

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

Financial Statements

For the year ended December 31, 2016

(With Independent Auditor's Report thereon)

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

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-4
Management's Discussion and Analysis	5-8
District Wide Statement of Net Position	9
District Wide Statement of Activities	10
Governmental Funds Balance Sheet	11
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance	12-13
Governmental Funds Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	14
Fiduciary Funds Statement of Net Position	15
Fiduciary Funds Statement of Changes in Net Position	16
Notes to Financial Statements	17-39
Required Supplementary Information:	
Budgetary Comparison Schedule	40-41
Schedule of the District's Proportionate Share of the Net Pension Liability – PERS	42
Schedule of District Contributions – PERS	43
Notes to the Required Supplementary Information	44
Long-Term Debt Schedule of Serial Bonds Payable	45
Long-Term Debt Schedule of Obligations under Capital Leases	46
General Comments and Recommendations	47-48

INDEPENDENT AUDITOR'S REPORT

Board of Fire Commissioners
Fire District No. 1 of the Township of Middle
County of Cape May
Cape May Court House, New Jersey 08210

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. 1 of the Township of Middle, County of Cape May, State of New Jersey, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2017, on our consideration of the Fire District No. 1 of the Township of Middle's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Fire District No. 1 of the Township of Middle's internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 19, 2017
Toms River, New Jersey

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

Board of Fire Commissioners
Fire District No. 1 of the Township of Middle:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fire District No. 1 of the Township of Middle, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Fire District No. 1 of the Township of Middle's basic financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fire District No. 1 of the Township of Middle's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fire District No. 1 of the Township of Middle's internal control. Accordingly, we do not express an opinion on the effectiveness of Fire District No. 1 of the Township of Middle'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. We consider the deficiencies described in the general comments and recommendations to be a significant deficiencies as finding 2016-01.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fire District No. 1 of the Township of Middle'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 two instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs State of New Jersey and which are described in the comments and recommendations as item 2016-01.

Purpose of this Report

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

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 19, 2017
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED

The District provides fire protection services to a 70 square mile area of Middle Township. The population of the District is approximately 16,405. The District is a separate government body known as a Special District and is governed by an elected board of Commissioners. Fire districts are governed by *N.J.S.A.40A:14-70* et al. and organized as a taxing authority charged with the responsibility of providing resources necessary to provide fire-fighting services to the residents within its territorial location. This section of the District's financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended.

Description of the Basic Financial Statements

The financial statements consist of the following parts: Management's discussion and analysis; the basic financial statements consisting of government-wide financial statements, and fund financial statements (governmental and fiduciary); notes to the financial statements; and required supplementary information.

The basic government-wide and fund financial statements present the financial results on different methods of accounting. Included in the financial statements are reconciliations that explain the difference between the two methods.

Government-wide financial statements are prepared on the accrual basis of accounting and economic resources focus. The required financial statements are: Statement of Net Position (Exhibit A-1) and Statement of Activities (Exhibit A-2). The Statement of Net Position reports all assets and liabilities, both financial and capital, and short-term and long-term of the District. The Statement of Activities reports all revenue and expenses during the year, regardless of when cash is received or paid. This form of reporting is new this fiscal year and will continue in the future.

Governmental funds financial statements are prepared on the modified accrual basis of accounting and current financial resources focus. This the traditional form for our financial statements. The required financial statements are: Balance Sheet (Exhibit B-1) and Statement of Revenues, Expenditures, and Changes in Fund Balances (Exhibit B-3). The Balance Sheet shows only assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during or soon after the end of the year.

Reconciliation of the Governmental Fund Balance Sheet to the Government-wide Statement of Net Position (Exhibit B-1) explains the differences between the two balance sheets. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities, traces the change in fund balances to the change in net position report in Exhibit B-2A.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities as the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term in-flows and out-flows of

spendable resources, as well as on balances of spendable resources available at the end of the year. The District maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund and debt service fund, all of which are considered major funds.

Fiduciary Fund

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The reporting focus is on net position and changes in net position and are reported using accounting principles similar to proprietary funds.

The District's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Expendable Trust Fund

An Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent. Expendable Trust Funds include: Length of Service Award Program

Condensed Government-Wide Financial Data

	2016	2015	Percentage Change
ASSETS:			
Unrestricted Current Assets	\$ 847,205	\$ 832,630	1.75%
Capital Assets, Net of Accumulated Deprecation	<u>6,849,342</u>	<u>7,076,598</u>	-3.21%
Total Assets	<u>\$ 7,696,547</u>	<u>\$ 7,909,228</u>	-2.69%
DEFERRED OUTFLOWS			
Deferred outflows related to pensions	144,530	65,223	121.59%
Deferred outflows related to refunding of debt	<u>123,649</u>	<u>-</u>	100.00%
Total Deferred Outflows	<u>268,179</u>	<u>65,223</u>	311.17%
Total Assets and Deferred Outflows	<u>\$ 7,964,726</u>	<u>\$ 7,974,451</u>	-0.12%
LIABILITIES:			
Current Liabilities	\$ 551,173	\$ 538,818	2.29%
Noncurrent Liabilities	<u>4,556,705</u>	<u>4,664,158</u>	-2.30%
Total Liabilities	<u>5,107,878</u>	<u>5,202,976</u>	-1.83%

Condensed Government-wide Financial Data (continued):

	2016	2015	Percentage Change
DEFERRED INFLOWS			
Deferred inflows related to pensions	<u>101,013</u>	<u>102,271</u>	-1.23%
Total Deferred Outflows	<u>101,013</u>	<u>102,271</u>	-1.23%
Total Liabilities and Deferred Inflows	<u>5,208,891</u>	<u>5,305,247</u>	-1.82%
NET POSITION:			
Net Investment in Capital Assets	2,378,818	2,419,471	-1.68%
Unrestricted Net Position	<u>377,017</u>	<u>249,733</u>	50.97%
Total Net Position	<u>2,755,835</u>	<u>2,669,204</u>	3.25%
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 7,964,726</u>	<u>\$ 7,974,451</u>	-0.12%
	2016	2015	Percentage Change
Expenditures Governmental Activities, Net of Program Revenues	\$ (1,174,613)	\$ (1,035,064)	13.48%
General Revenues:			
Property Taxes	1,216,635	1,216,635	0.00%
Accrued premium on bond refunding	32,453	-	100.00%
Miscellaneous	8,792	-	100.00%
Operating Grant Revenue	<u>3,365</u>	<u>3,365</u>	0.00%
Total General Revenues	<u>1,261,245</u>	<u>1,220,000</u>	3.38%
Change in Net Position	<u>\$ 86,632</u>	<u>\$ 184,936</u>	-53.16%

Financial Analysis of the District as a Whole

The District's assets decreased by \$9,725 for the fiscal year ended December 31, 2016 from the prior year. Of the \$2,755,835 in net position, \$2,378,818 is invested in capital assets (net of accumulated depreciation and related debt).

Budgetary Highlights

Total General Fund revenues were \$8,990 or 0.67% more than budgeted.

Total General Fund expenditures were \$27,835 less than the amount budgeted. This was primarily due to the conservative spending.

Capital Lease Payable

At year-end the District has \$334,036 in capital leases payable. Detailed future payment information can be found in Note 6 to the financial statements.

During the year ended December 31, 2016, the District decreased the capital lease payable by \$78,093.

Economic Factors and Next Year's Budget

The District's main source of revenue is property taxes. The District expects property tax revenues to stay relatively flat for the fiscal year ending December 31, 2017, with total amount to be raised at \$1,216,283. Budgeted expenditures are expected to increase 0.0055% to \$1,532,321.

Contacting the District's Financial Management

This financial statement is designed to provide a general overview of the District's finances. If you have questions about this financial statement or need additional financial information, contact the District's office at 112 A Hand Avenue, Cape May Court House, New Jersey 08210.

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

	<u>Governmental Activities</u>
	December 31, 2016
Assets:	
Current assets:	
Cash	\$ 847,205
Total current assets	<u>847,205</u>
Capital assets (net of depreciation)	<u>6,849,342</u>
Total assets	<u>7,696,547</u>
Deferred outflows of resources:	
Deferred outflows related to pensions	144,530
Deferred outflows related to refunding of debt	<u>123,649</u>
Total deferred outflows of resources	<u>268,179</u>
Total assets and deferred outflows of resources	<u>7,964,726</u>
Liabilities:	
Current liabilities:	
Accounts payable	29,054
Accrued interest	68,710
Current portion - capital leases	163,409
Current portion - bond obligations	<u>290,000</u>
Total current liabilities	<u>551,173</u>
Non-current liabilities:	
Bond obligations	3,846,489
Capital leases	170,626
Pension payable	16,615
Net pension liability	<u>522,975</u>
Total non-current liabilities	<u>4,556,705</u>
Total liabilities	<u>5,107,878</u>
Deferred inflows of resources:	
Deferred inflows related to pensions	<u>101,013</u>
Total deferred inflows of resources	<u>101,013</u>
Total liabilities and deferred inflows of resources	<u>5,208,891</u>
Net position:	
Net investments in capital assets	2,378,818
Unrestricted net position:	
Designated for subsequent year's expenditures	187,273
Undesignated	<u>189,744</u>
Total net position	<u>\$ 2,755,835</u>

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Statement of Activities
December 31, 2016

	<u>Governmental Activities</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>December 31, 2016</u>
Government activities:			
Operation appropriations:			
Administration	\$ (114,860)	\$ -	\$ (114,860)
Costs of operations and maintenance	(1,048,915)	120,604	(928,311)
Operating appropriations offset with revenues	<u>(131,442)</u>	<u>-</u>	<u>(131,442)</u>
Total government activities	<u>(1,295,217)</u>	<u>120,604</u>	<u>(1,174,613)</u>
General revenues:			
Miscellaneous revenue			8,792
Operating grant revenues			3,365
Amount raised by taxation			1,216,635
Accrued premium on bond refunding			<u>32,453</u>
Total general revenues			<u>1,261,245</u>
Change in net position			86,632
Net position, January 1			<u>2,669,203</u>
Net position, December 31			<u>\$ 2,755,835</u>

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

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

	Total			December 31, 2016
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	
Assets:				
Current assets:				
Cash	\$ 847,205	\$ -	\$ -	\$ 847,205
Interfund receivable	-	150,000	-	150,000
Total assets	<u>847,205</u>	<u>150,000</u>	<u>-</u>	<u>997,205</u>
Liabilities, equity and other credits:				
Accounts payable	29,054	-	-	29,054
Interfund payable	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>150,000</u>
Total liabilities	<u>179,054</u>	<u>-</u>	<u>-</u>	<u>179,054</u>
Fund balances:				
Restricted for:				
Capital	-	150,000	-	150,000
Assigned for:				
Subsequent year's expenditures	187,273	-	-	187,273
Unassigned, reported in:				
General fund	<u>480,878</u>	<u>-</u>	<u>-</u>	<u>480,878</u>
Total fund balance	<u>668,151</u>	<u>150,000</u>	<u>-</u>	<u>818,151</u>
Total liabilities and fund balance	<u>\$ 847,205</u>	<u>\$ 150,000</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$11,267,659 and the accumulated depreciation is \$4,418,317

6,849,342

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

(4,993,499)

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

(85,325)

Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds.

167,166

\$ 2,755,835

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
December 31, 2016

	<u>Totals</u>		
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>
	<u>December 31, 2016</u>		
Revenues:			
Miscellaneous anticipated revenue:			
Investment income	\$ 451	\$ -	\$ -
Other revenue	8,341	-	-
Total miscellaneous revenues	8,792	-	-
Operating grant revenues:			
Supplemental fire service act	3,365	-	-
Total operating grant revenue	3,365	-	-
Miscellaneous revenues offset with appropriations:			
Uniform fire safety act revenues:			
Annual registration fee	106,794	-	-
Penalties and fines	13,810	-	-
Total uniform fire safety act revenues	120,604	-	-
Total miscellaneous revenues offset with appropriations	120,604	-	-
Total revenues	132,761	-	-
Amount raised by taxation to support district budget	537,837	150,000	528,798
Total anticipated revenues	670,598	150,000	528,798
Expenditures:			
Operating appropriations:			
Administration:			
Salaries and wages	28,600	-	-
Other expenditures:			
Insurance	38,596	-	-
Permits, licenses and fees	469	-	-
Professional fees	17,999	-	-
Office services	78	-	-
Advertising	754	-	-
Promotion	2,250	-	-
Elections	383	-	-
Membership/dues	8,342	-	-
Office supplies	5,539	-	-
Total administration	103,010	-	-

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
December 31, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Totals (Memorandum Only) December 31, 2016</u>
Cost of operations and maintenance:				
Salaries and wages	53,301	-	-	53,301
Fringe	26,038	-	-	26,038
Other expenditures:				
Insurance	22,071	-	-	22,071
Maintenance and repairs	131,370	-	-	131,370
Rental charges	103,215	-	-	103,215
Fire protection services	50,000	-	-	50,000
Other outside services	5,037	-	-	5,037
Training and education	4,915	-	-	4,915
Uniforms	18,714	-	-	18,714
Operating materials and supplies	6,506	-	-	6,506
Oil and fuel	5,032	-	-	5,032
Utilities	49,732	-	-	49,732
Other non-bondable assets	61,151	-	-	61,151
Total cost of operations and maintenance	537,082	-	-	537,082
Operating appropriations offset with revenues:				
Salaries and wages	93,867	-	-	93,867
Fringe benefits	37,575	-	-	37,575
Total operating appropriations offset with revenues	131,442	-	-	131,442
Length of service award program	51,739	-	-	51,739
Total operating appropriations	823,273	-	-	823,273
Debt service for capital appropriations:				
Bond obligations	-	-	280,000	280,000
Interest on bond obligations	-	-	161,312	161,312
Capital leases	-	-	78,093	78,093
Interest on capital leases	-	-	9,393	9,393
Total debt service for capital appropriations	-	-	528,798	528,798
Total governmental expenditures	823,273	-	528,798	1,352,071
Excess of revenues over expenditures	(152,675)	150,000	-	(2,675)
Fund balance, January 1	820,826	-	-	820,826
Fund balance, December 31	\$ 668,151	\$ 150,000	\$ -	\$ 818,151

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balance in
the Governmental Funds to the Statement of Activities
December 31, 2016

Total net changes in Fund Balance-Governmental Funds (B-2)	\$	(2,675)
--	----	---------

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	62,040	
Depreciation Expense	<u>(289,296)</u>	(227,256)

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

Prior year	83,605	
Current year	<u>(68,710)</u>	14,895

Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities. Principal payments made on long-term liabilities during the year ended December 31, 2014 consist of the following:

Bond repayment	280,000	
Capital lease	<u>78,093</u>	358,093

Proceeds from debt issues are a financing source in the governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net position.

2016 Bond Refunding

Bond Proceeds	(3,460,000)	
Premiums	<u>(418,942)</u>	(3,878,942)

Advance refunding of debt issues are financing uses in the governmental funds. They are not expenses in the statement of activities; refunding of debt decreases long term liabilities in the statement of net position.

Loss on Refunding	134,032	
Bonds Refunded	<u>3,675,000</u>	3,809,032

Deferred charge on retirement of debt, cost of issuance on refunding, and original issue premiums are recorded when incurred in the governmental funds but are deferred and recognized in the statement of activities over the life of the refunding:

Amortization of Loss on Early Retirement of Debt	(10,383)	
Amortization of Bond Premiums	<u>32,453</u>	22,070

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

Pension expense - PERS contribution - 2016	(24,274)	
Pension expense	<u>15,689</u>	(8,585)

Changes in net position of governmental activities	\$	<u>86,632</u>
--	----	---------------

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

	Length of Service Award Program	Totals December 31, 2016
Assets:		
Investments	\$ 1,087,213	\$ 1,087,213
Total assets	<u>1,087,213</u>	<u>1,087,213</u>
Reserved:		
For Length of Service Award Program	<u>1,087,213</u>	<u>1,087,213</u>
Total net position	<u><u>\$ 1,087,213</u></u>	<u><u>\$ 1,087,213</u></u>

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
December 31, 2016

	Length of Service Award Program	Totals December 31, 2016
Revenues and other financing sources:		
District contributions	\$ 51,739	\$ 51,739
Total contributions	51,739	51,739
Investment earnings:		
Interest	85,971	85,971
Total investment earnings	85,971	85,971
Total revenues and other financing sources	137,710	137,710
Expenditures:		
Withdrawals and administrative fees	24,234	24,234
Total expenditures	24,234	24,234
Excess of revenues and other financing sources over expenditures	113,476	113,476
Net position, January 1	973,737	973,737
Net position, December 31	\$ 1,087,213	\$ 1,087,213

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

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

NOTE 1: GENERAL INFORMATION

A. Description of Reporting Entity

Fire District No. 1 of the Township of Middle is a political subdivision of the Township of Middle, County of Cape May, 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 February.

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

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

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

There were no additional entities required to be included in the reporting entity under the criteria as described above. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

B. District Officials

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

<u>Officials</u>	<u>Term Expires</u> <u>March</u>
Keith P. Arenberg	2018
Lewis Hand	2019
Michael R. McNulty Sr.	2017
Joseph Trombetta	2017
Philip Woodrow	2019

C. Accounting Records

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

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

NOTE 1: GENERAL INFORMATION (continued)

D. Minutes

Minutes were recorded for meetings and contained approvals for disbursements.

E. Component Units

GASB Statement No.14, The Financial Reporting Entity, provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units and GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34. The District had no component units as of for the year ended December 31, 2016.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of the Fire District conform to generally accepted accounting principles (GAAP) applicable to governmental funds of state and local governments in accordance with the provisions of N.J.A.C. 5:31-7-1. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District'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 N) 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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn is divided into separate "fund types."

Governmental Funds:

General Fund

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

Capital Projects Fund

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

Debt Service Fund

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. District Wide and Fund Financial Statements (continued)

significant extent on fees and charges for support. Individual funds are not displayed but the statements distinguish governmental activities as generally supported through taxes and user fees.

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

Net position is restricted when constraints placed on it is either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are 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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

In its accounting and financial reporting, the Fire District No. 1 of the Township of Middle follows the pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB).

E. Budgets and Budgetary Accounting

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

The fire commissioners must introduce and 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. There were no encumbrances as of December 31, 2016.

G. Cash and Cash Equivalents

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Cash and Cash Equivalents (continued)

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 a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

H. Prepaid Expenses

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

I. Debt Limitation

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

J. Capital Assets

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

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

Building and Improvements	5 to 40 Years
Equipment	5 to 15 Years

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

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. 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.

N. 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.

O. Deferred Outflows and Deferred Inflows of Resources

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

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

P. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the pension

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Pension (continued)

plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Fund Equity

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

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

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

R. 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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Use of Estimates

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

T. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

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

The District implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the District's financial statements.

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

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this Statement did not impact the District's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Implementation of this Statement did not impact the District's financial statements.

Recently Issued and Adopted Accounting Pronouncements

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

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. Impact of Recently Issued Accounting Principles (continued)

in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the District's financial statements.

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

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended December 31, 2018. Management does not expect this Statement to impact the District's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended December 31, 2018. Management does not expect this Statement to impact the District's financial statements.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the District's financial statements.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

T. Impact of Recently Issued Accounting Principles (continued)

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

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

U. Fair Value Measurement

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

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

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

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values. Subsequent to initial recognition, the District may remeasure 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:

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

U. Fair Value Measurement (continued)

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

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

V. Subsequent Events

Fire District No. 1 of the Township of Middle has evaluated subsequent events occurring after December 31, 2016 through the date of April 19, 2017, which is the date the financial statements were available to be issued.

NOTE 3: CASH AND CASH EQUIVALENTS

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

Deposits:

Demand Deposits	\$ 847,205
-----------------	------------

Total Deposits	<u>\$ 847,205</u>
----------------	-------------------

Reconciliation to Governmental Fund Statements:

Governmental Funds	<u>\$ 847,205</u>
--------------------	-------------------

Total	<u>\$ 847,205</u>
-------	-------------------

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned. The District does not have a deposit policy for custodial credit risk. As of December 31, 2016, the District's bank balance of \$856,427 was insured or collateralized as follows:

Insured	\$ 367,432
Collateralized in the District's name under GUDPA	<u>488,995</u>
Total	<u>\$ 856,427</u>

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

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, 2016, are provided in the below schedule.

C. Investment Credit Risk

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

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

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

NOTE 4: INVESTMENTS (continued)

C. Investment Credit Risk (continued)

As of December 31, 2016, the Fire District had the following investments and maturities:

<i>Assets at Fair Value as of December 31, 2016</i>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fiduciary Funds:				
Fixed Account Investment Contract	\$ -	\$ -	\$ 1,087,213	\$ 1,087,213
Total assets at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,087,213</u>	<u>\$ 1,087,213</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, 2016.

	Level III Assets Year Ended 12/31/16
Balance, beginning of year	\$ 973,737
Purchases, sales, issuances and settlements (net)	27,505
Gains & (Losses)	<u>85,971</u>
Balance, end of year	<u>\$ 1,087,213</u>

NOTE 5: CAPITAL ASSETS

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

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

	12/31/2015 Balance	Additions	Adjustments/ Deletions	12/31/2016 Balance
Governmental Activities:				
Land	1,719,445	-	-	1,719,445
Buildings and improvements	5,289,719	-	-	5,289,719
Equipment	4,196,455	62,040	-	4,258,495
Totals at historical cost	<u>11,205,619</u>	<u>62,040</u>	<u>-</u>	<u>11,267,659</u>
Less: accumulated depreciation				
Buildings and improvements	(1,165,607)	(141,596)	-	(1,307,203)
Equipment	<u>(2,963,414)</u>	<u>(147,700)</u>	<u>-</u>	<u>(3,111,114)</u>
Total accumulated depreciation	<u>(4,129,021)</u>	<u>(289,296)</u>	<u>-</u>	<u>(4,418,317)</u>
Government activities capital assets, net	<u>\$ 7,076,598</u>	<u>\$ (227,256)</u>	<u>\$ -</u>	<u>\$ 6,849,342</u>

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

NOTE 6: LONG-TERM OBLIGATIONS

During the year ended December 31, 2016, the following changes occurred in long-term obligations:

	Principal Outstanding <u>January 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Refunded</u>	Principal Outstanding <u>December 31, 2016</u>	Due Within <u>One Year</u>
2007 Serial Bonds	\$ 4,245,000	\$ -	\$ 280,000	\$ 3,675,000	\$ 290,000	\$ 290,000
2016 Serial Refunding Bonds	-	3,460,000	-	-	3,460,000	
Net Pension Liability	433,825	89,150	-	-	522,975	
Amortization of Bond Premiums	-	418,942	32,453	-	386,489	
Obligations under Capital Lease	412,129	-	78,094	-	334,035	163,409
Total Governmental Activities						
Long-term Liabilities	<u>\$ 5,090,954</u>	<u>\$ 3,968,092</u>	<u>\$ 390,547</u>	<u>\$ 3,675,000</u>	<u>\$ 4,993,499</u>	<u>\$ 453,409</u>

A. Bonds Payable

On June 14, 2007, Fire District No. 1 of the Township of Middle issued \$5,500,000 of General Obligation Bonds, which will be used to finance the construction of a new two-story, 19,000 square-foot fire house. These bonds were refunded on February 10, 2016.

On February 10, 2016, District issued Bond refunding in the amount of \$3,460,000 for the refunding of the 2007 general obligation bonds.

Principal and interest due on bonds outstanding is as follows:

Year Ending December 31,	Principal	Interest	Total
2017	290,000	70,235	360,235
2018	-	132,600	132,600
2019	290,000	129,700	419,700
2020	295,000	120,900	415,900
2021	310,000	108,800	418,800
2022-2026	1,760,000	342,800	2,102,800
2027-2028	805,000	32,500	837,500
Total	<u>\$ 3,750,000</u>	<u>\$ 937,535</u>	<u>\$ 4,687,535</u>

B. Capital Leases Payable

On March 4, 2013, the District entered into a lease agreement with Peirce Manufacturing to finance a 2013 Pierce Pumper Tanker Truck. The following schedule represents a summary of the capital lease commitment as of December 31, 2016:

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

NOTE 6: LONG-TERM OBLIGATIONS (continued)

B. Capital Leases Payable

Year Ending December 31,	Principal	Interest	Total
2017	80,202	9,019	89,221
2018	82,367	6,854	89,221
2019	84,591	4,630	89,221
2020	86,876	2,346	89,222
	\$ 334,036	\$ 22,848	\$ 356,884

NOTE 7: LENGTH OF SERVICE AWARDS PROGRAM

The District has a contractual agreement with volunteer firefighters to reward them based on length of service to ensure continued service.

The Board of Commissioners had a Length of Service Award reserve of approximately \$1,087,213 as of December 31, 2016.

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.

NOTE 8: PENSION OBLIGATIONS

A. Public Employees' Retirement System (PERS)

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

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

NOTE 8: PENSION OBLIGATIONS (continued)

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

Service retirement benefits of $1/55^{\text{th}}$ 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 $1/60^{\text{th}}$ of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 or more years of service credit before age 62 and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

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

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Components of Net Pension Liability - At December 31, 2016, the District reported a liability of \$522,975 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The District's proportion of the net pension liability was based on the District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The District's

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

NOTE 8: PENSION OBLIGATIONS (continued)

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

proportion measured as of June 30, 2016, was .00177%, which was a decrease of .00017% from its proportion measured as of June 30, 2015.

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

	<u>12/31/2016</u>	<u>12/31/2015</u>
Actuarial valuation date (including roll forward)	June 30, 2016	June 30, 2015
Deferred Outflows of Resources	\$ 144,530	\$ 65,223
Deferred Inflows of Resources	\$ 101,013	\$ 102,271
Net Pension Liability	\$ 522,975	\$ 433,825
District's portion of the Plan's total net pension Liability	0.00177%	0.00193%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the District recognized pension expense of \$24,272. At 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>
	<u>PERS</u>	<u>PERS</u>
Differences between Expected and Actual Experience	\$ 9,726	\$ -
Changes of Assumptions	108,333	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	19,942	-
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions	6,529	101,013
	<u>\$ 144,530</u>	<u>\$ 101,013</u>

The \$144,530 reported as deferred outflows of resources and \$101,013 reported as deferred inflows of resources are related to pensions resulting from the District's contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended

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

NOTE 8: PENSION OBLIGATIONS (continued)

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

December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending <u>Dec 31,</u>	<u>PERS</u>		
2017	\$ 6,299		
2018	6,297		
2019	11,546		
2020	16,806		
2021	<u>2,569</u>		
	<u>\$ 43,517</u>		
		<u>PERS</u>	
		<u>Deferred</u>	<u>Deferred</u>
		<u>Outflow of</u>	<u>Inflow of</u>
		<u>Resources</u>	<u>Resources</u>
Differences between Expected and Actual Experience			
Year of Pension Plan Deferral:			
June 30, 2014		-	-
June 30, 2015		5.72	-
June 30, 2016		5.57	-
Changes of Assumptions			
Year of Pension Plan Deferral:			
June 30, 2014		6.44	-
June 30, 2015		5.72	-
June 30, 2016		5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments			
Year of Pension Plan Deferral:			
June 30, 2014		-	5.00
June 30, 2015		-	5.00
June 30, 2016		5.00	-

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

NOTE 8: PENSION OBLIGATIONS (continued)

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

	<u>PERS</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

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

	<u>PERS</u>
Measurement date	June 30, 2016
Actuarial valuation date	July 1, 2015
Investment rate of return	7.65%
Salary scale	Through 2026 - 1.65-4.15% Based on Age Thereafter - 2.65-5.15% Based on Age
Inflation rate	3.08%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

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

NOTE 8: PENSION OBLIGATIONS (continued)

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

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 rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

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

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

NOTE 8: PENSION OBLIGATIONS (continued)

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

municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

	PERS		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
District's Proportionate Share of the Net Pension Liability	\$ 640,845	\$ 522,975	\$ 425,664

NOTE 9: FUNDING

The activities of the Board of Commissioners are primarily funded by the striking of the fire tax on the property owners of the Fire District, as provided for by the state statute. For the year ended December 31, 2016, the fire tax rate on the Fire District No. 1 was approximately \$.073 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.

NOTE 10: RISK MANAGEMENT

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

Property and Liability Insurance

The District maintains commercial insurance coverage for property, liability and surety bonds. Insurance coverage was maintained in amounts consistent with prior years. The District did not have any claims that exceeded coverage.

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

NOTE 11: FUND BALANCE

General Fund – Of the \$668,151 General Fund fund balance at December 31, 2016, \$187,273 has been assigned to be designated for subsequent year's expenditures; and \$480,878 is unassigned.

Capital Projects Fund - Of the \$150,000 Capital Projects Fund fund balance at December 31, 2016, \$150,000 has been restricted for future capital purchases.

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Budgetary Comparison Schedule
December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Revenues:				
Miscellaneous anticipated revenue:				
Investment income	\$ 400	\$ 400	\$ 451	\$ 51
Other revenue	-	-	8,341	8,341
Total miscellaneous revenues	400	400	8,792	8,392
Operating grant revenues:				
Supplemental fire service act	3,365	3,365	3,365	-
Total operating grant revenue	3,365	3,365	3,365	-
Miscellaneous revenues offset with appropriations:				
Uniform fire safety act revenues:				
Annual registration fee	115,000	115,000	106,794	(8,206)
Penalties and fines	5,000	5,000	13,810	8,810
Total uniform fire safety act revenues	120,000	120,000	120,604	604
Total miscellaneous revenues offset with appropriations	120,000	120,000	120,604	604
Total revenues	123,765	123,765	132,761	8,996
Amount raised by taxation to support district budget	1,216,641	1,216,641	1,216,635	(6)
Total anticipated revenues	1,340,406	1,340,406	1,349,396	8,990
Expenditures:				
Operating appropriations:				
Administration:				
Salaries and wages	21,600	21,600	28,600	(7,000)
Other expenditures:				
Insurance	50,000	39,900	38,596	1,304
Permits, licenses and fees	1,000	1,000	469	531
Professional fees	12,000	18,000	17,999	1
Office services	1,500	500	78	422
Advertising	2,000	1,000	754	246
Promotion	2,250	2,250	2,250	-
Elections	750	750	383	367
Membership/dues	12,000	12,000	8,342	3,658
Office supplies	5,000	5,500	5,539	(39)
Contingent expense	2,500	2,500	-	2,500
Total administration	110,600	105,000	103,010	(510)

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Budgetary Comparison Schedule
December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance</u>
Cost of operations and maintenance:				
Salaries and wages	52,101	53,101	53,301	(200)
Fringe	11,407	11,407	26,038	(14,631)
Other expenditures:				
Insurance	47,892	47,892	22,071	25,821
Maintenance and repairs	120,000	127,600	131,370	(3,770)
Rental charges	93,000	95,600	103,215	(7,615)
Fire protection services	50,000	50,000	50,000	-
Other outside services	5,500	5,500	5,037	463
Training and education	4,000	5,000	4,915	85
Uniforms	20,000	20,000	18,714	1,286
Operating materials and supplies	6,000	7,000	6,506	494
Oil and fuel	8,000	6,000	5,032	968
Utilities	50,000	50,000	49,732	268
Other non-bondable assets	80,000	61,400	61,151	249
Total cost of operations and maintenance	<u>547,900</u>	<u>540,500</u>	<u>537,082</u>	<u>3,418</u>
Operating appropriations offset with revenues:				
Salaries and wages	91,299	104,299	93,867	10,432
Fringe benefits	<u>28,701</u>	<u>28,701</u>	<u>37,575</u>	<u>(8,874)</u>
Total operating appropriations offset with revenues	<u>120,000</u>	<u>133,000</u>	<u>131,442</u>	<u>1,558</u>
Length of service award program	<u>63,000</u>	<u>63,000</u>	<u>51,739</u>	<u>11,261</u>
Capital appropriations	<u>150,000</u>	<u>150,000</u>	<u>-</u>	<u>150,000</u>
Debt service for capital appropriations:				
Bond obligations	280,000	280,000	280,000	-
Interest on bond obligations	171,686	171,686	161,312	10,374
Capital leases	78,093	78,093	78,093	-
Interest on capital leases	<u>11,127</u>	<u>11,127</u>	<u>9,393</u>	<u>1,734</u>
Total debt service for capital appropriations	<u>540,906</u>	<u>540,906</u>	<u>528,798</u>	<u>12,108</u>
Total appropriations	<u>1,532,406</u>	<u>1,532,406</u>	<u>1,352,071</u>	<u>177,835</u>
Excess (efficiency) of revenues over (under) expenditures	(192,000)	(192,000)	(2,675)	189,325
Fund balance, January 1	<u>820,826</u>	<u>820,826</u>	<u>820,826</u>	<u>-</u>
Fund balance, December 31	<u>\$ 628,826</u>	<u>\$ 628,826</u>	<u>\$ 818,151</u>	<u>\$ 189,325</u>

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Schedule of the District's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System
Last Four Fiscal Years

	2016	2015	2014	2013
District's proportion of the net pension liability (asset)	0.00177%	0.00193%	0.00188%	0.00260%
District's proportionate share of the net pension liability (asset)	\$ 522,975	\$ 433,825	\$ 352,068	\$ 497,610
District's covered-employee payroll	\$ 143,831	\$ 123,878	\$ 137,201	\$ 133,074
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	363.60%	350.20%	256.61%	13.35%
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%	52.08%	80.41%

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

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Schedule of District Contributions
Public Employees' Retirement System
Last Four Fiscal Years

	2016	2015	2014	2013
Contractually required contribution	\$ 15,687	\$ 16,615	\$ 15,502	\$ 19,618
Contributions in relation to the contractually required contribution	15,687	16,615	15,502	19,618
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 143,831	\$ 123,878	\$ 137,201	\$ 133,074
Contributions as a percentage of covered-employee payroll	11%	13%	11%	15%

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

Fire District No. 1 of the Township of Middle
Notes to the Required Supplementary Information
For the year ended December 31, 2016

Public Employees' Retirement System (PERS)

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

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

Changes of assumptions. Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Long-Term Debt
Schedule of Serial Bonds Payable
December 31, 2016

Issue	Date of Issue	Amount of Issue	Annual Maturities		Interest Rate	Balance January 1, 2016	Issued	Retired	Refunded	Balance December 31, 2016
			Date	Amount						
General Obligation Bonds, 2007	6/14/07	\$ 5,500,000	2/1/17	290,000	5.000%	\$ 4,245,000		\$ (280,000)	\$ (3,675,000)	\$ 290,000
General Refunded Bonds, 2016	2/10/16	3,640,000	2/1/18	290,000		-	3,460,000	-		3,460,000
			2/1/19	295,000						
			2/1/20	310,000						
			2/1/21	325,000						
			2/1/22	335,000						
			2/1/23	350,000						
			2/1/24	370,000						
			2/1/25	380,000						
			2/1/26	395,000						
			2/1/27	410,000						
Total						\$ 4,245,000	\$ 3,460,000	\$ (280,000)	\$ (3,675,000)	\$ 3,750,000

FIRE DISTRICT NO. 1 OF THE TOWNSHIP OF MIDDLE
Long-Term Debt
Schedule of Obligations Under Capital Leases
December 31, 2016

Description	Date of Lease	Term of Lease	Amount of Original Issue		Interest Rate Payable	Amount Outstanding January 1, 2016	Issued	Retired	Amount Outstanding December 31, 2016
			Principal	Interest					
	3/4/2013	7 years	\$ 562,210	\$ 62,335	5.00%	412,129	-	(78,093)	334,036
					Total	\$ 412,129	\$ -	\$ (78,093)	\$ 334,036

Board of Fire Commissioners
Fire District No. 1 of the Township of Middle
Cape May Court House, New Jersey

We have audited the basic financial statements of the Fire District No. 1 of the Township of Middle, County of Cape May, State of New Jersey for the year ended December 31, 2016. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS

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

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

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

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

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

Contracts and Agreements Requiring Solicitation of Quotations

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

Examination of Bills

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

Finding 2016-01:

The District did not maintain accurate records for accounts payable at year end.

Recommendation:

The District must maintain accurate records of accounts payable at year end.

Management's Response:

This finding will be corrected in the fiscal year ending December 31, 2017.

Property, Plant & Equipment

The property and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

Acknowledgment

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

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

Should you have any questions, please contact us.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 19, 2017
Toms River, New Jersey