

**FIRE DISTRICT NO. 2
OF THE TOWNSHIP OF OCEAN**

Financial Statements and Supplementary Schedules

For the year ended December 31, 2016

(With Independent Auditor's Report thereon)

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Financial Statements and Supplementary Schedules
For the year ended December 31, 2016
(With Independent Auditor's Report thereon)

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-3
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	4-5
Management's Discussion and Analysis	6-14
District Wide Statement of Net Position	15
District Wide Statement of Activities	16
Governmental Funds Balance Sheet	17
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	18-19
Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	20
Notes to Financial Statements	21-41
Required Supplementary Information:	
Budgetary Comparison Schedule	42-43
Schedule of the District's Proportionate Share of the Net Pension Liability – PERS	44
Schedule of District Contributions – PERS	45
Notes to the Required Supplementary Information	46
Supplementary Information:	
Long-Term Debt Schedule of Serial Bonds Payable	47
Long-Term Debt Schedule of Obligations under Capital Leases	48
General Comments and Recommendations	49-50



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INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Fire District No. 2 of the Township of Ocean
County of Monmouth
Ocean, New Jersey 07712

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of each major fund and the aggregate remaining fund information of the Fire District No. 2 of the Township of Ocean, County of Monmouth, 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 District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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 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 standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of each major fund and the aggregate remaining fund information of the Fire District No. 2 of the Township of Ocean, County of Monmouth, State of New Jersey, 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, analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability – PERS, schedule of District contributions – PERS, schedule of the District's proportionate share of the net pension liability, as listed on 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

The long-term debt schedule of serial bonds payable and long-term debt schedule of obligations under capital leases, as listed in the table of contents, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 long-term debt schedule of serial bonds payable and long-term debt schedule of obligations under capital leases 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 June 28, 2017 on our consideration of the Fire District No. 2 of the Township of Ocean'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 Fire District No. 2 of the Township of Ocean's internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 28, 2017
Toms River, New Jersey



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Fire Commissioners
Fire District No. 2 of the Township of Ocean:

We have audited, in accordance with the 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 audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fire District No. 2 of the Township of Ocean, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Fire District No. 2 of the Township of Ocean's basic financial statements, and have issued our report thereon dated June 28, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fire District No. 2 of the Township of Ocean'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 Fire District No. 2 of the Township of Ocean's internal control. Accordingly, we do not express an opinion on the effectiveness of Fire District No. 2 of the Township of Ocean'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 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fire District No. 2 of the Township of Ocean's financial statements are free from 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* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs State of New Jersey.

Purpose of this Report

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

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 28, 2017
Toms River, New Jersey

**OCEAN TOWNSHIP FIRE DISTRICT NO. 2
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

As management of Ocean Township Fire District No. 2, we offer readers of the Ocean Fire District No. 2 financial statements this narrative overview and analysis of the financial activities of the Ocean Township Fire District No. 2 for the year ended December 31, 2016. The intent of this narrative is to look at Ocean Township Fire District No. 2's overall financial performance in terms easily understood by the lay person. Please read this in conjunction with the transmittal letters beginning on page 1 and the District's financial statements which begin on page 15. Notes to the financial statements will provide the reader with additional useful information and they begin on page 21.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at December 31, 2016 by approximately \$4.1 million. In 2015 the excess was approximately \$4.0 million. This is an increase of approximately \$130,900.
- During 2016 Ocean Township Fire District No. 2 operated at a surplus of approximately \$130,900. The surplus in 2015 was approximately \$258,700. This is a decrease of approximately \$127,800.
- The Board increased their liabilities in 2016 by approximately \$21,600.
- The Board decreased their cash position by approximately \$296,600.
- The Board decreased their debt by approximately \$151,600.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. Ocean Township Fire District No. 2's basic financial statements are comprised of three components: district-wide financial statements; fund financial statements; and notes to the basic financial statements.

Reporting on the District as a Whole

Our analysis of the District as a whole begins on page 8. District-wide financial statements are provided to give the reader a broad overview of the District's financial position and its financial activity for the year. It is presented in a format similar to the private sector to give the reader a familiar point of reference.

The Statement of Net Position presents information on the assets and liabilities of Ocean Township Fire District No. 2. The difference between the assets and liabilities is reported as the District's net position. Significant increases or decreases in the District's net position can be an indication of the financial health of the District.

The Statement of Activities presents financial information about activities that result in the District's net position increasing or decreasing during the year. Financial activities are recorded when the transactions occur rather than when the cash is received or paid out. As a result, there could be activities that result in cash flow in a future period.

The district-wide financial statements report on the financial data by function. Ocean Township Fire District No. 2 has two basic functions: activities that are supported by property taxes; and activities supported by other governmental activities. Ocean Township Fire District No. 2 provides firefighting services to the citizens of Ocean Township. The District also provides services for the enforcement of the state and local fire codes and fire prevention education.

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. Like other state and local governments, Ocean Township Fire District No. 2 uses fund accounting to document compliance with finance-related legal matters. Ocean Township Fire District No. 2 has two types of fund groups, governmental funds and fiduciary funds.

Governmental Funds

Ocean Township Fire District No. 2's activities are reported in governmental funds. These funds record the flow of cash in and out of the District during the period and the balances remaining at year end for future periods. The modified accrual basis of accounting is utilized for reporting purposes. This method of accounting measures cash and all other financial assets that can be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services that it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's services.

Ocean Township Fire District No. 2 maintains three separate government funds, the general fund, the debt service fund, and the capital fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and the capital fund.

The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation at the bottom of the fund financial statements.

As required by N.J.S.A. 40A:14:78-3, Ocean Township Fire District No. 2 adopts an annual budget which is voted on by the legal voters of the district on the third Saturday in February. Budgetary comparison schedules have been prepared to document compliance with budgetary requirements.

Fiduciary Funds

Fiduciary funds are used to account for assets held by the District on behalf of outside third parties, or other funds within the District. There is one fiduciary fund in the District, which is the Payroll Agency. This fund is used for the payment of wages and payroll liabilities.

Notes to Financial Statements

The notes to the financial statements 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 the financial statements are an integral part of the financial statements.

DISTRICT-WIDE FINANCIAL ANALYSIS

Ocean Township Fire District No. 2's net position is a useful indicator of the District's financial condition. At the end of 2016 the District's assets exceeded the liabilities by approximately \$4.1 million. The largest portion of Ocean Township Fire District No. 2's net position (95.4%) is its investment in capital assets. The District uses these assets to provide fire-fighting services to the community; consequently, these assets are not available for future spending. Ocean Township Fire District No. 2's investment in capital assets is reported net of related debt. Since the capital assets are not available to liquidate the debt, other sources must be utilized for the repayment of the debt. As of December 31, 2016 the District had approximately \$430,200 of long term debt. The District decreased its cash position by approximately \$296,600, total liabilities increased by approximately \$21,600.

Statement of Net Position

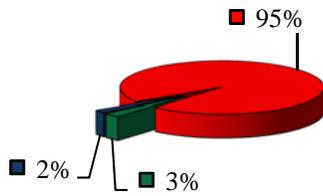
OCEAN TOWNSHIP FIRE DISTRICT NO. 2 NET POSITION DECEMBER 31, 2016

	2016	2015	\$ Increase (Decrease)	% Increase (Decrease)
Current and Other Assets	\$1,062,648	\$1,224,276	(161,628)	(13.2%)
Capital Assets	<u>4,529,009</u>	<u>4,214,921</u>	+314,088	+7.5%
Total Assets	5,591,657	5,439,197	+152,460	+2.8%
Total Liabilities	<u>(1,461,374)</u>	<u>(1,439,784)</u>	+21,590	+1.5%
Net Position	<u>\$4,130,283</u>	<u>\$3,999,413</u>	+130,870	+3.3%

Analysis of Net Position

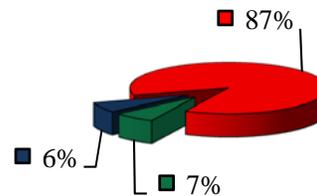
Net Investment in Capital Assets	\$3,940,446	\$3,474,766	+465,680	+13.4%
Restricted for Capital Projects	83,432	255,913	(172,481)	(67.4%)
Unrestricted	<u>106,405</u>	<u>268,734</u>	(162,329)	(60.4%)
Total Net Position	<u>\$4,130,283</u>	<u>\$3,999,413</u>	+130,870	3.3%

2016 Net Position



- Capital Projects
- Invested in Net Assets
- Unrestricted

2015 Net Position



- Capital Projects
- Invested in Net Assets
- Unrestricted

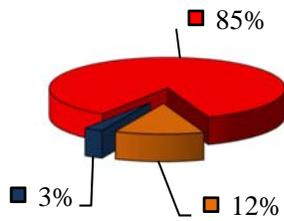
The net position of Ocean Township Fire District No. 2 increased approximately \$130,900 during the 2016 period. Major change in net position at December 31, 2016 was approximately \$130,900.

Governmental Activities

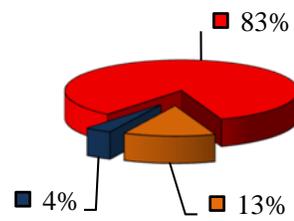
The Statement of Activities shows the cost of the governmental activities program services and the charges for services and grants offsetting these costs. A summary of these activities follows:

	2016	2015	\$ Increase (Decrease)	% Increase (Decrease)
Expenses				
Program Expenses				
Administrative Expenses	\$ 173,054	\$ 158,393	+14,661	+9.3%
Cost of Operations & Maintenance	1,211,432	1,039,396	+172,036	+16.6%
Interest on Long-Term Debt	<u>37,064</u>	<u>45,951</u>	(8,887)	(19.3%)
Total Program Expenses	1,421,550	1,243,740	+177,810	+14.3%

2016 Program Expenses



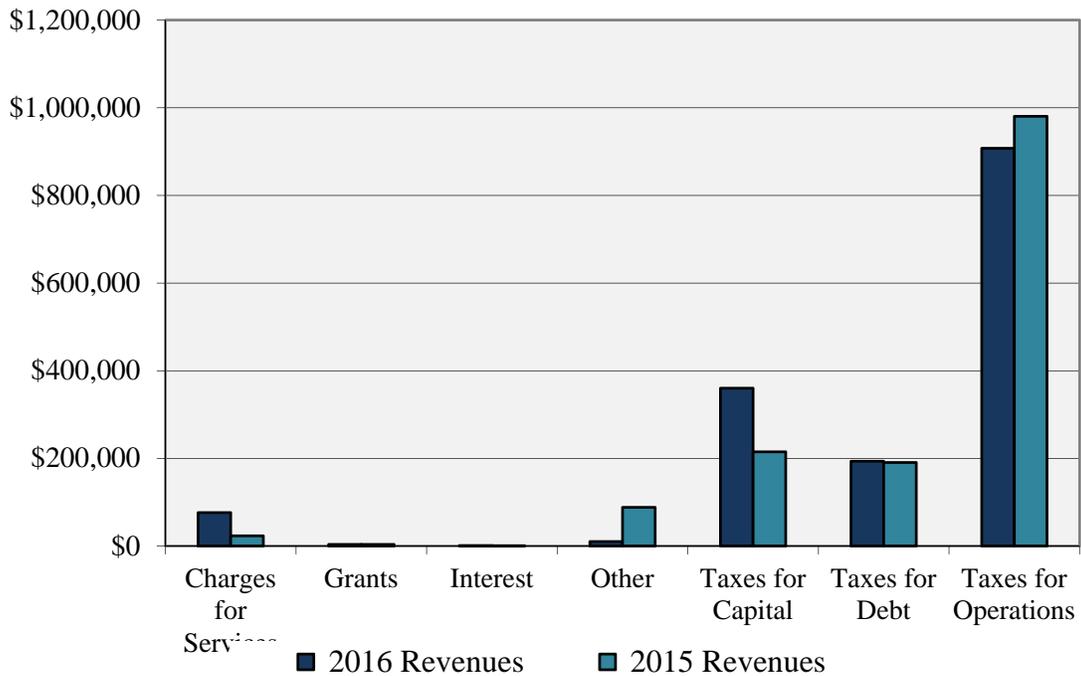
2015 Program Expenses



■ Administrative
 ■ Interest
 ■ Operations
 ■ Administrative
 ■ Interest
 ■ Operations

	2016	2015	\$ Increase (Decrease)	% Increase (Decrease)
Program Revenues				
Charges for Services	76,252	23,376	+52,876	+226.2%
Operating Grants & Contributions	<u>3,740</u>	<u>3,740</u>	- 0 -	0.0%
Net Program Expenses	<u>1,341,558</u>	<u>1,216,624</u>	+124,934	+10.2%
General Revenues				
Property Taxes Levied for General Purposes	907,601	980,689	(73,088)	(7.5%)
Property Taxes Levied for Future Capital Purchases	360,000	215,000	+145,000	+67.4%
Property Taxes Levied for Debt Service	193,724	190,543	+3,181	+1.7%
Unrestricted Investment Earnings	1,027	717	+310	+43.2%
Miscellaneous Income	<u>10,075</u>	<u>88,368</u>	(78,293)	(88.6%)
Total General Revenues	<u>1,472,427</u>	<u>1,475,317</u>	(2,890)	(.2%)
Increase (Decrease) in Net Position	130,869	258,693	(127,824)	(49.4%)
Net Position, January 1	3,999,414	4,192,706	(193,292)	(4.6%)
Prior Period Adjustment	<u>- 0 -</u>	<u>(451,986)</u>	(451,986)	(100.0%)
Net Position, December 31	<u>\$4,130,283</u>	<u>\$3,999,414</u>	+130,869	+3.3%

Revenues



Property tax revenue constituted 94% of the total governmental activities revenues received by Ocean Township Fire District No. 2 in 2016. In 2015 the property tax revenue constituted 92% of total revenues.

The Cost of Operations & Maintenance was 85% and 83% of the District’s total expenses in 2016 and 2015 respectively. Administration expenses equaled 15% of the total expenses in 2016 and 17% in 2015.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Ocean Township Fire District No. 2 uses fund accounting to document compliance with finance-related legal requirements.

Government Fund

The primary objective of the District’s governmental funds is to report on cash flows in and out during the period and the ending balances of the spendable resources. This information is useful to evaluate the performance of the District and to assess its future needs and available resources.

As of December 31, 2016, the combined cash balance of the governmental funds of Ocean Township Fire District No. 2 was approximately \$816,800. This balance is approximately \$296,600 lower than last year’s combined governmental funds balance. The decrease is due primarily to the purchase of fire apparatus and the reduction in liabilities.

The combined balance of the governmental funds of Ocean Township Fire District No. 2 was approximately \$758,600. Unreserved fund balance amounted to approximately \$500,200 of that total. The Board has designated \$175,000 of general surplus for utilization in the 2017 budget.

The general fund is the main operating fund of Ocean Township Fire District No. 2. At the end of 2016, the total fund balance of the general fund was approximately \$743,500. Of this balance, approximately \$500,200 was unreserved.

During 2016 the general fund balance of Ocean Township Fire District No. 2 decreased by approximately \$106,100. The primary reason for this decrease is as follows:

- The Board had appropriations in excess of revenues in the amount of approximately \$106,100.

At the end of 2016, the District had a capital projects fund balance of approximately \$83,400. This balance decreased in 2016 by approximately \$172,500. The primary reason for this decrease is as follows:

- The Board had an appropriation of \$360,000 for future capital purchases.
- The Board purchased fire apparatus for approximately \$532,500.

General Fund Budgetary Highlights

The Board assumes the responsibilities of the Uniform Fire Safety Act (UFSA) in the District. UFSA revenues are a factor of enforcement. The fees charged in 2016 were approximately 5% of the operating revenues.

The 2016 Budget as submitted to the voters included \$152,500 of accumulated surplus from the General Fund to balance the budget. Unused surplus is available for future budget periods as undesignated surplus in the funds.

The District had total actual revenues in excess of budgeted revenues of approximately \$4,700 in 2016. The majority of the excess was from collection of annual fire registration fees. The Board expects to have a minor excess in 2017.

Overall, the District spent approximately \$94,800 less than originally anticipated in the operating budget for 2016. Administrative appropriations were approximately \$24,500 less than Budget and Operating appropriations were approximately \$54,500 less than Budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016 Ocean Township Fire District No. 2 had invested in capital assets for government activities approximately \$4,529,000 (net of accumulated depreciation).

Capital assets consist of firehouse improvements, fire apparatus, fire equipment, and office equipment. They purchased approximately \$79,200 of equipment and building improvements and \$545,600 on fire apparatus in 2016.

OCEAN TOWNSHIP FIRE DISTRICT NO. 2
CAPITAL ASSETS
(NET OF ACCUMULATED DEPRECIATION)
DECEMBER 31, 2016

	2016	2015	Change
Firehouse & Land	\$4,135,562	\$4,093,522	+42,040
Vehicles & Apparatus	3,740,632	3,313,972	+426,660
Equipment	<u>627,101</u>	<u>589,989</u>	+37,112
Total Capital Assets	8,503,295	7,997,483	+505,812
Accumulated Depreciation	<u>(3,974,286)</u>	<u>(3,782,562)</u>	+191,724
Investment in Capital Assets – net	<u>\$4,529,009</u>	<u>\$4,214,921</u>	+314,088

Additional information on Ocean Township Fire District No. 2's capital assets can be found in Note 5 in the notes to the financial statements.

Long-Term Obligations

Ocean Township Fire District No. 2 currently has a bond issue and a lease purchase outstanding at 12/31/2016.

The bond for the construction of the firehouse has a balance of \$500,000 which is due and payable through 2020.

The District has a lease purchase used to acquire fire apparatus. The lease purchase was in 2008 for a heavy rescue truck. This is also a ten year lease purchase which will be completed in 2018. At this time the Board intends to acquire the apparatus.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

In 2016, Ocean Township Fire District No. 2 was able to cover all its appropriations through the fire tax levy and other revenues. In 2016 the fire tax levy amounted to 94% of total revenue collected.

Ocean Township Fire District No. 2 adopted their 2017 budget on January 18, 2017. The voters subsequently approved the budget at the February election. The 2017 budget reflects an increase in the tax levy of \$1,883. The Board is utilizing \$175,000 of General Fund surplus to balance the Budget. The Board anticipates no significant change in the fire tax rate. It is projected that a family with a home assessed at \$250,000 will pay approximately \$233 in 2017 for fire protection.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Ocean Township Fire District No. 2's finances for all of those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Earl Gifford, Ocean Township Fire District No. 2, 2001 Sunset Avenue, Ocean, New Jersey, 07712.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Statement of Net Position
December 31, 2016

	Governmental Activities	
	<u>2016</u>	
Assets:		
Current assets:		
Cash	\$	816,761
Due from others		10,137
Prepaid insurance		24,260
Total current assets		851,158
Capital assets (net of depreciation)		4,529,009
Total assets		5,380,167
Deferred outflows of resources:		
Deferred outflows related to pensions		211,490
Total deferred outflows of resources		211,490
Total assets and deferred outflows of resources		5,591,657
Liabilities:		
Current liabilities:		
Accounts payable		21,374
Accrued professional fees		17,250
Accrued interest		18,764
Accrued payroll		6,838
Accrued pension		22,806
Capital leases payable		43,360
Bonds payable		115,000
Total current liabilities		245,392
Noncurrent liabilities:		
Capital leases payable		45,203
Bonds payable		385,000
Compensated absences		52,507
Net pension liability		733,272
Total noncurrent liabilities		1,215,982
Total liabilities		1,461,374
Net position:		
Net investment in capital assets		3,940,446
Restricted net position:		
Capital projects		83,432
Unreserved net position		106,405
Total net position	\$	4,130,283

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Statement of Activities
For the year ended December 31, 2016

	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities</u> <u>2016</u>
Government activities:			
Operation appropriations:			
Administration	\$ 173,054	\$ -	\$ (173,054)
Costs of operations and maintenance	1,211,432	76,252	(1,135,180)
Interest expense	37,064	-	(37,064)
	<hr/>	<hr/>	<hr/>
Total government activities	1,421,550	76,252	(1,345,298)
	<hr/>	<hr/>	<hr/>
General revenues:			
Miscellaneous revenue			40,075
Investment income			1,027
Operating grant revenues			3,740
Amount raised by taxation			1,431,325
			<hr/>
Total general revenues			1,476,167
			<hr/>
Change in net position			130,869
Net position, January 1			3,999,414
			<hr/>
Net position, December 31			\$ 4,130,283
			<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Balance Sheet
Governmental Funds
December 31, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>December 31, 2016</u>
Assets:				
Cash	\$ 677,487	\$ 139,274	\$ -	\$ 816,761
Due from others	10,137	-	-	10,137
Other receivable	55,842	-	-	55,842
Total assets	<u>\$ 743,466</u>	<u>\$ 139,274</u>	<u>\$ -</u>	<u>\$ 882,740</u>
Liabilities, equity and other credits:				
Accounts payable	\$ 21,374	\$ -	\$ -	\$ 21,374
Accrued professional fees	17,250	-	-	17,250
Accrued payroll	6,838	-	-	6,838
Accrued pension	22,806	-	-	22,806
Other payable	-	55,842	-	55,842
Total liabilities	<u>68,268</u>	<u>55,842</u>	<u>-</u>	<u>124,110</u>
Fund balances				
Restricted for:				
Capital	-	83,432	-	83,432
Assigned for:				
Other purposes	-	-	-	-
Subsequent year's expenditures	175,000	-	-	175,000
Other purposes	-	-	-	-
Unassigned, reported in:				
General fund	500,198	-	-	500,198
Total fund balance	<u>675,198</u>	<u>83,432</u>	<u>-</u>	<u>758,630</u>
Total liabilities and fund balance	<u>\$ 743,466</u>	<u>\$ 139,274</u>	<u>\$ -</u>	

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

Prepaid insurance is reported in governmental funds as expenditures. However, in the statement of net position, the cost of those assets is expensed over the term of the policy as insurance expense.

24,260

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$8,503,295 and the accumulated depreciation is \$3,782,566.

4,529,009

Accrued interest and PERS pension payable are not recorded in financial statements of governmental funds.

(18,764)

Deferred outflows and inflows of resources related to pensions are applicable to future reporting periods and, therefore, are not reported in the funds.

211,490

Long-term liabilities, including net pension liability and bonds payable, are not due and payable in the current period and are therefore not reported as liabilities in the funds.

(1,374,342)

Net assets of governmental activities

\$ 4,130,283

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>December 31, 2016</u>
Revenues:				
Miscellaneous anticipated revenue:				
Shared services	\$ 30,675	\$ -	\$ -	\$ 30,675
Investment income	1,027	-	-	1,027
Rental income	9,400	-	-	9,400
Total miscellaneous revenues	<u>41,102</u>	<u>-</u>	<u>-</u>	<u>41,102</u>
Operating grant revenue:				
Supplemental fire service grant	3,740	-	-	3,740
Total operating grant revenue	<u>3,740</u>	<u>-</u>	<u>-</u>	<u>3,740</u>
Revenues offset with appropriations:				
Uniform Fire Safety Act				
Annual registration fees	33,370	-	-	33,370
Other revenue	42,882	-	-	42,882
Total revenues offset with appropriations	<u>76,252</u>	<u>-</u>	<u>-</u>	<u>76,252</u>
Total revenues	<u>121,094</u>	<u>-</u>	<u>-</u>	<u>121,094</u>
Amount raised by taxation to support district budget	<u>877,601</u>	<u>360,000</u>	<u>193,724</u>	<u>1,431,325</u>
Total anticipated revenues	<u>998,695</u>	<u>360,000</u>	<u>193,724</u>	<u>1,552,419</u>
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	60,299	-	-	60,299
Fringe benefits	54,222	-	-	54,222
Other expenditures:				
Professional fees	35,741	-	-	35,741
Advertising	613	-	-	613
Elections	1,251	-	-	1,251
Office supplies and postage	14,581	-	-	14,581
Total administration	<u>166,707</u>	<u>-</u>	<u>-</u>	<u>166,707</u>
Cost of operations and maintenance:				
Salaries	98,531	-	-	98,531
Fringe benefits	168,570	-	-	168,570
Other expenditures:				
Rental charges	111,487	-	-	111,487
Expense reimbursement	21,475	-	-	21,475
Materials and supplies	28,741	-	-	28,741
Insurance	80,256	-	-	80,256
Building and grounds	38,629	-	-	38,629
Medical fees	6,250	-	-	6,250
Fire prevention	1,723	-	-	1,723
Training and education	13,861	-	-	13,861

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>December 31, 2016</u>
Utilities	54,160	-	-	54,160
Dispatch services	14,739	-	-	14,739
Maintenance and repairs	99,512	-	-	99,512
Membership dues and other	386	-	-	386
SFSG expenses	3,740	-	-	3,740
Other non-bondable assets	126,260	-	-	126,260
Total cost of operations and maintenance	868,320	-	-	868,320
Operating appropriations offset with revenues:				
Salaries and wages	59,384	-	-	59,384
Total operating appropriations offset with revenues	59,384	-	-	59,384
Duly incorporated first aid / rescue squad associations:				
Equipment	10,400	-	-	10,400
Total duly incorporated first aid / rescue squad associations:	10,400	-	-	10,400
Capital appropriations	-	532,481	-	532,481
Debt service for capital appropriations:				
Bond principal	-	-	110,000	110,000
Interest on bonds	-	-	36,600	36,600
Capital leases	-	-	41,592	41,592
Interest on capital leases	-	-	5,532	5,532
Total debt service for capital appropriations	-	-	193,724	193,724
Total operating appropriations	1,104,811	532,481	193,724	1,831,016
Excess (efficiency) of revenues over (under) expenditures	(106,116)	(172,481)	-	(278,597)
Fund balance, January 1	781,314	255,913	-	1,037,227
Fund balance, December 31	<u>\$ 675,198</u>	<u>\$ 83,432</u>	<u>\$ -</u>	<u>\$ 758,630</u>

The accompanying notes are an integral part of these financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance in
the Governmental Funds to the Statement of Activities
December 31, 2016

Total net changes in Fund Balance-Governmental Funds (B-2) \$ (278,597)

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.

	92,259	
Capital Outlays-General Fund	92,259	
Capital Outlays-Capital Projects Fund	532,481	
Donation of fixed assets	(15,857)	
Depreciation Expense	(294,795)	
		314,088

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities. 110,000

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities. 41,592

Accrual of interest on capital leases and bonds is not an expenditure in the governmental funds, but the adjustment is charged to expense and is reported in the statement of activities.

	23,832	
Prior year	23,832	
Current year	(18,764)	
		5,068

Prepaid insurance is reported in governmental funds as expenditures. However, in the statement of net position, the cost of those assets is expensed over the term of the policy as insurance expense.

	(26,726)	
Prior year	(26,726)	
Current year	24,260	
		(2,466)

District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pension, is reported in the Statement of Activities.

	22,806	
Pension expense - PERS contribution - 2016	22,806	
Pension expense	(75,275)	
		(52,469)

In the statement of activities, certain operating expenses, e.g., compensated absences (sick leave) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used, essentially, the amounts actually paid. (6,347)

Changes in net position of governmental activities \$ 130,869

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements
For the year ended December 31, 2016

NOTE 1: GENERAL INFORMATION

A. Description of Reporting Entity

Fire District No. 2 of the Township of Ocean is a political subdivision of the Township of Ocean, County of Monmouth, State of New Jersey. A board of five commissioners oversees all of the 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 the *N.J.S.A. 40A: 14-70* et al. and are taxing authorities charged with the responsibility of providing the resources necessary to provide fire fighting services to the residents within its territorial location.

Fire District No. 2 of the Township of Ocean is not a component unit of any other financial reporting entity nor does the Fire District have any component units to be presented in accordance with Governmental Accounting Standards Board Statement No. 14 as amended by GASB 39 and GASB 61.

B. District Officials

The District is governed by a board of five commissioners. The following were in office at December 31, 2016:

<u>Officials</u>	<u>Term Expires</u> <u>March</u>
Alan Dowling	2019
Earl Gifford	2017
Kevin O'Connor	2018
James Scollay	2018
Edward Horn	2019

C. Accounting Records

The official accounting records of the Fire District No. 2 of the Township of Ocean are maintained in the office of the District.

D. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

E. Component Units

GASB Statement No.14. The Financial Reporting Entity, provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units and GASB Statement

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 1: GENERAL INFORMATION (continued)

E . Component Units (continued)

No. 61, The Financial Reporting Entity: Omnis - an amendment of GASB Statements No. 14 and No. 34. The District had no component units as of for the year ended December 31, 2016.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Fire District conform to generally accepted accounting principles (GAAP) applicable to governmental funds of state and local governments in accordance with the provisions of N.J.A.C. 5:31-7-1. 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 Board's accounting policies are described below.

The basic financial statements report using the economic resources measurement focus and the accrual basis of accounting generally includes the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using the same focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. The tax revenues are recognized in the year for which they are levied (see Note 2O) while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon thereafter, within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

B. Fund Accounting

The accounts of the district are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn is divided into separate "fund types."

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Governmental Funds:

General Fund

The General Fund is the general operating fund of the Fire District and is used to account for the 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.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities, such as firehouses and fire fighting apparatus. Generally, the financial resources of the Capital Projects Fund are derived from the issuance of debt or by the reservation of fund balance, which must be authorized by the voters as a separate question of the ballot either during the annual election or at a special election.

Debt Service Fund

The Debt Service Fund is used to account for resources that will be used to service general long-term debt.

C. District Wide and Fund Financial Statements

District Wide Financial Statements

The district-wide financial statements (A-1 and A-2) include the statement of net position and the statement of activities. These statements report financial information of the District as a whole excluding the fiduciary activities. All inter-fund activity, excluding the fiduciary funds, has been eliminated in the statement of activities. Individual funds are not displayed but the statements distinguish governmental activities as generally supported through taxes and user fees.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment, or component unit. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function, segment or component unit. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function, segment, or component unit. Taxes and other items not properly included among program revenues are reported instead as general revenues. The District does not allocate general government (indirect) expenses to other functions.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. District Wide and Fund Financial Statements (continued)

Net position is restricted when constraints placed on it is either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fund Financial Statements

The fund financial statements provide detail of the governmental and fiduciary funds.

D. Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and private purpose trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net position.

The modified accrual basis of accounting is used for measuring financial position and operating results of all governmental fund types, private purpose trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

In its accounting and financial reporting, the Fire District No. 2 of the Township of Ocean follows the pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB).

E. 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 no later than sixty days prior to the annual election. At introduction, the commissioners shall fix the time and place for a public

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgets and Budgetary Accounting (continued)

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 hearing 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.

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 Districts general-purpose financial statements.

F. 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.

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 amounts as of the current year-end. The district did not have any encumbrances for the year ended December 31, 2016.

G. Cash and Cash Equivalents

Cash and cash equivalents include petty cash, change funds and cash in banks. All certificates of deposit are recorded as cash regardless of the date of maturity. Fire Districts are required by N.J.S.A. 40A: 5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey organized under the laws of the United States or of the State of New Jersey or with the New Jersey Cash Management Fund. N.J.S.A. 40A: 5-15.1 provides a list of investments that may be purchased by Fire Districts.

N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the provision 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 the State of New Jersey.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Cash and Cash Equivalents (continued)

Public funds are defined as the funds of any governmental unit. Public depositories include savings and loan institutions, banks (both State and National banks) and savings banks the deposits of which they are federally insured. All public depositories must pledge collateral, having a market value of five percent of its average daily balance of collected public funds, to secure the deposits of governmental units. If 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.

H. Prepaid Expenses

Prepaid expenses that benefit future periods are recorded as an expenditure during the year of purchase.

I. Debt Limitation

N.J.S.A.40A:14-84 governs procedures for the issuance of any debt related to such purchases. In summary, Fire Districts may purchase fire fighting apparatus, equipment, land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation of 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. Capital Assets

Capital assets, which include land, building, improvements, and equipment, are reported in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Donated assets are valued at their estimated fair value on the date donated. The District has set capitalization thresholds for reporting capital assets, of \$2,000.

Depreciation is recorded on the straight-line method over the useful lives of the assets as follows:

Building and Improvements	10 to 25 Years
Equipment	5 to 10 Years
Trucks and vehicles	5 to 25 Years

K. Inventory, Materials and Supplies

The inventory on hand at any time is small. Accordingly, purchases are charged directly to fixed assets or to maintenance costs, as applicable.

L. Interfund Receivable/Payable

Interfund receivables and payables that arise from transactions between funds that are due within one year are recorded by all funds affected by such transactions in the periods in which the transaction is executed

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Compensated Absences

Fire District employees are entitled to vacation and sick leave. Unused vacation and sick leave may be accumulated. Benefits paid in any future year will be calculated according to formulas outlined in the Fire District's agreement with the employees and included in the current year's budget.

The liability for vested compensated absences is recorded as a non-current liability in the governmental activities fund. The current portion of the compensated absence balance is not considered material to the applicable fund's total liabilities, and is therefore not shown separately from the long-term liability balance of compensated absences.

N. Revenues and Expenditures

Revenues are recorded when they are determined to be both available and measurable. Generally, fees and other non-tax revenues are recognized when qualifying expenditures are incurred.

Expenditures are recorded when the related liability is incurred, if measurable, except for un-matured interest on general long-term debt, which is recognized when due.

O. Fire District Taxes

Upon proper certification to the assessor of the municipality in which the Fire District is located, the assessor shall assess the amount of taxes to be realized in support of the Fire District's budget in the same manner as all other municipal taxes. The collector or treasurer of the municipality shall then pay over to the treasurer or custodian of funds of the Fire District the taxes assessed in accordance with the following schedule: on or before April 1, an amount equaling 21.25% of all monies assessed, on or before July 1, an amount equaling 22.5% of all monies assessed, on or before October 1, an amount equaling 25% of all monies assessed and on or before December 31 an amount equal to the difference between the total of all monies assessed and the total of monies previously paid over.

P. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future periods and so will not be recognized as an inflow of resources (revenue) until that time.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Fund Equity

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fire District No. 2 of the Township of Ocean classifies governmental fund balances as follows:

- Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by external parties, constitutional provision or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making District and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Administrator.
- Unassigned – includes balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

Q. Net Position

Net position, represents the difference between summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net position is classified in the following three components:

- Net Investment in Capital Assets – This component 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 District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted – Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

R. 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2016, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the District is required to measure certain investments at fair value for financial reporting purposes. In addition, the District is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the District's financial statements.

The District implemented GASB Statement 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. Implementation of this Statement did not impact the District's financial statements.

The District implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the District's financial statements.

Recently Issued and Adopted Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement 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. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the District's financial statements.

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the District's financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Impact of Recently Issued Accounting Principles (continued)

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the District's financial statements.

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 Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the District's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the District's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement 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 will be effective for the year ended December 31, 2018. Management does not expect this Statement to impact the District's financial statements.

Statement 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. This Statement will be effective for the year ended December 31, 2018. Management does not expect this Statement to impact the District's financial statements.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 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*. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the District's financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting requirements for certain asset retirement obligations and establishes the timing and pattern of recognition of a liability and corresponding deferred outflow of resources. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the District's financial statements.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Impact of Recently Issued Accounting Principles (continued)

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the District's financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the District's financial statements.

T. Subsequent Events

Fire District No. 2 of the Township of Ocean has evaluated subsequent events occurring after December 31, 2016 through the date of June 28, 2017, which is the date the financial statements were available to be issued.

NOTE 3: CASH

The Fire District is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2016, and reported at fair value are as follows:

Deposits:

Demand Deposits	\$ <u>816,762</u>
Total Deposits	\$ <u>816,762</u>

Reconciliation to Governmental Fund Statements:

Governmental Funds	\$ <u>816,762</u>
Total	\$ <u>816,762</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, the District's bank balance of \$850,533 was insured or collateralized as follows:

Insured	\$ 250,000
Collateralized in the District's name under GUDPA	<u>600,533</u>
Total	<u>\$ 850,533</u>

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 4: DUE FROM OTHERS

As of December 31, 2016, the District was owed \$10,137 from the State of New Jersey for LEA fees.

NOTE 5: CAPITAL ASSETS

Fixed assets consisted of the following at December 31, 2016:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	Ending <u>Balance</u>
Governmental Activities:				
Land	717,987	-	-	717,987
Equipment	589,989	37,112	-	627,101
Buildings and improvements	3,375,535	42,040	-	3,417,575
Trucks and vehicles	<u>3,313,972</u>	<u>545,589</u>	<u>(118,929)</u>	<u>3,740,632</u>
Totals at historical cost	<u>7,997,483</u>	<u>624,741</u>	<u>(118,929)</u>	<u>8,503,295</u>
Less: accumulated depreciation:				
Equipment	(325,512)	(39,464)	-	(364,976)
Buildings and improvements	(2,156,056)	(103,361)	-	(2,259,417)
Trucks and vehicles	<u>(1,300,994)</u>	<u>(151,971)</u>	<u>103,072</u>	<u>(1,349,893)</u>
Total accumulated depreciation	<u>(3,782,562)</u>	<u>(294,796)</u>	<u>103,072</u>	<u>(3,974,286)</u>
Total capital assets being depreciated net of accumulated depreciation	<u>\$ 3,827,427</u>	<u>\$ 329,945</u>	<u>\$(15,857)</u>	<u>\$ 4,529,009</u>

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

NOTE 6: LONG TERM DEBT

During the fiscal year ended December 31, 2016, the following changes occurred in liabilities reported in long-term debt:

	Balance <u>12/31/15</u>	Accrued/ <u>increases</u>	Retired/ <u>decreases</u>	Balance <u>12/31/16</u>	Due within <u>one year</u>
Capital leases	\$ 130,155	\$ -	\$ 41,592	\$ 88,563	\$ 43,360
Bonds payable	610,000	-	110,000	500,000	115,000
Compensated absences	46,160	6,347	-	52,507	-
Net Pension Liability	<u>543,411</u>	<u>189,861</u>	<u>-</u>	<u>733,272</u>	<u>-</u>
Total	<u>\$1,329,726</u>	<u>\$ 196,208</u>	<u>\$ 151,592</u>	<u>\$ 1,374,342</u>	<u>\$ 158,360</u>

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 6: LONG TERM DEBT (continued)

A. Capital Leases

On March 19, 2008 the District entered into a lease agreement with SunTrust Equipment Finance & Lease Corp to finance a Heavy Rescue Truck at an interest rate of 4.25%. The following is a schedule of future minimum capital lease payments at December 31, 2016:

Fiscal Year			
<u>Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	43,360	3,764	47,124
2018	<u>45,203</u>	<u>1,921</u>	<u>47,124</u>
Total	<u>\$ 88,563</u>	<u>\$ 5,685</u>	<u>\$ 94,248</u>

B. Bonds Payable

Bonds and leases are authorized in accordance with State law by the voters of the Fire District through referendums. All bonds are retired in serial installments within the statutory period of usefulness. On July 1, 2000, the Fire District issued \$1,700,000 general obligation bonds at an interest rate of 5.00% - 6.00% for the construction of a fire house. The final maturity of these bonds is July 1, 2020. The bond will be paid from property tax revenue.

The following is a schedule of future minimum bond payments at December 31, 2016:

Fiscal Year			
<u>Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	115,000	30,000	145,000
2018	120,000	23,100	143,100
2019	130,000	15,900	145,900
2020	<u>135,000</u>	<u>8,100</u>	<u>143,100</u>
Total	<u>\$ 500,000</u>	<u>\$ 77,100</u>	<u>\$ 577,100</u>

NOTE 7: VESTED EMPLOYEE BENEFITS

In accordance with GASB-16 and NCGA-1 (Governmental Accounting and Financial Reporting Principles), the portion of estimated future payments for compensated absences that will use current expendable resources is reported as a current fund liability in the governmental activities fund and the balance of the liability is reported as non-current liability in the governmental activities fund. For the year ended December 31, 2016, the District did not have a current liability for compensated absences. The amounts included in the long-term liabilities consists of the following:

	<u>2016</u>
Total compensated absences	<u>\$52,507</u>

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION

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 PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

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

The following represents the membership tiers for PERS:

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, 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 55 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.

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION (continued)

A. Public Employees' Retirement System (PERS) (continued)

actual claims paid. For the fiscal year 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Components of Net Pension Liability - At December 31, 2016, the District reported a liability of \$733,272 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from 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 the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The District's proportion measured as of June 30, 2016, was .00248%, which was an increase of .00006% from its proportion measured as of June 30, 2015.

Collective Balances at December 31, 2016 and December 31, 2015

	<u>12/31/2016</u>	<u>12/31/2015</u>
Actuarial valuation date (including roll forward)	June 30, 2016	June 30, 2015
Deferred Outflows of Resources	\$ 211,490	\$ 82,835
Deferred Inflows of Resources	\$ -	\$ 8,737
Net Pension Liability	\$ 733,272	\$ 543,411
 Authority's portion of the Plan's total net pension Liability	 0.00248%	 0.00242%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the District recognized pension credit of \$52,467. At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION (continued)

A. Public Employees' Retirement System (PERS) (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>PERS</u>	<u>PERS</u>
Differences between Expected and Actual Experience	\$ 13,637	\$ -
Changes of Assumptions	151,895	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	27,960	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	17,998	-
	\$ 211,490	\$ -

The \$211,490 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>Dec 31,</u>	<u>PERS</u>
2017	\$ 47,747
2018	47,745
2019	54,366
2020	45,557
2021	16,074
	\$ 211,489

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION (continued)

A. Public Employees' Retirement System (PERS) (continued)

	PERS	
	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

Actuarial Assumptions - The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION (continued)

A. Public Employees' Retirement System (PERS) (continued)

	<u>PERS</u>
Inflation	3.08%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.65%
Mortality Rate Table	RP-2000
Period of Actuarial Experience	
Study upon which Actuarial	
Assumptions were Based	July 1, 2011 - June 30, 2014

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. 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 rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the 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 scales. 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 1 year for females).

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 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

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION (continued)

A. Public Employees' Retirement System (PERS) (continued)

inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's 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	<u>5.25%</u>	5.63%
	<u><u>100.00%</u></u>	

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on 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 municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 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.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: PENSION (continued)

A. Public Employees' Retirement System (PERS) (continued)

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 net pension liability calculated using the discount rate as disclosed above, 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 (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	NOTES		
	1% Decrease <u>(2.98%)</u>	PERS Current Discount Rate <u>(3.98%)</u>	1% Increase <u>(4.98%)</u>
District's Proportionate Share of the Net Pension Liability	\$ 898,540	\$ 733,272	\$ 596,830

NOTE 8: INTERFUND RECEIVABLE/PAYABLE

As of December 31, 2016, the following interfund balances remained on the balance sheet:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 55,842	\$ -
Capital projects	-	55,842
Total	\$ 55,842	\$ 55,842

The purpose of these interfunds are for short-term borrowings.
 Interfund receivables are recorded as other receivables. Interfund payables are recorded as other payables.

NOTE 9: FUNDING

The activities of the Board of Commissioners are primarily funded by the tax on the property owners of the Fire District, as provided for by the state statute. For the year ended December 31, 2016, the fire tax rate on the Fire District No. 2 was \$.103 per \$100 of assessed valuation.

The District also participates in the Supplemental Fire Services Programs and received a basic entitlement grant of approximately \$3,740. As a condition of the grant, the Board must match the grant by 10%.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 10: POST-RETIREMENT BENEFITS

The District participates in the New Jersey State Health Benefits Program (“the SHBP”), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45 “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions” (“OPEB”). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the District of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis.

NOTE 11: FUND BALANCE

General Fund – Of the \$675,198 General Fund fund balance at December 31, 2016, \$175,000 is restricted for subsequent year’s expenditures and \$500,198 is unassigned.

Capital Projects Fund – Of the \$83,432 Capital Projects Fund fund balance at December 31, 2016, \$83,432 is restricted for capital.

The District uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available, unless prohibited by law or regulation.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Budgetary Comparison Schedule
For the year ended December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Miscellaneous anticipated revenue:				
Shared services	30,900	30,900	30,675	(225)
Investment income	1,000	1,000	1,027	27
Rental income	8,400	8,400	9,400	1,000
Total miscellaneous revenues	<u>40,300</u>	<u>40,300</u>	<u>41,102</u>	<u>802</u>
Operating grant revenue:				
Supplemental fire service grant	3,740	3,740	3,740	-
Total operating grant revenue	<u>3,740</u>	<u>3,740</u>	<u>3,740</u>	<u>-</u>
Revenues offset with appropriations:				
Uniform Fire Safety Act				
Annual registration fees	29,386	29,386	33,370	3,984
Other revenue	43,000	43,000	42,882	(118)
Total revenues offset with appropriations	<u>72,386</u>	<u>72,386</u>	<u>76,252</u>	<u>3,866</u>
Total revenues	<u>116,426</u>	<u>116,426</u>	<u>121,094</u>	<u>4,668</u>
Amount raised by taxation to support district budget	<u>1,431,325</u>	<u>1,431,325</u>	<u>1,431,325</u>	<u>-</u>
Total anticipated revenues	<u>1,547,751</u>	<u>1,547,751</u>	<u>1,552,419</u>	<u>4,668</u>
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	41,487	60,787	60,299	488
Fringe benefits	87,134	62,134	54,222	7,912
Other expenditures:				
Professional fees	45,000	45,000	35,741	9,259
Advertising	800	800	613	187
Elections	1,500	1,500	1,251	249
Office supplies and postage	10,000	21,000	14,581	6,419
Total administration	<u>185,921</u>	<u>191,221</u>	<u>166,707</u>	<u>24,514</u>
Cost of operations and maintenance:				
Salaries and wages	134,702	101,102	98,531	2,571
Fringe benefits	93,238	176,738	168,570	8,168
Other expenditures:				
Rental charges	112,000	112,000	111,487	513
Expense reimbursement	9,000	21,500	21,475	25
Materials and supplies	36,000	30,500	28,741	1,759
Insurance	125,000	81,800	80,256	1,544
Building and grounds	80,000	44,000	38,629	5,371
Medical fees	7,000	7,000	6,250	750
Fire prevention	1,500	1,800	1,723	77
Training and education	45,000	14,000	13,861	139
Contingencies	2,000	2,000	-	2,000

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Budgetary Comparison Schedule
For the year ended December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Utilities	66,500	54,400	54,160	240
Dispatch services	14,740	14,740	14,739	1
Maintenance and repairs	60,000	105,800	99,512	6,288
Membership dues and other	2,000	2,000	386	1,614
SFSG expenses	3,740	3,740	3,740	-
Other non-bondable assets	85,400	149,740	126,260	23,480
Total cost of operations and maintenance	<u>877,820</u>	<u>922,860</u>	<u>868,320</u>	<u>54,540</u>
Operating appropriations offset with revenues:				
Salaries and wages	72,386	72,386	59,384	13,002
Total operating appropriations offset with revenues	<u>72,386</u>	<u>72,386</u>	<u>59,384</u>	<u>13,002</u>
Duly incorporated first aid / rescue squad associations:				
Equipment	10,400	10,400	10,400	-
Total duly incorporated first aid / rescue squad associations:	<u>10,400</u>	<u>10,400</u>	<u>10,400</u>	<u>-</u>
Capital appropriations:				
Capital assets	360,000	535,177	532,481	2,696
Total capital appropriations	<u>360,000</u>	<u>535,177</u>	<u>532,481</u>	<u>2,696</u>
Debt service for capital appropriations:				
Bond principal	110,000	110,000	110,000	-
Interest on bonds	36,600	36,600	36,600	-
Capital leases	41,592	41,592	41,592	-
Interest on capital leases	5,532	5,532	5,532	-
Total debt service for capital appropriations	<u>193,724</u>	<u>193,724</u>	<u>193,724</u>	<u>-</u>
Total operating appropriations	<u>1,700,251</u>	<u>1,925,768</u>	<u>1,831,016</u>	<u>94,752</u>
Excess (deficiency) of revenues under (over) expenditures	(152,500)	(378,017)	(278,597)	99,420
Fund balance, January 1	<u>1,037,227</u>	<u>1,037,227</u>	<u>1,037,227</u>	<u>-</u>
Fund balance, December 31	<u>\$ 884,727</u>	<u>\$ 659,210</u>	<u>\$ 758,630</u>	<u>\$ 99,420</u>

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Schedule of the District's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
District's proportion of the net pension liability (asset)	0.00248%	0.00242%	0.00237%	0.00234%
District's proportionate share of the net pension liability (asset)	\$ 733,272	\$ 543,411	\$ 444,230	\$ 447,844
District's covered-employee payroll	\$ 170,099	\$ 170,131	\$ 167,011	\$ 164,591
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	431.09%	319.41%	265.99%	272.10%
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%	52.08%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Schedule of District Contributions
Public Employees' Retirement System
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 22,806	\$ 21,615	\$ 20,357	\$ 184.36
Contributions in relation to the contractually required contribution	<u>22,806</u>	<u>21,615</u>	<u>20,357</u>	<u>\$ 18,436</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 170,099	\$ 170,131	\$ 167,011	\$ 167,011
Contributions as a percentage of covered-employee payroll	13%	13%	12%	11%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Notes to the Required Supplementary Information
For the year ended December 31, 2015

Public Employees' Retirement System (PERS)

Basis of Presentation. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived in a report provided by KPMG dated April 6, 2017. The full report is available by the State of New Jersey, Division of Pension and Benefits. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Changes of benefit terms. 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.

Changes of assumptions. Pre-retirement mortality rates were based on the RP-2000 Employee Pre-Retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. 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 rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the 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 scales. 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 1 year for females).

EXHIBIT I-1

FIRE DISTRICT NO. 2 OF THE TOWNSHIP OF OCEAN
Long-Term Debt
Schedule of Serial Bonds Payable
For the year ended December 31, 2016

<u>Issue</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Annual Maturities</u>		<u>Balance January 1, 2016</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance December 31, 2016</u>
			<u>Date</u>	<u>Amount</u>				
General Obligation Bonds, 2000	7/1/2000	1,700,000	7/1/17	115,000	\$ 610,000	\$ -	\$ 110,000	\$ 500,000
			7/1/18	120,000				
			7/1/19	130,000				
			7/1/20	135,000				
Total \$					610,000	\$ -	\$ 110,000	\$ 500,000



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Board of Fire Commissioners
Fire District No. 2 of the Township of Ocean
Ocean, New Jersey 07712

We have audited the basic financial statements of the Fire District No. 2 of the Township of Ocean, County of Monmouth, State of New Jersey for the year ended December 31, 2016. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS

Contracts and Agreements Required to be Advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$17,500, except by contract or agreement.

It is pointed out that the Board of Fire Commissioners has the responsibility of determining whether the expenditures in any category will exceed the statutory minimum 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.

Review of the minutes and financial transactions did not identify any bids requested by public advertising.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Inasmuch 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. The results of our examination did not disclose any discrepancies.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures did not reveal any individual payments, contracts or agreements in excess of \$2,625 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

The minutes do not indicate quotes were obtained for any services.

General Ledger

The general ledger was complete with the required journal entries.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate.

Follow-up on Prior Years' Findings

In accordance with Government Auditing Standards we have included a review of prior year findings. The previous year's audit findings have been corrected.

Acknowledgment

We received the complete cooperation of all the staff of the District and we greatly appreciate the courtesies extended to the members of the audit team.

During our audit, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole.

Should you have any questions, please contact us.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

June 28, 2017
Toms River, New Jersey