

**COMMERCIAL TOWNSHIP**  
**FIRE DISTRICT NO. 3**  
**COUNTY OF CUMBERLAND**  
**REPORT OF AUDIT**  
**DECEMBER 31, 2016**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**

**COUNTY OF CUMBERLAND**

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**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**

**COUNTY OF CUMBERLAND**

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**COMMERCIAL TOWNSHIP**

**FIRE DISTRICT NO. 3**

**ROSTER OF OFFICIALS**

The following officials were in office during 2016:

<b><u>NAME</u></b>	<b><u>TITLE</u></b>	<b><u>AMOUNT OF SURETY BOND</u></b>
<b><u>Board of Commissioners</u></b>		
James Crunetti	Chairman	(A)
Larry Coffman	Treasurer	(A)
James D'Ambrosio III	Secretary	(A)
David Carangi	Commissioner	(A)
James D'Ambrosio Jr.	Commissioner	(A)

(A) VFIS provides blanket employee dishonesty coverage for limited amount of \$100,000.

## **FINANCIAL SECTION**

# NIGHTLINGER, COLAVITA & VOLPA

*A Professional Association*

*Certified Public Accountants*

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March 6, 2017

## INDEPENDENT AUDITOR'S REPORT

President and Members of the  
Commercial Township Fire District No. 3  
County of Cumberland  
Laurel Lake, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Commercial Township Fire District No. 3, in the County of Cumberland, State of New Jersey, 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 table of contents.

### **Management's Responsibility for the Financial Statements**

The Fire District's 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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards** issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity'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 our audit provides a reasonable basis for our opinions.

### **Opinions**

In our opinion, the basic 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 Commercial Township Fire District No. 3, County of Cumberland, State of New Jersey, as of December 31, 2016, and the respective changes in financial position thereof and for the year then ended in conformity 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 accompanying Management Discussion and Analysis on pages 6 through 11 along with budgetary comparison information on pages 35 through 36 and 37 as listed in the table of contents be presented to supplement the basic 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 related major fund supporting statements and schedules listed in the table of contents are also presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with **Government Auditing Standards**, we have also issued our report dated March 6, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** and should be considered in assessing the results of our audit.

Respectfully submitted,

**NIGHTLINGER, COLAVITA & VOLPA, P.A.**

Raymond Colavita, C.P.A.  
Registered Municipal Accountant



# NIGHTLINGER, COLAVITA & VOLPA

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March 6, 2017

## 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 AUDITOR'S REPORT

President and Members of the  
Commercial Township Fire District No. 3  
County of Cumberland  
Laurel Lake, New Jersey

We have audited the financial statements of the governmental activities and each major fund of the Commercial Township Fire District No. 3, in the County of Cumberland, State of New Jersey as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Commercial Township Fire District No 3's basic financial statements and have issued our report thereon dated March 6, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, New Jersey Division of Local Government Services, State of New Jersey.

#### Internal Control Over Financial Reporting

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatement 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 entity'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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations, additional material weaknesses may exist that have not been identified.

**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 one instance of noncompliance or other matters that are required to be reported under **Government Auditing Standards** and are described in the General Comments section of our report, labeled *Finding 2016-1*.

**Purpose of this Report**

The purpose of this report is solely describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with **Government Auditing Standards** in considering the entity's internal control and compliance. However, this report is a matter of public record.

Respectfully submitted,

**NIGHTLINGER, COLAVITA & VOLPA, P.A.**

Raymond Colavita, C.P.A.  
Registered Municipal Accountant

**REQUIRED SUPPLEMENTARY INFORMATION – PART I**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**COUNTY OF CUMBERLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016**  
**UNAUDITED**

As management of the Commercial Township Fire District No. 3, we offer readers of the Fire District's financial statements this narrative overview and analysis of our financial activities for the year ended December 31, 2016. The intent of this discussion and analysis is to look at the Fire District's financial performance as a whole. Readers should also review the information furnished in the notes to the basic financial statements and other financial statements along with the financial statements to enhance their understanding of the Fire District's financial performance. This presentation is in conformance with GASB 34, which provides more detailed comparisons to prior year financial information.

**Financial Highlights**

- The liabilities of Commercial Township Fire District No. 3 exceeded its assets at the close of the most recent year by \$161,501, which constitutes Net Position.
- As of the close of the current year, the Fire District's governmental funds reported ending fund balances of \$140,744, an increase of \$5,455 in comparison with the prior year.

**Overview of Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Commercial Township Fire District No. 3's basic financial statements, which comprise three components: (1) district-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

**District-wide Financial Statements.** The district-wide financial statements are designed to provide readers with a broad overview of the Fire District's finances, in a manner similar to a private sector business, on a longer-term view. They also reflect what funds remain available for future spending.

The Statement of Net Position presents information on all of the Fire District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the Fire District is improving or deteriorating.

The Statement of Activities presents information showing how the Commercial Township Fire District No. 3's Net Position changed during the most recent 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 related cash flows.

Thus, revenues and expenses are reported in this statement for certain items that will result in cash flows in future periods.

Both of the district-wide financial statements distinguish functions of the Commercial Township Fire District No. 3 that are principally supported by taxes and intergovernmental revenues (governmental activities). The activities of the Fire District include fire-fighting/suppression services that are provided to the citizens of the Mauricetown area of Commercial Township.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Fire District No. 3 constitute one fund type, which is the governmental fund type.

**Governmental Funds.** All of the Commercial Township Fire District No. 3's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Fire District's general government operations and the basic services it provides. Government fund information provides insight as to determining a range of financial resources available to finance fire-fighting/suppression services in the near future.

Commercial Township Fire District No. 3 may maintain a maximum of four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, special revenue fund, capital projects fund, and the debt service fund. At present, it is only necessary to maintain a general fund.

The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements on Exhibit B-3.

Also, Commercial Township Fire District No. 3 adopts an annual budget in accordance with N.J.S.A. 40A:14:78-3. Budgetary comparison schedules have been provided to demonstrate compliance regarding spending within the budget, as well as provide management with a planning tool to achieve the goals of the District.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to financial statements are an integral part of the financial statements.

### **District-wide Financial Analysis**

The Net Position reported each year, and amount of change thereon, provide a useful indicator of a government's financial position. In the case of the Commercial Township Fire District No. 3, Assets totaled \$305,954 and Liabilities totaled \$144,453 at the close of the most recent year.

A portion of the Fire District's Net Position reflects its investment in capital assets (i.e., land buildings, equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these assets to provide fire-fighting/suppression services to the citizens of the Commercial Township Fire District No. 3. Consequently these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operating sources, since the capital assets themselves cannot be used to liquidate those liabilities.

**Statement of Net Position**

Table 1 provides a comparative summary of the Fire District's Net Position for the years ended in 2016 and 2015.

**Table 1  
Net Position**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Cash	\$ 171,662	\$ 161,773
State Aid Receivable		861
Capital Assets	<u>134,292</u>	<u>169,783</u>
Total Assets	<u>305,954</u>	<u>332,417</u>
<b>Liabilities</b>		
Accounts Payable	5,630	3,907
LOSAP	18,645	13,200
Accrued Interest Payable	1,741	2,893
Due Within One Year	40,775	73,954
Noncurrent Liabilities		
Reserve for LOSAP	6,643	10,238
Due Beyond One Year	<u>71,019</u>	<u>111,794</u>
Total Liabilities	<u>144,453</u>	<u>215,986</u>
<b>Net Position</b>	<u>161,501</u>	<u>116,431</u>
<b>Analysis of Net Position</b>		
Invested in Capital Assets, Net of Related Debt	22,498	(15,965)
Restricted for:		
Future Capital Outlay	77,911	42,911
Unrestricted	<u>61,092</u>	<u>89,485</u>
Total Net Position	<u>\$ 161,501</u>	<u>\$ 116,431</u>

Net position of governmental activities increased \$45,070 from the previous year, resulting from decreases in both total assets and liabilities, in the amount of \$26,463 and \$71,533 respectively.

**Governmental Activities.** The Statement of Activities shows the cost of the governmental activities program services and the charges for services and grants offsetting those services. Table 2 shows the changes in Net Position for 2016 and 2015.

**Table 2**  
**Statement of Activities**

	<u>2016</u>	<u>2015</u>
Expenses:		
Operating Expenses		
Administration	\$ 24,385	\$ 24,334
Cost of Operations and Maintenance	272,066	265,515
LOSAP Contribution	20,000	14,780
Interest on Capital Lease	8,715	13,219
Depreciation Expense	37,518	37,214
Total Program Expenses	<u>362,684</u>	<u>355,062</u>
Taxes:		
Property Taxes, Levied for General Purpose	322,328	310,629
Taxes Levied for Debt Service	83,821	83,822
Other Miscellaneous Income	744	80
Operating Grant Revenue	861	861
Total General Revenues	<u>407,754</u>	<u>395,392</u>
Decrease in Net Position	45,070	40,330
Net Position, January 1	<u>116,431</u>	<u>76,101</u>
Net Position, December 31	<u>\$ 161,501</u>	<u>\$ 116,431</u>

Taxes constituted 99% of Fire District revenues for the year 2016.

Administrative expenses were 7% of the Fire District's 2016 expenses, while cost of operations and maintenance comprised 75%. The remaining 18% of the District's total expenses were non-operating costs.

**Financial Analysis of the Government Funds**

As previously stated, Commercial Township Fire District No. 3 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Fund.** The focus of the Fire District's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Commercial Township Fire District No. 3's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year and as a useful measure of permitting a governmental unit to maintain cash flow in anticipation of tax collections.

As of the end of the current year, the Commercial Township Fire District No. 3's governmental funds reported combined ending fund balances of \$140,744, representing a \$5,455 increase from the prior year. This ending fund balance is comprised of \$62,833 in unrestricted funds, of which \$28,000 is assigned to support the 2017 operating budget. The remaining fund balance of \$77,911 is restricted for future capital outlay, with \$77,000 assigned to support the 2017 capital budget. The general fund is the main operating fund utilized and possessing the resources of the Fire District.

Key factors of operations are as follows:

- Revenues exceeded Expenditures by \$5,455 in 2016.
- Revenues increased by \$12,362 from the year before, representing an increase in the Tax Levy of \$11,698 and a \$664 increase in non-operating revenue.
- Capital appropriations reflected a favorable budgetary variance of \$31,150, which represents a transfer to the Reserve for Future Capital Outlay.
- Operating Expenditures and LOSAP Expenditures increased over the same time period by \$8,629 and \$5,220, respectively.

### **General Fund Budgetary Highlights**

The original operating budgetary estimate of \$349,628 and debt service estimate of \$83,821 were the same as the final budget for planned expenditure appropriations. The final budgetary basis expenditure appropriation estimate is equal to the final budgetary basis revenue and the fund balance appropriated, in the amount of \$27,300.

The original budgetary revenue estimate of \$322,328 was the same as the final budget. This amount was made up entirely of property taxes (local tax levy). The District also levied taxes for debt service during 2016, in the amount of \$83,821.



**Capital Assets and Debt Administration**

Commercial Township Fire District No. 3's net investment in capital assets for its governmental activities as of December 31, 2016 amounts to \$134,292. This investment in capital assets includes land, buildings and improvements, vehicles and firefighting equipment, as shown in Note 6 to the Financial Statements. The total cost of the capital assets was \$1,587,739 and the balance in accumulated depreciation was \$1,453,447.

**CAPITAL ASSETS  
(NET OF ACCUMULATED DEPRECIATION)**

	<u>2016</u>	<u>2015</u>
Land, Building & Improvements	\$ 34,713	\$ 36,782
Equipment	16,976	25,406
Vehicles	82,603	107,595
Total Capital Assets	<u>\$ 134,292</u>	<u>\$ 169,783</u>

**Long-Term Obligations**

The District currently has one capital lease agreement outstanding. As of December 31, 2016, the principal balance remaining on this lease amounted to \$111,794, of which, \$40,775 is due in 2017.

**Economic Factors and Subsequent Years Budget**

For the 2016 year Commercial Township Fire District No. 3 was able to sustain its budget through the district tax levy and other sources of revenue.

The Board of Fire Commissioners adopted the 2017 budget on January 8, 2017 and the voters subsequently approved the budget at the annual fire district election held on February 21, 2017.

The Fire District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of accrual accounting.

**Contacting the Fire District's Financial Management**

This financial report is designed to provide our patrons, citizens, taxpayers, and creditors with a general overview of the Fire District's finances and to show the Fire District's accountability for the money it receives. If you have questions about this report or need additional information, contact, Jim Crunetti, Chairman of Commercial Township Fire District No. 3, Commercial Township, NJ at 5436 Battle Lane, Millville, NJ 08332.

## **BASIC FINANCIAL STATEMENTS**

**DISTRICT-WIDE FINANCIAL STATEMENTS**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**STATEMENT OF NET POSITION**  
**DECEMBER 31, 2016**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 171,662
Capital Assets, net (Note 7)	134,292
Total Assets	<u>305,954</u>
<b>LIABILITIES</b>	
Accounts Payable	5,630
Due to LOSAP Trust Fund	18,645
Accrued Interest Payable	1,741
Lease Debt Due Within One Year (Note 8)	40,775
Noncurrent Liabilities:	
Reserve for LOSAP	6,643
Due Beyond One Year (Note 8)	71,019
Total Liabilities	<u>144,453</u>
<b>NET POSITION</b>	
Invested in Capital Assets, Net of Related Debt Restricted	22,498
Future Capital Outlay	77,911
Unrestricted	61,092
Total Net Position	<u>\$ 161,501</u>

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

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES**  
**DECEMBER 31, 2016**

	<u>Governmental Activities</u>
Expenses:	
Operating Appropriations:	
Administration	\$ 24,385
Cost of Operations and Maintenance	272,066
Length of Service Award Program (LOSAP) - Contribution (P.L. 1997, c. 388)	20,000
Interest on Long Term Debt	8,715
Depreciation	37,518
Total Program Expenses	<u>362,684</u>
Program Revenues:	
Operating Grants and Contributions	861
Net Program Expenses	<u>361,823</u>
General Revenues:	
Taxes:	
Property Taxes, Levied for General Purposes	322,328
Taxes Levied for Debt Service	83,821
Miscellaneous Revenues	744
Total General Revenues	<u>406,893</u>
Increase (Decrease) in Net Position	45,070
Net Position, January 1	<u>116,431</u>
Net Position, December 31	<u>\$ 161,501</u>

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

## **FUND FINANCIAL STATEMENTS**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 171,483	\$ 179	\$ 171,662
Total Assets	<u>\$ 171,483</u>	<u>\$ 179</u>	<u>\$ 171,662</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 5,630	\$	\$ 5,630
Due to LOSAP Trust Fund	18,645		18,645
Reserve for LOSAP	6,643		6,643
Total Liabilities	<u>30,918</u>		<u>30,918</u>
Fund Balances:			
Restricted:			
Reserve for Future Capital Outlay	911		911
Assigned:			
Designated for Subsequent			
Years Expenditures:			
Unrestricted	28,000		28,000
Restricted - Capital Outlay	77,000		77,000
Unassigned, Reported in:			
General Fund	34,654		34,654
Debt Service Fund		179	179
Total Fund Balances	<u>140,565</u>	<u>179</u>	<u>140,744</u>
Total Liabilities and Fund Balances	<u>\$ 171,483</u>	<u>\$ 179</u>	

Amounts reported for *governmental activities* in the statement of net position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$1,587,739 and the accumulated depreciation is \$1,453,447. (Note 7)

134,292

Accrued interest payable is not due and payable in the current period and, therefore, is not reported as liabilities in the funds.

(1,741)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds (see Note 8).

(111,794)

Net position of governmental activities

\$ 161,501

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

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Non Budgetary Revenues	\$ 744	\$	\$ 744
Operating Grant Revenue	861		861
Amount to be Raised by Taxation	322,328	83,821	406,149
Total Revenues	<u>323,933</u>	<u>83,821</u>	<u>407,754</u>
<b>EXPENDITURES</b>			
Operating Appropriations:			
Administration	24,385		24,385
Cost of Operations and Maintenance	274,093		274,093
Capital Lease Principle		73,954	73,954
Capital Lease Interest		9,867	9,867
Length of Service Award Program (LOSAP) - Contribution (P.L. 1997, c. 388)	20,000		20,000
Total Expenditures	<u>318,478</u>	<u>83,821</u>	<u>402,299</u>
Excess (Deficiency) of Revenues Over Expenditures	5,455		5,455
<b>OTHER FINANCING SOURCES (USES)</b>			
Net Change in Fund Balances	5,455		5,455
Fund Balance—Jan 1	135,110	179	135,289
Fund Balance—Dec 31	<u>\$ 140,565</u>	<u>\$ 179</u>	<u>\$ 140,744</u>

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



**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Total net change in fund balances - governmental funds (from B-2)</b>	\$	5,455
Amounts reported for governmental activities in the statement of activities (A-2) are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the period.		
Depreciation Expense	\$	(37,518)
Capital Outlay		<u>2,027</u>
		(35,491)
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.		73,954
In the Statement of Activities, interest on Capital Leases is accrued, regardless of when it is due.		<u>1,152</u>
<b>Change in net assets of governmental activities (A-2)</b>	<b>\$</b>	<b><u><u>45,070</u></u></b>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- a. **Description of Reporting Entity** - Fire District No. 3 of Commercial Township is a political subdivision of the Township of Commercial, Cumberland County, New Jersey. A board of five commissioners oversees all operations of the Fire District. The length of each commissioner's term is three years with the annual election held the third Saturday of every February.

Fire Districts are governed by N.J.S.A. 40A:14-70 et al. and are organized as a taxpaying authority charged with the responsibility of providing the resources necessary to provide fire-fighting services to the residents within its territorial location known as the Laurel Lake area.

The Fire District is not a component unit of any other financial reporting entity as to Governmental Accounting Standards Board Statement No. 14, as amended by GASB Statements No. 39 and No. 61.

- b. **Basis of Accounting, Measurement Focus and Basis of Preparation**

**Basis of Presentation:** The financial statements of the Fire District conform to accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Fire District's accounting policies are described in this Note.

The Fire District's basic financial statements consist of district-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

**District-wide Financial Statements** – The Statement of Net Position and the Statement of Activities display information about the Fire District as a whole. These statements include the financial activities of the government. The Statement of Net Position presents the financial condition of the governmental activities of the Fire District at year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Fire District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. The policy of the Fire District is to not allocate indirect expenses to functions in the Statement of Activities.

Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the Fire District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Fire District.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

c. **Basis of Accounting, Measurement Focus and Basis of Presentation (Continued)**

**Basis of Presentation (Continued)**

**Fund Financial Statements** – During the year, the Fire District segregates transactions related to certain Fire District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Fire District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a single column. The Fire District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. For fire districts, only one category of funds exists, which is governmental.

**Governmental Funds:** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Fire District's major governmental fund:

**General Fund** - The General Fund is the general operating fund of the Fire District and is used to account for its inflows and outflows of financial resources. The acquisition of certain capital assets, such as fire fighting apparatus and equipment, is accounted for in the General Fund when it is responsible for the financing of such expenditures.

**Measurement Focus:**

**District-wide Financial Statements** – the district-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Fire District are included on the Statement of Net Position.

**Fund Financial Statements** – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the district-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds, labeled as Exhibit B-3.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**c. Basis of Accounting, Measurement Focus and Basis of Presentation (Continued)**

**Basis of Accounting:** Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-Exchange Transactions** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the Fire District, available means expected to be received within thirty days of year-end.

Non-exchange transactions, in which the Fire District receives value without directly giving equal value in return, include Ad Valorem (property) taxes, grants, entitlements, and donations. Ad Valorem (property) Taxes are susceptible to accrual, as 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 fire district year. The Fire 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 Fire District is entitled to receive moneys under the following established payment schedule: on or before April 1, an amount equaling 21.25% of all moneys assessed; on or before July 1, an amount equaling 22.5% of all moneys assessed; on or before October 1, an amount equaling 25% of all moneys assessed; and on or before December 31, an amount equaling the difference between the total of all moneys so assessed and the total amount of moneys previously paid over. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the Fire District must provide local resources to be used for a specific purpose, and expenditures requirements, in which the resources are provided to the Fire District on a reimbursement basis. Under the modified accrual basis, grants, fees, and rental revenue sources are considered to be both measurable and available at year-end.

**Expenses / Expenditures** – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- d. Budgets and Budgetary Accounting** - The Fire District must adopt an annual budget in accordance with N.J.S.A. 40A:14-78.1 et al. The fire commissioners must introduce and approve the annual budget not later than sixty days prior to the annual election. At introduction, the commissioners shall fix the time and place for a public hearing on the budget and must advertise the time and place at least ten days prior to the hearing in a newspaper having substantial circulation in the Fire District. The public hearings must not be held less than twenty-eight days after the date the budget was introduced. After the hearing has been held, the fire commissioners may, by majority vote, adopt the budget.

Amendments may be made to the Fire District budget in accordance with N.J.S.A. 40A:14-78.3. The budget may not be amended subsequent to its final adoption and approval.

Subsequent to the adoption of the Fire District budget, the amount of money to be raised by taxation in support of the Fire District budget must appear on the ballot for the annual election for approval of the legal voters.

Fire Districts have a prescribed budgetary basis to demonstrate legal compliance. However, budgets are adopted on principally the same basis of accounting utilized for the preparation of the Fire District's basic financial statements.

Amounts reported under "final budget" in Exhibits C-1 for operations include modifications, if any, to the adopted budget that were made during the year as approved by the Board of Fire Commissioners.

Exhibit C-2 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounting as presented in the General Fund Budgetary Comparison Schedule and the Special Revenue Fund Budgetary Comparison Schedule to the GAAP basis of accounting as presented in the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds. Note that the Fire District does not report encumbrances outstanding at year-end as expenditures in the general fund since the general fund budget follows modified accrual basis of accounting.

- e. Encumbrances** - Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances, other than in the special revenue fund, are reported as reservations of fund balances at year-end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services. Due to the small size of the Fire District, the selective encumbrance method is implemented rather than a full encumbrance system.

Open encumbrances in the special revenue fund, if any, for which the Fire District has received advances are reflected in the balance sheet as unearned revenues at year-end.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- e. **Encumbrances (Continued)** - Encumbered appropriations carry over into the next fiscal year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the adopted budget by the outstanding encumbrance amount as of the current year-end.
- f. **Cash, Cash Equivalents and Investments** - Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. All certificates of deposit are recorded as cash regardless of the date of maturity.

New Jersey governments are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey governments.

Additionally, the Fire District follows the guidelines which require it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposits with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et seq. establishes the requirements for security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include State or federally chartered banks, savings banks or associations located in the State of New Jersey or state or federally chartered banks, savings banks or associations located in another state with a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of the Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

- g. **Inventories and Prepaid Expenses** – Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out method. The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed.

Prepaid expenses recorded in the governmental fund types, which benefit future periods, are recorded as expenditures during the year of purchase. Prepaid expenses recorded on the district-wide financial statements represent payments made to vendors for services that will benefit periods beyond December 31, 2016.

- h. **Interfunds** - Interfund receivables and payables, if any, that arise from transactions between funds that are due within one year are recorded by all funds affected by such transactions in the period in which the transaction is executed. These amounts are eliminated in the Statement of Net Position.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- i. **Capital Assets** – General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. The Fire District maintains a capitalization threshold of \$1,000. The Fire District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not. All reported capital assets, except land and construction in progress, are required to be depreciated. Improvements are to be depreciated over the remaining useful lives of the related capital assets.

Depreciation should be computed using the straight-line method over the following useful lives:

<b><u>Description</u></b>	<b><u>Estimated Lives</u></b>
Buildings and Improvements	20 - 50 Years
Vehicles	5-10 Years
Furniture and Firefighting Equipment	5 Years

N.J.S.A. 40A:14-84 governs the procedures for the acquisition of property and equipment for Fire Districts, and N.J.S.A. 40A:14-85 to 87 governs procedures for the issuance of any debt related to such purchases. In summary, Fire Districts may purchase fire fighting apparatus and equipment and land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation or property within the district upon the approval of the legal voters. Debt may be issued up to \$60,000, or 2 percent of the assessed valuation of property, whichever is larger.

- j. **Long-Term Obligations** - Long-term debt is recognized as a liability in the Fund Financial Statements of the Fire District when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of the Fire District. The remaining portion of such obligations is reported in the Statement of Net Position.
- k. **Unearned Revenue** - Unearned revenue in the special revenue fund represents cash, which has been received but not yet earned.



**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- l. Fund Equity and Reserves** - Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. These include legally restricted appropriations and future capital outlays, designated for future use of financial resources. Unreserved Fund Balances represent that portion of Fund Balance that is available for appropriation in future periods. Open Encumbrances represent reserve expenditures that are not complete but will be satisfied within the next accounting period.
  
- m. Use of Estimates** - In order for the preparation of basic financial statements to be in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
  
- n. Comparative Data** - Comparative total data for the prior year have been presented in selected sections of the accompanying basic financial statements in order to provide an understanding of the changes in the Fire District's financial position and operations.
  
- o. Net Position**- Net Position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net Position is classified into the following three components:

**Net Investment in Capital Assets**- This components represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for acquisition, construction, or improvement of those assets.

**Restricted**- Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Fire District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**Unrestricted**- Net Position is reported is reported as unrestricted when it does not meet the criteria of the other two components of Net Position.

The Fire District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

- p. Fund Balance**- The Fire District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the Fire District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Fire District's classifications and polices for determining such classifications are as follows:

**Non Spendable**- The non spendable fund balance classification included amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

p. **Fund Balance (Continued)**

**Restricted-** The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions or constraints are placed on the use of resources either by being externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

**Committed-** The committed fund balance classification includes amounts that can be used for specific purposes pursuant to constraints imposed by formal action of the Fire District's highest level of decision-making authority, which for the Fire District, is the Board of Commissioners. Such formal action consists of an affirmative vote by the Board of Commissioners, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purpose unless the Board of Commissioners removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

**Assigned-** The assigned fund balance classification includes amounts that are constrained by the Fire District's intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the Board of Commissioners.

**Unassigned-** The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

q. **New Accounting Standards:**

The District has adopted the following GASB statements:

- GASB No. 80 - *Blending Requirements for Certain Component Units - an Amendment of GASB No. 14*: The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 80, did not impact the financial statements of the District.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**q. New Accounting Standards (Continued):**

The District has adopted the following GASB statements:

- GASB No. 79 - *Certain External Investment Pools and Pool Participants*: This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 79, did not impact the financial statements of the District.
- GASB Statement No. 78 - *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*: The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement is effective for fiscal years beginning after December 15, 2015. The adoption of GASB 78, did not impact the financial statements of the District.
- GASB No. 77, *Tax Abatement Disclosures*: This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. This Statement is effective for fiscal years beginning after December 15, 2015. The adoption of GASB 77, did not impact the financial statements of the District.
- GASB No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*: The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 76, did not impact the financial statements of the District.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**q. New Accounting Standards (Continued):**

- GASB No. 73 - *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*: The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 73, did not impact the financial statements of the District.
- GASB No. 72 - *Fair Value Measurement and Application*: This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for fiscal years beginning after June 15, 2015. The adoption of GASB 72, did not impact the financial statements of the District.
- GASB No. 82 - *Pensions - an Amendment of GASB No. 67, No. 68 and No. 73*: The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of GASB 82, did not impact the financial statements of the District.

Other accounting standards that the District is currently reviewing for applicability and potential impact on the financial statements include:

- GASB No. 81 - *Irrevocable Split-Interest Agreements*: The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption of GASB 81, is not expected to impact the financial statements of the District.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**q. New Accounting Standards (Continued):**

- GASB No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*: The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement will be effective for reporting periods beginning after June 15, 2017. The adoption of GASB 75, is not expected to impact the financial statements of the District.
- GASB No. 74 - *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*: The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement will be effective for reporting periods beginning after June 15, 2016. The adoption of GASB 74, is not expected impact the financial statements of the District.

**2. CASH AND CASH EQUIVALENTS**

- a. **Custodial Credit Risk** - All bank deposits and investments as of the balance sheet date are entirely insured or collateralized by a pool maintained by public depositories as required by the Governmental Unit Protection Act which are classified as credit risk per N.J.S. 40 A:5-15.1(A).

Custodial Credit Risk is the risk that, in the event of a bank failure, the districts deposits may not be returned to it. Although the district does not have a formal policy regarding custodial credit risk, as described in Note 1, N.J.S.A. 17:9-41 et. Seq. requires that governmental units deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Protection Act.

The Fire District designates and approves a list of authorized depository institutions based on an evaluation of solicited responses and presentation of GUDPA certifications provided by the financial institutions.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**2. CASH AND CASH EQUIVALENTS (Continued)**

- a. **Custodial Credit Risk** - As of December 31, 2016, the District's bank balance of \$175,207 was exposed to custodial credit risk as follows:

Insured	\$ 175,207
Uninsured and collateralized with securities held by pledging financial institutions	
	\$ 175,207

b. **Interest Rate Risk**

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length for most investments.

- c. **Credit Risk** - New Jersey Statutes 40A:5-15.1(a) limits District investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

- d. **Concentration of Credit Risk** - The District places no limit on the amount the District may invest in any one issuer.

- e. **Unaudited Investments** - As more fully described in Note #10, the District has created a Length of Service Award Program (LOSAP) for emergency service volunteers. The LOSAP investments are similar to those allowed in a deferred compensation program as specified in N.J.S.A. 43:15B-1 et. seq. except that all investments are retained in the name of the District. All investments are valued at fair market value. In accordance with N.J.A.C. 5:30-14.37 the investments are maintained by Lincoln Financial Advisors, which is an authorized provider approved by the Division of Local Government Services. Any information available on the investments is with the Lincoln Financial Group, who is the approved plan agent.

**3. PROPERTY TAX LEVIES**

Following is a tabulation of Fire District assessed valuations, tax levies and property tax rates per \$100 of assessed valuations for the current and preceding four years:

Fiscal Year	Assessed Valuations	Total Tax Levy	Property Tax Rate
2016	\$ 136,902,700	\$ 406,149	\$ 0.297
2015	138,643,650	394,451	0.285
2014	137,991,131	377,850	0.274
2013	138,437,100	378,450	0.273
2012	139,435,982	365,178	0.262

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**4. LITIGATION**

The District did not consult a Solicitor regarding any litigation, claims, or assessments during 2016.

**5. RISK MANAGEMENT**

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

**Property and Liability Insurance** – The District maintains commercial insurance coverage for property, liability and surety bonds.

**6. FUND BALANCES APPROPRIATED**

The following presents the fund balance as of the end of the last five years and the amount utilized in the subsequent year's budget:

Year	Restricted and Assigned Fund Balance		Unassigned Fund Balance		Utilization in Subsequent Budget	
		Dec. 31		Dec. 31	Unrestricted	Restricted
2016	\$	105,911	\$	34,833	\$ 28,000	\$ 77,000
2015		70,211		65,078	27,300	
2014		36,911		91,437	29,000	
2013		59,300		85,596	31,800	27,500
2012		52,728		84,285	24,728	28,000

Of the \$140,744 in fund balance, \$179 represents unassigned debt service, \$105,000 is assigned to support the 2017 adopted budget, \$911 is restricted for future capital outlay and \$34,654 remains unassigned for general use.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**7. CAPITAL ASSETS**

Capital Asset activity for the year ended December 31, 2016 was as follows:

	Balance December 31, 2015	Additions	Adjustment	Balance December 31, 2016
Land	\$ 5,000	\$	\$	\$ 5,000
Total Capital Assets not Being Depreciated	5,000			5,000
Buildings and Improvements	117,446			117,446
Furniture & Fixtures	15,893			15,893
Vehicles	729,027			729,027
Equipment	718,346	2,027		720,373
Total Capital Assets Being Depreciated	1,580,712	2,027		1,582,739
Less Accumulated Depreciation:				
Buildings and Improvements	(85,664)	(2,069)		(87,733)
Furniture & Fixtures	(15,893)			(15,893)
Vehicles	(621,432)	(24,992)		(646,424)
Equipment	(692,940)	(10,457)		(703,397)
Total Accumulated Depreciation	(1,415,929)	(37,518)		(1,453,447)
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	164,783	(35,491)		129,292
Capital Assets, Net	\$ 169,783	\$ (35,491)	\$	\$ 134,292

\* Depreciation expense was charged to governmental functions as follows:

Administration	\$
Cost of Operations and Maintenance	37,518
	<u>\$ 37,518</u>



**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**8. LONG-TERM DEBT**

During the year ended December 31, 2009, the Fire District refinanced its leasing agreement and included additional lease proceeds to fund the acquisition of a new ambulance, in the amount of \$103,900 and a new brush truck, in the amount of \$146,016. The following changes occurred in long-term obligations:

	Principal Outstanding 1/1/2016	Decreases	Principal Outstanding 12/31/2016	Due Within One Year	Due After One Year
Obligations under Capital Lease	\$ 185,748	\$ 73,954	\$ 111,794	\$ 40,775	\$ 71,019

**Capital Leases Payable** – The Fire District is leasing a custom pumper fire truck, an ambulance and additional equipment for the trucks under a capital lease. The following is a schedule of the future minimum lease payments under the capital lease, and the present value of the net minimum leases payments at December 31, 2016.

Year Ending December 31,	Principal	Interest	Total
2017	\$ 40,775	\$ 5,736	\$ 46,511
2018	30,348	3,725	34,073
2019	32,283	1,790	34,073
2020	8,388	130	8,518
	\$ 111,794	\$ 11,381	\$ 123,175

**9. SUBSEQUENT EVENTS**

None

**10. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP)**

On February 13, 2000, the voters of Commercial Fire District #3 approved the Resolution adopted to establish a Length of Service Awards Program (LOSAP) Deferred Compensation Plan. This Plan is made available to all bona fide eligible volunteers who are performing qualified services, which are defined as fire fighting and prevention services, emergency medical services and ambulance services pursuant to Section 457 (e) (11) (13) of the Internal Revenue Code of 1986, as amended, except for provisions added by reason of the LOSAP as enacted into federal law in 1997. The establishment of this LOSAP will also comply with New Jersey Public Law 1997, Chapter 388 and the LOSAP Document.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**10. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) (Continued)**

The first year of eligibility for entrance into the Plan by qualified volunteers was calendar 2000. Amounts deferred under section 457 Plans must be held in trust for the exclusive benefit of participating volunteers and not be accessible by the Fire District or its Creditors.

As required by N.J.A.C 5:30-14.49, the Fire District must have an annual review of its LOSAP performed in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The following description of the LOSAP of Commercial Fire District #3 provides only general information. Participants should refer to the Program agreement for a more complete description of the Program's provisions. The Fire District is the Program sponsor.

**General** – The Program is a defined contribution Program covering volunteers in Commercial Fire District No. 3 who have performed sufficient services to earn a number of “points” as defined in a resolution adopted by the Board of Fire Commissioners of Fire District No. 3 on February 13, 2000 and approved by the voters of the District as a public question at the annual fire commissioners' election on February 13, 2000.

**Contributions** – The Fire Districts contribution, on behalf of a participant that is a qualifying volunteer, is as follows:

2016 - \$1,150

**Participant Accounts** – Each participant's account reflects the total amount of contributions that are allocated to the account and the earnings thereon, any payments or withdrawals on the participant's behalf from the account and any expenses. Under the enabling legislation, the amount in each participants account is not subject to the general creditors of the District.

**Vesting** – Participants are 100% vested after 5 years of service. If a participant deceases prior to 5 years of service, the full amount of the volunteer's account will be considered vested and will be paid to the estate of the participant.

**Participant Loans** – Loans are not permitted under the Program.

**Payment of Benefits** – A fully taxable distribution may be made at any time for the full amount of the participant's vested interest in his or her account.

**Fees and Costs** – The Program participants pay all fees costs related to administration of the Program.

**Employer Contributions** – All employer contributions are paid to Lincoln Financial Group, within a reasonable time, in the year subsequent to the year in which the required points have been earned and certified by the chief of the fire company or rescue squad as applicable.

**Withdrawals** – The plan provides for hardship withdrawals, of which there were two during 2016.

**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2016**  
**(CONTINUED)**

**10. LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) (Continued)**

**Contribution Receivable** – As set forth in the resolution adopted by District, the Plan Sponsor is obligated to make contributions for participants in the plan who meet the service requirements in any qualifying year.

In 2017, the District determined its 2016 LOSAP contribution to be \$18,645. This amount has been accrued and is reflected in the Statement of Net Position.

**Investments** – All investment balances at December 31, 2016 are certified by Lincoln Financial Group and are valued at market value as stated by Lincoln Financial Group. As of December 31, 2016, the fair market value of the plan investments was \$82,491, which includes the 2015 District contribution of \$18,150.

**Reserve** - During 2016, the Reserve for LOSAP activity was as follows:

Reserve for LOSAP as of December 31, 2015		\$ 10,238
Increased by:		
Transferred from General Fund		20,000
		<hr/> 30,238
Decreased by:		
2016 LOSAP Contribution	\$ 18,645	
Adjustment to 2015 Contribution	4,950	23,595
		<hr/> 6,643
Reserve for LOSAP as of December 31, 2016		<hr/> <hr/> \$ 6,643

**Program Termination** – The Fire District Resolution and the enabling legislation do not have any provisions for program termination.

**Tax Status** – The LOSAP was established as a Deferred Compensation Plan pursuant to Section 457 of the Internal Revenue Code (IRC) of 1986, as amended, except for specific provisions added by reason of the LOSAP as enacted into federal law in 1997. The establishment of this LOSAP also complies with New Jersey Public Law 1997, Chapter 388 and the LOSAP Document.

Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the Township of Commercial Fire District No. 3 subject only to the claims of the District's general creditors. In addition, the participants in the plan have rights equal to those of the general creditors of the District, and each participant's rights are equal to his or her share of the fair market value of the plan assets.

**REQUIRED SUPPLEMENTARY INFORMATION – PART II**

**BUDGETARY COMPARISON SCHEDULES**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(WITH TOTALS FOR 2015)**

	2016			Variance Favorable (Unfavorable)	2015
	Original Budget	Modified Budget	Actual		Actual
<b>Revenues</b>					
Revenues and Other Financing Sources:					
Operating Grant Revenue:					
Supplemental Fire Services Program	\$	\$	\$ 861	\$ 861	\$ 861
Amount to be Raised by Taxation to Support the District Budget	322,328	322,328	322,328		310,629
Total Anticipated Revenue	322,328	322,328	323,189		311,490
Non-Budgetary Revenues:					
Interest on Investments and Deposits			91	91	80
Miscellaneous Revenue			653	653	
Total Revenues	\$ 322,328	\$ 322,328	\$ 323,933	\$ 744	\$ 311,570
<b>Expenditures</b>					
Operating Appropriations:					
Administration:					
Stipend Payments to Commissioners	\$ 15,000	\$ 15,000	\$ 15,000	\$	\$ 14,250
Office Expense	2,500	1,131	1,131		2,492
Legal	2,500	1,425	1,425		750
Professional Services	6,800	6,274	6,274		6,256
Elections	500	256	256		250
Advertising	600	299	299		336
Total Administration	27,900	24,385	24,385		24,334
Cost of Operations and Maintenance:					
Insurance	64,123	65,041	65,041		68,863
Membership and Dues	500	300	300		399
Building - Maintenance and Repairs	20,000	25,656	29,506	(3,850)	24,917
Equipment - Maintenance and Repairs	25,000	28,344	28,344		38,968
Materials and Supplies	10,000	3,130	3,130		6,931
Fuel	10,000	7,877	7,877		7,201
Training and Education	4,000	2,800	2,800		3,339
Utilities	13,200	8,104	8,104		28,005
Telephone	11,000	14,229	14,229		10,140
Medical	1,500	970	970		325
Rental and Leases	57,689	57,689	57,689		57,689
Inspections & Certifications	5,000	5,227	5,227		3,435
Miscellaneous Expenses	1,116				
Website Maintenance	2,300	1,499	1,499		1,999
Rescue Expenses	10,500	18,577	18,577		13,304
EMS Contracted Services	14,000	14,000	14,000		
Agreement to Fight Fires	16,800	16,800	16,800		
Total Other Operating and Maintenance	266,728	270,243	274,093	(3,850)	265,515
Length of Service Awards (LOSAP) Contribution (P.L. 1997, c. 388)	20,000	20,000	20,000		14,780

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**  
**(WITH TOTALS FOR 2015)**

	2016			Variance Favorable (Unfavorable)	2015
	Original Budget	Modified Budget	Actual		Actual
Capital Appropriations					
Reserve for Future Capital Outlays	\$ 35,000	\$ 35,000	\$	\$ 35,000	\$
Total Operating and Maintenance Expenditures	349,628	349,628	318,478	31,150	304,629
Excess (Deficit) of Revenue Over Expenditures	(27,300)	(27,300)	5,455	32,755	6,941
Fund Balance - Beginning of Year	135,110	135,110	135,110		128,169
Fund Balance - End of Year	\$ 107,810	\$ 107,810	\$ 140,565	\$ 32,755	\$ 135,110

See Notes to Financial Statements

**NOTES TO THE REQUIRED SUPPLEMENTARY  
INFORMATION**



COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
NOTE TO RSI  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

**Note A - Explanation of Differences between Budgetary Inflows and Outflows and  
GAAP Revenues and Expenditures**

	<u>General Fund</u>
<b>Sources/inflows of resources</b>	
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	\$ 323,933
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 323,933</u>
<b>Uses/outflows of resources</b>	
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	\$ 318,478
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 318,478</u>

**OTHER SUPPLEMENTARY INFORMATION**

**LONG-TERM DEBT**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**SCHEDULE OF CAPITAL LEASE PAYABLE**  
**DECEMBER 31, 2016**

<u>Description</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding December 31, 2015</u>	<u>Retired Current Year</u>	<u>Amount Outstanding December 31, 2016</u>
Equipment Lease Agreement	6.231%	\$ 528,087	\$ 185,748	\$ 73,954	\$ 111,794

**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016			Variance	2015
	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Positive (Negative) Final to Actual</u>	<u>Actual</u>
REVENUES:					
Amount to be Raised by Taxation to Support the District Budget	\$ <u>83,821</u>	\$ <u>83,821</u>	\$ <u>83,821</u>	\$ _____	\$ <u>83,822</u>
EXPENDITURES:					
Principal Payments:					
Capital Lease	73,954	73,954	73,954		69,520
Interest Payments:					
Capital Lease	9,867	9,867	9,867		14,302
Total Expenditures	<u>83,821</u>	<u>83,821</u>	<u>83,821</u>		<u>83,822</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures					
Fund Balance, January 1	<u>179</u>	<u>179</u>	<u>179</u>		<u>179</u>
Fund Balance, December 31	\$ <u><u>179</u></u>	\$ <u><u>179</u></u>	\$ <u><u>179</u></u>	\$ _____	\$ <u><u>179</u></u>

**SUPPLEMENTAL DATA**

**COMMERCIAL TOWNSHIP FIRE DISTRICT NO. 3**  
**COUNTY OF CUMBERLAND**  
**SCHEDULE OF STATE AND FEDERAL FINANCIAL ASSISTANCE**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

<u>State Funding Department</u>	<u>State Program</u>	<u>GMIS Number</u>	<u>Grant Award Amount</u>	<u>From</u>	<u>To</u>	<u>Balance 1/1/2016</u>	<u>Receipts or Revenue</u>	<u>Expenditures</u>	<u>Balance 12/31/2016</u>
Department of Community Affairs	Supplemental Fire Services Program	8030-150-041650	\$ 861	1/1/2016	12/31/2016	\$	\$ 861	\$ (861)	\$

**EXHIBIT J-2**

**SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS**

Cash - January 1, 2016		\$	161,773
Receipts:			
District Taxes	\$	406,149	
Interest and Other		2,466	
			<u>408,615</u>
			570,388
Disbursements:			
2015 Accounts Payable		3,907	
2015 LOSAP Contribution		18,150	
Debt Service Payments		83,821	
Budget Appropriations		292,848	
			<u>398,726</u>
Cash - December 31, 2016		\$	<u><u>171,662</u></u>
<b><u>Analysis of Balance:</u></b>			
Balance per Bank in Checking		\$	175,207
Less Outstanding Checks			(3,545)
		\$	<u><u>171,662</u></u>



**SCHEDULE OF FINDINGS AND**  
**RECOMMENDATIONS**

## GENERAL COMMENTS

We have audited the financial statements of the Commercial Township Fire District No. 3 as of and for the year ended December 31, 2016 and have issued our report thereon dated March 6, 2017. As part of our examination, we made a study and evaluation of the system of internal accounting control of the Commercial Township Fire District No. 3 to the extent deemed necessary to evaluate the system as required by generally accepted auditing standards.

The purpose of our study and evaluation was to determine the nature, timing and extent of performing the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal control taken as a whole.

The Board of Fire Commissioners of the Commercial Township Fire District No. 3 is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the purpose described in the second paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of accounting control of the Commercial Township Fire District No. 3 taken as a whole.

The size of the staff is not large enough to achieve adequate segregation of duties. This can result in accounting errors or irregularities that may go undetected. Therefore, to increase the likelihood of detecting material errors or irregularities at an early date, management should monitor and review the financial area and analytically review significant fluctuations between actual and budgeted results of operations. All significant fluctuations should be investigated and resolved in a timely manner.

These conditions were considered in determining the nature, timing and extent of audit tests to be applied in our audit of the financial statements dated March 6, 2017.

The report is intended solely for the use of management and the Division of Local Government Services and should not be used for any other purpose.

GENERAL COMMENTS (Continued)

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

N.J.S.A. 40A:11-4 requires every appropriate contract or agreement shall be made or awarded only after public advertising for bids, except as provided otherwise by any other law for the sum exceeding the aggregate of \$17,500.

The Board of Fire Commissioners has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Solicitor's opinion should be sought before a commitment is made. The minutes indicated that no bids were requested by public advertisement in 2016 and our examination did not reveal any items required to be advertised for bid.

AWARD OF PURCHASES, CONTRACTS OR AGREEMENTS BY QUOTATIONS

N.J.S.A. 40A:11-6.1

Prior to the award of any purchase, contract or agreement, the District shall (except in the case of the performance of professional services) solicit quotations, whenever practicable, on any purchase, contract or agreement, the estimated cost or price of which is in excess of \$2,625. The award shall be made on the basis of the lowest responsible quotation received, which quotation is most advantageous to the contracting unit, price and other factors considered; provided, however, that if the contracting agent deems it impracticable to solicit competitive quotations in the case of extraordinary, unspecifiable services, or, in the case of such or any other purchase, contract or agreement awarded hereunder, having sought such quotations received, the contracting agent shall file a statement of explanation of the reason or reasons therefore, which shall be placed on file with said purchase, contract or agreement. Our examination of expenditures revealed that solicitation of quotations was made when needed.

Purchase Orders/Vouchers

Our review of the purchasing and disbursements procedure disclosed that purchase orders/vouchers were used and contained appropriate signatures for approval. The selective encumbrance method of expenditures has been implemented, as required by directive of the Director of the Division of Local Government.

Minutes

Minutes of the meetings of the Commissioners were available, signed and appeared to be prepared on a timely basis.

Supplemental Fire Service Program

A 2016 Certification of State Aid for Commercial Township reflects \$1,871 that may be budgeted and distributed/payable to the Fire Districts in the Township. During 2016, a total of \$861 was allocated and received by the District for Supplemental Fire Service Program Aid.

**TOWNSHIP OF COMMERCIAL FIRE DISTRICT NO. 3  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

*Schedule of Financial Statement Findings*

**REPORTABLE CONDITIONS AND OTHER FINDINGS**

This section identifies the significant deficiencies, material weaknesses and instances of noncompliance related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**Finding No. 2016 - 1**

**Criteria**

A Technical Directive of the Division of Local Government Services requires that a functioning encumbrance expenditure accounting system be maintained, which does not permit commitments or expenditures in excess of the available appropriation.

**Condition**

An over-expenditure existed in one budget line: Building-Maintenance & Repairs.

**Effect**

The Building-Maintenance & Repairs budget line item was over-expended by \$3,850.

**Cause**

A significant and unanticipated repair resulted in an over-expenditure in the Building- Maintenance & Repairs line item, of which, insufficient funds were available for a budget transfer.

**Recommendation**

Procedures to prepare future budgets should be reviewed in order to provide for unanticipated expenditures that result in over-expenditures of individual budget line items.

**Response**

The District agrees with the recommendation.

**TOWNSHIP OF COMMERCIAL FIRE DISTRICT NO. 3  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**STATUS OF PRIOR YEAR AUDIT FINDINGS**

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards.

**Finding No. 2015 – 1**

**Condition**

An over-expenditure of the equipment maintenance and repairs budget line item was noted during 2015.

**Status**

This issue has not been resolved.

**APPRECIATION**

We desire to express our appreciation for the assistance and courtesies rendered by the Fire District officials during the course of the audit.

Respectfully submitted,

**NIGHTLINGER, COLAVITA & VOLPA, P.A.**

Raymond Colavita, C.P.A.  
Registered Municipal Accountant