

**FIRE DISTRICT NO. 1
OF THE TOWNSHIP OF OCEAN**

Financial Statements

For the year ended December 31, 2016

(With Independent Auditor's Report thereon)

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Financial Statements
For the year ended December 31, 2016
(With Independent Auditor's Report thereon)

CONTENTS

	<u>Page</u>
Independent Auditor's 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 Discussion and Analysis	6-15
District Wide Statement of Net Position	16
District Wide Statement of Activities	17
Governmental Funds Balance Sheet	18
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	19-20
Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	21
Notes to Financial Statements	22-44
Required Supplementary Information:	
Budgetary Comparison Schedules	45-46
Schedule of the District's Proportionate Share of the Net Pension Liability – PERS	47
Schedule of District Contributions – PERS	48
Notes to the Required Supplementary Information	49
Supplementary Information:	
Long-Term Debt Schedule of Obligations under Capital Leases	50
General Comments and Recommendations	51-52



HOLMAN | FRENIA
ALLISON, P.C.

Certified Public Accountants & Consultants

680 Hooper Avenue, Bldg B, Suite 201, Toms River, NJ 08753 • Tel: 732.797.1333

618 Stokes Road, Medford, NJ 08055 • Tel: 609.953.0612

912 Highway 33, Suite 2, Freehold, NJ 07728 • Tel: 732.409.0800

6 E. Park Street, P.O. Box 614, Bordentown, NJ 08505 • Tel: 609.298.8639

194 East Bergen Place, Red Bank, NJ 07701 • Tel: 732.747.0010

795 Canton Street, Troy, PA 16947 • Tel: 570.297.5090

926 Main Street, Suite 103, Rome, PA 18837 • Tel: 570.297.5090

www.hfacpas.com

INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Fire District No. 1 of the Township of Ocean
Township of Ocean, State of New Jersey:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fire District No. 1 of the Township of Ocean, County of Monmouth, State of New Jersey, as of and for the fiscal 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Fire District No. 1 of the Township of Ocean, County of Monmouth, State of New Jersey, as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability – PERS, and the schedule of District contributions – PERS, 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 obligations under capital leases is the responsibility of management and was 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 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 is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2017 on our consideration of the Fire District No. 1 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.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 18, 2017
Toms River, New Jersey

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. 1 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 Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities and the aggregate discretely presented component unit of the District 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 and have issued our report thereon dated April 18, 2017.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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. 1 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* 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 as finding number 2016-001.

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

April 18, 2017
Toms River, New Jersey

**OCEAN TOWNSHIP FIRE DISTRICT NO. 1
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

As management of Ocean Township Fire District No. 1, we offer readers of the Ocean Fire District No. 1 financial statements this narrative overview and analysis of the financial activities of the Ocean Township Fire District No. 1 for the year ended December 31, 2016. The intent of this narrative is to look at Ocean Township Fire District No. 1's overall financial performance in terms easily understood by the lay person. Please read this in conjunction with the District's financial statements which begin on page 16. Notes to the financial statements will provide the reader with additional useful information and they begin on page 22.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at December 31, 2016 by approximately \$2.81 million. In 2015 the excess was approximately \$2.97 million. This is a decrease of approximately \$157,700.
- During 2016 Ocean Township Fire District No. 1 operated at a deficit of approximately \$157,700. The surplus in 2015 was approximately \$728,900. This is a decrease of approximately \$886,600.
- The Board increased their liabilities in 2016 by approximately \$222,600.
- The Board increased their cash position by approximately \$251,700.
- The Board decreased their investments by approximately \$146,700.
- The Board's component unit experienced a profit of approximately \$254,500.
- The District budgeted to forgive the debt owed by the component unit in the amount of \$138,216 (see Note 12).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. Ocean Township Fire District No. 1'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. 1. 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. 1 has two basic functions: activities that are supported by property taxes; and activities supported by other governmental activities. Ocean Township Fire District No. 1 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. 1 uses fund accounting to document compliance with finance-related legal matters. Ocean Township Fire District No. 1 has two types of fund groups, governmental funds and fiduciary funds.

Governmental Funds

Ocean Township Fire District No. 1'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. 1 maintains three separate government funds, the general fund, the special revenue 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, special revenue 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. 1 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 no fiduciary fund in the District.

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

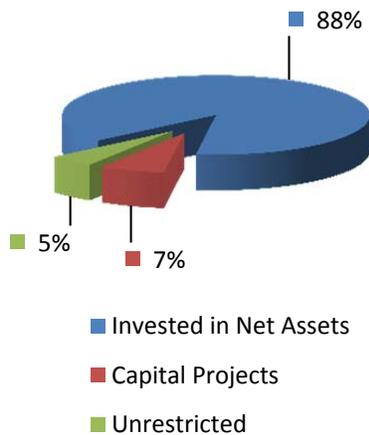
Ocean Township Fire District No. 1's net position is a useful indicator of the District's financial condition. At the end of 2016 the District's assets exceeded the liabilities by approximately \$2.81 million. The largest portion of Ocean Township Fire District No. 1's net position (88.2%) is its investment 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. 1'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 \$355,925 of long term debt. The District increased its cash position by approximately \$251,700, total liabilities increased by approximately \$222,600.

Statement of Net Position

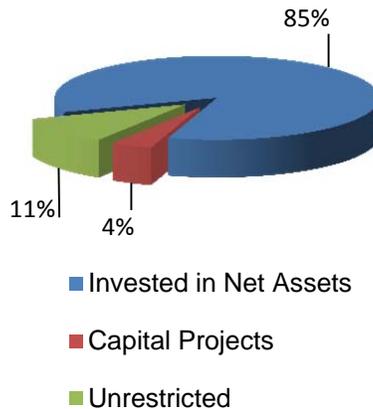
OCEAN TOWNSHIP FIRE DISTRICT NO. 1
NET POSITION
DECEMBER 31, 2016

	2016	2015	\$ Increase (Decrease)	% Increase (Decrease)
Current and Other Assets	\$1,924,313	\$1,691,692	+232,621	+13.8%
Capital Assets	<u>2,950,458</u>	<u>3,118,243</u>	(167,785)	(5.4%)
Total Assets	4,874,771	4,809,935	+64,836	+1.3%
Total Liabilities	<u>(2,063,934)</u>	<u>(1,841,356)</u>	+222,578	+12.1%
Net Position	<u>\$2,810,837</u>	<u>\$2,968,579</u>	(157,742)	(5.3%)
Analysis of Net Position				
Invested in Capital Assets Net of Related Debt	\$2,479,990	\$2,535,222	(55,232)	(2.2%)
Restricted for Capital Projects	193,214	121,934	+71,280	+58.5%
Unrestricted	<u>137,633</u>	<u>311,423</u>	(173,790)	(55.8%)
Total Net Position	<u>\$2,810,837</u>	<u>\$2,968,579</u>	(157,742)	(5.3%)

2016 Net Position



2015 Net Position



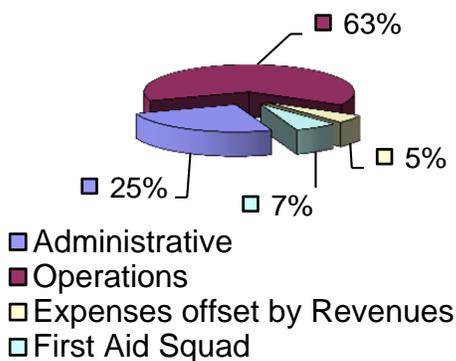
The net position of Ocean Township Fire District No. 1 decreased approximately \$157,700 during the 2016 period. The decrease was due to primarily to the District forgiving the debt owed by the component unit of \$138,200. Other major changes in net position at December 31, 2016 were an approximate \$167,800 decrease in capital assets, an increase in liabilities of approximately \$222,600, an approximate \$251,700 increase in cash funds, and a decrease in investments of approximately \$146,700.

Governmental Activities

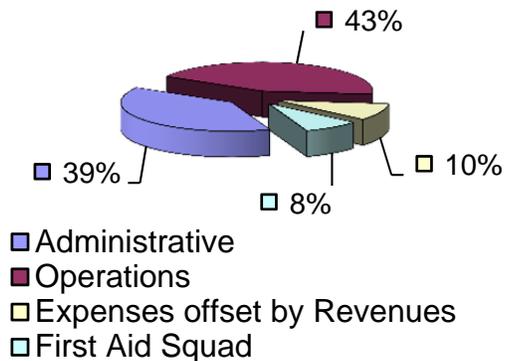
The Statement of Activities shows the cost of the governmental activities program services and the charges for services and grants offsetting these costs. A summary of these activities follows:

	2016	2015	\$ Increase (Decrease)	% Increase (Decrease)
Expenses				
Program Expenses				
Administrative Expenses	\$ 515,898	\$ 411,546	+104,352	+25.4%
Cost of Operations & Maintenance	1,298,273	455,544	+842,729	+185.0%
Operating Appropriations Offset With Revenues	98,960	99,957	(997)	(0.1%)
Appropriations for First Aid Squad	<u>135,041</u>	<u>86,321</u>	+48,720	+56.4%
Total Program Expenses	2,048,172	1,053,368	+994,804	+94.4%

2016 Program Expenses

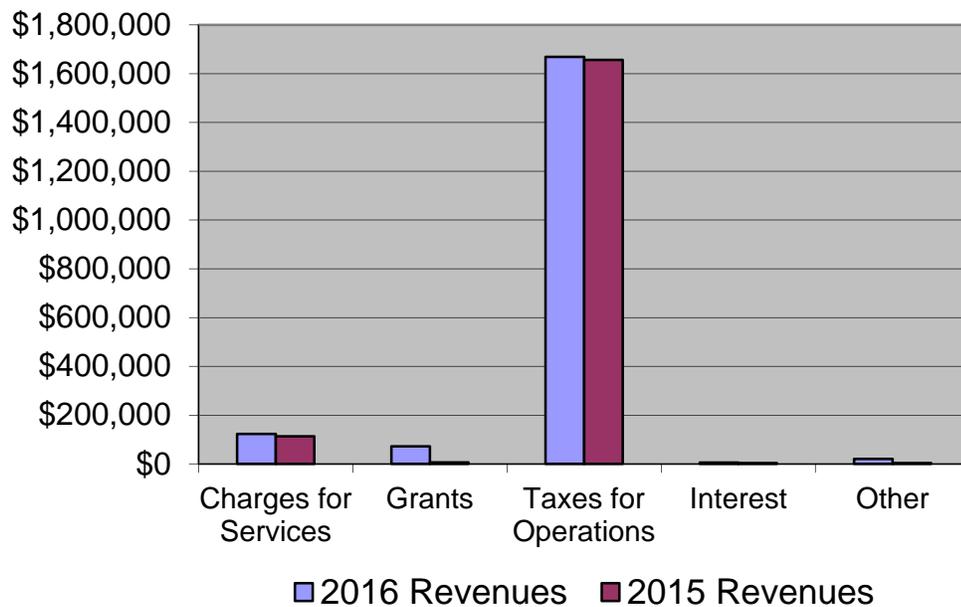


2015 Program Expenses



	2016	2015	\$ Increase (Decrease)	% Increase (Decrease)
Program Revenues				
Charges for Services	122,993	112,775	+10,218	+9.1%
Operating Grants & Contributions	<u>72,266</u>	<u>6,101</u>	+66,165	+1084.5%
Net Program Expenses	<u>1,852,913</u>	<u>934,492</u>	+918,421	+98.3%
General Revenues				
Property Taxes Levied	1,669,021	1,656,694	+12,327	+0.7%
Unrestricted Investment Earnings	5,461	3,310	+2,151	+65.0%
Miscellaneous Income	<u>20,689</u>	<u>3,371</u>	+17,318	+513.7%
Total General Revenues	<u>1,695,171</u>	<u>1,663,375</u>	+31,796	+1.9%
Increase (Decrease) in Net Position	(157,742)	728,883	(886,625)	(121.6%)
Prior Period Adjustment	- 0 -	(938,977)	+938,977	+100.0%
Net Position, January 1	<u>2,968,579</u>	<u>3,178,673</u>	(210,094)	(6.6%)
Net Position, December 31	<u>\$2,810,837</u>	<u>\$2,968,579</u>	(157,742)	(5.3%)

Revenues



Property tax revenue constituted 88% of the total governmental activities revenues received by Ocean Township Fire District No. 1 in 2016. In 2015 the property tax revenue constituted 93% of total revenues.

The Cost of Operations & Maintenance was 75% and 61% of the District's total expenses in 2016 and 2015 respectively. Administration expenses equaled 25% of the total expenses in 2016 and 39% in 2015.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Ocean Township Fire District No. 1 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. 1 was approximately \$1,082,500. This balance is approximately \$251,700 higher than last year's combined governmental funds balance. The increase is due primarily to transferring approximately \$146,700 from an investment account.

The combined balance of the governmental funds of Ocean Township Fire District No. 1 was approximately \$1,372,900. Unassigned fund balance amounted to approximately \$779,600 of that total. General funds have been designated for utilization in the 2016 budget in the amount of \$400,000.

The general fund is the main operating fund of Ocean Township Fire District No. 1. At the end of 2016, the total fund balance of the general fund was approximately \$1,179,600. Of this balance, approximately \$779,600 was unassigned.

During 2016, the general fund balance of Ocean Township Fire District No. 1 decreased by approximately \$104,700. The primary reasons for this decrease are as follows:

- The Board had appropriations in excess of revenues in the amount of approximately \$157,700.

At the end of 2016, the District had a capital projects fund balance of approximately \$193,200. This balance increased from 2015 by approximately \$71,300. The major changes in this fund balance were:

- Total capital expenditures of \$28,700.
- Amount raised from taxation of approximately \$100,000.

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 7% of the operating revenues.

The 2016 Budget as submitted to the voters reflected utilization of \$531,500 of accumulated surplus from the General Fund. The Board utilized approximately \$33,400 of the General Funds. Unused surplus is available for future budget periods as undesignated surplus in the General Fund.

The District had total budgeted revenues in excess of actual revenues of approximately \$30,300 in 2016. The Board expects to have a minor excess in 2017.

Overall, the District spent approximately \$460,100 less for operations than originally anticipated in the budget for 2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016 Ocean Township Fire District No. 1 had invested in capital assets for government activities approximately \$2,950,500 (net of accumulated depreciation). Capital assets consist of firehouse improvements, fire apparatus, fire equipment, and office equipment. They purchased approximately \$154,300 of equipment in 2016, and removed approximately \$173,000 in equipment from service.

OCEAN TOWNSHIP FIRE DISTRICT NO. 1
 CAPITAL ASSETS
 (NET OF ACCUMULATED DEPRECIATION)
 DECEMBER 31, 2016

	2016	2015	Change
Firehouse & Land	\$2,811,596	\$2,764,269	+47,327
Vehicles & Apparatus	2,891,393	3,035,381	(143,988)
Firematic Equipment	969,849	891,853	+77,996
Office Furnishings	<u>47,530</u>	<u>47,530</u>	- 0 -
 Total Capital Assets	 6,720,368	 6,739,033	 (18,665)
 Accumulated Depreciation	 (3,769,910)	 (3,623,790)	 +146,120
 Construction in Progress	 <u>- 0 -</u>	 <u>3,000</u>	 (3,000)
 Capital Assets – net	 <u>\$2,950,458</u>	 <u>\$3,118,243</u>	 (167,785)

Additional information on Ocean Township Fire District No. 1's capital assets can be found in Note 5 in the notes to the financial statements.

Long-Term Obligations

Ocean Township Fire District No. 1 entered into a lease purchase in 2014 to purchase fire apparatus for \$842,974. The lease is for seven years. A first payment was made in 2014.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

In 2016, Ocean Township Fire District No. 1 was able to cover all its appropriations through the fire tax levy and other revenues. In 2016 the fire tax levy amounted to 88% of total revenue collected.

Ocean Township Fire District No. 1 adopted their 2017 budget on December 5, 2016. The voters subsequently approved the budget at the February election. The 2017 budget reflects an increase in the tax levy of \$938. 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 \$148 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. 1'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 Craig Flannigan, Ocean Township Fire District No. 1, 72 Larkin Place, Oakhurst, New Jersey, 07755. Separately issued financial statements for the component unit, Oakhurst E.M.S., Inc. are also available at the above stated location.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Statement of Net Position
December 31, 2016

	<u>Primary Government</u> <u>Governmental Activities</u>	<u>Component</u> <u>Unit</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,082,477	\$ 22,101
Investments	353,251	-
Due from others	5,904	206,646
Prepaid expenses	28,916	-
Total current assets	<u>1,470,548</u>	<u>228,747</u>
Capital assets (net of depreciation)	<u>2,950,458</u>	<u>159</u>
Total assets	<u>4,421,006</u>	<u>228,906</u>
Deferred outflow of resources:		
Deferred outflows related to pensions	<u>453,765</u>	<u>-</u>
Total deferred outflow of resources	<u>453,765</u>	<u>-</u>
Total assets and deferred outflow of resources	<u>\$ 4,874,771</u>	<u>\$ 228,906</u>
Liabilities:		
Current liabilities:		
Accounts payable	\$ 54,366	7,952
Accrued interest	4,506	-
Accrued expenses	14,403	6,000
Compensated absences	3,420	-
Capital lease payable	114,543	-
Total current liabilities	<u>191,238</u>	<u>13,952</u>
Non-current liabilities:		
Capital lease payable	355,925	-
Compensated absences	10,220	-
Net pension liability	1,506,551	-
Total non-current liabilities	<u>1,872,696</u>	<u>-</u>
Total liabilities	<u>2,063,934</u>	<u>13,952</u>
Net position:		
Net investments in capital assets	2,479,990	159
Restricted:		
Capital	193,214	-
Unrestricted:		
Undesignated	<u>137,633</u>	<u>214,795</u>
Total net position	<u>2,810,837</u>	<u>214,954</u>
Total liabilities and net position	<u>\$ 4,874,771</u>	<u>\$ 228,906</u>

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Statement of Activities
For the year ended December 31, 2016

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Governmental Activities Total</u>	
Government activities:				
Operation appropriations:				
Administration	\$ 515,898	\$ -	\$ 515,898	\$ 32,109
Costs of operations and maintenance	1,298,273	122,993	1,175,280	311,676
Operating appropriations offset with revenues	98,960	-	98,960	-
Appropriations for first aid squad	135,041	-	135,041	-
	<u>2,048,172</u>	<u>122,993</u>	<u>1,925,179</u>	<u>343,785</u>
Total government activities				
General revenues:				
Miscellaneous revenue			26,150	598,276
Operating grant revenues			72,266	-
Amount raised by taxation			1,669,021	-
			<u>1,767,437</u>	<u>598,276</u>
Total general revenues				
Excess of revenues over expenditures			(157,742)	254,491
Net position, January 1,			<u>2,968,579</u>	<u>(39,537)</u>
Net position, December 31			<u>\$ 2,810,837</u>	<u>\$ 214,954</u>

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Governmental Funds
Balance Sheet
December 31, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Assets:				
Current assets:				
Cash and cash equivalents	\$ 1,082,477	\$ -	\$ -	\$ 1,082,477
Investments	353,251	-	-	353,251
Due from others	5,904	193,214	-	199,118
Total assets	<u>1,441,632</u>	<u>193,214</u>	<u>-</u>	<u>1,634,846</u>
Liabilities, equity and other credits:				
Accounts payable	54,366	-	-	54,366
Accrued expenses	14,403	-	-	14,403
Other payable	193,214	-	-	193,214
Total liabilities	<u>261,983</u>	<u>-</u>	<u>-</u>	<u>261,983</u>
Fund balances:				
Restricted for:				
Capital	-	193,214	-	193,214
Assigned for:				
For subsequent year's expenditures	400,000	-	-	400,000
Unassigned, reported in:				
General fund	779,649	-	-	779,649
Total fund balance	<u>1,179,649</u>	<u>193,214</u>	<u>-</u>	<u>1,372,863</u>
Total liabilities and fund balance	<u>\$ 1,441,632</u>	<u>\$ 193,214</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.	28,916
Accrued interest and PERS pension payable are not recorded in the fund financial statements.	(4,506)
Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds.	453,765
Long-term liabilities are not due and payable in the current period and are therefore not reported as liabilities in the funds.	(1,990,659)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$6,720,368 and the accumulated depreciation is \$3,769,910.	<u>2,950,458</u>
Net position of governmental activities	<u>\$ 2,810,837</u>

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Totals
Revenues:				
Miscellaneous anticipated revenue:				
Sale of assets	\$ 4,000	\$ -	\$ -	\$ 4,000
Investment income	5,461	-	-	5,461
Other revenue	832	-	-	832
Total miscellaneous revenues	10,293	-	-	10,293
Operating grant revenues:				
Supplemental fire service act	6,101	-	-	6,101
Other grants and entitlements	66,165	-	-	66,165
Total operating grant revenue	72,266	-	-	72,266
Miscellaneous revenues offset with appropriations:				
Uniform fire safety act revenues:				
Annual registration fee	30,844	-	-	30,844
Penalties and fines	42,883	-	-	42,883
Other revenues	49,266	-	-	49,266
Total uniform fire safety act revenues	122,993	-	-	122,993
Total miscellaneous revenues offset with appropriations	122,993	-	-	122,993
Total revenues	205,552	-	-	205,552
Amount raised by taxation to support district budget	1,446,160	100,000	122,861	1,669,021
Total anticipated revenues	1,651,712	100,000	122,861	1,874,573
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	275,159	-	-	275,159
Fringe benefits	171,641	-	-	171,641
Other expenditures:				
Elections	1,016	-	-	1,016
Memberships and subscriptions	5,714	-	-	5,714
Office expenses	11,215	-	-	11,215
Professional fees	41,234	-	-	41,234
Travel expenses	9,205	-	-	9,205
Total administration	515,184	-	-	515,184
Cost of operations and maintenance:				
Salaries and wages	44,387	-	-	44,387
Fringe benefits	118,708	-	-	118,708
Other expenditures:				
Advertising	1,202	-	-	1,202
Insurance	52,350	-	-	52,350
Maintenance and repairs	158,684	-	-	158,684
Professional fees - district doctor	2,280	-	-	2,280
Rental charges	179,137	-	-	179,137
Operating materials and supplies	19,684	-	-	19,684
Training and education	7,689	-	-	7,689
Travel expenses	9,176	-	-	9,176
Utilities	59,756	-	-	59,756
Permits, licenses, fees and registrations	110	-	-	110
Outside services	40,443	-	-	40,443
Promotion	4,973	-	-	4,973
Reimbursement for expense/loss	19,266	-	-	19,266
Uniforms	30,074	-	-	30,074
Equipment	114,944	-	-	114,944
Supplemental fire service equipment	6,101	-	-	6,101
Total cost of operations and maintenance	868,964	-	-	868,964

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the year ended December 31, 2016

	General Fund	Capital Projects Fund	Debt Service Fund	Totals
Operating appropriations offset with revenues:				
Salaries and wages	84,352	-	-	84,352
Fringe benefits	8,908	-	-	8,908
Other expenditures	5,700	-	-	5,700
Total operating appropriations offset with revenues	98,960	-	-	98,960
Appropriations for first aid squad	135,041	-	-	135,041
Total operating appropriations	1,618,149	-	-	1,618,149
Capital expenditures:				
Engine room floor improvements	-	28,720	-	28,720
Total capital expenditures	-	28,720	-	28,720
Debt service for capital appropriations:				
Capital leases	-	-	112,553	112,553
Interest on capital leases	-	-	10,308	10,308
Total debt service for capital appropriations	-	-	122,861	122,861
Total governmental expenditures	1,618,149	28,720	122,861	1,769,730
Other financing sources and uses:				
Relief of Oakhurst EMS receivables	(138,216)	-	-	(138,216)
Total other financing sources and uses	(138,216)	-	-	(138,216)
Excess of revenues over expenditures	(104,653)	71,280	-	(33,373)
Fund balance, January 1	1,284,302	121,934	-	1,406,236
Fund balance, December 31	\$ 1,179,649	\$ 193,214	\$ -	\$ 1,372,863

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

FIRE DISTRICT NO. 1 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

		<u>General Fund</u>
Total net changes in Fund Balance-Governmental Funds (B-2)	\$	(33,373)
<p>Amounts reported for governmental activities in the statement of activities (A-2) are different because:</p>		
<p>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.</p>		
Capital Outlays - General Fund	106,711	
Capital Outlays - Capital Projects Fund	28,720	
Donated capital asset	15,857	
Depreciation expense	<u>(319,073)</u>	
		(167,785)
<p>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 pensions, is reported in the Statement of Activities.</p>		
Pension expense	<u>(70,091)</u>	
		(70,091)
<p>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.</p>		
Prior year	(28,325)	
Current year	<u>28,916</u>	
		591
<p>Accrual of interest on capital leases is not an expenditure in the governmental funds, but the adjustment is charged to expense and is reported in the statement of activities.</p>		
Prior year	5,583	
Current year	<u>(4,506)</u>	
		1,077
<p>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.</p>		
		112,553
<p>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. This year, the increase in sick leave paid was \$714.</p>		
		<u>(714)</u>
Changes in net position of governmental activities	\$	<u>(157,742)</u>

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

FIRE DISTRICT NO. 1 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. 1 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 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.

The primary criterion for including activities within the District’s reporting entity, as set forth in Section 2100 of the *GASB Codification of Governmental Accounting and Financial Reporting Standards*, is whether:

- ◆ the organization is legally separate (can sue or be sued in their own name);
- ◆ the District holds the corporate powers of the organization;
- ◆ the District appoints a voting majority of the organization’s board
- ◆ the District is able to impose its will on the organization;
- ◆ the organization has the potential to impose a financial benefit/burden on the District
- ◆ there is a fiscal dependency by the organization on the District.

According to the criteria as described above, there is one additional entity required to be included in the reporting entity. See Note 12. The District is not includable in any other reporting entity on the basis of such criteria.

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>
Scott A. Nelson	2017
Stuart A. Newman	2018
John Morrow	2018
Thomas C. Reu	2019
Russell E. Williams	2019

C. Accounting Records

The official accounting records of the Fire District are maintained in the office of Fire District No. 1 of the Township of Ocean.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 1: GENERAL INFORMATION (continued)

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 No. 61, The Financial Reporting Entity: Omnis - an amendment of GASB Statements No. 14 and No. 34. The District had one component unit as of and for the year ended December 31, 2016. See Note 12.

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 2 O) 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

FIRE DISTRICT NO. 1 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)

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.”

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) report information of all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these district-wide statements. District activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. 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.

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

FIRE DISTRICT NO. 1 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)

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.

Separate financial statements are provided for governmental funds, proprietary funds, fiduciary funds and similar component units, and major component units. However, the fiduciary funds are not included in the district-wide statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund 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.

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. 1 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) and its predecessor organizations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The Fire District No. 1 of the Township of Ocean's proprietary funds have elected not to apply the standards issued by FASB after November 30, 1989.

FIRE DISTRICT NO. 1 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)

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 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. There were no encumbrances at December 31, 2016.

G. Cash, Cash Equivalents and Investments

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. 1 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, Cash Equivalents and Investments (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. Inventories and Prepaid Expenses

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

I. Debt Limitation

N.J.S.A.40A:14-85 governs procedures for the issuance of any debt related to capital purchases. In summary, Fire Districts may purchase fire fighting apparatus and equipment and land and buildings to house such property in an amount not exceeding 5 mills on the dollar of the last assessed valuation 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 (with no depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

Building and Improvements	5 to 40 Years
Machinery & Equipment	5 to 10 Years
Vehicles	5 to 20 Years
Office Furniture and equipment	5 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.

FIRE DISTRICT NO. 1 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)

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.

M. Compensated Absences

Fire District employees are entitled to sick leave. Unused sick leave may be accumulated up to a maximum of 720 hours and may be carried forward to subsequent years. Upon termination of employment for any reason, an employee shall be paid for accrued, unused sick time, up to 240 hours. Benefits paid in any future year will be calculated according to formulas outlined in the Fire District's agreement with the employee's union 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 unmatured 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. Fund Equity

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fire District No. 1 of the Township of Ocean classifies governmental fund balances as follows:

FIRE DISTRICT NO. 1 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 (continued)

- 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. Deferred Inflows/Outflows 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. 1 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. 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.

T. 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.

For the year ended December 31, 2016, 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.

FIRE DISTRICT NO. 1 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)

T. Impact of Recently Issued Accounting Principles (continued)

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.

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

FIRE DISTRICT NO. 1 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)

T. Impact of Recently Issued Accounting Principles (continued)

June 30, 2018. Management has not yet determined the potential impact on the District's financial statements.

U. Fair Value Measurement

The District categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the District has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level II – Inputs that include quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values. Subsequent to initial recognition, the District may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The following methods and assumptions were used by the District in estimating the fair value of its financial instruments:

Certificate of Deposit: Valued at the net asset value (NAV) at year end when the NAV is valued at \$1 per unit.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The table in Note 4 sets forth by level, within the fair value hierarchy, the District's assets at fair value as of December 31, 2016.

FIRE DISTRICT NO. 1 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)

V. Subsequent Events

Fire District No. 1 of the Township of Ocean has evaluated subsequent events occurring after December 31, 2016 through the date of April 18, 2017, which is the date the financial statements were available to be issued.

NOTE 3: CASH AND CASH EQUIVALENTS

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	\$ 1,082,477
Total deposits	<u>\$ 1,082,477</u>

Reconciliation to Governmental Fund Statements:

Governmental Funds	\$ 1,082,477
Total	<u>\$ 1,082,477</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 \$1,100,571 was insured or collateralized as follows:

Insured	\$ 318,454
Collateralized in the District's name under GUDPA	<u>782,117</u>
Total	<u>\$ 1,100,571</u>

NOTE 4: INVESTMENTS

A. Custodial Credit Risk

For an investment, custodial credit risk is a risk that, in the event of the failure of the counterparty, the Fire District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fire District, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fire District's name. All of the District's investments are held in the name of the District and are collateralized by GUDPA.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 4: INVESTMENTS (continued)

B. Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates that will adversely affect the fair value of an investment. The Fire District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investments held at December 31, 2016, are provided in the below schedule.

C. Investment Credit Risk

The Fire District has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Fire District or bonds or other obligations of the local unit or units within which the Fire District is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Fire District;
- Local Government investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities.

The following table sets forth by level, within the value hierarchy, the District's assets at fair value at December 31, 2016.

	<i>Assets at Fair Value as of December 31, 2016</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
General Fund:				
Certificates of Deposit	\$ 353,251	\$ -	\$ -	\$ 353,251
Total assets at fair value	\$ 353,251	\$ -	\$ -	\$353,251

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 5: FIXED ASSETS

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 firefighting 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.

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

Governmental Activities:	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Capital assets that are not being depreciated:				
Land	\$ 108,249	\$ -	\$ -	\$ 108,249
Construction in progress	3,000	5,100	(8,100)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total capital assets not being depreciated	111,249	5,100	(8,100)	108,249
	<hr/>	<hr/>	<hr/>	<hr/>
Building and improvements	2,656,020	47,327	-	2,703,347
Machinery and equipment	891,853	91,104	(13,108)	969,849
Office furniture and equipment	47,530	-	-	47,530
Vehicles	3,035,381	15,857	(159,845)	2,891,393
	<hr/>	<hr/>	<hr/>	<hr/>
Totals at historical cost	6,742,033	159,388	(181,053)	6,720,368
	<hr/>	<hr/>	<hr/>	<hr/>
Less accumulated depreciation:				
Building and improvements	(1,382,566)	(86,354)	-	(1,468,920)
Machinery and equipment	(653,401)	(86,374)	13,108	(726,667)
Office furniture and equipment	(45,551)	(1,978)	-	(47,529)
Vehicles	(1,542,272)	(144,367)	159,845	(1,526,794)
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	(3,623,790)	(319,073)	172,953	(3,769,910)
	<hr/>	<hr/>	<hr/>	<hr/>
Governmental-type activities capital assets, net	<u>\$ 3,118,243</u>	<u>\$ (159,685)</u>	<u>\$ (8,100)</u>	<u>\$ 2,950,458</u>

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 6: LONG-TERM DEBT

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

	<u>Balance</u> <u>12/31/15</u>	<u>Accrued/</u> <u>increases</u>	<u>Retired/</u> <u>decreases</u>	<u>Balance</u> <u>12/31/16</u>	<u>Due within</u> <u>one year</u>
Capital lease payable	\$ 583,021	\$ -	\$ 112,553	\$ 470,468	\$ 114,543
Net pension liability	1,112,201	394,350	-	1,506,551	-
Compensated absences	<u>12,926</u>	<u>714</u>	<u>-</u>	<u>13,640</u>	<u>3,420</u>
Total	<u>\$ 1,708,148</u>	<u>\$ 395,064</u>	<u>\$ 112,553</u>	<u>\$ 1,990,659</u>	<u>\$ 117,963</u>

Capital Lease Payable

On May 20, 2014, the District entered into a lease purchase agreement in the amount of \$842,974 and an interest rate of 1.768% to finance the purchase of a Quint fire truck. The outstanding principal and interest is due as follows:

<u>Year-ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 114,543	\$ 8,318	\$ 122,861
2018	116,569	6,292	122,861
2019	118,629	4,232	122,861
2020	<u>120,727</u>	<u>2,133</u>	<u>122,860</u>
Total	<u>\$ 470,468</u>	<u>\$ 20,975</u>	<u>\$ 491,443</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	\$13,640

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: 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. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: 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 \$256,837 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 .00509%, which was an increase of .00014% 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	\$ 453,765	\$ 189,984
Deferred Inflows of Resources	\$ -	\$ 17,882
Net Pension Liability	\$ 1,506,551	\$ 1,112,201
 District's portion of the Plan's total net pension Liability	 0.00509%	 0.00495%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the District recognized pension expense of \$112,687. 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. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: 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	\$ 28,017	\$ -
Changes of Assumptions	312,077	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	57,446	-
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	56,225	-
	\$ 453,765	\$ -

The \$453,765 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>PERS</u>
<u>Dec 31,</u>	
2017	\$ 102,939
2018	102,941
2019	115,988
2020	97,396
2021	34,501
	\$ 453,765

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION (continued)

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

	PERS	
	Deferred Outflow of <u>Resources</u>	Deferred Inflow of <u>Resources</u>
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 District 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. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: 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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION (continued)

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

expected future real rates of return by the target asset allocation percentage and by adding expected 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>100.00%</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. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: 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:

	PERS		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
District's Proportionate Share of the Net Pension Liability	\$ 1,846,102	\$ 1,506,551	\$ 1,226,222

NOTE 9: INTERFUND RECEIVABLE/PAYABLE

As of December 31, 2016, the following inter-fund balances remained on the balance sheet:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ -	\$ 193,214
Capital Projects	193,214	-
Total	\$ 193,214	\$ 193,214

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

NOTE 10: FUNDING

The activities of the Board of Commissioners are primarily funded by the striking of the fire 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. 1 was approximately \$.059 per \$100 of assessed valuation. The tax revenue is supplemented by income earned on surplus funds invested in a money market fund and investments during the year. The District also participates in the Supplemental Fire Services Program and received a basic entitlement grant of approximately \$6,101. As a condition of this grant, the Board must match the grant by 10%.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 11: FUND BALANCE

General Fund – Of the \$1,179,649 General Fund fund balance at December 31, 2016, \$400,000 has been assigned to be designated for subsequent year’s expenditures; and \$779,649 is unassigned.

Capital Fund – Of the \$193,214 Capital Fund fund balance at December 31, 2016, \$193,214 has been restricted for the Capital Projects Fund.

NOTE 12: COMPONENT UNIT

On October 21, 2011, Oakhurst E.M.S., Inc., a 501(c)3 corporation was formed. Oakhurst E.M.S., Inc. began operations on August 1, 2012. Paid EMS technicians respond to calls for assistance for twelve hours per day (6 am - 6 pm) and volunteers respond to calls for the remaining twelve hours (6 pm - 6 am). Billings for services are sent to the recipients of assistance only when the paid EMS technicians respond. Ambulances, equipment and the building are shared by the paid technicians and the volunteers. At December 31, 2015, the District has an amount due from Oakhurst E.M.S., Inc. in the amount of \$138,216. During the year ended December 31, 2016, the District budgeted to forgive Oakhurst E.M.S. of the \$138,216 debt to the District.

The five (5) Commissioners of the District are the 5 members of the Board of Trustees of Oakhurst E.M.S., Inc. Because the board members are the same on both boards, Oakhurst E.M.S., Inc. is considered a component unit of the District and is discretely presented in the District’s financial statements. Detailed financial statements for Oakhurst E.M.S., Inc. are available from the administrative office located at 72 Larkin Place, Oakhurst, New Jersey, 07755.

FIRE DISTRICT NO. 1 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:				
Sale of assets	\$ -	\$ -	\$ 4,000	\$ 4,000
Investment income	1,500	1,500	5,461	3,961
Other revenue	1,000	1,000	832	(168)
Total miscellaneous revenues	<u>2,500</u>	<u>2,500</u>	<u>10,293</u>	<u>7,793</u>
Operating grant revenues:				
Supplemental fire service act	6,101	6,101	6,101	-
Other grants and entitlements	-	66,165	66,165	-
Total operating grant revenue	<u>6,101</u>	<u>72,266</u>	<u>72,266</u>	<u>-</u>
Miscellaneous revenues offset with appropriations:				
Uniform fire safety act revenues:				
Annual registration fee	66,960	66,960	30,844	(36,116)
Penalties and fines	100	100	42,883	42,783
Other revenues	33,400	33,400	49,266	15,866
Total uniform fire safety act revenues	<u>100,460</u>	<u>100,460</u>	<u>122,993</u>	<u>22,533</u>
Total miscellaneous revenues offset with appropriations	<u>100,460</u>	<u>100,460</u>	<u>122,993</u>	<u>22,533</u>
Total revenues	<u>109,061</u>	<u>175,226</u>	<u>205,552</u>	<u>30,326</u>
Amount raised by taxation to support district budget				
	<u>1,669,021</u>	<u>1,669,021</u>	<u>1,669,021</u>	<u>-</u>
Total anticipated revenues	<u>1,778,082</u>	<u>1,844,247</u>	<u>1,874,573</u>	<u>30,326</u>
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	263,388	281,588	275,159	6,429
Fringe benefits	134,661	171,661	171,641	20
Other expenditures:				
Elections	1,900	1,900	1,016	884
Memberships and subscriptions	7,750	7,750	5,714	2,036
Office expenses	22,000	22,000	11,215	10,785
Professional fees	66,000	73,000	41,234	31,766
Travel expenses	16,000	16,000	9,205	6,795
Total administration	<u>511,699</u>	<u>573,899</u>	<u>515,184</u>	<u>58,715</u>

FIRE DISTRICT NO. 1 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>
Cost of operations and maintenance:				
Salaries and wages	60,000	60,000	44,387	15,613
Fringe benefits	186,745	186,745	118,708	68,037
Other expenditures:				
Advertising	3,000	3,000	1,202	1,798
Insurance	55,000	55,000	52,350	2,650
Maintenance and repairs	283,500	293,362	158,684	134,678
Professional fees - district doctor	3,500	3,500	2,280	1,220
Rental charges	185,000	185,000	179,137	5,863
Operating materials and supplies	40,000	40,000	19,684	20,316
Training and education	15,500	15,500	7,689	7,811
Travel expenses	15,000	15,000	9,176	5,824
Utilities	68,500	68,500	59,756	8,744
Permits, licenses, fees and registrations	1,000	1,000	110	890
Outside services	53,000	53,000	40,443	12,557
Promotion	7,500	7,500	4,973	2,527
Reimbursement for expense/loss	24,000	24,000	19,266	4,734
Uniforms	34,000	41,836	30,074	11,762
Equipment	123,000	171,471	114,944	56,527
Supplemental fire service equipment	6,101	6,101	6,101	-
Total cost of operations and maintenance	<u>1,164,346</u>	<u>1,230,515</u>	<u>868,964</u>	<u>361,551</u>
Operating appropriations offset with revenues:				
Salaries and wages	84,807	84,807	84,352	455
Fringe benefits	9,953	9,953	8,908	1,045
Other expenditures	5,700	5,700	5,700	-
Total operating appropriations offset with revenues	<u>100,460</u>	<u>100,460</u>	<u>98,960</u>	<u>1,500</u>
Appropriations for first aid squad	<u>172,000</u>	<u>173,360</u>	<u>135,041</u>	<u>38,319</u>
Capital appropriations	<u>100,000</u>	<u>128,720</u>	<u>28,720</u>	<u>100,000</u>
Debt service for capital appropriations:				
Capital leases	112,553	112,553	112,553	-
Interest on capital leases	10,308	10,308	10,308	-
Total debt service for capital appropriations	<u>122,861</u>	<u>122,861</u>	<u>122,861</u>	<u>-</u>
Total appropriations	<u>2,171,366</u>	<u>2,329,815</u>	<u>1,769,730</u>	<u>560,085</u>
Other financing sources and uses:				
Relief of Oakhurst EMS receivables	(138,216)	(138,216)	(138,216)	-
Total other financing sources and uses	<u>(138,216)</u>	<u>(138,216)</u>	<u>(138,216)</u>	<u>-</u>
Excess (efficiency) of revenues over (under) expenditures	(531,500)	(623,784)	(33,373)	590,411
Fund balance, January 1	<u>1,406,236</u>	<u>1,406,236</u>	<u>1,406,236</u>	<u>-</u>
Fund balance, December 31	<u>\$ 874,736</u>	<u>\$ 782,452</u>	<u>\$ 1,372,863</u>	<u>\$ 590,411</u>

FIRE DISTRICT NO. 1 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)	0.00509%	0.00495%	0.00468%	0.00468%
District's proportionate share of the net pension liability (asset)	\$ 1,506,551	\$ 1,112,201	\$ 875,900	\$ 893,938
District's covered-employee payroll	\$ 357,995	\$ 348,395	\$ 339,208	\$ 324,384
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	420.83%	319.24%	258.22%	275.58%
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%	48.72%

NOTE: 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. 1 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	\$ 45,190	\$ 42,596	\$ 38,567	\$ 39,243
Contributions in relation to the contractually required contribution	<u>45,190</u>	<u>42,596</u>	<u>38,567</u>	<u>39,243</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 357,995	\$ 348,395	\$ 339,208	\$ 324,384
Contributions as a percentage of covered-employee payroll	12.62%	12.23%	11.37%	12.10%

NOTE: 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. 1 OF THE TOWNSHIP OF OCEAN
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

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 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).

EXHIBIT I-1

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF OCEAN
 Long-Term Debt
 Schedule of Obligations Under Capital Leases
 For the year ended December 31, 2016

<u>Description</u>	<u>Date of Lease</u>	<u>Term of Lease</u>	<u>Amount of Original Issue</u>		<u>Interest Payable</u>	<u>Interest Rate</u>	<u>Amount Outstanding January 1, 2016</u>		<u>Amount Outstanding December 31, 2016</u>	
			<u>Principal</u>	<u>Interest</u>			<u>Issued</u>	<u>Retired</u>		
Fire Apparatus	5/20/14	6 years	\$ 842,974	\$ 44,194	1.768%	\$ 583,021	\$ -	\$ 112,553	\$ 470,468	
					Total	\$ 583,021	\$ -	\$ 112,553	\$ 470,468	



Board of Fire Commissioners
Fire District No. 1 of the Township of Ocean
Ocean, New Jersey 07755

We have audited the basic financial statements of the Fire District No. 1 of the Township of Ocean in the 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.

Finding 2016-001:

N.J.S.A. 40A:11-4 states that all contracts that in aggregate, exceed the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids. The District did not advertise for bids on an equipment purchase totaling \$57,490, which was over the bid threshold of \$17,500.

Recommendation:

The District must comply with *N.J.S.A. 40A:11-4*, which requires to publicly advertise for bids for purchases over the bid threshold of \$17,500 and award to the lowest responsible bidder.

Management Response:

The District obtained competitive quotations and awarded the contract to the lowest quoted vendor, but did not advertise for bids. This will be corrected going forward in 2017.

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.

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*).

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.

Examination of Cash Receipts

A test check of cash receipts was made.

Follow-up on Prior Years' Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year findings. There were no findings in the prior year.

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 review, 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

April 18, 2017
Toms River, New Jersey