

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
WITH
INDEPENDENT AUDITOR'S REPORT**

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON**

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

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INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners Township of Jackson, District No. 2

Report on the Financial Statements

We have audited the accompanying financial statements of the Board of Fire Commissioners, Township of Jackson, District No.2, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditing standards prescribed 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 opinion.

MOHEL ELLIOTT BAUER & GASS

A P R O F E S S I O N A L A S S O C I A T I O N
C E R T I F I E D P U B L I C A C C O U N T A N T S

Board of Fire Commissioners Township of Jackson, District No. 2

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Fire Commissioners, Township of Jackson, District No. 2, as of December 31, 2016, and the respective changes in financial position, and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

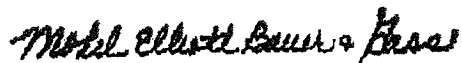
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 – 5 and 30 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2017, on our consideration of the Board of Fire Commissioners, Township of Jackson, District No. 2'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 Board of Fire Commissioners, Township of Jackson, District No. 2's internal control over financial reporting and compliance.



Lakewood, New Jersey
September 14, 2017

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Our discussion and analysis of District No. 2 Township of Jackson financial performance provides an overview of the District's financial activities for the year ended December 31, 2016. Please review it in conjunction with the Districts' basic financial statements which begin on Page 6.

Financial Highlights

- Total net position increased \$448,843, which represents a 21.79 percent increase. \$61,360 was the deficiency of revenues over expenditures in the general fund, \$188,638 was the deficiency of revenues over expenditures in restricted for capital projects, \$123,237 was the decrease in invested in capital assets, net of related debt and \$822,078 was the transfer of net position from Jackson Township Fire District No. 1.
- The amount raised by taxation was \$1,479,875 or 90.42 percent of all revenues. Fees under the Uniform Fire Safety Act, interest and other income amounted to \$156,819 or 9.58 percent of all revenues.
- Total program expenses have increased \$828,823 or 70.17 percent. The increase was primarily due to the consolidation of the two Districts. In addition, there was a noncash pension expense of \$173,978.

Using this Annual Report

This annual report consists of a series of financial statements. The Statements of Net Position and the Statements of Activities (on pages 6 and 7) provide information about the activities of the District as a whole. Fund financial statements are on page 9. These statements tell how these services were financed. Fund financial statements also report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds.

Reporting the District as a Whole

The Statements of Net Position and the Statements of Activities

Our analysis of the District as a whole begins on page 6. One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Activities report information about the District as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's *net position* and changes in them. You can think of the District's net position—the difference between assets and liabilities as one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net position is one indicator of whether its *financial health* is improving or deteriorating.

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Reporting the District's Most Significant Funds

Fund Financial Statements

Our analysis of the District's major funds begins on page 9. The fund financial statements provide detailed information about the most significant funds-not the District as a whole.

General Fund - Most of the District's basic services are reported in the general fund, which focuses on how money flows into and out of the funds and the balances left at year-end that are available for spending. The general fund statements provide a detailed *short-term view* of the District's general operations and the basic services it provides. General fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District as a Whole

The District's total net position increased \$448,843, to \$2,509,006. Details of the changes are reflected on page 7.

Original Versus Final Budget

Page 30 reflects the variances between the original and final budgeted amounts.

Final Budget Versus Actual Results

As reflected on page 30, the District operated within budgetary constraints. Actual expenses were under the final budget by \$57,956.

Capital Assets

At year end, the District had \$6,541,957 in total capital assets, an increase of \$199,266. During 2016, the District replaced the roof on the firehouse located on Miller Ave., \$161,200, installed four (4) new bay doors on the same firehouse, \$27,440, and purchased seven (7) Scott Air Packs, \$10,626.

Debt Administration

The Board entered into a lease/purchase agreement with Leasing 2, Inc. to purchase a 109' Aerial Ladder Truck. The terms of the lease require the principal repayment of \$460,000. The note bears interest at the rate of 2.790%.

The Board entered into a lease/purchase agreement with Kansas State Bank of Manhattan to purchase a 2008 Rosenbauer Fire Truck for \$474,750. The note bears interest at the rate of 5.76%.

For additional information please refer to page 16, capital lease obligations payable.

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
MANAGEMENT'S DISCUSSION AND ANALYSIS
(Continued)
FOR THE YEAR ENDED DECEMBER 31, 2016**

Economic Factors and Next Year's Budget and Rates

The District's governing body considered many factors when setting the 2017 budget and tax rates including the economy, the rate of inflation, debt service and planned future capital projects. The tax rate will increase .008 for 2017. The new tax rate will be .082 per \$100 of assessed valuation. The amount to be raised by taxation will increase \$165,039 to \$1,644,914.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board Clerk at 785 Miller Ave., Jackson NJ 08527.

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
STATEMENT OF NET POSITION
DECEMBER 31, 2016**

	<u>2016</u>
ASSETS	
Cash and cash equivalents	\$ 2,172,266
Accounts receivable	502,275
Prepaid expenses	69,588
Capital assets, net	<u>2,028,287</u>
Total assets	<u>4,772,416</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows - PERS	96,937
Deferred outflows - PFRS	<u>693,826</u>
Total deferred outflows of resources	<u>790,763</u>
Total assets and deferred outflows of resources	<u>5,563,179</u>
LIABILITIES	
Accounts payable and accrued expenses	254,390
Capital lease obligation payable	430,230
Due to fire company	12,838
Net pension liability - PERS	299,477
Net pension liability - PFRS	<u>1,777,272</u>
Total liabilities	<u>2,774,207</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - PERS	140,066
Deferred inflows - PFRS	11,650
Deferred inflows - other	<u>128,250</u>
Total deferred inflows of resources	<u>279,966</u>
Total liabilities and deferred inflows of resources	<u>3,054,173</u>
NET POSITION	
Invested in capital assets, net of related debt	1,598,057
Restricted for capital projects	593,670
Unrestricted	<u>317,279</u>
Total net position	<u>\$ 2,509,006</u>

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

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON**

**STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	2016
EXPENSES	
Personnel services	\$ 1,190,575
Material and services	529,628
Debt service - interest	23,209
Capital outlays	4,181
Depreciation	262,336
Total program expenses	2,009,929
 PROGRAM REVENUES	
Charges for services	122,031
Net program expenses	1,887,898
 GENERAL REVENUES	
Amount raised by taxation	1,479,875
Interest income	3,639
Other income	31,149
Total general revenues	1,514,663
 Increase (decrease) in net position	 (373,235)
 Net position - beginning of year	 2,060,163
Transfer from Jackson Fire District No. 1	822,078
Net position beginning of year, as restated	2,882,241
 Net position - end of year	 \$ <u>2,509,006</u>

The accompanying notes are an integral
part of these financial statements

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016**

	2016
Cash flows from operating activities:	
Cash received from operations	\$ 1,122,413
Cash paid to suppliers and employees	(1,670,529)
Interest income received	3,639
Other income	31,149
Net cash provided by operating activities	(513,328)
Cash flow from investing activities:	
Capital expenditures	(199,264)
Net cash provided (used) by investing activities	(199,264)
Cash flow from financing activities:	
Principal payments - capital lease	(113,813)
Net cash provided (used) in financing activities	(113,813)
Net increase (decrease) in cash and cash equivalents	(826,405)
Cash and cash equivalents at beginning of year	2,998,671
Cash and cash equivalents at end of year	\$ 2,172,266
Reconciliation of change in net position to net cash provided (used) by operating activities:	
Change in net position	\$ (373,235)
Adjustments to reconcile change in net position to cash provided by operating activities	
Depreciation	262,336
Noncash pension adjustment	173,978
Change in assets and liabilities:	
(Increase) decrease in:	
Accounts receivable	(473,793)
Prepaid expenses	(20,887)
Increase (decrease) in:	
Accounts payable and accrued expenses	(66,413)
Due to fire company	(9,614)
Deferred inflows - other	(5,700)
Total adjustments	(140,093)
Net cash provided by operating activities	\$ (513,328)

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

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
YEAR ENDED DECEMBER 31, 2016**

	GENERAL FUND	CAPITAL FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS	STATEMENT OF NET POSITION
ASSETS					
Cash and cash equivalents	\$ 1,578,596	\$ 593,670	\$ 2,172,266	\$	\$ 2,172,266
Accounts receivable	502,275		502,275		502,275
Prepaid expenses	69,588		69,588		69,588
Capital assets, net			-	2,028,287	2,028,287
Total assets	<u>2,150,459</u>	<u>593,670</u>	<u>2,744,129</u>	<u>2,028,287</u>	<u>4,772,416</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows - PERS	96,937		96,937		96,937
Deferred outflows - PFRS	693,826		693,826		693,826
Total deferred outflows of resources	<u>790,763</u>	<u>-</u>	<u>790,763</u>	<u>-</u>	<u>790,763</u>
Total assets and deferred outflows of resources	<u>2,941,222</u>	<u>593,670</u>	<u>3,534,892</u>	<u>2,028,287</u>	<u>5,563,179</u>
LIABILITIES					
Accounts payable and accrued expenses	254,390		254,390		254,390
Capital lease obligation payable			-	430,230	430,230
Due to fire company	12,838		12,838		12,838
Net pension liability - PERS	299,477		299,477		299,477
Net pension liability - PFRS	1,777,272		1,777,272		1,777,272
Total liabilities	<u>2,343,977</u>	<u>-</u>	<u>2,343,977</u>	<u>430,230</u>	<u>2,774,207</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows - PERS	140,066		140,066		140,066
Deferred inflows - PFRS	11,650		11,650		11,650
Deferred inflows - other	128,250		128,250		128,250
Total deferred outflows of resources	<u>279,966</u>	<u>-</u>	<u>279,966</u>	<u>-</u>	<u>279,966</u>
Total liabilities and deferred inflows of resources	<u>2,623,943</u>	<u>-</u>	<u>2,623,943</u>	<u>430,230</u>	<u>3,054,173</u>
FUND BALANCES					
Committed - Capital Projects		593,670	593,670	(593,670)	-
Assigned - other	37,838		37,838	(37,838)	-
Assigned - Designated for subsequent year's expenditures	655,500		655,500	(655,500)	-
Unassigned	(376,059)		(376,059)	376,059	-
Total fund balances	<u>317,279</u>	<u>593,670</u>	<u>910,949</u>	<u>(910,949)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 2,941,222</u>	<u>\$ 593,670</u>	<u>\$ 3,534,892</u>		
NET POSITION					
Invested in capital assets, net of related debt				1,598,057	1,598,057
Restricted for capital projects				593,670	593,670
Unrestricted				317,279	317,279
Total net position				<u>\$ 2,509,006</u>	<u>\$ 2,509,006</u>

The accompanying notes are an integral part of these financial statements

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT
OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	<u>General Fund</u>	<u>Restricted for Capital Projects</u>	<u>Total</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues:					
Amount raised by taxation	\$ 1,479,875	\$ -	\$ 1,479,875	\$ -	\$ 1,479,875
Interest income	3,639		3,639		3,639
Charges for services	122,031		122,031		122,031
Other income	31,149		31,149		31,149
Total revenues	<u>1,636,694</u>	<u>-</u>	<u>1,636,694</u>		<u>1,636,694</u>
Expenditures:					
Personnel services	1,016,597		1,016,597	173,978	1,190,575
Materials and services	529,628		529,628		529,628
Capital Outlays	14,807	188,638	203,445	(199,264)	4,181
Depreciation			-	262,336	262,336
Debt service	137,022		137,022	(113,813)	23,209
Total expenditures	<u>1,698,054</u>	<u>188,638</u>	<u>1,886,692</u>	<u>123,237</u>	<u>2,009,929</u>
Excess (deficiency) of revenues over expenditures before noncash pension expense	(61,360)	(188,638)	(249,998)		
Noncash pension expense	173,978		173,978	(173,978)	-
Excess (deficiency) of revenues over expenditures	(235,338)	(188,638)	(423,976)	423,976	-
Change in net position			-	(373,235)	(373,235)
Fund balance/net position					
Beginning of year - 2016	393,157	718,924	1,112,081	948,082	2,060,163
Transfer from Jackson Fire District No. 1	159,460	63,384	222,844	599,234	822,078
End of year - 2016	<u>\$ 317,279</u>	<u>\$ 593,670</u>	<u>\$ 910,949</u>	<u>\$ 1,598,057</u>	<u>\$ 2,509,006</u>

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

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON**

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Board of Fire Commissioners District No. 2 (the "District") is a corporate body created for the purpose of prevention and extinguishment of fires within the District. The District is governed by Commissioners ("Board") that acts as the governing body. The Board is comprised of five elected Commissioners.

The Board of Commissioners annually appoints the Chair(person) of the Board from existing board members. The Chair responsibilities are to preside at all meetings of the Board; be the chief officer of the District; perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the District, its officers and employees to the extent set forth in their bylaws.

The accompanying statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The financial statements include all organizations, activities, and functions that comprise the District.

Fund Accounting - The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The District only uses governmental funds.

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

The District reports the following major governmental funds:

General Fund - The General Fund is used to account for all financial resources of the District except those required to be accounted for in another fund. The general fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws and the bylaws of the District.

Restricted for Capital Projects - Restricted for Capital Projects is used to account for funds restricted for capital projects.

Invested in Capital Assets, Net of Related Debt - Invested in capital assets, net of related debt represents the District's capital assets less accumulated depreciation, net of related debt.

Basis of Accounting - The financial statements of the Board of Fire Commissioners District No. 2 Township of Jackson have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories of Supplies - Purchases of materials and supplies are recognized and recorded as expenditures when they are acquired, regardless of when used.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of reporting cash flows, cash and cash equivalents include cash on hand and investments with an initial maturity of three months or less.

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 or services.

The encumbered appropriation authority carries over into the next year. An entry will be made at the beginning of the next year to increase the appropriation reflected in the adopted budget by the outstanding encumbrance amount as of the current year end. The encumbrances at December 31, 2016 totaled \$37,838.

Related Party Transactions - The Board leases facilities from Cassville Volunteer Fire Company No. 1. The lease is for the term of one year and is automatically renewable from year to year unless either party notifies the other by written notice prior to the expiration of the term that the lease will not be renewed. Rental is paid in the amount of \$30,000 per annum. In addition, the Board has entered into a fire protection service agreement with the Whitesville Volunteer Fire Company No. 1. The Whitesville Volunteer Fire Company agrees to provide fire protection/fire suppression services to all persons and property situated within the boundaries of Fire District No. 2 in the Township of Jackson. Consideration for these services is \$10,000 per annum.

Reservations of Fund Balance - The District records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore, are not available for appropriations or expenditure in the general fund balance sheet. Unrestricted net position indicates that portion of fund equity, which is available for appropriations, in future periods. Net position reserves have been established for capital projects.

Net Position - Net position presents the difference between assets and liabilities in the statements of net position. Net position invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets - Capital assets generally result from expenditures in the reserve for capital projects. These assets are reported on the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not.

Reclassifications - Certain reclassifications have been made to the 2015 financial statements to conform with the 2016 presentation.

Fund Balances - In accordance with Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Fire District classifies governmental fund balances as follows:

Nonspendable Fund Balance - Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance - Fund balance is reported as restricted when constraints placed on the use of resources are either (1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments; or (2) imposed by law through constitution provisions or enabling legislation.

Committed Fund Balance - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority are reported as committed fund balance. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same type of action (e.g., legislation) it employed to previously commit these amounts.

Assigned Fund Balance - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance - Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

Deferred Outflows and Deferred Inflows of Resources - Deferred outflows of resources represents a consumption of net position that is applicable to a future reporting period(s). Deferred outflows of resources will not be recognized as an outflow of resources (expenses/expenditure) until then.

Deferred inflows of resources represents an acquisition of net position that is applicable to a future reporting period(s). Deferred inflows of resources will not be recognized as an inflow of resources (revenue) until that time.

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

Subsequent Events - The District has evaluated subsequent events through September 14, 2017 the date the financial statements were available to be issued.

Consolidation of Fire District No. 1 and Fire District No. 2 - By Resolutions the Commissioners of Fire District No. 1, Township of Jackson and the Commissioners of Fire District No.2, Township of Jackson authorized the consolidation of the two Districts. Jackson Township Fire District No. 1 has been dissolved. Effective July 1, 2015 District No. 2 assumed the role of LEA for the two Districts. The Town Council of the Township of Jackson has approved the Board's request for dissolution effective January 1, 2016. Effective January 1, 2016 Fire District No. 1 ceased to exist. Fire District No. 2 took title to all of District No. 1's assets and assumed responsibility for all liabilities. All existing fire houses remained open and functional. All District No. 1 employees became employees of District No. 2. The Local Finance Board approved the application for dissolution and subsequent consolidation of the two Districts.

Transfer from Jackson Fire District No. 1

Net position		
Invested in capital assets, net of related debt	\$	599,234
Restricted for capital projects		63,384
Unrestricted		<u>159,460</u>
	\$	<u><u>822,078</u></u>

Statement of Net Position and Governmental Funds Balance Sheet - Adjustments

		<u>2016</u>
Fund balances - page 9	\$	910,949
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		2,028,287
Capital lease obligations payable - not reported in the funds		<u>(430,230)</u>
Net position of governmental activities	\$	<u><u>2,509,006</u></u>

(Continued)

BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances in the Government Fund to the Statement of Activities

		<u>2016</u>	
Excess of revenues over expenditures - page 10	\$	(423,976)	
Depreciation expense		(262,336)	
Capital outlays		199,264	
Principal payments on capital lease obligation payable		<u>113,813</u>	
Total adjustments		<u>50,741</u>	
Change in net position	\$	<u>(373,235)</u>	

LENGTH OF SERVICE AWARDS PROGRAM

The Length of Service Awards Program (LOSAP) for the Board of Fire Commissioners of Fire District No. 2, of the Township of Jackson, was created by a Fire District Resolution pursuant to Section 457 (e)(11)(13) of the Internal Revenue Code of 1986 as amended, except for provisions added by reason of the Length of Service Award Program as enacted into federal law in 1997.

CAPITAL ASSETS

Capital assets together with accumulated depreciation and estimated useful lives consists of the following:

		<u>2016</u>	<u>Estimated Useful Life (Years)</u>
Assets			
Land	\$	165,000	
Buildings and leasehold improvements		2,154,258	20 - 30
Apparatus		3,681,236	10 - 25
Fire equipment		<u>541,463</u>	10 - 25
		6,541,957	
Less: accumulated depreciation		<u>(4,513,670)</u>	
	\$	<u>2,028,287</u>	

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2016
Accounts payable	\$ 64,193
Accrued LOSAP	26,784
Accrued vacation	45,628
Accrued pension	102,290
Accrued expenses	15,495
	\$ 254,390

CAPITAL LEASE OBLIGATIONS PAYABLE

Voters approved the purchase of a fire truck for an amount not exceeding \$900,000 at a regular fire district election held on February 18, 2012. The cost of the truck was financed by a capital lease/purchase and a down payment coming from the Reserve for Future Capital Outlays. On June 15, 2012 the Board entered into a lease/purchase agreement with Leasing 2, Inc. to purchase a 109' Aerial Ladder Truck. The terms of the lease require the principal repayment of \$460,000 to be paid in seven annual installments beginning June 1, 2013 at 2.790%.

The Board entered into a lease/purchase agreement with Kansas State Bank of Manhattan to purchase a 2008 Rosenbauer Fire Truck for \$474,750. The terms of the lease require the principal repayment in ten annual installments beginning March 15, 2011 at 5.76%

The following schedule of future lease payments under the leases together with the present value of the lease payments as of December 31, 2016:

Due Date	Rosenbauer Fire Truck	109' Aerial Ladder Truck	Totals
2017	\$ 63,772	\$ 73,250	\$ 137,022
2018	63,772	73,250	137,022
2019	63,772	73,250	137,022
2020	63,772		63,772
Total lease payments	255,088	219,750	474,838
Less: amount representing interest	(32,892)	(11,716)	(44,608)
Present value of lease payments	\$ 222,196	\$ 208,034	\$ 430,230

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

SITE LEASE WITH OPTION - CELL PHONE TOWER

The Board of Fire Commissioners, District No. 1, Township of Jackson, which is now a part of District No. 2 (landlord), entered into a rental lease agreement with Mobilite Investments II, LLC (tenant). Term of lease is thirty (30) years commencing July 17, 2009. The purchase price paid at closing was \$171,000. The rental is being amortized over three hundred sixty (360) months at \$475 per month.

Permitted Use - Premises may be used by tenant for transmission and reception of radio communication signals.

FAIR VALUE MEASUREMENTS

The District uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosure.

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The carrying amount of cash, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term maturities of these instruments.

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN

Public Employees' Retirement System (PERS)

Plan Description - The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

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

The following represents the membership tiers for PERS:

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

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

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Public Employees' Retirement System (PERS) - (Continued)

Contributions - The contribution policy for PERS is set by N.J.S.A. 15 A 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 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.

Three-Year Trend Information for PERS

<u>Year Funding</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2016	\$ 8,983	100%	\$ 299,477
2015	7,882	100%	205,803
2014	7,391	100%	167,858

Components of Net Pension Liability - As of December 31, 2016, the District reported a liability of \$299,477 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, to the measurement date of June 30, 2016. The District's proportion of the net position liability was based on the District's actual contributions to the plan relative to the total of all participating employer's contributions for the year ended June 30, 2016. The District's proportion measured as of June 30, 2016 was .00101% which was an increase of .00009 from its proportion measured as of June 30, 2015.

(Continued)

BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

PENSION PLAN - (Continued)

Public Employees' Retirement System (PERS) - (Continued)

Collective Balances as of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Actuarial valuation date	July 1, 2015	July 1, 2014
Deferred outflows of resources	\$ 96,937	\$ 30,229
Deferred inflows of resources	\$ 140,066	\$ 184,082
Net pension liability	\$ 299,477	\$ 205,803
District's portion of the plan's total net pension liability	0.00101%	0.00092%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the District recognized pension benefit of \$8,077. As of December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 62,036	\$
Net difference between expected and actual experience	5,569	
Net difference between projected and actual earnings on pension plan investments	11,419	
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>17,913</u>	<u>140,066</u>
Total	<u>\$ 96,937</u>	<u>\$ 140,066</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>
2017	\$ 9,710
2018	9,710
2019	11,249
2020	9,451
2021	<u>3,009</u>
Total	<u>\$ 43,129</u>

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Public Employees' Retirement System (PERS) - (Continued)

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

Measurement date	June 30, 2016
Actuarial valuation date	July 1, 2015
Inflation rate	3.08%
Salary increases based on age:	
2012 - 2021	1.65 - 4.15%
Thereafter	2.65 - 5.15%
Investment rate of return	7.65%

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 and a one year static projection based on mortality improvements Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

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

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

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Public Employees' Retirement System (PERS) - (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year.

State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Public Employees' Retirement System (PERS) - (Continued)

Sensitivity of the District's proportionate share of the Net Pension Liability to Changes in the Discount

Rate - The following presents the District's proportionate share of the net pension liability as of June 30, 2016 calculated using the discount rate as disclosed above, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
District's proportionate share of the net pension liability	\$ 366,973	\$ 299,477	\$ 243,744

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/annrpts.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:

Tier	Definition
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.

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.

(Continued)

BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
 (Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

PENSION PLAN - (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

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 2016, 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.

Three-Year Trend Information for PFRS

<u>Year Funding</u>	<u>Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2016	\$ 75,858	100%	\$ 1,777,272
2015	\$ 58,129	100%	\$ 1,191,149
2014	\$ 51,711	100%	\$ 846,898

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

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 of 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, 2016, the District reported a liability of \$1,777,272 for its proportionate share of the PFRS new pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, to the measurement date of June 30, 2016. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The District's proportion measured as of December 31, 2016, was .00930%, which was a decrease of .00215% from its proportion measured as of December 31, 2015.

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

	<u>2016</u>	<u>2015</u>
Actuarial valuation date	July 1, 2015	July 1, 2014
Deferred Outflows of Resources	\$ 693,826	\$ 318,096
Deferred Inflows of Resources	\$ 11,650	\$ 31,005
Net Pension Liability	\$ 1,777,272	\$ 1,191,149
District's portion of the Plan's total net pension liability	0.00930%	0.00715%

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the District recognized pension expense of \$266,896. At December 31, 2016, 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	\$ 246,167	\$ -
Net difference between expected and actual experience		11,650
Net difference between projected and actual earnings on pension plan investments	124,530	
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>323,129</u>	
	<u>\$ 693,826</u>	<u>\$ 11,650</u>

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

<u>Year Ended June 30:</u>		<u>PFRS</u>
2017	\$	163,299
2018		163,299
2019		220,025
2020		130,105
2021		<u>5,448</u>
Total	\$	<u>682,176</u>

(Continued)

BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016

PENSION PLAN - (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Additionally, the State's proportionate share of the net pension liability attributable to the District is \$149,247 as of December 31, 2016. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation a of July 1, 2015, to the measurement date of June 30, 2016. The State's proportion of the net pension liability associated with the District 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, 2016 .0093%, which was a decrease of .0022% from its proportion measured as of June 30, 2015, which is the same proportion as the District's.

District's Proportionate Share of the Net Pension Liability	\$ 1,777,272
State's Proportionate Share of the New Pension Liability Associated With the District	<u>149,247</u>
Total Net Pension Liability	<u>\$ 1,926,519</u>

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

	<u>PFRS</u>
Measurement date	June 30, 2016
Actuarial valuation date	July 1, 2015
Interest date	3.08%
Salary increases through 2026	2.10 - 8.98% based on age
Investment rate of return	7.65%

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Pre-retirement mortality rates were based on the RP-2000 Pre-Retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability mortality rates were based on special mortality tables used for the period after disability retirement.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%
Total	100.00%	

(Continued)

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON
(Continued)
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016**

PENSION PLAN - (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.55% as of June 30, 2016. This single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contribution and local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2050. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2050, 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 (4.55%) or 1-percentage-point higher (6.55%) than the current rate:

	<u>1% Decrease</u> <u>(4.55%)</u>	<u>Current Discount</u> <u>Rate (5.55%)</u>	<u>1% Increase</u> <u>(6.55%)</u>
District's proportionate share of the net pension liability	\$ 2,291,665	\$ 1,777,272	\$ 1,357,818

(Continued)

SUPPLEMENTARY INFORMATION

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON**

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED DECEMBER 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Amount raised by taxation	\$ 1,479,875	\$ 1,479,875	\$ 1,479,875	\$ -
Interest income	3,000	3,000	3,639	639
Uniform fire safety act	71,973	71,973	122,031	50,058
Miscellaneous revenue	18,000	18,000	31,149	13,149
Unrestricted net position utilized	221,000	221,000	221,000	-
Total revenues	<u>1,793,848</u>	<u>1,793,848</u>	<u>1,857,694</u>	<u>63,846</u>
Expenditures				
Commissioners salaries	8,750	8,750	8,750	-
Administrative salaries	160,906	180,906	180,584	322
Firefighters salaries	439,682	457,682	457,285	397
Purchase of assets not included as capital outlays	96,900	67,900	52,645	15,255
PERS/PFRS expense	66,011	85,011	84,841	170
Employee benefits	193,127	232,127	231,804	323
Office expense	4,000	8,000	7,652	348
Professional services	50,000	55,000	54,179	821
Physicals	8,000	14,000	13,211	789
Insurance	155,000	185,000	184,597	403
Maintenance and repairs	140,000	118,000	117,759	241
Supplies	10,000	11,000	10,032	968
Fire support contract	40,500	40,500	40,000	500
Training and education	15,000	15,000	5,178	9,822
Uniforms and personal equipment	25,000	25,000	17,899	7,101
Utilities	60,000	36,000	35,418	582
Fire bureau expenses	4,777	11,777	10,982	795
Fuel	25,000	13,000	12,700	300
Hydrant rental	38,000	38,000	34,463	3,537
Election	1,500	1,500	1,356	144
Advertising	2,500	3,500	2,591	909
Travel	200	200	-	200
Uniform fire safety act	71,973	8,973	8,160	813
Capital appropriations	-	-	-	-
Debt service appropriations	137,022	137,022	137,022	-
LOSAP	40,000	40,000	26,784	13,216
Total expenditures	<u>1,793,848</u>	<u>1,793,848</u>	<u>1,735,892</u>	<u>57,956</u>
Excess of revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 121,802</u>	<u>\$ 121,802</u>

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON**

STATISTICAL INFORMATION

PROPERTY TAX LEVIES:

Following is a tabulation of district assessed valuations, tax levies and property tax rates per \$100 of assessed valuations for the current and preceding year:

<u>Calendar Year</u>	<u>Valuations (Unaudited)</u>	<u>Assessed Total Tax Levy</u>	<u>Property Tax Rates (Per \$100)</u>
12/31/2016	\$ 2,025,913,689	\$ 1,479,875	\$ 0.082
12/31/2015	\$ 2,013,410,500	\$ 1,131,931	\$ 0.074

UNRESTRICTED NET POSITION:

Following is a tabulation of unrestricted net position and subsequent budget action thereon for the current and preceding year:

<u>Calendar Year Ended</u>	<u>End of Calendar Year</u>	<u>Assigned Utilization in Subsequent Budget</u>	<u>Unassigned</u>
12/31/2016	\$ 317,279	\$ 655,500	\$ (338,221)
12/31/2015	\$ 2,060,163	\$ 221,000	\$ 1,839,163

**BOARD OF FIRE COMMISSIONERS
DISTRICT NO. 2
TOWNSHIP OF JACKSON

ROSTER OF OFFICIALS**

<u>Name</u>	<u>Amount of Dishonesty Bond</u>
<u>Board of Commissioners</u>	
Vincent Rubio, President	\$ 3,000,000
John Ryan, Vice President	\$ 3,000,000
Robert Redington, Treasurer	\$ 3,000,000
John Poppe, II, Secretary	\$ 3,000,000
Martin Flemming, Commissioner	\$ 3,000,000

Surety Name

VFIS

**Board of Fire Commissioners
Township of Jackson, District No. 2**

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on and Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

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, the financial statements of the Board of Fire Commissioners, Township of Jackson, District No. 2, as of and for the year ended December 31, 2016, and the related notes to the financial statements which collectively comprise the Board of Fire Commissioners, Township of Jackson, District No. 2's basic financial statements, and have issued our report thereon dated September 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board of Fire Commissioners, Township of Jackson, District No. 2'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board of Fire Commissioners, Township of Jackson, District No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board of Fire Commissioners, Township of Jackson, District No. 2'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

MOHEL ELLIOTT BAUER & GASS

A P R O F E S S I O N A L A S S O C I A T I O N

CERTIFIED PUBLIC ACCOUNTANTS

Board of Fire Commissioners Township of Jackson, District No. 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Fire Commissioners, Township of Jackson, District No. 2's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Mohe Elliott Bauer & Gass

Lakewood, New Jersey
September 14, 2017