.

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female Mortality Table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Health Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the June 30, 2017 valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under this Plan – the Police and Firemen Retirement System (PFRS) and the Public Employees' Retirement System (PERS). The PFRS and PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013 and July 1, 2011 – June 30, 2014, respectively.

For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially is 5.8% and decreases to a 5.0% long term trend rate after eight years. For self-insured post 65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long term rate after seven years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Salary Increases, Mortality and Health Care Trend Assumptions – July 1, 2018 Actuarial Valuation:

Salary Increases*:

Public Employees' Retirement System (PERS)	
Initial fiscal year applied	
Rate through 2026	2.00% - 6.00%
Rate thereafter	3.00% to 7.00%
Police and Firemen's Retirement System (PFRS)	
Rate for all future years	3.25% to 15.25%

* - Salary increases are based on years of service within the respective plan.

TOWNSHIP OF HANOVER FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2019
(Continued)

C. STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN (Cont'd)

Changes of Actuarial Assumptions (Cont'd)

Salary Increases, Mortality and Health Care Trend Assumptions – July 1, 2018 Actuarial Valuation: (Cont'd)

PERS Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019

PFRS Pub-2010 Safety classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019

Actuarial assumptions used in the July 1, 2018 valuation were based on the results of the PFRS and PERS experience studies were prepared for the periods July 1, 2013 to June 30, 2018 and July 1, 2014 – June 30, 2018, respectively.

For pre-Medicare medical benefits, the trend rate is initially is 5.7% and decreases to a 4.5% long term trend rate after eight years. For post 65 medical benefits, the actual fully-insured Medicare Advantage trend rate for fiscal year 2020 is reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long term rate after eight years.

SUPPLEMENTARY INFORMATION

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

	General Fund	Capital Fund	Total
Cash Balance:			
January 1, 2019	$ 986,613	$ 84,963	$ 1,071,576
Cash Receipts:			
Township of Hanover - District Taxes	1,249,883		1,249,883
Rental Income	7,042		7,042
Interest on Investments	4,004		4,004
EMS Services	622,666		622,666
Local Registration Fees	35,465		35,465
Fire Alarms and Standby Fees	16,410		16,410
Miscellaneous Receipts	11,010		11,010
Uniform Fire Safety Act	30,034		30,034
Total Cash Receipts	1,976,514		1,976,514
Cash Disbursed:			
Operating, Maintenance and Administration	633,445		633,445
Salaries and Wages	595,380		595,380
Taxes Witheld	279,012		279,012
Pension Expense	193,032		193,032
Miscellaneous	4,215		4,215
Capital Outlay	170,660		170,660
Capital Lease Principal		61,890	61,890
Total Cash Disbursements	1,875,744	61,890	1,937,634
Cash Balance December 31, 2019	$ 1,087,383	$ 23,073	$ 1,110,456

HANOVER TOWNSHIP FIRE DISTRICT #3
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2019

	2019			
	Budget	Budget After Modification	Actual	Variance Favorable (Unfavorable)
REVENUE:				
Fund Balance Anticipated - Unrestricted	$ 40,000	$ 40,000	$ 40,000	
Amount To Be Raised By Taxation				
To Support The District Budget	1,249,883	1,249,883	1,249,883	
Rental Income	6,500	6,500	7,042	$ 542
Interest on Investments	1,903	1,903	4,004	2,101
EMS Services	570,000	570,000	622,666	52,666
Local Registration Fees	23,000	23,000	35,465	12,465
Fire Alarms and Standby Fees	12,750	12,750	16,410	3,660
Miscellaneous Revenue	8,200	8,200	11,010	2,810
Uniform Fire Safety Act	36,300	36,300	30,034	(6,266)
Total Revenue	1,948,536	1,948,536	2,016,514	67,978
BUDGETED APPROPRIATIONS:				
Operating Appropriations:				
Operating, Maintenance and Administration:				
Administrative:				
Salaries & Wages	75,800	64,078	64,078	
Fringe Benefits	14,336	30,002	29,271	731
Office Expenses	21,500	21,500	20,803	697
Election and Recruitment/Retention	8,200	3,200	2,837	363
Fire Prevention Bureau and Public Events	12,200	5,241	5,241	
Operations and Maintenance:				
Salaries & Wages	830,962	790,027	790,027	
Benefits	277,500	349,705	349,705	
Maintenance, Permits, Rental Charges,				
Convention, and Expense Reimbursement	311,403	138,663	138,186	477
Insurance, Professional Services, Physicals				
Travel, Dues, Advertising, and Training	225,600	215,600	215,114	486
Uniforms and Utilities	45,300	42,045	41,635	410
Rescue and Firefighting Equipment	33,200	25,280	24,430	850
Uniform Fire Safety Act:				
Fire Fighter/Official	28,800	28,800	28,800	
Total Operating, Maintenance and Administration	1,884,801	1,714,141	1,710,127	4,014
Capital Appropriations:				
Capital Outlay		170,660	170,660	
Capital Leases	63,735	63,735	63,735	
Total Capital Appropriations	63,735	234,395	234,395	
TOTAL APPROPRIATIONS	$ 1,948,536	$ 1,948,536	$ 1,944,522	$ 4,014

TOWNSHIP OF HANOVER FIRE DISTRICT #3
SCHEDULE OF LEASE PAYABLE

Balance 12/31/2018	$	61,890
Decreased by:		
Principal Paid		61,890
Balance 12/31/2019	$	-0-

GOVERNMENT AUDITING STANDARDS

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Independent Member
BKR International

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, 2019, 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 June 15, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 2019-001 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
June 15, 2020

NISIVOCCIA LLP

Man C Lee

Man C. Lee
Certified Public Accountant
Registered Municipal Accountant, No. 562

TOWNHIP OF HANOVER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion on 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 2019-001

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.

TOWNHIP OF HANOVER FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2019

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

Finding 2019-001 (Cont'd)

Recommendation

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

Management's Response

Finding 2019-001 was evaluated, however, due to budgetary constraints, no resolution can be made at this time.

TOWNHIP OF HANOVER FIRE DISTRICT #3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2019

The Fire District's prior year audit finding 2018-001 regarding segregation of duties has not been fully resolved due to budgetary constraints and is included as finding 2019-001.

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.

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.

Confirming Orders

During our fieldwork, we had noted that there were several instances where invoices were dated prior to the purchase order date.

Recommendation

It is recommended that all purchase orders are approved prior to the purchase of goods or services.

Management's Response

Management will ensure that all purchase orders are approved prior to the purchase of goods or services.

SOC 1, Type 2 Report

The collection agency (NBCC) 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. However, as the District discontinued NBCC's service as of December 31, 2019, a formal recommendation is not deemed necessary.

Status of Prior Year Recommendations:

The prior year recommendation pertaining to the collections agency (NBCC) has been resolved in the current year. The prior year recommendations pertaining to the segregation of duties and confirming orders have not been resolved and are included as recommendations in the 2019 audit report.

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 recording and treasury functions.

2. All purchase orders are approved prior to the purchase of goods or services.