

**FIRE DISTRICT NO. 3
OF THE TOWNSHIP OF JACKSON**

Financial Statements

For the year ended December 31, 2015

(With Independent Auditor's Report thereon)

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Financial Statements
For the year ended December 31, 2015
(With Independent Auditor's Report thereon)

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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

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. 3 of the Township of Jackson
County of Ocean
Jackson, New Jersey 08527

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of each major fund and the aggregate remaining fund information of the Fire District No. 3 of the Township of Jackson, County of Ocean, State of New Jersey, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Fire District No. 3 of the Township of Jackson, County of Ocean, State of New Jersey, as of December 31, 2015, 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.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, during the year ended December 31, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No.27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion, analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability – PERS, schedule of District contributions – PERS, schedule of the District's proportionate share of the net pension liability – PFRS, schedule of District contributions – PFRS and notes to the required supplementary information, 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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Fire District No. 3 of the Township of Jackson's basic financial statements. The long-term debt schedule of serial bonds payable as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The long-term debt schedule of serial bonds payable is the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting 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 May 06, 2016 on our consideration of the Fire District No. 3 of the Township of Jackson's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fire District No. 3 of the Township of Jackson's internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 06, 2016
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 Commissioners of
Fire District No. 3 of the Township of Jackson

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 of the District as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated May 06, 2016.

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. We did identify certain deficiencies in internal control, described in the accompanying comments and recommendation section as items 2015-001 and 2015-002 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or 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.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Audit 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

May 06, 2016
Toms River, New Jersey

**JACKSON TOWNSHIP FIRE DISTRICT NO. 3
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

As management of Jackson Township Fire District No. 3, we offer readers of the Jackson Fire District No. 3 financial statements this narrative overview and analysis of the financial activities of the Jackson Township Fire District No. 3 for the year ended December 31, 2015. The intent of this narrative is to look at Jackson Township Fire District No. 3's overall financial performance in terms easily understood by the lay person. Please read this in conjunction with the transmittal letters beginning on page 1 and the District's financial statements which begin on page 16. Notes to the financial statements will provide the reader with additional useful information and they begin on page 24.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at December 31, 2015 by approximately \$2.4 million. In 2014 the excess of assets over liabilities was approximately \$2.2 million. This is a decrease of approximately \$4.6 million.
- During 2015 Jackson Township Fire District No. 3 operated at a deficit of approximately \$390,800. In 2014 the district operated at a deficit of approximately \$121,000. This is an increase of approximately \$270,000.
- The District increased their liabilities by approximately \$5.2 million in 2015, and increased their total assets by approximately \$655,500.
- The District decreased their cash balances by approximately \$274,400 in 2015.
- The Board's net position decreased by approximately \$4.6 million in 2015.
- The Board adopted GASB 68 in 2015 that resulted in a prior period adjustment of approximately \$4.2 million.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. Jackson Township Fire District No. 3'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 7. 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 all the assets and liabilities of Jackson Township Fire District No. 3. 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 disbursed. 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. Jackson Township Fire District No. 3 has two basic functions: activities that are supported by property taxes; and activities supported by other governmental activities. Jackson Township Fire District No. 3 provides firefighting services to the citizens of Jackson 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, Jackson Township Fire District No. 3 uses fund accounting to document compliance with finance-related legal matters. Jackson Township Fire District No. 3 has two types of fund groups, and that is governmental funds and fiduciary funds.

Governmental Funds

Jackson Township Fire District No. 3's activities are all 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.

Jackson Township Fire District No. 3 maintains three separate government funds, the General Fund, the Debt Service Fund, and the Capital Projects Fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital fund.

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

As required by N.J.S.A. 40A:14:78-3, Jackson Township Fire District No. 3 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 are two fiduciary funds in the District. One is the Payroll Agency which is used for the payment of wages and payroll liabilities. The second fiduciary fund is the Length of Service Award Program (LOSAP). LOSAP is an annuity program for the volunteer firefighters (see Note 9).

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

Jackson Township Fire District No. 3's net position is a useful indicator of the District's financial condition. At the end of 2015, the District's liabilities exceeded its assets by approximately \$2.4 million. The largest portion of Jackson Township Fire District No. 3's net position 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. Jackson Township Fire District No. 3'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, 2015 the District had \$490,000 of long term debt.

Statement of Net Position

JACKSON TOWNSHIP FIRE DISTRICT NO. 3 NET POSITION DECEMBER 31, 2015

| | 2015 | 2014 | \$ Increase (Decrease) | % Increase (Decrease) |
|--------------------------|----------------------|--------------------|---------------------------|--------------------------|
| Current and Other Assets | \$ 1,882,993 | \$1,121,016 | +761,977 | +68.0% |
| Capital Assets | <u>2,079,393</u> | <u>2,185,889</u> | (106,496) | (4.9%) |
| Total Assets | 3,962,386 | 3,306,905 | +655,481 | +19.8% |
| Total Liabilities | <u>(6,372,093)</u> | <u>(1,153,989)</u> | +5,218,104 | +452.2% |
| Net Assets | <u>\$(2,409,707)</u> | <u>\$2,152,918</u> | (4,562,623) | (211.9%) |

Analysis of Net Position

| | | | | |
|---|----------------------|--------------------|-------------|------------|
| Invested in Capital Assets Net of Related Debt | \$ 1,519,393 | \$1,555,889 | (36,496) | (2.4%) |
| Restricted for Capital Projects | 107,766 | 107,766 | - 0 - | - 0 - |
| Restricted for Debt Service | (44,258) | (84,868) | +40,610 | +47.9% |
| Restricted for Other Purposes | - 0 - | 7,037 | (7,037) | (100.0%) |
| Designated for Subsequent Year Expenditures | - 0 - | 265,000 | (265,000) | (100.0%) |
| Unrestricted | <u>(3,992,608)</u> | <u>302,094</u> | (4,294,700) | (1,421.7%) |
| Total Net Position | <u>\$(2,409,707)</u> | <u>\$2,152,918</u> | (4,562,623) | (211.9%) |

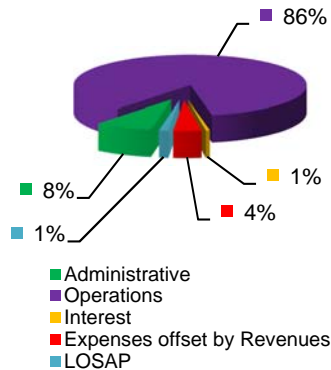
The net position of Jackson Township Fire District No. 3 decreased approximately \$4.6 as a result of a prior period adjustment due to the implementation of GASB 68 (see Note 13). Other major changes in net position at December 31, 2015 were an approximately \$274,400 decrease in cash and an approximately \$390,800 deficit spending in 2015. The District added approximately \$80,800 of capital assets during the year. In 2015 the capital assets decreased by approximately \$78,700 after depreciation expense.

Governmental Activities

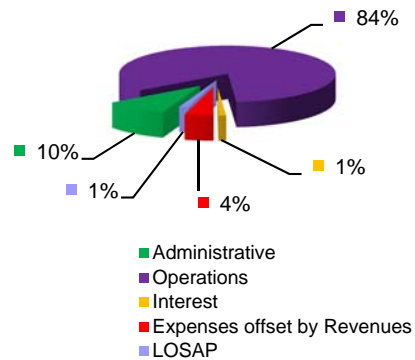
The Statement of Activities shows the cost of the governmental activities program services and the charges for services and grants offsetting these costs. A summary of these activities follows:

| | 2015 | 2014 | \$ Increase (Decrease) | % Increase (Decrease) |
|---|------------------|------------------|---------------------------|--------------------------|
| Expenses | | | | |
| Program Expenses | | | | |
| Administrative Expenses | \$ 246,617 | \$ 268,891 | (22,274) | (8.3%) |
| Cost of Operations & Maintenance | 2,684,933 | 2,399,628 | +285,305 | +11.9% |
| Operating Appropriations Offset With Revenues | 121,181 | 123,222 | (2,041) | (1.7%) |
| Length of Service Award Prog. | 39,800 | 38,500 | +1,300 | +3.4% |
| Interest on Long-Term Debt | <u>17,563</u> | <u>32,903</u> | (15,340) | (46.6%) |
| Total Program Expenses | 3,110,094 | 2,863,144 | +246,950 | +8.6% |

2015 Program Expenses

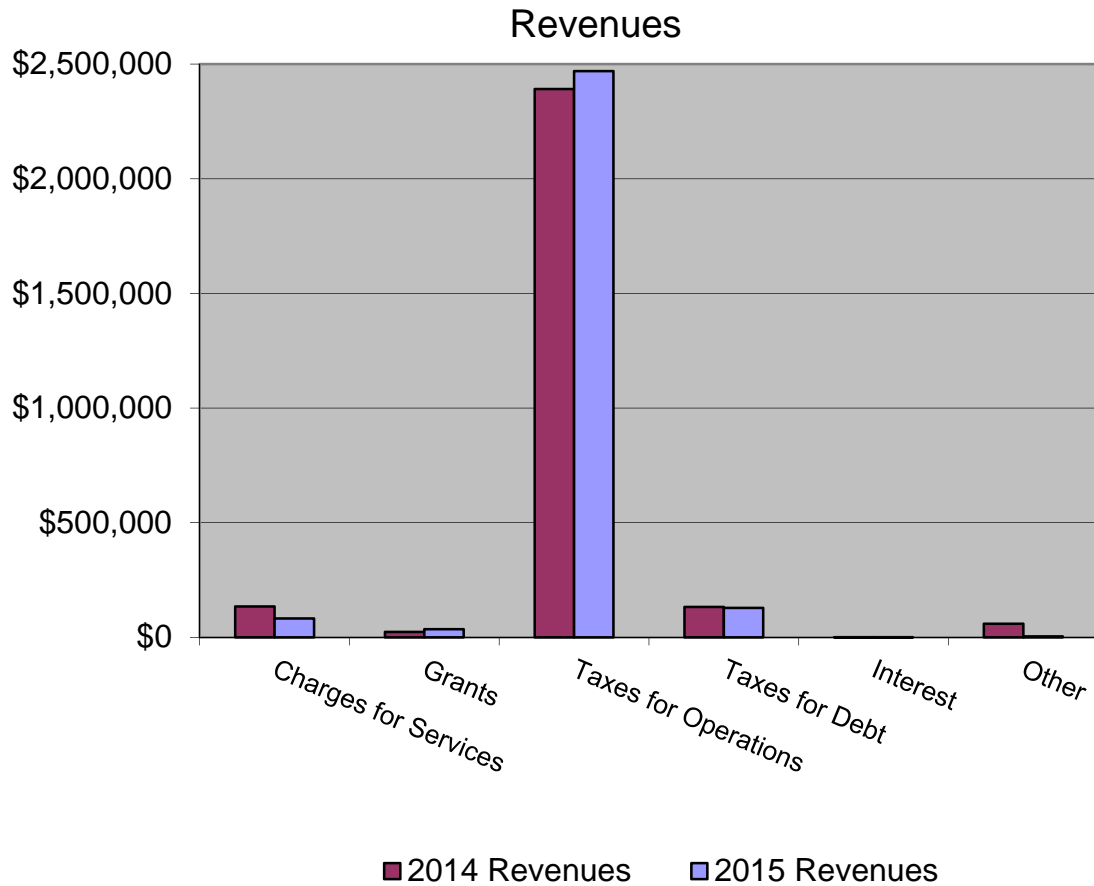


2014 Program Expenses



| | 2015 | 2014 | \$ Increase (Decrease) | % Increase (Decrease) |
|----------------------------------|-------------------------|-------------------------|---------------------------|--------------------------|
| Program Revenues | | | | |
| Charges for Services | 81,983 | 134,647 | (52,664) | (39.1%) |
| Operating Grants & Contributions | <u>35,097</u> | <u>23,387</u> | +11,710 | +50.1% |
| Net Program Expenses | <u>2,993,014</u> | <u>2,705,110</u> | +287,904 | +10.6% |

| | | | | |
|---|----------------------|--------------------|-------------|----------|
| General Revenues | | | | |
| Property Taxes Levied for General Purposes | 2,469,455 | 2,391,463 | +77,992 | +3.3% |
| Property Taxes Levied for Debt Service | 128,173 | 132,635 | (4,462) | (3.4%) |
| Unrestricted Investment Earnings | 312 | 679 | (367) | (54.2%) |
| Miscellaneous Income | <u>4,289</u> | <u>59,262</u> | (54,973) | (92.8%) |
| Total General Revenues | <u>2,602,229</u> | <u>2,584,039</u> | +18,190 | + .7% |
| Increase (Decrease) in | | | | |
| Net Position | (390,787) | (121,071) | (269,714) | (222.8%) |
| Net Position, January 1 | 2,152,918 | 2,273,987 | (121,071) | (5.3%) |
| Prior Period Adjustment | <u>(4,171,838)</u> | <u>- 0 -</u> | (4,171,838) | (100.0%) |
| Net Position, December 31 | <u>\$(2,409,707)</u> | <u>\$2,152,916</u> | (4,562,623) | (211.9%) |



Property tax revenue constituted 96% of the total governmental activities revenues received by Jackson Township Fire District No. 3 in 2015. In 2014 the property tax revenue constituted 92% of total revenues.

The Cost of Operations & Maintenance was 91% and 89% of the District's total expenses in 2015 and 2014 respectively. Administration expenses equaled 8% and 9% of the total expenses in 2015 and 2014 respectively.

FINANCIAL ANALYSIS OF THE GOVERNMENT FUNDS

Jackson Township Fire District No. 3 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, 2015, the combined balance of the governmental cash funds of Jackson Township Fire District No. 3 was approximately \$796,300. This balance is approximately \$274,400 lower than last year's combined governmental funds balance. The decrease is due primarily to the deficits in the operations and Capital expenditures.

The combined balance of the governmental funds of Jackson Township Fire District No. 3 was approximately \$736,400. Unreserved fund balance amounted to approximately \$499,200 of that total. Funds of \$165,000 have been designated for use in the 2016 Budget.

The general fund is the main operating fund of Jackson Township Fire District No. 3. At the end of 2015, the total fund balance of the general fund was approximately \$664,200. Of this balance, approximately \$499,200 of it was unreserved.

During 2015 the general fund balance of Jackson Township Fire District No. 3 decreased by approximately \$306,100. The primary reasons for this increase are as follows:

- The Board expended more funds than they received in revenues by approximately \$306,100.

At the end of 2015, the District had a capital projects fund balance of approximately \$107,800. This balance is unchanged from 2014.

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 2015 were approximately 3% of the operating revenues.

The 2015 Budget had a deficit in revenues and required the utilization of unrestricted surplus accumulated from prior years. The unused surplus becomes 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 \$37,800 in 2015. The Board anticipates in 2016 that actual revenues will exceed the budgeted revenues.

Overall, the District spent approximately \$5,500 less than originally anticipated in the operating budget for 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2015 Jackson Township Fire District No. 3 had invested in capital assets for government activities of approximately \$2,079,400 (net of accumulated depreciation). Capital assets consist of firehouse improvements, fire apparatus, fire equipment, and office equipment. They purchased approximately \$80,800 of equipment and improvements in 2015.

JACKSON TOWNSHIP FIRE DISTRICT NO. 3
CAPITAL ASSETS
(NET OF ACCUMULATED DEPRECIATION)
DECEMBER 31, 2015

| | 2015 | 2014 | Change |
|---------------------------------------|---------------------|---------------------|-----------|
| Firehouse & Land | \$ 1,921,440 | \$ 1,896,554 | +24,886 |
| Vehicles & Apparatus | 3,378,129 | 3,378,129 | - 0 - |
| Equipment | <u>532,378</u> | <u>505,710</u> | +26,668 |
| Total Capital Assets | 5,831,947 | 5,780,393 | +51,554 |
| Accumulated Depreciation | <u>3,752,554</u> | <u>3,594,504</u> | +158,050 |
| Investment in Capital Assets – net | <u>\$ 2,079,393</u> | <u>\$ 2,185,889</u> | (106,496) |

Additional information on Jackson Township Fire District No. 3's capital assets can be found in Note 5 in the notes to the financial statements.

Long-Term Obligations

In 2014 Jackson Township Fire District No. 3 issued \$700,000 of general obligation bonds to purchase a pumper truck. The payments are \$70,000, plus interest, paid annually for ten years. The Board also had a \$114,600 bond anticipation note which they paid off in full in 2014. Employees are permitted to accumulate compensated absences subject to contract provisions. As of December 31, 2015 there was an accumulated balance of approximately \$405,800. As a result of the implementation of GASB 68 the District has noncurrent pension liabilities of approximately \$4,944,700.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

In 2015, Jackson Township Fire District No. 3 was able to cover all its appropriations through the fire tax levy and other revenues. In 2015 the fire tax levy amounted to 96% of total revenue collected.

Jackson Township Fire District No. 3 adopted their 2016 budget on January 18, 2016. The voters subsequently voted to approve the budget at the February election. The 2016 adopted budget reflected an increase in the tax levy of \$232,952. The Board anticipates an increase of one cent per \$100 of assessed value for the 2016 fire tax rate. It is projected that a family with a home assessed at \$250,000 will pay approximately \$288 in 2016 for fire protection.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Jackson Township Fire District No. 3'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 Cheryl Parker, Jackson Township Fire District No. 3, 200 Kierych Memorial Drive, Jackson, New Jersey, 08527.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Statement of Net Position
December 31, 2015

| | Governmental Activities |
|--|--------------------------------|
| | <u>2015</u> |
| Assets: | |
| Current assets: | |
| Cash | \$ 796,344 |
| Due from others | 9,209 |
| Prepaid expenses | 51,906 |
| Total current assets | 857,459 |
| Capital assets (net of depreciation) | 2,079,393 |
| Total assets | 2,936,852 |
| Deferred outflow of resources | |
| Deferred outflows related to pensions | 1,025,534 |
| Total deferred outflow of resources | 1,025,534 |
| Total assets and deferred outflow of resources | 3,962,386 |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable | 34,540 |
| Accrued professional fees | 14,910 |
| Accrued interest | 8,680 |
| Accrued payroll | 19,666 |
| Bonds payable | 70,000 |
| Total current liabilities | 147,796 |
| Noncurrent liabilities: | |
| Bonds payable | 490,000 |
| Compensated absences | 405,762 |
| Pension payable | 233,038 |
| Net pension liability | 4,711,662 |
| Total noncurrent liabilities | 5,840,462 |
| Total liabilities | 5,988,258 |
| Deferred inflow of resources: | |
| Deferred inflows related to pensions | 383,835 |
| Total deferred inflow of resources | 383,835 |
| Total liabilities and deferred inflow of resources | 6,372,093 |
| Net position: | |
| Net investment in capital assets | 1,519,393 |
| Restricted net position: | |
| Debt service | (44,258) |
| Capital | 107,766 |
| Unrestricted: | |
| Unreserved | (3,992,608) |
| Total net position | \$ (2,409,707) |

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Statement of Activities
For the year ended December 31, 2015

| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Governmental Activities 2015</u> |
|---|-----------------|---------------------------------|---|
| Government activities: | | | |
| Operation appropriations: | | | |
| Administration | \$ 246,617 | \$ - | \$ (246,617) |
| Costs of operations and maintenance | 2,684,933 | 81,983 | (2,602,950) |
| Operating appropriations offset with revenues | 121,181 | - | (121,181) |
| Interest expense | 17,563 | - | (17,563) |
| Length of service award program | 39,800 | - | (39,800) |
| | <hr/> | <hr/> | <hr/> |
| Total government activities | 3,110,094 | 81,983 | (3,028,111) |
| | <hr/> | <hr/> | <hr/> |
| General revenues: | | | |
| Miscellaneous revenue | | | 4,599 |
| Operating grant revenues | | | 35,097 |
| Amount raised by taxation | | | 2,597,628 |
| | | | <hr/> |
| Total general revenues | | | 2,637,324 |
| | | | <hr/> |
| Change in net position | | | (390,787) |
| Net position, January 1 | | | 2,152,918 |
| Prior period adjustment | | | (4,171,838) |
| | | | <hr/> |
| Net assets, January 1 (restated) | | | (2,018,920) |
| | | | <hr/> |
| Net position, December 31 | | | \$ (2,409,707) |
| | | | <hr/> <hr/> |

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Balance Sheet
Governmental Funds
December 31, 2015

| | | | | <u>Totals</u> |
|--|---------------------|----------------------------------|------------------------------|------------------------------|
| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>December 31, 2015</u> |
| Assets: | | | | |
| Cash | \$ 796,344 | \$ - | \$ - | \$ 796,344 |
| Due from others | 9,209 | - | - | 9,209 |
| Other receivable | 35,578 | 107,766 | - | 143,344 |
| Total assets | <u>841,131</u> | <u>107,766</u> | <u>-</u> | <u>948,897</u> |
| Liabilities, equity and other credits: | | | | |
| Accounts payable | 34,540 | - | - | 34,540 |
| Accrued professional fees | 14,910 | - | - | 14,910 |
| Accrued payroll | 19,666 | - | - | 19,666 |
| Other payable | 107,766 | - | 35,578 | 143,344 |
| Total liabilities | <u>176,882</u> | <u>-</u> | <u>35,578</u> | <u>212,460</u> |
| Fund balances | | | | |
| Restricted for: | | | | |
| Debt service | - | - | (35,578) | (35,578) |
| Capital | - | 107,766 | - | 107,766 |
| Assigned for: | | | | |
| Subsequent year's expenditures | 165,000 | - | - | 165,000 |
| Unassigned, reported in: | | | | |
| General fund | 499,249 | - | - | 499,249 |
| Total fund balance | <u>664,249</u> | <u>107,766</u> | <u>(35,578)</u> | <u>736,437</u> |
| Total liabilities and fund balance | <u>\$ 841,131</u> | <u>\$ 107,766</u> | <u>\$ -</u> | |

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

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

51,906

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$5,831,947 and the accumulated depreciation is \$3,752,554.

2,079,393

Accrued interest payable and PERS pension payable are not recorded in the fund financial statements due to the fact that the payable is not due in the period

(241,718)

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

641,699

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

(5,677,424)

Net position of governmental activities

\$ (2,409,707)

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2015

| | <u>Totals</u> | | | |
|--|---------------------|----------------------------------|------------------------------|------------------------------|
| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>December 31, 2015</u> |
| Revenues: | | | | |
| Miscellaneous anticipated revenue: | | | | |
| Investment income | \$ 311 | \$ - | \$ - | \$ 311 |
| Other revenue | 4,288 | - | - | 4,288 |
| Total miscellaneous revenues | <u>4,599</u> | <u>-</u> | <u>-</u> | <u>4,599</u> |
| Operating grant revenues: | | | | |
| Supplemental fire service act | 3,257 | - | - | 3,257 |
| Other grant revenue | 31,840 | - | - | 31,840 |
| Total operating grant revenues | <u>35,097</u> | <u>-</u> | <u>-</u> | <u>35,097</u> |
| Uniform fire safety act revenues: | | | | |
| Annual registration fees | 44,897 | - | - | 44,897 |
| Penalties and fines | 13,735 | - | - | 13,735 |
| Other revenue | 23,351 | - | - | 23,351 |
| Total uniform fire safety act revenues | <u>81,983</u> | <u>-</u> | <u>-</u> | <u>81,983</u> |
| Total revenues | <u>121,679</u> | <u>-</u> | <u>-</u> | <u>121,679</u> |
| Amount raised by taxation to support district budget | <u>2,469,455</u> | <u>-</u> | <u>128,173</u> | <u>2,597,628</u> |
| Total anticipated revenues | <u>2,591,134</u> | <u>-</u> | <u>128,173</u> | <u>2,719,307</u> |
| Expenditures: | | | | |
| Operating appropriations: | | | | |
| Administration: | | | | |
| Salaries and wages | 62,637 | - | - | 62,637 |
| Fringe benefits | 40,510 | - | - | 40,510 |
| Other expenditures: | | | | |
| Professional fees | 90,210 | - | - | 90,210 |
| Elections | 2,132 | - | - | 2,132 |
| Office supplies and postage | 11,865 | - | - | 11,865 |
| Membership dues, subscriptions, licenses | 4,916 | - | - | 4,916 |
| Insurance | 70,419 | - | - | 70,419 |
| Operation | 6,281 | - | - | 6,281 |
| Total administration | <u>288,970</u> | <u>-</u> | <u>-</u> | <u>288,970</u> |
| Cost of operations and maintenance: | | | | |
| Salaries and wages | 1,187,330 | - | - | 1,187,330 |
| Fringe benefits | 739,183 | - | - | 739,183 |
| Other expenditures: | | | | |
| Conventions | 298 | - | - | 298 |
| Fire equipment | 5,458 | - | - | 5,458 |
| Fuel | 22,260 | - | - | 22,260 |
| Gear | 41,852 | - | - | 41,852 |
| Hydrant Rentals | 84,420 | - | - | 84,420 |
| Maintenance and repairs | 165,353 | - | - | 165,353 |
| Supplies | 985 | - | - | 985 |

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the year ended December 31, 2015

| | <u>Totals</u> | | | |
|--|---------------------|----------------------------------|------------------------------|------------------------------|
| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>December 31, 2015</u> |
| Training and education | 19,367 | - | - | 19,367 |
| Utilities | 24,493 | - | - | 24,493 |
| Volunteer fire company | 120,043 | - | - | 120,043 |
| Contingent expenses | 7,500 | - | - | 7,500 |
| Other non-bondable assets | 28,730 | - | - | 28,730 |
| Total cost of operations and maintenance | <u>2,447,272</u> | <u>-</u> | <u>-</u> | <u>2,447,272</u> |
| Operating appropriations offset with revenues: | | | | |
| Salaries and wages | 105,818 | - | - | 105,818 |
| Other expenditures: | | | | |
| Fire prevention bureau | 12,106 | - | - | 12,106 |
| Basic entitlement grant | 3,257 | - | - | 3,257 |
| Total operating appropriations offset with revenues | <u>121,181</u> | <u>-</u> | <u>-</u> | <u>121,181</u> |
| Length of service award program | 39,800 | - | - | 39,800 |
| Debt service for capital appropriations: | | | | |
| General obligation bonds | - | - | 70,000 | 70,000 |
| Interest on general obligation bonds | - | - | 18,608 | 18,608 |
| Total debt service for capital appropriations | <u>-</u> | <u>-</u> | <u>88,608</u> | <u>88,608</u> |
| Total operating appropriations | <u>2,897,223</u> | <u>-</u> | <u>88,608</u> | <u>2,985,831</u> |
| Excess (efficiency) of revenues over (under) expenditures | <u>(306,089)</u> | <u>-</u> | <u>39,565</u> | <u>(266,524)</u> |
| Fund balance, January 1 | <u>970,338</u> | <u>107,766</u> | <u>(75,143)</u> | <u>1,002,961</u> |
| Fund balance, December 31 | <u>\$ 664,249</u> | <u>\$ 107,766</u> | <u>\$ (35,578)</u> | <u>\$ 736,437</u> |

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance in
the Governmental Funds to the Statement of Activities
December 31, 2015

Total net changes in Fund Balance-Governmental Funds (B-2) \$ (266,524)

Amounts reported for governmental activities in the statement of activities (A-2) are different because:

Capital Outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

| | | |
|------------------------------|------------------|----------|
| Capital Outlays-General Fund | 80,838 | |
| Depreciation Expense | <u>(159,514)</u> | (78,676) |

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities. 70,000

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

| | | |
|--------------|----------------|-------|
| Prior year | 9,725 | |
| Current year | <u>(8,680)</u> | 1,045 |

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.

| | | |
|--------------|---------------|--------|
| Prior year | (9,275) | |
| Current year | <u>51,906</u> | 42,631 |

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

| | | |
|--|------------------|-----------|
| Pension Expense - PFRS Contribution - 2015 | 219,039 | |
| Pension Expense - PERS Contribution - 2015 | 12,583 | |
| Pension Expense | <u>(390,607)</u> | (158,985) |

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 decrease in sick leave paid was \$278

(278)

Changes in net position of governmental activities \$ (390,787)

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Fiduciary Funds
Statement of Net Position
December 31, 2015

| | <u>Length of Service Award Program</u> | <u>Totals December 31, 2015</u> |
|-------------------------------------|--|---|
| Assets: | | |
| Investments | \$ 229,925 | \$ 229,925 |
| Total assets | <u>229,925</u> | <u>229,925</u> |
| Net position: | | |
| Reserved: | | |
| For Length of Service Award Program | <u>229,925</u> | <u>229,925</u> |
| Total net position | <u>\$ 229,925</u> | <u>\$ 229,925</u> |

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
Length of Service Award
For the year ended December 31, 2015

| | Totals |
|--|---|
| | December 31, <u>2015</u> |
| Revenues and Other Financing Sources: | |
| District contributions | \$ 39,800 |
| Interest income | 309 |
| Total revenues and other financing sources | 40,109 |
| Expenditures: | |
| Administrative fees and refunds | 1,591 |
| Withdrawals | 11,182 |
| Total expenditures | 12,773 |
| Change in net position | 27,336 |
| Net position, January 1 | 168,689 |
| Prior period adjustment | 33,900 |
| Net position, January 1 (restated) | 202,589 |
| Net position, December 31 | \$ 229,925 |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements
For the year ended December 31, 2015

NOTE 1: GENERAL INFORMATION

A. Description of Reporting Entity

Fire District No. 3 of the Township of Jackson is a political subdivision of the Township of Jackson, County of Ocean, State of New Jersey. A board of five commissioners oversees all of the operations of the Fire District. The length of each commissioner’s term is three years with the annual election held the third Saturday of every February.

Fire Districts are governed by the *N.J.S.A. 40A: 14-70* et al. and are taxing authorities charged with the responsibility of providing the resources necessary to provide fire fighting services to the residents within its territorial location.

Fire District No. 3 of the Township of Jackson is not a component unit of any other financial reporting entity nor does the Fire District have any component units to be presented in accordance with Governmental Accounting Standards Board Statement No. 14.

B. District Officials

The District is governed by a board of five commissioners. The board had one vacancy at year end, the following were in office at December 31, 2015:

| <u>Officials</u> | <u>Term Expires</u> <u>March</u> |
|------------------|-------------------------------------|
| Daniel Bradley | 2017 |
| Rodolfo Brito | 2017 |
| Scott Jordan | 2016 |
| Stephen Gibson | 2016 |
| Vacant | 2018 |

C. Accounting Records

The official accounting records of the Fire District No. 3 of the Township of Jackson are maintained in the office of the District.

D. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

E. Component Units

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 1: GENERAL INFORMATION (continued)

E. Component Units (continued)

- ◆ 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

Based on the aforementioned criteria, the District has no component units.

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 a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn is divided into separate "fund types."

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

Governmental Funds:

General Fund

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

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities such as firehouses and firefighting 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.

Fiduciary Funds:

Fiduciary funds are used to account for assets held by a governmental entity for other parties (either as trustee or as an agent) and that cannot be used to finance the governmental entity's own operating programs which includes private purpose trust funds and agency funds.

Trust and Agency Fund

The Trust and Agency Fund is used to account for assets held by the Fire District on behalf of outside parties, including other governments, or on behalf of other funds within the Fire District.

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.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. District Wide and Fund Financial Statements (continued)

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 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.

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.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

In its accounting and financial reporting, the Fire District No. 3 of the Township of Jackson 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. 3 of the Township of Jackson's proprietary funds have elected not to apply the standards issued by FASB after November 30, 1989.

E. Budgets and Budgetary Accounting

The Fire District must adopt an annual budget in accordance with N.J.S.A. 40A: 14-78.1 et al.

The fire commissioners must introduce and adopt 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. The encumbrances at December 31, 2015 totaled \$0.

G. Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds and cash in banks. 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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Cash and Cash Equivalents and Investments (continued)

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.

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 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 the 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 expenditures during the year of purchase.

I. Debt Limitation

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

J. Capital Assets

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

Depreciation is recorded on the straight-line method (with no depreciation applied to the first year of acquisition) over the useful lives of the assets as follows:

| | |
|---------------------------|----------------|
| Building and Improvements | 10 to 40 Years |
| Equipment | 5 to 15 Years |
| Vehicles and Apparatus | 5 to 25 Years |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Inventory, Materials and Supplies

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

L. Interfund Receivable/Payable

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

M. Compensated Absences

Fire District employees are entitled to vacation and sick leave. Unused vacation and sick leave may be accumulated up to a maximum payment of \$15,000. 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. 3 of the Township of Jackson classifies governmental fund balances as follows:

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

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 authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Business Administrator.
- Unassigned – includes balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds

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

Q. Net Position

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

- Net Investment in Capital Assets – This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for acquisition, construction, or improvement of those assets.
- Restricted – Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted – Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

R. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

For the year ended December 31, 2015, the District implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* – (Amendment to GASB Statement No. 27) and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of the Statements requires the District to report as an asset and/or a liability its portion of the collective net pension's asset and liability of the New Jersey Public Employees' Retirement System (PERS). The implementation of the Statements also requires the District to report a deferred outflow and/or inflow for the effect of the net change in the District's proportion of the collective net pension asset and/or liability and difference during the measurement period between the District's contributions and its proportionate share of total contributions to the pension systems not included in pension expense.

The District has adopted and implemented all current standards of the Governmental Accounting Standards Board (GASB) that are applicable as of June 30, 2015.

GASB has issued Statement No. 72, *Fair Value Measurement and Application*, effective for the year ending June 30, 2016.

GASB has issued Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*, effective for the year ending December 31, 2018. 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.

GASB has issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for the year ending December 31, 2016.

The District will evaluate the impact each of these pronouncements may have on its financial statements and will implement them as applicable and when material.

T. 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. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. Unrealized Gains and Losses

Governmental Accounting Standards Board (GASB) has established GASB-31, which requires public agencies to report the financial effect of all unrealized gains and losses on invested funds. As of December 31, 2015, the unrealized gains for the Fire District were not considered to be material to the financial statements taken as a whole, and accordingly, have not been reflected in the financial statements.

V. 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:

Mutual funds: Valued at the net asset value (NAV) of shares held by the plan at year end.

Fixed Account Investment Contract: Valued at the contract's market value as reported by the insurance company.

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.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

V. Fair Value Measurement (continued)

The table in Note 4 sets forth by level, within the fair value hierarchy, the LOSAP's assets at fair value as of December 31, 2015.

W. Subsequent Events

Fire District No. 3 of the Township of Jackson has evaluated subsequent events occurring after December 31, 2015 through the date of May 06, 2016, which is the date the financial statements were available to be issued.

NOTE 3: CASH

The Fire District is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2015, and reported at fair value are as follows:

| <u>Type</u> | <u>Carrying Value</u> |
|--|--------------------------|
| Deposits: | |
| Demand deposits | \$ <u>796,344</u> |
| Total deposits | \$ <u><u>796,344</u></u> |
| Reconciliation to Governmental and Fiduciary Fund Statements: | |
| Governmental Funds | \$ <u>796,344</u> |
| Total | \$ <u><u>796,344</u></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, 2015, the District's bank balance of \$816,030 was insured or collateralized as follows:

| | |
|--|--------------------------|
| Insured | \$ 353,816 |
| Collateralized not in the District's name (New Jersey Cash Management Fund) | 59,394 |
| Collateralized in the District's name under GUDPA | <u>402,820</u> |
| Total | <u><u>\$ 816,030</u></u> |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

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.

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, 2015, 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.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 4: INVESTMENTS (continued)

C. Investment Credit Risk (continued)

The following table sets forth by level, within the value hierarchy, the District's assets at fair value at December 31, 2015.

| <i>Assets at Fair Value as of December 31, 2015</i> | | | | |
|---|-------------------|----------------|------------------|-------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| LOSAP: | | | | |
| Mutual funds: | | | | |
| Growth | \$ 124,833 | \$ - | \$ - | \$ 124,833 |
| Small Blend/Value | 13,337 | - | - | 13,337 |
| Mid-Cap Blend/Growth | 3,939 | - | - | 3,939 |
| Large Growth/Value | 2,564 | - | - | 2,564 |
| Real Estate | 2,776 | - | - | 2,776 |
| International Securities | 677 | - | - | 677 |
| Total mutual funds | <u>148,126</u> | <u>-</u> | <u>-</u> | <u>148,126</u> |
| Fixed Account Investment Contract | - | - | 81,799 | 81,799 |
| Total assets at fair value | <u>\$ 148,126</u> | <u>\$ -</u> | <u>\$ 81,799</u> | <u>\$ 229,925</u> |

Level III Gains and Losses

The following table sets forth a summary of changes in the fair value of the LOSAP's Level III assets for the year ended December 31, 2015.

Level 3 Assets
Year Ended December 31, 2015

| | <u>Fixed Account</u> |
|---|----------------------|
| Balance, beginning of year | \$ 56,776 |
| Purchases, sales, issuances, and settlements (net) | 24,525 |
| Gain and (losses) | <u>500</u> |
| Balance, end of year | <u>\$ 81,801</u> |

NOTE 5: CAPITAL ASSETS

N.J.S.A. 40A: 14-84 governs the procedures for the acquisition of property and equipment for 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.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 5: CAPITAL ASSETS (continued)

Fixed assets consisted of the following at December 31, 2015:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Adjustments</u> | <u>Ending Balance</u> |
|--|------------------------------|--------------------|--------------------|--------------------|---------------------------|
| Governmental Activities: | | | | | |
| Capital assets that are not being depreciated: | | | | | |
| Land | \$ 129,300 | \$ - | \$ - | \$ - | \$ 129,300 |
| Other non-depreciable assets | 9,909 | - | - | - | 9,909 |
| Total capital assets that are not being depreciated | <u>139,209</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>139,209</u> |
| Vehicles and apparatus | 3,378,129 | - | - | - | 3,378,129 |
| Buildings and improvements | 1,757,345 | 54,170 | - | (29,284) | 1,782,231 |
| Equipment | 505,710 | 26,668 | - | - | 532,378 |
| Totals at historical cost | <u>5,641,184</u> | <u>80,838</u> | <u>-</u> | <u>(29,284)</u> | <u>5,692,738</u> |
| Less: accumulated depreciation | | | | | |
| Trucks and vehicles | (1,747,952) | (121,949) | - | - | (1,869,901) |
| Buildings and improvements | (1,469,626) | (15,587) | - | 1,463 | (1,483,750) |
| Equipment | (376,926) | (21,977) | - | - | (398,903) |
| Total accumulated depreciation | <u>(3,594,504)</u> | <u>(159,513)</u> | <u>-</u> | <u>1,463</u> | <u>(3,752,554)</u> |
| Total capital assets being depreciated net of accumulated depreciation | <u>\$ 2,185,889</u> | <u>\$ (78,675)</u> | <u>\$ -</u> | <u>\$ (27,821)</u> | <u>\$ 2,079,393</u> |

NOTE 6: LONG-TERM OBLIGATIONS

During the fiscal year ended December 31, 2015 the following changes occurred in liabilities reported in long-term debt:

| | <u>Balance 12/31/2014</u> | <u>Accrued/ increases</u> | <u>Retired/ decreases</u> | <u>Balance 12/31/2015</u> | <u>Due within one year</u> |
|-----------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|
| Bonds payable | \$ 630,000 | \$ - | \$ 70,000 | \$ 560,000 | \$ 70,000 |
| Pension payable | 231,622 | 1,416 | - | 233,038 | - |
| Compensated absences | 405,484 | 278 | - | 405,762 | - |
| Net pension liability | <u>3,873,091</u> | <u>838,571</u> | <u>-</u> | <u>4,711,662</u> | <u>-</u> |
| Total | <u>\$5,140,197</u> | <u>\$ 840,265</u> | <u>\$ 70,000</u> | <u>\$5,910,462</u> | <u>\$ 70,000</u> |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 6: LONG-TERM OBLIGATIONS (continued)

Bonds Payable

Bonds and loans are authorized in accordance with State law by the voters of the Fire District through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Fire District are general obligation bonds.

On July 15, 2013, the Fire District issued \$700,000 general obligation bonds at an interest rate of 3.10% for a pumper truck. The final maturity of these bonds is July 15, 2023. The bond will be paid from property tax revenue.

Principal and interest due on bonds outstanding is as follows:

| Year Ending <u>December 31,</u> | Principal | Interest | Total |
|------------------------------------|-------------------|------------------|-------------------|
| 2016 | \$ 70,000 | \$ 16,275 | \$ 86,275 |
| 2017 | 70,000 | 14,105 | 84,105 |
| 2018 | 70,000 | 11,935 | 81,935 |
| 2019 | 70,000 | 9,785 | 79,785 |
| 2020 | 70,000 | 7,595 | 77,595 |
| 2021-2023 | <u>210,000</u> | <u>9,745</u> | <u>219,745</u> |
| | <u>\$ 560,000</u> | <u>\$ 69,440</u> | <u>\$ 629,440</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, 2015, the District did not have a current liability for compensated absences. The amounts included in the long-term liabilities consists of the following:

2015

Total Compensated Absences: \$405,762

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

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 before age 62 with 25 or more years of service credit 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. 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 actual claims paid. For fiscal year 2015, 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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

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.

| <u>Year</u> <u>Funding</u> | <u>Pension</u> <u>Cost (APC)</u> | <u>Percentage</u> <u>of APC</u> <u>Contributed</u> | <u>Net</u> <u>Pension</u> <u>Obligation</u> |
|-------------------------------|-------------------------------------|--|---|
| 12/31/2015 | \$ 12,583 | 100% | \$ 111,674 |
| 12/31/2014 | \$ 10,618 | 100% | \$ 285,774 |
| 12/31/2013 | \$ 9,557 | 100% | \$ 269,325 |

Components of Net Pension Liability - At December 31, 2015, the District's proportionate share of the PERS net pension liability is valued to be \$111,674. The net pension liability was measured as of June 30, 2015. 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 June 30, 2014, to the measurement date of June 30, 2015. 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, 2015. The District's proportion measured as of June 30, 2015, was .00050%, which was a decrease of .00103% from its proportion measured as of June 30, 2014.

Collective Balances at December 31, 2015 and December 31, 2014

| | <u>12/31/2015</u> July 1, 2014 | <u>12/31/2014</u> July 1, 2013 |
|--|-----------------------------------|-----------------------------------|
| Actuarial valuation date | | |
| Deferred Outflows of Resources | \$ 30,095 | \$ 40,483 |
| Deferred Inflows of Resources | \$ 165,226 | \$ 17,031 |
| Net Pension Liability | \$ 111,674 | \$ 285,774 |
| District's portion of the Plan's total net pension Liability | 0.00050% | 0.00153% |

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2015, the District had an allocated pension credit of \$23,822. At December 31, 2015, the District's allocation of deferred outflows of resources and deferred inflows of resources related to PERS are from the following sources:

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Changes of assumptions | \$ 11,993 | \$ - |
| Net difference between expected and actual experience | 2,664 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 1,796 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | <u>15,438</u> | <u>163,430</u> |
| Total | <u>\$ 30,095</u> | <u>\$ 165,226</u> |

Amounts allocated as deferred outflows of resources and deferred inflows of resources related to pensions will be included in pension expense as follows:

| <u>Year Ended June 30:</u> | <u>PERS</u> |
|----------------------------|-------------|
| 2016 | \$ (29,458) |
| 2017 | (29,458) |
| 2018 | (29,458) |
| 2019 | (25,200) |
| 2020 | (21,556) |
| Thereafter | - |

Actuarial Assumptions – The collective total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. This actuarial valuation used the following actuarial assumptions:

| | <u>PERS</u> |
|---------------------------|---|
| Measurement date | June 30, 2015 |
| Actuarial valuation date | July 1, 2014 |
| Investment rate of return | 7.90% |
| Salary scale | 2012-2021 - 2.15-4.40% Based on Age Thereafter - 3.15-5.40% Based on Age |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

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

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. 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 is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 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% | 1.04% |
| U.S. Treasuries | 1.75% | 1.64% |
| Investment Grade Credit | 10.00% | 1.79% |
| Mortgages | 2.10% | 1.62% |
| High Yield Bonds | 2.00% | 4.03% |
| Inflation-Indexed Bonds | 1.50% | 3.25% |
| Broad US Equities | 27.25% | 8.52% |
| Developed Foreign Equities | 12.00% | 6.88% |
| Emerging Market Equities | 6.40% | 10.00% |
| Private Equity | 9.25% | 12.41% |
| Hedge Funds/Absolute Return | 12.00% | 4.72% |
| Real Estate (Property) | 2.00% | 6.83% |
| Commodities | 1.00% | 5.32% |
| Global Debt ex US | 3.50% | -0.40% |
| REIT | 4.25% | 5.12% |
| Total | 100.00% | |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

Discount Rate - The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, 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 average of the last five years of contributions made in relation to the last five years of 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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the District's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the 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 (3.90%) or 1-percentage-point higher (5.90%) than the current rate:

| | 1% | Current | 1% |
|--|-----------------|---------------------|-----------------|
| | <u>Decrease</u> | <u>Discount</u> | <u>Increase</u> |
| | <u>(3.90%)</u> | <u>Rate (4.90%)</u> | <u>(5.90%)</u> |
| District's proportionate share of the net pension liability | \$ 138,798 | \$ 111,674 | \$ 88,935 |

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

Plan Description – The State of New Jersey, Police and Firemen's Retirement System (PFRS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PFRS, please refer to the 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. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represents the membership tiers for PFRS:

| <u>Tier</u> | <u>Definition</u> |
|-------------|---|
| 1 | Members who were enrolled prior to May 22, 2010. |
| 2 | Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011 |
| 3 | Members who were eligible to enroll on or after June 28, 2011 |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1 % for each year if creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Basis of Presentation - The schedules of employer and non-employer allocations and the schedules of pension amounts by employer and non-employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PFRS, its participating employers or the State as a non-employer entity. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PFRS, the participating employers, or the State. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PFRS 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 PFRS is set by *N.J.S.A. 43:16A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. For fiscal year 2015, the State contributed an amount less than the actuarially 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 PFRS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will

determine the unfunded liability 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.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

B. Police and Firemen’s Retirement System (PFRS) (continued)

Three-Year Trend Information for PFRS

| <u>Year</u> <u>Funding</u> | <u>Pension</u> <u>Cost (APC)</u> | <u>Percentage</u> <u>of APC</u> <u>Contributed</u> | <u>Net</u> <u>Pension</u> <u>Obligation</u> |
|-------------------------------|-------------------------------------|--|---|
| 12/31/2015 | \$ 219,039 | 100% | \$ 4,599,988 |
| 12/31/2014 | \$ 195,444 | 100% | \$ 3,587,317 |
| 12/31/2013 | \$ 208,097 | 100% | \$ 3,574,957 |

Special Funding Situation – Under N.J.S.A. 43:16A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State if certain circumstances occurred. The legislation which legally obligates the state is as follows: Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The amounts contributed on behalf of the local participating employers under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a non-employer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers related to this legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the non-employer contributing entities’ total proportionate share of the collective net pension liability that is associated with the local participating employer.

Components of Net Pension Liability - At December 31, 2015, the District reported a liability of \$4,599,988 for its proportionate share of the PFRS net pension liability. The net pension liability was measured as of June 30, 2015. 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 June 30, 2014, to the measurement date of June 30, 2015. 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, 2015. The District’s proportion measured as of December 31, 2015, was .02762%, which was a decrease of .00090% from its proportion measured as of December 31, 2014.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

Collective Balances at December 31, 2015 and December 31, 2014

| | <u>12/31/2015</u> | <u>12/31/2014</u> |
|--|-------------------|-------------------|
| Actuarial valuation date | July 1, 2014 | July 1, 2013 |
| Deferred Outflows of Resources | \$ 1,219,922 | \$ 534,939 |
| Deferred Inflows of Resources | \$ 218,609 | \$ 366,074 |
| Net Pension Liability | \$ 4,599,988 | \$ 3,587,317 |
| District's portion of the Plan's total net pension Liability | 0.02762% | 0.02852% |

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2015, the District recognized pension expense of \$410,149. At December 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Changes of assumptions | \$ 849,272 | \$ - |
| Net difference between expected and actual experience | - | 39,676 |
| Net difference between projected and actual earnings on pension plan investments | - | 80,059 |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 146,167 | 98,874 |
| | <u>\$ 995,439</u> | <u>\$ 218,609</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

| <u>Year Ended June 30:</u> | <u>PFRS</u> |
|----------------------------|-------------|
| 2016 | \$ 151,120 |
| 2017 | 151,120 |
| 2018 | 151,120 |
| 2019 | 242,639 |
| 2020 | 80,831 |
| Thereafter | - |

Additionally, the State's proportionate share of the net pension liability attributable to the District is \$108,742 as of December 31, 2015. The net pension liability was measured as of June 30, 2015. 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 June 30, 2014, to the measurement date of June 30, 2015. The State's proportion of the net pension liability associated with the Borough was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. The State's proportion measured as of June 30, 2015 .02762%, which was a decrease of .00090% from its proportion measured as of June 30, 2014, which is the same proportion as the District's.

| | |
|---|----------------------------|
| District's Proportionate Share of the Net Pension Liability | \$ 4,599,988 |
| State's Proportionate Share of the Net Pension Liability Associated with the District | <u>403,404</u> |
| Total Net Pension Liability | <u><u>\$ 5,003,392</u></u> |

Actuarial Assumptions - The collective total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014 which was rolled forward to June 30, 2015. The actuarial valuations used the following actuarial assumptions:

| | <u>PFRS</u> |
|-------------------------|--|
| Measurement date | June 30, 2015 |
| Acturial valuation date | July 1, 2014 |
| Interest rate | 7.90% |
| Salary scale | 2012-2021 - 2.60-9.48% Based on Age Thereafter - 3.60-10.48% Based on Age |
| Inflation rate | 3.04% |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

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

Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and one year using Projection Scale BB for male service retirements with adjustments for mortality improvements from the base year based on Projection Scale BB. Mortality rates were based on the RP-2000 Combined Healthy Mortality Tables projected fourteen years using Projection Scale BB for female service retirements and beneficiaries with adjustments for mortality improvements from the base year of 2014 based on Projection BB.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2015 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% | 1.04% |
| U.S. Treasuries | 1.75% | 1.64% |
| Investment Grade Credit | 10.00% | 1.79% |
| Mortgages | 2.10% | 1.62% |
| High Yield Bonds | 2.00% | 4.03% |
| Inflation-Indexed Bonds | 1.50% | 3.25% |
| Broad US Equities | 27.25% | 8.52% |
| Developed Foreign Equities | 12.00% | 6.88% |
| Emerging Market Equities | 6.40% | 10.00% |
| Private Equity | 9.25% | 12.41% |
| Hedge Funds/Absolute Return | 12.00% | 4.72% |
| Real Estate (Property) | 2.00% | 6.83% |
| Commodities | 1.00% | 5.32% |
| Global Debt ex US | 3.50% | -0.40% |
| REIT | 4.25% | 5.12% |
| Total | 100.00% | |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 8: PENSION (continued)

B. Police and Firemen’s Retirement System (PFRS) (continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.39% as of June 30, 2015. This single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% as of June 30, 2015, 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 employee contributions will be made at the current member contribution rates and that contributions from employers will be made on the average of the last five years of contributions made in relation to the last five years of recommended 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 2045. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2045, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the District’s proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District’s proportionate share of the 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 (3.90%) or 1-percentage-point higher (5.90%) than the current rate:

| | 1% | Current | 1% |
|--|-----------------|-----------------|-----------------|
| | <u>Decrease</u> | <u>Discount</u> | <u>Increase</u> |
| | (4.79%) | Rate (5.79%) | (6.79%) |
| District's proportionate share of the net pension liability | \$ 5,963,487 | \$ 4,599,988 | \$ 3,488,654 |

NOTE 9: LENGTH OF SERVICE AWARDS PROGRAM

The District has a contractual agreement with volunteer firefighters to reward them based on length of continued service. This is not a pension plan as described under the Employee Retirement Security Act, and therefore is not guaranteed to the volunteers until they reach the age 65.

The contribution for the year ended December 31, 2014 and paid in the fiscal year ended December 31, 2015 is \$39,800.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 10: INTERFUND RECEIVABLE/PAYABLE

As of December 31, 2015, the following inter-fund balances remained on the balance sheet:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|-----------------------|---------------------------------|------------------------------|
| General | \$ 35,578 | \$ 107,766 |
| Capital Projects Fund | 107,766 | - |
| Debt Service Fund | <u> -</u> | <u> 35,578</u> |
| Total | <u>\$ 143,344</u> | <u>\$ 143,344</u> |

The purpose of interfunds is for short-term borrowings.

Interfund receivables are recorded as other receivables. Interfund payables are recorded as other payables.

NOTE 11: FUNDING

The activities of the fire district 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, 2015, the fire tax rate on the Fire District No. 3 was approximately \$.106 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 \$3,257. As a condition of this grant, the Board must match the grant by 10%.

NOTE 12: FUND BALANCE

General Fund – Of the \$664,249 General Fund fund balance at December 31, 2015, \$165,000 is assigned for subsequent years expenditures and \$499,249 is unassigned.

Capital Projects Fund – Of the \$107,766 Capital Projects Fund fund balance at December 31, 2015, \$107,766 is restricted for Capital.

Debt Service Fund – Of the (\$35,578) Debt Service Fund fund balance at December 31, 2015, (\$35,578) is restricted for debt service.

NOTE 13: PRIOR PERIOD ADJUSTMENT/RESTATEMENT

Net position as of January 1, 2015, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. During 2015 it was also noted that the Districts fixed assets were overstated by \$27,820. This was corrected by an adjustment to prior year's net assets.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Notes to Financial Statements (continued)
For the year ended December 31, 2015

NOTE 13: PRIOR PERIOD ADJUSTMENT/RESTATEMENT (continued)

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Net Position as previously reported at December 31, 2014 | \$ 2,152,918 |
| Prior period adjustment - | |
| Implementation of GASB 68: | |
| Net Pension Liability (measurement date as of June 30, 2014) | (3,873,091) |
| PERS Pension Payable (2015 District PERS Pension Contribution) | (12,583) |
| PFRS Pension Payable (2015 District PFRS Pension Contribution) | (219,039) |
| Deferred Outflows (measurement date as of June 30, 2014) | 343,800 |
| Deferred Inflows (measurement date as of June 30, 2014) | (383,105) |
| Capital Assets Removal | (27,820) |
| Total prior period adjustment | (4,171,838) |
| Net Position as restated, January 1, 2015 | \$ (2,018,920) |

The fiduciary fund had understated assets of the Length of Service Award Program. This resulted in an adjustment to net assets of \$33,900.

NOTE 14: DEFICIT UNRESTRICTED NET POSITION

Restricted Net Position – The District had a deficit in restricted net position for Debt Service in the amount of \$(44,258) at December 31, 2015. The deficit is caused by a bond anticipation note which matured in 2014.

Unrestricted Net Position – As reflected on Exhibit A-1, Statement of Net position, a deficit in unrestricted net position of \$(2,409,707) existed as of December 31, 2015 for governmental activities. The primary causes of this deficit is the District recording of the long-term liability their proportionate share of the net pension liability. In accordance with full accrual accounting, which is the basis of accounting for Exhibit A-1, Statement of Net position, such liabilities are required to be recorded in the period in which they are incurred. However, in accordance with the rules and regulations that govern the District in the formulation of their annual budget (see Note 2), pension liabilities that relate to future services, or that are contingent on a specific event outside the control of the District and its employees, are funded in the period in which such services are rendered or in which such events take place. Therefore, this deficit in unrestricted net position for governmental activities does not indicate that the District is facing financial difficulties.

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Budgetary Comparison Schedule
For the year ended December 31, 2015

| | <u>Original Budget</u> | <u>Modified Budget</u> | <u>Actual Budgetary Basis</u> | <u>Variance</u> |
|--|----------------------------|----------------------------|---------------------------------------|-----------------|
| Revenues: | | | | |
| Miscellaneous anticipated revenue: | | | | |
| Investment income | \$ 1,000 | \$ 1,000 | \$ 311 | \$ (689) |
| Sale of assets | 20,000 | 20,000 | - | (20,000) |
| Other revenue | - | - | 4,288 | 4,288 |
| Total miscellaneous revenues | <u>21,000</u> | <u>21,000</u> | <u>4,599</u> | <u>(16,401)</u> |
| Operating grant revenues: | | | | |
| Supplemental fire service act | 3,257 | 3,257 | 3,257 | - |
| Other grant revenue | - | - | 31,840 | 31,840 |
| Total operating grant revenues | <u>3,257</u> | <u>3,257</u> | <u>35,097</u> | <u>31,840</u> |
| Uniform fire safety act revenues: | | | | |
| Annual registration fees | 75,000 | 75,000 | 44,897 | (30,103) |
| Penalties and fines | 3,000 | 3,000 | 13,735 | 10,735 |
| Other revenue | 57,246 | 57,246 | 23,351 | (33,895) |
| Total uniform fire safety act revenues | <u>135,246</u> | <u>135,246</u> | <u>81,983</u> | <u>(53,263)</u> |
| Total revenues | <u>159,503</u> | <u>159,503</u> | <u>121,679</u> | <u>(37,824)</u> |
| Amount raised by taxation to support district budget | <u>2,597,628</u> | <u>2,597,628</u> | <u>2,597,628</u> | <u>-</u> |
| Total anticipated revenues | <u>2,757,131</u> | <u>2,757,131</u> | <u>2,719,307</u> | <u>(37,824)</u> |
| Expenditures: | | | | |
| Operating appropriations: | | | | |
| Administration: | | | | |
| Salaries and wages | 64,000 | 62,700 | 62,637 | 63 |
| Fringe benefits | 74,873 | 40,873 | 40,510 | 363 |
| Other expenditures: | | | | |
| Professional fees | 99,500 | 90,300 | 90,210 | 90 |
| Elections | 1,000 | 2,200 | 2,132 | 68 |
| Office supplies and postage | 14,750 | 11,920 | 11,865 | 55 |
| Membership dues, subscriptions, licenses | 4,500 | 4,925 | 4,916 | 9 |
| Insurance | 73,000 | 70,500 | 70,419 | 81 |
| Operation | 2,500 | 6,300 | 6,281 | 19 |
| Total administration | <u>334,123</u> | <u>289,718</u> | <u>288,970</u> | <u>748</u> |
| Cost of operations and maintenance: | | | | |
| Salaries and wages | 1,154,577 | 1,187,577 | 1,187,330 | 247 |
| Fringe benefits | 663,317 | 739,317 | 739,183 | 134 |
| Other expenditures: | | | | |
| Conventions | - | 300 | 298 | 2 |
| Fire equipment | 30,000 | 5,487 | 5,458 | 29 |
| Fuel | 25,000 | 22,300 | 22,260 | 40 |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Budgetary Comparison Schedule
For the year ended December 31, 2015

| | <u>Original Budget</u> | <u>Modified Budget</u> | <u>Actual Budgetary Basis</u> | <u>Variance</u> |
|--|----------------------------|----------------------------|---------------------------------------|-----------------|
| Gear | 46,500 | 42,380 | 41,852 | 528 |
| Hydrant Rentals | 84,420 | 84,420 | 84,420 | - |
| Maintenance and repairs | 136,675 | 165,400 | 165,353 | 47 |
| Supplies | 8,000 | 1,000 | 985 | 15 |
| Training and education | 48,500 | 19,400 | 19,367 | 33 |
| Utilities | 35,300 | 25,300 | 24,493 | 807 |
| Volunteer fire company | 120,043 | 120,043 | 120,043 | - |
| Contingent expenses | 25,000 | 7,800 | 7,500 | 300 |
| Other non-bondable assets | 14,000 | 28,750 | 28,730 | 20 |
| Total cost of operations and maintenance | <u>2,391,332</u> | <u>2,449,474</u> | <u>2,447,272</u> | <u>2,202</u> |
| Operating appropriations offset with revenues: | | | | |
| Salaries and wages | 109,996 | 105,996 | 105,818 | 178 |
| Other expenditures: | | | | |
| Fire prevention bureau | 25,250 | 12,250 | 12,106 | 144 |
| Basic entitlement grant | 3,257 | 3,257 | 3,257 | - |
| Total operating appropriations offset with revenues | <u>138,503</u> | <u>121,503</u> | <u>121,181</u> | <u>322</u> |
| Length of service award program | 30,000 | 40,000 | 39,800 | 200 |
| Debt service for capital appropriations: | | | | |
| General obligation bonds | 70,000 | 70,000 | 70,000 | - |
| Bond anticipation notes | 38,200 | 38,200 | - | 38,200 |
| Interest on general obligation bonds | 18,445 | 18,745 | 18,608 | 137 |
| Interest on bond anticipaion notes | 1,528 | 1,528 | - | 1,528 |
| Total debt service for capital appropriations | <u>128,173</u> | <u>128,473</u> | <u>88,608</u> | <u>39,865</u> |
| Total operating appropriations | <u>3,022,131</u> | <u>3,029,168</u> | <u>2,985,831</u> | <u>43,337</u> |
| Excess (efficiency) of revenues over (under) expenditures | <u>(265,000)</u> | <u>(272,037)</u> | <u>(266,524)</u> | <u>5,513</u> |
| Fund balance, January 1 | <u>1,002,961</u> | <u>1,002,961</u> | <u>1,002,961</u> | - |
| Fund balance, December 31 | <u>\$ 737,961</u> | <u>\$ 730,924</u> | <u>\$ 736,437</u> | <u>\$ 5,513</u> |

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Schedule of the District's Proportionate Share of the Net Pension Liability
Public Employee's Retirement System
Last Ten Fiscal Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|-------------|
| District's proportion of the net pension liability (asset) | 0.00050% | 0.00153% | 0.00141% |
| Districts proportionate share of the net pension liability (asset) | \$ 111,674 | \$ 285,774 | \$ 269,325 |
| District's covered-employee payroll | \$ 38,580 | \$ 34,060 | \$ 105,552 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 289% | 839% | 255% |
| Plan fiduciary net position as a percentage of the total pension liability | 47.93% | 52.08% | 48.72% |

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. 3 OF THE TOWNSHIP OF JACKSON
 Schedule of District Contributions
 Public Employee's Retirement System
 Last Ten Fiscal Years**

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|---------------|---------------|
| Contractually required contribution | \$ 4,277 | \$ 12,583 | \$ 11,824 |
| Contributions in relation to the contractually required contribution | <u>4,277</u> | <u>12,583</u> | <u>11,824</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 38,580 | \$ 34,060 | \$ 105,552 |
| Contributions as a percentage of covered- employee payroll | 11% | 37% | 11% |

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

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
Schedule of the District's Proportionate Share of the Net Pension Liability
Police and Firemen's Retirement System
Last Ten Fiscal Years

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|--------------|
| District's proportion of the net pension liability (asset) | 0.02762% | 0.02852% | 0.02689% |
| District's proportionate share of the net pension liability (asset) | \$ 4,599,988 | \$ 3,587,317 | \$ 3,574,957 |
| District's covered-employee payroll | \$ 1,174,082 | \$ 1,111,003 | \$ 1,081,874 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 392% | 323% | 330% |
| Plan fiduciary net position as a percentage of the total pension liability | 56.31% | 62.41% | 58.70% |

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. 3 OF THE TOWNSHIP OF JACKSON
 Schedule of District Contributions
 Police and Firemen's Retirement System
 Last Ten Fiscal Years**

| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|----------------|----------------|----------------|
| Contractually required contribution | \$ 224,483 | \$ 219,039 | \$ 196,193 |
| Contributions in relation to the contractually required contribution | <u>224,483</u> | <u>219,039</u> | <u>196,193</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 1,174,082 | \$ 1,111,003 | \$ 1,081,874 |
| Contributions as a percentage of covered- employee payroll | 19% | 20% | 18% |

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. 3 OF THE TOWNSHIP OF JACKSON
Notes to the Required Supplementary Information
December 31, 2015

Public Employees' Retirement System (PERS)

Basis of Presentation - The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived in a report provided by KPMG dated April 14, 2016. 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 - Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees. The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. 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.

Police and Firemen's Retirement System (PFRS)

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 19, 2016. The full report is available by the State of New Jersey, Division of Pension and Benefits. Such preparation requires management of the Police and Firemen's Retirement System (PFRS) 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. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

Changes of assumptions - Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality with adjustments for mortality improvements from the base year of 2011 based on Projection Scale AA.

EXHIBIT I-1

FIRE DISTRICT NO. 3 OF THE TOWNSHIP OF JACKSON
 Long-Term Debt
 Schedule of Serial Bonds Payable
 For the year ended December 31, 2015

| Issue | Date of Issue | Amount of Issue | Annual Maturities | | Interest Rate | Balance January 01, 2015 | Issued | Retired | Balance December 31, 2015 |
|--------------------------------|---------------|-----------------|-------------------|--------|---------------|--------------------------|--------|-----------|---------------------------|
| | | | Date | Amount | | | | | |
| General Obligation Bonds, 2013 | 7/15/13 | \$ 700,000 | 7/1/16 | 70,000 | 3.10% | \$ 630,000 | \$ - | \$ 70,000 | \$ 560,000 |
| | | | 7/1/17 | 70,000 | 3.10% | | | | |
| | | | 7/1/18 | 70,000 | 3.10% | | | | |
| | | | 7/1/19 | 70,000 | 3.10% | | | | |
| | | | 7/1/20 | 70,000 | 3.10% | | | | |
| | | | 7/1/21 | 70,000 | 3.10% | | | | |
| | | | 7/1/22 | 70,000 | 3.10% | | | | |
| | | | 7/1/23 | 70,000 | 3.10% | | | | |
| | | | | | | \$ 630,000 | \$ - | \$ 70,000 | \$ 560,000 |



Board of Fire Commissioners
Fire District No. 3 of the Township of Jackson
Jackson, New Jersey 08527

We have audited the basic financial statements of the Fire District No. 3 of the Township of Jackson, County of Ocean, State of New Jersey for the year ended December 31, 2015. 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 \$36,000 from January 1, 2015 through June 30, 2015 and \$40,000 from July 1, 2015 through December 31, 2015, except by contract or agreement.

It is pointed out that the Members of the District have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

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

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

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. The results of our examination did not disclose any discrepancies.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$5,400 from January 1, 2015 through June 30, 2015 and \$6,000 from July 1, 2015 through December 31, 2015 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

The minutes indicate that quotes were requested for all items that required them.

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. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Examination of Cash Receipts

A test check of cash receipts was made.

Examination of Investments

An examination of investments held by the District was conducted to ensure all certificate of deposit balances as stated on the general ledger were accurate.

Budget

An examination of the District approved budget was conducted to ensure line items were not overspent.

*** Comment 2015-001:**

The debt service fund had a deficit fund balance at year end. This was due to the District not budgeting enough revenue to offset the prior year ending deficit fund balance.

Recommendation:

The District should raise the deficit of the debt service fund in the 2016 budget.

Management's Response:

The District will raise the deficit of the debt service fund in the 2016 budget.

General Ledger

The general ledger was complete with the required journal entries.

Examination of Inventory

A test of inventory receipts was made.

Comment 2015-002:

During our review of the District Internal Controls, it was noted that the District does not have formal policies and procedures to track inventory. This system should include all purchases and disposals of inventory as well as perform periodic inventory counts. At a minimum inventory counts should be performed at year end.

Recommendation:

The District should adopt a formal inventory policy. The inventory should be checked on a periodic basis and differences reconciled immediately.

Follow-Up of Prior Years' Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year findings. All prior year findings have been corrected with the exception of the findings above marked with an asterisk (*).

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

May 06, 2016
Toms River, New Jersey