

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3

COUNTY OF MORRIS

REPORT OF AUDIT

DECEMBER 31, 2016

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
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YEAR ENDED DECEMBER 31, 2016

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INTRODUCTORY SECTION

Board of Fire Commissioners

MONTVILLE TOWNSHIP FIRE DISTRICT #3
P.O. BOX 166, 47 BLOOMFIELD AVENUE
PINE BROOK, NJ 07058-0166
Tel: 973-227-8071 • Fax: 973-227-8182
Email: firedist3@optonline.net

April 14, 2017

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

Dear Fire Commissioners:

The annual financial report of the Township of Montville Fire District #3 (the "District") for the year ended December 31, 2016 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 Montville 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 Montville 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 Montville, 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.

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.

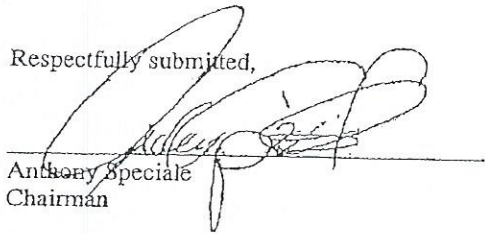
OTHER INFORMATION:

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


ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Commissioners of Fire District #3 Township of Montville for their concern in providing fiscal accountability to the citizens of the Township of Montville 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,



Anthony Speciale
Chairman



Ronald R. Cain, Jr.
Vice-Chairman

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2016

Commissioners:

Anthony Speciale
Ronald R. Cain, Jr
Timothy J. Wright
Donald F. Hainzl
Edward J. Rosenbergen Sr.

Chairman
Vice Chairman
Treasurer
Commissioner
District Clerk

Other Officials:

Kathleen Cain

Confidential Secretary to the
Board of Fire Commissioners

Consultants and Advisors:

ATTORNEY

Anthony M. Bucco, Esq.
of Murphy McKeon P.C.
Riverdale, New Jersey

AUDIT FIRM

Nisivoccia LLP
Mount Arlington, New Jersey

FINANCIAL SECTION

Independent Auditors' Report

To the Board of Fire Commissioners
Montville Township Fire District #3
Township of Montville
Montville, 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 Montville Fire District #3 (the "Fire District") as of and for the year ended December 31, 2016 and the related notes to the financial statements, which collectively comprise the Fire District's basic financial statements as listed in the foregoing table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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, 2016, 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 and the required supplementary information pension schedules be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

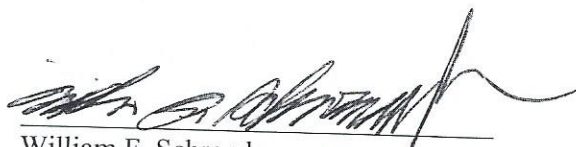
The introductory section has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2017 on our consideration of the Fire District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
April 14, 2017

NISIVOCCIA LLP

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Unaudited)

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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

2016 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 increased from the prior year by \$65,937 or 2.81%. This was primarily a result of actual administrative and general expenses being less than budgeted. 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, 2016	Dec. 31, 2015	Increase/ (Decrease) from 2015	Percent of Increase/ (Decrease)
Current and Other Assets	\$ 1,492,054	\$ 1,247,221	\$ 244,833	19.63%
Capital Assets, Net	1,226,013	1,364,171	(138,158)	-10.13%
Total Assets	2,718,067	2,611,392	106,675	4.08%
Deferred Outflows of Resources	130,868	21,675	109,193	503.77%
Current Liabilities	26,103	12,979	13,124	101.12%
Long-Term Liabilities	385,722	254,955	130,767	51.29%
Total Liabilities	411,825	267,934	143,891	53.70%
Deferred Inflows of Resources	21,234	15,194	6,040	39.75%
Net Investment in				
Capital Assets	1,226,013	1,364,171	(138,158)	-10.13%
Restricted	438,983	318,983	120,000	37.62%
Unrestricted	750,880	666,785	84,095	12.61%
Total Net Position	\$ 2,415,876	\$ 2,349,939	\$ 65,937	2.81%

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, 2016	Dec. 31, 2015	Increase/ (Decrease) from 2015	Percent of Increase/ (Decrease)
Operating Revenue	\$ 124,911	\$ 122,081	\$ 2,830	2.32%
Nonoperating Revenue	540,743	540,597	146	0.03%
Total Revenue	665,654	662,678	2,976	0.45%
Operating expenses:				
Admin. & General Expenses	440,670	458,073	(17,403)	-3.80%
Depreciation	159,047	156,284	2,763	1.77%
Total Expenses	599,717	614,357	(14,640)	-2.38%
Adjustment to Capital Assets		956	(956)	-100.00%
Change in Net Position	\$ 65,937	\$ 49,277	\$ 16,660	33.81%

Results of Operations

Operating Revenues: The increase in operating revenues is due to increases in Fire Prevention Bureau revenue and miscellaneous receipts. Non-operating revenue increased marginally.

Expenses: Administrative and General Expenses decreased 3.8% from 2015. The District maintains its policy of careful spending to stay within the budget.

Capital Assets: As of December 31, 2016, the District had \$1,226,013 invested in capital assets, including several fire trucks, vehicles, equipment and machinery, and furniture and fixtures. The amount represents a decrease of \$138,158 from the prior year due to additions to total capital assets being less 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, 2016. These changes are presented in detail in Note 5 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	Dec. 31, 2016	Dec. 31, 2015	Increase/ (Decrease) from 2015	Percent of Increase/ (Decrease)
Vehicles and Fire Trucks	\$ 2,743,978	\$ 2,743,978	\$ -	0.00%
Machinery and Equipment	407,183	386,293	20,890	5.41%
Furniture and Fixtures	149,200	149,200		0.00%
Total	3,300,361	3,279,471	20,890	0.64%
Less:				
Accumulated Depreciation	2,074,348	1,915,300	159,048	8.30%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,226,013</u>	<u>\$ 1,364,171</u>	<u>\$ (138,158)</u>	-10.13%

Cash Flow Activity: The cash and cash equivalents and investments at year-end 2016 increased by \$244,833 from the previous year, primarily due to normal operations less the purchase of equipment for \$20,890. The District maintains a healthy cash balance to meet future emergencies and capital requirements.

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
STATEMENT OF NET POSITION
DECEMBER 31, 2016

	<u>Governmental Activities</u>
<u>ASSETS:</u>	
Assets:	
Cash and Cash Equivalents	\$ 1,029,314
Restricted Cash and Cash Equivalents	462,740
Capital Assets, Net of Accumulated Depreciation	1,226,013
Total Assets	<u>2,718,067</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Changes in Assumptions - Pensions	79,901
Difference inbetween Expected and Actual Experience - Pensions	7,173
Investment Gains - Pensions	14,708
Contribution Subsequent to Measurement Date - Pensions	11,570
Changes in Proportion - Pensions	17,516
Total Deferred Outflows of Resources	<u>130,868</u>
<u>LIABILITIES:</u>	
Liabilities:	
Accounts Payable	26,103
Net Pension Liability:	
Due Beyond One Year	385,722
Total Liabilities	<u>411,825</u>
<u>DEFERRED INLOWS OF RESOURCES:</u>	
Changes in Proportions - Pensions	21,234
Total Deferred Inflows of Resources	<u>21,234</u>
<u>NET POSITION:</u>	
Net Investment in Capital Assets	1,226,013
Restricted	438,983
Unrestricted	750,880
Total Net Position	<u>\$ 2,415,876</u>

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Governmental Activities</u>
Operating Revenue:	
Fire Prevention Bureau Income	\$ 113,869
Miscellaneous Revenue	<u>11,042</u>
Total Operating Revenue	<u>124,911</u>
Operating Expenses:	
Administrative and General Expenses	440,670
Depreciation	<u>159,047</u>
Total Operating Expenses	<u>599,717</u>
Operating Loss	(474,806)
Non-Operating Revenue:	
Interest on Investments	743
Amount to be Raised by Taxation to Support District Budget	<u>540,000</u>
Total Non-Operating Revenue	<u>540,743</u>
Change in Net Position	65,937
Net Position - Beginning of Year	<u>2,349,939</u>
Net Position - End of Year	<u><u>\$ 2,415,876</u></u>

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3

BALANCE SHEET

GOVERNMENTAL FUNDS

DECEMBER 31, 2016

	General Fund	Capital Fund	Total Governmental Funds
<u>ASSETS:</u>			
Cash and Cash Equivalents	\$ 1,029,314	\$ 462,740	\$ 1,492,054
Interfund Receivable - Capital Fund	23,757		23,757
Total Assets	<u>\$ 1,053,071</u>	<u>\$ 462,740</u>	<u>\$ 1,515,811</u>
<u>LIABILITIES:</u>			
Accounts Payable	\$ 14,533		\$ 14,533
Interfund Payable - General Fund		\$ 23,757	23,757
Total Liabilities	<u>14,533</u>	<u>23,757</u>	<u>38,290</u>
<u>FUND BALANCES:</u>			
Restricted for Future Capital Improvements		438,983	438,983
Unassigned	1,038,538		1,038,538
Total Fund Balances	<u>1,038,538</u>	<u>438,983</u>	<u>1,477,521</u>
Total Liabilities and Fund Balances	<u>\$ 1,053,071</u>	<u>\$ 462,740</u>	
Amounts Reported in the Statement of Activities are Different Because:			
Capital Assets Used in Governmental Activities are not Financial Resources and therefore are not Reported in the Funds. The Cost of the Assets is \$3,300,361 and the Accumulated Depreciation is \$2,074,348.			1,226,013
The Net Pension Liability for PERS is not due and payable in the current period and is not reported in the District Wide Financial Statements.			(385,722)
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:			
Changes in Assumptions - Pensions			79,901
Changes in Proportions - Pensions			(3,718)
Difference Between Expected and Actual Experience - Pensions			7,173
Investment Gains - Pensions			14,708
Net Position of Governmental Activities			<u>\$ 2,415,876</u>

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2016

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUE:</u>			
Amount to be Raised by Taxation to Support District Budget	\$ 540,000		\$ 540,000
Fire Prevention Bureau Income	113,869		113,869
Budget Appropriation		\$ 120,000	120,000
Interest Earned on Investments	743		743
Miscellaneous	11,042		11,042
Total Revenue	<u>665,654</u>	<u>120,000</u>	<u>785,654</u>
<u>EXPENDITURES:</u>			
Operating, Maintenance and Administration	401,485		401,485
Transfer to Capital	120,000		120,000
Purchase of Equipment	20,890		20,890
Total Expenditures	<u>542,375</u>		<u>542,375</u>
Net Change in Fund Balances	123,279	120,000	243,279
Fund Balances, Beginning of Year	<u>915,259</u>	<u>318,983</u>	<u>1,234,242</u>
Fund Balances, End of Year	<u>\$ 1,038,538</u>	<u>\$ 438,983</u>	<u>\$ 1,477,521</u>

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

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

Note 1: Organization and Summary of Significant Accounting Policies

A. Reporting Entity

The primary criterion for including activities within the District's reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the District. Oversight responsibility includes financial interdependency and a resulting financial benefit or burden relationship, selection of governing body members of the fire district, designation of management, and the ability to significantly influence operations and accountability for fiscal matters. In addition, certain legally separate, tax-exempt entities that meet specific criteria (i.e., benefit of economic resources, access/entitlement to resources, and significance) should be included in the financial reporting entities. The financial statements include all funds of the District over which the District exercises operating control. 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 Montville Fire District #3 (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

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

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

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

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 has been restricted, committed or assigned.

The District has established a fund balance restriction in the Capital Fund.

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

The assignment of resources is generally made by the District through a motion or a resolution passed by a majority of the Members of the Board of Fire Commissioners. These resources are intended to be used for a specific purpose. The process is not as restrictive as the commitment of resources and the Board of Fire Commissioners may allow an official of the District to assign resources through policies adopted by the Board of Fire Commissioners. The District has no assigned resources at December 31, 2016.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

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

Significant accounting policies include:

1. Grants:

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

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

2. Inventories:

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

3. Compensated Absences:

Neither the employees nor the Fire Commissioners are entitled to earn or accrue sick, vacation or other compensated benefits. Thus there was no compensated absence balance at December 31, 2016.

4. Unearned Revenue:

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

5. Net Position:

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

A deferred outflow of resources is a consumption of net position by the Fire District that is applicable to a future reporting period. A deferred inflow of resources is an acquisition of net position by the Fire District that is applicable to a future reporting period. The Fire District had deferred outflows of resources at December 31, 2016 for the changes in proportions and assumptions in pensions as well as the difference between expected and actual pension experience and the contribution subsequent to the measurement date for pensions.

The Fire District had a deferred inflow of resources at December 31, 2016 for the net difference between projected and actual investment earnings on pension plan investments.

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(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

Investments are generally stated at fair value. The Fire District classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

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.

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

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

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 additions to/deductions from the PERS's net position have been determined on the same basis as they are reported by the PERS. 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

All of the Fire District's employees participate in the Public Employee's Retirement System (PERS) of New Jersey.

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/annrpts.shtml.

Benefits Provided

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

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

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 2: Pension (Cont'd)

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

Benefits Provided (Cont'd)

Service retirement benefits of $1/55^{\text{th}}$ 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 $1/60^{\text{th}}$ 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. 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 \$12,317 for 2016.

The employee contribution rate was 7.06% effective July 1, 2015 and increased to 7.20% effective July 1, 2016. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2016
 (Continued)

Note 2: Pension (Cont'd)

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

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

At December 31, 2016, the District reported a liability of \$385,722 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. 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, 2016, the District's proportion was 0.0013%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the District recognized pension expense of \$37,077. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions - 2014	\$ 4,849	
Changes in Assumptions - 2015	19,812	
Changes in Assumptions - 2016	55,240	
Changes in Proportion - 2014	8,639	
Changes in Proportion - 2015	8,877	
Changes in Proportion - 2016		\$ 21,234
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments - 2014		7,266
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments - 2015	4,649	
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments - 2016	17,325	
Difference Between Expected and Actual Experience - 2015	5,497	
Difference Between Expected and Actual Experience - 2016	1,676	
Contributions Subsequent to Measurement Date - Pensions	11,570	
	<u>\$ 138,134</u>	<u>\$ 28,500</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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Note 2: Pension (Cont'd)

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

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

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

<u>Year Ending December 31,</u>	<u>Total</u>
2017	
2018	\$ 22,916
2019	22,915
2020	26,548
2021	22,304
	<u>7,099</u>
	<u>\$ 101,782</u>

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015 which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Inflation Rate	3.08%
Salary Increases:	
2012-2021	1.65 – 4.15% based on age
Thereafter	2.65 – 5.15% based on age
Investment Rate of Return	7.65%

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex. U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(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 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20 Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based upon the contribution rate in the most recent fiscal year. The local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, 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 December 31, 2016 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:

	Year Ended December 31, 2016		
	1%	Current	1%
	Decrease (2.98%)	Discount Rate (3.98%)	Increase (4.98%)
District's proportionate share of the Net Pension Liability	\$ 472,658	\$ 385,722	\$ 313,950

Pension plan Fiduciary Net Position

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

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.

Investments are generally stated at fair value. 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.

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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

GASB Statement No. 40, *Governmental Accounting Standards Board Deposit and Investment Risk Disclosures* 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 Authority ensures that Authority 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.

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;

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2016
 (Continued)

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

Investments: (Cont'd)

- (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, approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (6) Local government investment pools;
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); or
- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) above;
 - (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, 2016, cash and cash equivalents of the Township of Montville Fire District #3 consisted of the following:

<u>Fund</u>	<u>Checking Accounts</u>	<u>Savings Accounts</u>	<u>Total</u>
Operating	\$ 318,661	\$ 710,653	\$ 1,029,314
Capital		462,740	462,740
	<u>\$ 318,661</u>	<u>\$ 1,173,393</u>	<u>\$ 1,492,054</u>

The carrying amount of the District's cash and cash equivalents at December 31, 2016 was \$1,492,054 and the bank balance was \$1,505,167. The Fire District had no investments as of December 31, 2016.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

Note 4: Long-Term Debt:

Summary of Long-Term Debt - Current Year

	Balance 12/31/2015	Accrued	Retirements	Balance 12/31/2016
Net Pension Liability	\$ 254,955	\$ 130,767		\$ 385,722
	<u>\$ 254,955</u>	<u>\$ 130,767</u>	<u>\$ -0-</u>	<u>\$ 385,722</u>

Net Pension Liability

The Public Employees' Retirement System's (PERS) 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 net pension liability at December 31, 2016 is \$-0- and the long-term portion is \$385,722. See Note 2 for further information on the PERS.

Note 5: Capital Assets

Capital Assets are recorded at cost and consisted of the following, as of December 31, 2016:

	Balance 12/31/2015	Increases/ (Decreases)	Balance 12/31/2016
Capital Assets:			
Vehicles and Fire Trucks	\$ 2,743,978		\$ 2,743,978
Machinery and Equipment	386,293	\$ 20,890	407,183
Furniture and Fixtures	149,200		149,200
Total Capital Assets	<u>3,279,471</u>	<u>20,890</u>	<u>3,300,361</u>
Less Accumulated Depreciation for:			
Vehicles and Fire Trucks	1,585,455	122,733	1,708,188
Machinery and Equipment	259,575	30,280	289,855
Furniture and Fixtures	70,270	6,035	76,305
	<u>1,915,300</u>	<u>159,048</u>	<u>2,074,348</u>
Capital Assets, Net of Accumulated Depreciation	<u>\$ 1,364,171</u>	<u>\$ (138,158)</u>	<u>\$ 1,226,013</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
(Continued)

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Note 5: Capital Assets (Cont'd)

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

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

	<u>Estimated Useful Life</u>
Fire Trucks	20 Years
Vehicles	10 Years
Equipment/Machinery	Various
Office Furniture/Fixtures	Various

Note 6: Interfund Receivables and Payables

The following interfund balances remain on the balance sheet at December 31, 2016:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 23,757	
Capital Fund		\$ 23,757
	<u>\$ 23,757</u>	<u>\$ 23,757</u>

The interfund between the General Fund and the Capital Fund represents interest earned in the Capital Fund in prior years as well as in 2016 that is due to the General Fund.

Note 7: 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 2016:

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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
 (Continued)

Note 8: Accounts Payable

Accounts payable was as follows:

	Governmental Funds General Fund	District Contribution Subsequent to the Measurement Date	Total Governmental Activities
Vendors	\$ 14,533		\$ 14,533
State of New Jersey		\$ 11,570	11,570
	<u>\$ 14,533</u>	<u>\$ 11,570</u>	<u>\$ 26,103</u>

Note 9: 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 10: 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.

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

	Fiscal Year Ending June 30,	
	2015	2016
District's proportion of the net pension liability	0.0014326561%	0.0013023622%
District's proportionate share of the net pension liability	\$ 321,603	\$ 385,722
District's covered employee payroll	\$ 90,467	\$ 88,347
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	355.49%	436.60%
Plan fiduciary net position as a percentage of the total pension liability for the local group	47.93%	40.14%

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

MONTVILLE TWP FIRE DISTRICT #3
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF FIRE DISTRICT CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TWO YEARS
UNAUDITED

	Fiscal Year Ending June 30,	
	2015	2016
Contractually required contribution	\$ 11,226	\$ 12,317
Contributions in relation to the contractually required contribution	(11,226)	(12,317)
Contribution deficiency/(excess)	\$ -0-	\$ -0-
District's covered employee payroll	\$ 90,467	\$ 88,347
Contributions as a percentage of covered employee payroll	12.41%	13.94%

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

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED DECEMBER 31, 2016
UNAUDITED

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016. The municipal bond rate changed from 3.80% to 2.85%. The long-term expected rate of return on pension plan investments changed from 7.90% to 7.65%.

The inflation rate changed from 3.04% as of June 30, 2015 to 3.08% as of June 30, 2016. The salary increases changed from 2.15% - 4.40% for 2012 - 2021 to 1.65%-4.40% through 2026 and from 3.15%-5.40% thereafter to 2.65%-5.15% thereafter.

The mortality rates in the July 1, 2014 actuarial valuation were based on the following:

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

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

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

SUPPLEMENTARY INFORMATION

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

	<u>General Fund</u>	<u>Capital Fund</u>	<u>Total</u>
Cash Balance:			
January 1, 2016	\$ 904,787	\$ 342,434	\$ 1,247,221
Cash Receipts:			
Township of Montville - District Taxes	540,000		540,000
Fire Prevention Bureau	113,869		113,869
Interest on Investments	437		437
Due to General Fund:			
Interest on Investments		306	306
Miscellaneous Receipts	11,042		11,042
Budget Appropriation		120,000	120,000
Total Cash Receipts	<u>665,348</u>	<u>120,306</u>	<u>785,654</u>
Cash Disbursed:			
Operating, Maintenance and			
Administration	380,181		380,181
Fringe Benefits	40,640		40,640
Capital Appropriations	<u>120,000</u>		<u>120,000</u>
Total Cash Disbursements	<u>540,821</u>		<u>540,821</u>
Cash Balance December 31, 2016	<u>\$ 1,029,314</u>	<u>\$ 462,740</u>	<u>\$ 1,492,054</u>

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
GENERAL FUND
SCHEDULE OF REVENUE AND EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2016

	2016			
	Budget	Budget After Modification	Actual	Variance Favorable (Unfavorable)
<u>REVENUE:</u>				
Amount To Be Raised By Taxation To Support The District Budget	\$ 540,000	\$ 540,000	\$ 540,000	
Fire Prevention Bureau Income	100,000	100,000	113,869	\$ 13,869
Interest on Investments	500	500	743	243
Miscellaneous Revenue			11,042	11,042
Total Revenue	<u>640,500</u>	<u>640,500</u>	<u>665,654</u>	<u>25,154</u>
<u>BUDGETED APPROPRIATIONS:</u>				
Operating Appropriations:				
Operating, Maintenance and Administration:				
Salaries & Wages	28,500	28,500	28,323	177
Public Employees Retirement System	12,317	12,317	12,317	
Rent & Utilities	45,200	45,200	29,135	16,065
Fire Suppression Supplies	50,983	50,983	44,172	6,811
Maintenance & Repairs	140,000	140,000	81,370	58,630
Professional Services	17,000	17,000	15,868	1,132
Insurance	77,000	77,000	75,525	1,475
Training & Education	4,000	4,000	2,706	1,294
Uniforms	26,000	26,000	17,698	8,302
Other Administrative Expenses	19,500	19,500	19,621	(121)
Fire Prevention Bureau	100,000	100,000	95,640	4,360
Total Operating, Maintenance and Administration	<u>520,500</u>	<u>520,500</u>	<u>422,375</u>	<u>98,125</u>
Capital Appropriations:				
Capital Outlay	120,000	120,000	120,000	
Total Capital Appropriations	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	
TOTAL APPROPRIATIONS	<u>\$ 640,500</u>	<u>\$ 640,500</u>	<u>\$ 542,375</u>	<u>\$ 98,125</u>

GOVERNMENT AUDITING STANDARDS

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Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

The Board of Fire Commissions
Montville Township Fire District #3
Montville, 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 Township of Montville Fire District #3, in the County of Morris (the "Fire District") as of, and for the year ended December 31, 2016, 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 April 14, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2016-1 that we consider to be a significant deficiency.

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
April 14, 2017

NISIVOCIA LLP



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

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2016

Summary of Auditors' Results:

- The Independent Auditors' Report expresses an unmodified opinion the financial statements of the Fire District.
- A significant deficiency was disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*. No material weaknesses are reported.
- No instances of noncompliance material to the financial statements of the Fire District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

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

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

Finding 2016-1

During our audit, we noted that the Fire District does not maintain an adequate segregation of duties due to limited personnel. The functions of handling cash and preparation of cash receipts and cash disbursements books are performed by one individual. 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.

Management's Response:

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

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TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2016

The Fire District had one finding during the prior year relating to the segregation of duties (2015-1). Finding 2015-1 was not resolved during 2016 and is reported in the schedule of findings and responses as finding 2016-1.

COMMENTS AND RECOMMENDATIONS

1

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
COMMENTS AND RECOMMENDATIONS

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

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

- a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution, as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to Subsection b. of Section 9 of P.L. 1971, C.198 (N.J.S.A. 40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.
- b. Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, C.198 (N.J.S.A. 40A:11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.
- c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, C.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L. 1971, C.198 (N.J.S.A. 40A:11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

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

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

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

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

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

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

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

New Jersey Administrative Code Accounting Requirements

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

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

The District is in compliance with the three requirements.

Segregation of Duties

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

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

Recommendation

It is recommended that the District maintains an adequate segregation of duties with respect to the preparation of cash receipts and cash disbursements books and the cash handling functions.

Management's Response:

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

Status of Prior Year Recommendations:

The recommendation regarding segregation of duties was not resolved during 2016 and is reported as a current year recommendation.

TOWNSHIP OF MONTVILLE FIRE DISTRICT #3
SUMMARY OF RECOMMENDATIONS

3

It is recommended that:

1. The District maintain an adequate segregation of duties with respect to the preparation of cash receipts and cash disbursements books and the cash handling functions.