

NEW ISSUE

Book Entry-Only

SERIAL BONDS

**Rating: S&P “AA+”
(see “Credit Rating” herein)**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Township, under existing statutes and court decisions, and assuming compliance with certain tax covenants described herein, (i) interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax that may be imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Township, under existing statutes, interest on the Bonds is excluded from gross income under the New Jersey Gross Income Tax Act. See “Tax Matters” herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the Bonds for certain bondholders.

**THE TOWNSHIP OF SPARTA,
IN THE COUNTY OF SUSSEX, NEW JERSEY
\$4,781,000
WATER BONDS OF 2017
(BANK QUALIFIED) (CALLABLE)**

Dated: Date of Delivery

Due: October 1, as shown on the inside front cover

The \$4,781,000 Water Bonds of 2017 (the “Bonds”) of the Township of Sparta, in the County of Sussex, New Jersey (the “Township”) will be issued in book-entry-only form with no physical distribution of bond certificates. The Bonds will be issued in registered form and bond certificates for each maturity will be issued to The Depository Trust Company, New York, New York (“DTC”), registered in the name of its nominee, Cede & Co.

Interest on the Bonds will be payable semiannually on April 1 and October 1 in each year until maturity or earlier redemption, commencing April 1, 2018. Principal or redemption price, if any, of and interest on the Bonds will be paid to DTC by the Township. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding March 15 and September 15 (the “Record Dates” for the payment of interest on the Bonds).

The Bonds shall be subject to redemption prior to their stated maturities as described herein (see “Description of the Bonds - Redemption” herein).

The Bonds are valid and legally binding obligations of the Township and, unless paid from other sources, are payable from ad valorem taxes levied upon all the taxable real property within the Township without limitation as to rate or amount provided, however, that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See “Bondholders’ Remedies in the Event of Default” and “Municipal Bankruptcy” herein.

The Bonds are offered when, as and if issued and delivered to the underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of Hawkins Delafield & Wood LLP, Newark, New Jersey and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor in connection with the issuance of the Bonds. Delivery of the Bonds is anticipated to take place on or about October 4, 2017.



Dated: September 21, 2017

**THE TOWNSHIP OF SPARTA,
IN THE COUNTY OF SUSSEX, NEW JERSEY**

\$4,781,000 WATER BONDS OF 2017

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS*

<u>Maturity (October 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP*</u>
2018	\$200,000	2.00%	0.85%	846718LX0
2019	225,000	2.00	0.95	846718LY8
2020	250,000	2.00	1.10	846718LZ5
2021	275,000	2.00	1.25	846718MA9
2022	300,000	3.00	1.40	846718MB7
2023	300,000	3.00	1.55	846718MC5
2024	300,000	3.00	1.70	846718MD3
2025	300,000	3.00	1.85	846718ME1
2026	350,000	2.00	2.00	846718MF8
2027	350,000	2.50	2.10**	846718MG6
2028	375,000	2.50	2.20**	846718MH4
2029	400,000	2.75	2.30**	846718MJ0
2030	400,000	2.75	2.40**	846718MK7
2031	400,000	3.00	2.50**	846718ML5
2032	356,000	3.00	2.65**	846718MM3

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only at the time of issuance of the Bonds and the Township does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

** Priced to the October 1, 2025 optional call date.

**THE TOWNSHIP OF SPARTA,
IN THE COUNTY OF SUSSEX, NEW JERSEY**

MAYOR

Gilbert Gibbs

TOWN COUNCIL

Joshua Hertzberg, Deputy Mayor
Jerard Murphy
Molly A. Whilesmith
Christine Quinn

TOWNSHIP CLERK

Kathleen Chambers

TOWNSHIP MANAGER

William E. Close

CHIEF FINANCIAL OFFICER

Grant W. Rome

TOWNSHIP ATTORNEY

Thomas Ryan, Esquire
Sparta, New Jersey

AUDITOR

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.
Newton, New Jersey

BOND COUNSEL

Hawkins Delafield & Wood LLP
Newark, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

No dealer, broker, salesperson or other person has been authorized by the Township to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Township. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Township since the date hereof.

The information which is set forth herein has been provided by the Township and by other sources, but the information provided by such other sources is not guaranteed as to accuracy or completeness by the Township. References in this Official Statement to the State of New Jersey statutes, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of or exceptions to statements made herein. Copies of such above-mentioned documents may be inspected at the offices of the Township during normal business hours. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The order and the placement of materials in this Official Statement, including the appendices, are not deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT
OF THE
THE TOWNSHIP OF SPARTA,
IN THE COUNTY OF SUSSEX, NEW JERSEY
RELATING TO
\$4,781,000
WATER BONDS OF 2017
(BANK QUALIFIED) (CALLABLE)**

INTRODUCTION

This Official Statement (the “Official Statement”), which includes the cover page hereof and the appendices hereto, has been prepared by the Township of Sparta (the “Township”), in the County of Sussex (the “County”), in the State of New Jersey (the “State”) and provides certain information regarding the financial and economic condition of the Township in connection with the sale of the Township’s \$4,781,000 Water Bonds of 2017 (the “Bonds”). This Official Statement has been executed by and on behalf of the Township by the Chief Financial Officer and its distribution and use in connection with the sale of the Bonds have been authorized by the Township.

This Official Statement contains specific information relating to the Bonds including their general description, certain legal matters, historical financial information and other information pertinent to this issue. This Official Statement should be read in its entirety.

All financial and other information presented herein has been provided by the Township from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information and, but only to the extent specifically provided herein, certain projections into the immediate future and is not necessarily indicative of future or continuing trends in the financial position of the Township.

DESCRIPTION OF THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds themselves for the complete text thereof, and the discussion herein is qualified in its entirety by such reference.

Terms and Interest Payment Dates

The Bonds will be dated the date of delivery thereof. The Bonds will bear interest at the interest rates per annum stated on the inside cover page hereof, payable April 1 and October 1 of each year until maturity or earlier redemption, commencing April 1, 2018 (each, an “Interest Payment Date”). The Bonds will mature on October 1 in the years and in the principal amounts set forth on the inside cover page hereof.

Denominations and Place of Payment

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates. The Bonds will be issued in registered form and bond certificates for each maturity will be issued to The Depository Trust Company, New York, New York (“DTC”), and registered in the name of its nominee, Cede & Co. (see the subcaption “Book-Entry System” below). Principal of and interest on the Bonds will be paid by the Township, or its designee, in its capacity as paying agent (the “Paying Agent”) to the registered owners of the Bonds as of each March 15 and September 15 (whether or not a business

day) immediately preceding the respective Interest Payment Dates (the “Record Dates”). So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Paying Agent directly to DTC or its nominee, which will in turn remit such payments to DTC participants, which will in turn remit such payments to the beneficial owners of the Bonds. See the subcaption “Book-Entry System” herein. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 each or integral multiples of \$1,000 in excess thereof. Purchasers will not receive certificates representing their beneficial ownership interests in Bonds purchased, but each book-entry owner will receive a credit balance on the books of its nominee, and this credit balance is expected to be confirmed by an initial transaction statement stating the details of the Bonds purchased. So long as Cede & Co. is the registered owners of the Bonds, as nominee of DTC, references herein (except under the captions “Tax Matters” and “Secondary Market Disclosure”) to the registered owners shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See the subcaption “Book-Entry System” herein.

Redemption

Optional Redemption

The Bonds maturing prior to October 1, 2026 are not subject to redemption at the option of the Township prior to their stated maturities. The Bonds maturing on or after October 1, 2026 are redeemable at the option of the Township, in whole or in part, on any date, in any order of maturity and by lot within a single maturity, on or after October 1, 2025, at a redemption price equal to one hundred percent (100%) of the principal amount being redeemed, plus in each case accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption shall be given by first-class mail, postage prepaid, to the registered owners of the Bonds or portions thereof to be redeemed, not less than thirty (30) days nor more than sixty (60) days prior to the redemption date, but such mailing shall not be a condition precedent to such redemption and failure so to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds. If notice of redemption shall have been given as aforesaid, the Bonds or portions thereof specified in said notice shall become due and payable at the redemption price on the redemption date therein designated and if, on the redemption date, moneys for payment of the redemption price of all the Bonds to be redeemed, together with the interest to the redemption date, shall be available for such payment on said date, then from and after the redemption date interest on such Bonds shall cease to accrue and become payable. Less than all of a Bond in a denomination in excess of \$5,000 may be so redeemed, and in such case, upon the surrender of such Bond, there shall be issued to the registered owner thereof, without charge therefor, for the unredeemed balance of the principal amount of such Bond, Bonds of like series, designation, maturity and interest rate in any of the authorized denominations. So long as DTC (or any successor thereto) acts as securities depository for the Bonds, notice of redemption shall be sent to such securities depository, in the manner prescribed by such securities depository and shall not be sent to the beneficial owners of the Bonds. Any failure of such depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any notice of redemption shall not affect the validity of the redemption proceedings. If the Township determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the Township; the Bonds to be redeemed having the same maturity shall be selected by DTC in accordance with its regulations.

AUTHORIZATION AND PURPOSE OF THE BONDS

The Bonds have been authorized and are to be issued pursuant to the laws of the State, including the Local Bond Law, constituting Chapter 2 of Title 40A of the New Jersey Statutes, as amended (N.J.S.A. §40A:2-1, et seq.) (the “Local Bond Law”). The Bonds are authorized by bond ordinances adopted by the

governing body of the Township and by a resolution adopted by the governing body of the Township on August 22, 2017. Such bond ordinances were published in full, or in summary, after their adoption along with a statement to the effect that the twenty-day period of limitation within which a suit, action or proceeding questioning the validity of the accompanying bond ordinance can be commenced began to run from the date of the first publication of such estoppel statement. The Local Bond Law provides that after issuance all obligations shall be conclusively presumed to be fully authorized and issued by all laws of the State, and any person shall be barred from questioning the sale, execution or delivery of such obligations.

The Bonds are being issued to (i) refund, on a current basis, a portion of the bond anticipation notes of the Township originally issued in the aggregate principal amount of \$5,436,450, dated October 27, 2016 and maturing October 27, 2017 (the "Prior Notes") and (ii) pay the costs associated with the issuance of the Bonds. The balance of the principal amount of the Prior Notes will be paid from funds on hand and the proceeds of renewal bond anticipation notes.

<u>Ordinance Number</u>	<u>Purpose</u>	<u>Amount of Prior Notes Being Refunded with the Bonds</u>
2008-15	Improvements to Water Utility System	\$331,500
2009-16	Improvements to Water Utility System	1,010,000
2009-25	Improvements to Water Utility System	348,000
2010-08	Improvements to Water Utility System	820,000
2011-12	Improvements to Water Utility System	323,000
2012-13	Improvements to Water Utility System	510,000
2013-07	Improvements to Water Utility System	650,000
2014-06	Improvements to Water Utility System	488,500
2016-11	Improvements to Water Utility System	<u>300,000</u>
Total Bonds:		<u>\$4,781,000</u>

BOOK-ENTRY SYSTEM

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond certificate will be issued in the aggregate principal amount of each maturity of the Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both

U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC rules applicable to its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com or www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an omnibus proxy to the Township as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Township or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participant or Indirect Participant and not of DTC, the Paying Agent or the Township, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an

authorized representative of DTC) is the responsibility of the Township or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Township or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The Township may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Township believes to be reliable, but the Township takes no responsibility for the accuracy thereof.

Discontinuance of Book-Entry System

In the event that the book-entry system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions shall apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of the Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Township/Paying Agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Township/Paying Agent for such purposes only upon the surrender thereof to the Township/Paying Agent together with the duly executed assignment in form satisfactory to the Township/Paying Agent; and (iii) for every exchange or registration of transfer of Bonds, the Township/Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds. Interest on the Bonds will be payable by check or draft, mailed on each Interest Payment Date to the registered owners thereof as of the close of business on the Record Date next preceding an Interest Payment Date.

SECURITY AND SOURCE OF PAYMENT

The Bonds will be general obligations of the Township. All taxable real property within the Township is subject to the levy of *ad valorem* taxes to pay the Bonds and the interest thereon, without limitation as to rate or amount. See "Bondholders' Remedies in the Event of Default" and "Municipal Bankruptcy" herein.

MARKET PROTECTION

In addition to the issuance of the Bonds, the Township anticipates issuing \$825,000 Bond Anticipation Notes, consisting of \$375,000 Bond Anticipation Notes, Series 2017A and \$450,000 Bond Anticipation Notes, Series 2017B (Federally Taxable) in October of 2017.

SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO MUNICIPAL AND COUNTY DEBT AND FINANCIAL REGULATION

Set forth below is a summary of various statutory provisions and requirements relevant to the Township's debt and financial regulation and budget process. This summary does not purport to be complete, and reference should be made to the statutes referred to for a complete statement of the provisions thereof.

Legal Framework

The Local Bond Law (N.J.S.A. §40A:2-1, *et seq.*) governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects financed and that bonds be retired in serial installments. A five percent (5%) cash down payment is generally required toward the financing of such projects. Generally, all bonds and notes issued by a local unit are general full faith and credit obligations.

Debt Limit

The authorized bonded indebtedness of a local unit is limited by statute, subject to the exceptions noted below, to an amount equal to three and one-half percent (3½%), in the case of a municipality, and two percent (2%), in the case of a county, of its average equalized valuation basis. The average equalized valuation basis of a local unit is set by statute as the average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries as annually determined by the State Board of Taxation.

Exceptions to Debt Limit - Extensions of Credit

Except for the funding of certain notes, the authorization of certain bonds for municipal utility purposes, if the utilities are self-liquidating, and certain formula allowances, the debt limit of a local unit may be exceeded only with the approval of the Local Finance Board, in the Division of Local Government Services, Department of Community Affairs of the State (the “Local Finance Board”), a State regulatory agency. If all or any part of a proposed debt authorization would exceed its debt limit, a local unit must apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of a local unit or substantially reduce the ability of a local unit to meet its obligations or to provide essential public improvements or services, or makes other statutory determinations, approval is granted.

Short-Term Financing

Pursuant to the Local Bond Law, a local unit may sell short-term notes to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Any such note is designated a “bond anticipation note”. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as the same may be amended and supplemented, creating such capital expenditure. Bond anticipation notes, which are full faith and credit obligations of the local unit, may be issued for a period not exceeding one (1) year and may be renewed from time to time for a period that does not exceed one (1) year. Such notes shall mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original note, provided, however, that no such notes shall be renewed beyond the third anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which these notes are issued, is paid and retired on or before each subsequent anniversary date beyond which such notes are renewed from funds other than the proceeds of obligations.

Assessment Bonds

Assessment bonds may be issued pursuant to the Local Bond Law in annual serial installments with the first principal payment due within two (2) years and the final principal payment due within twenty (20) years of an issue’s date. No principal payment may be larger than a prior year’s principal payment.

Refunding Bonds

Refunding bonds may be issued pursuant to the Local Bond Law for the purpose of paying, funding or refunding outstanding bonds, including emergency appropriations, temporary emergency appropriations, advance funding of pension obligations as part of an early retirement program offered by the State, the actuarial liabilities of a non-State administered public employee pension system, amounts owing to others for taxes levied and for paying the cost of issuance of refunding bonds. The Local Finance Board must consent to the authorization for the issuance of refunding bonds and approve the maturity schedule thereof; provided, however, that the issuance of refunding bonds to realize debt service savings on outstanding obligations does not require Local Finance Board approval when authorized by conditions set forth in rules and regulations of the Local Finance Board and upon a resolution adopted by a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body of the local unit.

Tax Anticipation Notes

Tax anticipation notes may be issued pursuant to the Local Budget Law (as hereinafter defined). The issuance of tax anticipation notes is limited in amount by law to collectively thirty percent (30%) of the tax levy plus thirty percent (30%) of realized miscellaneous revenues of the next preceding fiscal year. Tax anticipation notes must be paid in full within one hundred and twenty (120) days of the close of the fiscal year in which they were issued.

School Debt Subject to Voter Approval

State law permits a school district upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit, by using the available borrowing capacity of the municipality. If such debt is in excess of school district debt limit and the remaining borrowing capacity of the municipality, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The Local Budget Law

The foundation of the State local finance system is the annual cash basis budget. Under N.J.S.A. §40A:4-1, *et seq.* (the “Local Budget Law”), every local unit must adopt an operating budget in the form required by the Division of Local Government Services in the Department of Community Affairs of the State (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it is certified by the Director of the Division (the “Director”), or in the case of a local unit’s examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the chief financial officer and governing body of local unit. The Local Budget Law requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit may review the adequacy of such appropriations. Among other restrictions, the Director must examine the budget with reference to all estimates of revenue and the following appropriations: (a) payment of interest and debt redemption charges, (b) deferred charges and statutory expenditures, (c) cash deficit of preceding year, (d) reserve for uncollected taxes and (e) other reserves and nondisbursement items. Anticipated tax revenues are limited to the same proportion as actual cash collections or to the total levy in the previous year, and the reserve amount must be factored into the budget to make up for the expected shortfall in actual collections. Anticipated non-tax revenues are limited to the amount actually realized the previous year unless the Director permits higher levels of anticipation should there be sufficient statutory or other evidence to substantiate that such anticipation is reasonable.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the budgetary review functions, focusing on anticipated revenues, serve to protect the solvency of all local units.

The cash basis budgets of local units must be in balance (*i.e.*, the total of anticipated revenues must equal the total of appropriations) (N.J.S.A. §40A:4-22). If in any year a local unit's expenditures exceed its realized revenues for that year, then such excess (deficit) must be raised in the succeeding year's budget.

Each municipality is required to forward to the County Board of Taxation (the "County Board") a certified copy of its operating budget, as adopted, not later than April 10 of the then current fiscal year. In the event that the County Board has not received a copy of the budget resolution or other evidence showing the amount to be raised by taxation for the purposes of a taxing district, the Director shall transmit to the County Board a certificate setting forth the amount required for the operation of the local unit for that fiscal year. The operating budget of the preceding year shall constitute and limit the appropriations for the then current year with suitable adjustments for debt service, other mandatory charges and changes in revenues, but excluding the amount to be raised by taxes for school purposes where required to be included in the municipal budget. The certificate shall be prepared by using the revenues and appropriations appearing in the adopted budget of the preceding year with suitable adjustments to include, without limitation: (a) any amounts required for principal and interest of indebtedness falling due in the fiscal year and (b) any deferred charges, including a deficit, if any, or statutory expenditures required to be raised in the fiscal year. See the subcaption "Tax Assessment and Collection Procedure" below.

Appropriations Not Required for Payments on Debt

It is not necessary to have an appropriation in order to release money for debt service on obligations. N.J.S.A. §40A:4-57 states that "no officer, board, body or commission shall, during any fiscal year, expend money (except to pay notes, bonds or interest thereon), incur any liability, or enter into any contract which by its terms involves the expenditure of money for any purpose for which no appropriation is provided, or in excess of the amount appropriated for such purpose" (emphasis added).

Appropriation Caps

Chapter 89 of the New Jersey Laws of 1990 extended and amended Chapter 203 of the New Jersey Laws of 1986 and Chapter 68 of the New Jersey Laws of 1976 (N.J.S.A. §40A:4-45.3), commonly referred to as the "CAP Law". The CAP Law places limits on county tax levies and municipal expenditures. This limitation is commonly referred to as a "CAP". The actual calculation of the CAP is somewhat complex and the actual CAP computations are prepared by the Division and distributed to each municipality. In addition to the CAP increase in expenditures, other increases allowable include increases funded by increased service fees, proceeds from the sale of municipal assets and increased expenditures mandated by State and federal laws. Appropriations for items excluded from the CAP computation, including debt service requirements, may be set at any necessary level and are not subject to the CAP. The CAP may be exceeded if approved by referendum of the voters of the municipality.

In summary, in determining the CAP for each budget year, the prior year's total general appropriations are reduced by certain statutory-type appropriations with the resulting balance multiplied by two and one-half percent (2½%) or the cost-of-living adjustment (the rate of annual percentage increase, rounded to the nearest half-percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services, computed and published quarterly by the United States Department of Commerce) (the "Cost-of-Living Adjustment"), whichever is less, thereby producing the basic CAP, which then may be increased by certain known increases in revenues and State or federal expenditures mandated after July 18, 1976. A municipality may, by the adoption of an ordinance, elect to increase its final appropriations

by a percentage rate up to, but not to exceed, three and one-half percent (3½%). A municipality may, by referendum, increase its final appropriations by a higher percentage rate.

Property Tax Levy Cap

Chapter 44 of the Pamphlet Laws of 2010 imposed restrictions upon the allowable annual increase in the tax levy. In general, municipalities have their tax levies limited to a two percent (2%) increase. The tax levy is subject to certain adjustments, including the sum of new ratables. In addition, the following exclusions are added to the calculation of the adjusted tax levy: increases in amounts required to be raised by taxation for capital expenditures, including debt service as defined by law; increases in pension contributions and accrued liability for pension contributions in excess of 2%; increases in health care costs equal to that portion of the actual increase in total health care costs for the budget year that is in excess of 2% of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the State Health Benefits Program, as annually determined by the Division of Pensions and Benefits in the Department of the Treasury; and extraordinary costs incurred by a local unit directly related to a declared emergency, as defined by regulation promulgated by the Commissioner of the Department of Community Affairs, in consultation with the Commissioner of Education, as appropriate. The law also authorizes a municipality to submit public questions to the voters for approval (by affirmative vote of at least fifty percent (50%)) to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

Miscellaneous Revenues

A provision in the Local Budget Law (N.J.S.A. §40A:4-26) provides that: “[n]o miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the [Director] shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit”.

In addition, budget amendments must be approved by the Director, except for federal and State categorical grants-in-aid contracts may be realized for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with the municipality’s calendar fiscal year. However, grant revenue is generally not realized until received in cash.

Real Estate Taxes

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. N.J.S.A. §40A:4-29, which governs the anticipation of delinquent tax collections, provides that: “[t]he maximum which may be anticipated is the sum produced by the multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year”.

N.J.S.A. §40A:4-41 provides, with regard to current taxes, that: “[r]eceipts from the collection of taxes levied or to be levied in the municipality, or in the case of a county for general county purposes and payable in the fiscal year shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of the preceding fiscal year”.

This provision and N.J.S.A. §40A:4-40 require that an additional amount, commonly known or referred to as the “reserve for uncollected taxes”, be added to the tax levy required to balance the budget so that when the percentage of the prior year’s tax collection is applied to the combined total, the product will at least be equal to the tax levy required to balance the budget. The reserve requirement is calculated as follows:

The levy required to balance the budget, divided by the prior year’s percentage of current tax collection (or lesser percent) levied, will equal the total taxes to be levied for the current fiscal year.

Chapter 99 of the Pamphlet Laws of 1997 of New Jersey authorizes any municipality to sell its “total property tax levy” to the highest responsible bidder therefor in accordance with the procedures and limitations set forth therein.

Upon the filing of certified adopted budgets by (i) a local governmental unit, (ii) a local and/or a regional school district, (iii) the county in which the local governmental unit is situated and (iv) any special improvement districts within the local governmental unit, the current year’s tax rate is struck by a county’s board of taxation based upon the amount of taxes required in each taxing district to fund the respective budgets.

Emergency Appropriations/Deferral of Current Expenses

Emergency appropriations made under N.J.S.A. §40A:4-46, after the adoption of the budget and the determination of the tax rate, may be authorized by a local unit. However, with minor exceptions set forth below, such appropriations must be included in full in the following year’s budget. When such appropriations exceed three percent (3%) of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated *quasi*-capital projects (“special emergencies”) such as (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost or floods, which may be amortized over three (3) years and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this clause (ii) may be amortized over five (5) years. N.J.S.A. §40A:4-53, -54, -55 and -55.1. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

Under the CAP Law, emergency appropriations aggregating less than three percent (3%) of the previous year’s final current operating appropriations may be raised in the portion of the local unit’s budget outside the CAP if approved by at least two-thirds ($\frac{2}{3}$) of the members of the governing body and the Director. Emergency appropriations that aggregate more than three percent (3%) of the previous year’s final current operating appropriations must be raised within the CAP. Emergency appropriations for debt service, capital improvements, the local unit’s share of federal or State grants and other statutorily permitted items are outside the CAP.

Budget Transfers

Budget transfers provide a local unit with a degree of flexibility and afford a control mechanism over expenditure needs. Transfers between major appropriation accounts are prohibited by N.J.S.A. §40A:4-58 until the last two (2) months of the fiscal year. Appropriation reserves may also be transferred during the first three (3) months of the year to the previous year's budget (N.J.S.A. §40A:4-59). Both types of transfers require a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body. However, no transfers may be made (a) to appropriations for contingent expenses, deferred charges or emergency appropriation or (b) from appropriations for contingent expenses, deferred charges cash deficit of the preceding year, reserve for uncollected taxes, down payments, the capital improvement fund or interest and redemption charges. Although budget transfers among subaccounts (line items) within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

Municipal Public Utilities

Municipal public utilities are supported by the revenues generated by the respective operations of the utilities in addition to the general taxing power upon real property. For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to provide fully for debt service. The regulations regarding anticipation of revenues and deferral of charges apply equally to the budgets of the utilities. Deficits or anticipated deficits in utility operations which cannot be provided for from utility surplus, if any, are required to be raised in the "Current" or operating budget.

Capital Budget

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than the next ensuing six (6) years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next three (3) or six (6) years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or by the annual operating budget if the items were detailed.

Fiscal Year Adjustment Law

Chapter 75 of the Pamphlet Laws of 1991, signed into law on March 28, 1992, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year (N.J.S.A. §40A: 4-3.1). Municipalities that change fiscal years must adopt a six (6) month transition budget for January to June. Since expenditures would be expected to exceed revenues primarily because State aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the law authorizes the issuance of fiscal year adjustment bonds to fund the one time deficit for the six (6) month transition budget (N.J.S.A. §40A:2-51.2). The law provides that the deficit in the six (6) month transition budget may be funded initially with bond anticipation notes based on the estimated deficit in the six (6) month transition budget. Notes issued in anticipation of fiscal year adjustment bonds, including renewals, can only be issued for up to one (1) year unless the Local Finance Board permits the municipality to renew them for a longer period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue fiscal year adjustment bonds to finance the deficit on a permanent basis. The purpose of the law is to assist municipalities that are heavily dependent on State aid and that have had to issue tax anticipation notes to

fund operating cash flow deficits each year. While the law does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue fiscal year adjustment bonds as well.

State Supervision

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two (2) successive years; which has a deficit greater than four percent (4%) of its tax levy for two (2) successive years; which has failed to make payments due and owing to the State, county, Township or special district for two (2) consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds twenty-five percent (25%) of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law or the Local Fiscal Affairs Law (as hereinafter defined) which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

Tax Assessment and Collection Procedure

A local governmental unit is the entity responsible for the levying and collection of taxes on all taxable property within its borders, including the tax levies for the county and the Township. The levying of taxes is for a fiscal year, which starts July 1 and ends June 30. The collection of taxes to support a local governmental unit's current budget requirement is based upon a calendar year, January 1 to December 31.

Property taxes are based on a municipality's assessor's valuation of real property, as confirmed by the tax board of the county in which a municipality is situated. The taxes for municipal, local and regional school districts and a county cover the current calendar year. Turnover of the tax moneys by a municipality to a school district are based on school needs and are generally made on a periodic basis throughout the year with any balance transferred by June 30 (the end of the school district's fiscal year). A municipality remits one hundred percent (100%) of the county taxes, payable quarterly on the fifteenth days of February, May, August and November.

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income where appropriate. Current assessments are the result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. But it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

Upon the filing of certified adopted budgets by the municipality's local school district and the county, the tax rate is struck by the County Board based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provisions for the assessment of property, the levying of taxes and the collection of taxes are set forth in N.J.S.A. §54:4-1, et seq. Special taxing districts are permitted for various special services rendered to the properties located within the special districts.

Tax bills are sent in June of the current fiscal year. Taxes are payable in four (4) quarterly installments on the first days of February, May, August and November. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged as the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are

determined by the municipal governing body as either one-quarter ($\frac{1}{4}$) or one-half ($\frac{1}{2}$) of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) per annum on the first \$1,500 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500. The governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed six percent (6%) of the amount of the delinquency. These penalties and interest are the highest permitted under State statutes. Delinquent taxes open for one (1) year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

State statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. Prior to the first day of February in each year, a municipality must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board on or before the first day of April of the current tax year for its review. The County Board has the authority after a hearing to increase, decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer believes the petition was unsatisfactorily reviewed by the County Board, appeal of the decision may be made to the Tax Court of New Jersey for further hearing. Tax Court of New Jersey appeals tend to take several years to conclude by settlement or trial and any losses in tax collections from prior years, after an unsuccessful trial or by settlement, are charged directly to operations or with the permission of the Local Finance Board, may be refinanced, generally over a three (3) to five (5) year period.

The Local Fiscal Affairs Law

N.J.S.A. §40A:5-1, *et seq.* (the “Local Fiscal Affairs Law”), regulates the nonbudgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies and commissions.

An independent examination of the local unit’s accounts must be performed annually by a State licensed registered municipal accountant. The audit, conforming to the Division’s “Requirements of Audit”, includes recommendations for improvements of the local unit’s financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within thirty (30) days of its completion.

A local unit’s funds are invested strictly in accordance with the provisions of the Local Fiscal Affairs Law, in particular N.J.S.A. §40A:5-12.1. A local unit is not authorized to invest funds in derivative products or reverse repurchase agreements.

Basis of Accounting

The accounting policies applicable to local governmental units have been prescribed by the Division. The following is a summary of the significant policies:

Basis of Accounting - A modified accrual basis of accounting is followed, with minor exceptions. Revenues are recorded as received in cash except for certain amounts which may be due from the State. Expenditures are recorded on the accrual basis. Appropriation reserves covering unexpended appropriation

balances are automatically created on December 31 of each year and recorded as liabilities, except for amounts which may be cancelled by the governing body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred or entered into during the preceding fiscal year. Lapsed appropriation reserves are recorded as income.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Fixed Assets - Property and equipment purchased through the Current Fund and the General Capital Fund are recorded as expenditures at the time of purchase and are not capitalized.

A local unit finances its operations primarily through the Current Fund. All tax receipts and most revenues are paid into the Current Fund and substantially all expenditures made by appropriations are paid from the Current Fund.

Expenditures are comprised of those made for general purposes, certain expenditures made from restricted federal, State and private grants, certain federal or State mandated expenditures, deferred charges, debt service and capital improvements. Budgeted expenditures for general purposes include payments made primarily in support of a local unit's various departments.

BONDHOLDERS' REMEDIES IN THE EVENT OF DEFAULT

Neither the Bonds nor the proceedings with respect thereto specifically provide any remedies to the bondholders if the Township defaults in the payment of principal of or interest on the Bonds, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the bondholders upon the occurrence of such default. Upon any default in the payment of the principal of or interest on a Bond, a bondholder could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the Township to levy and collect a tax upon all taxable property within the Township, without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Bonds as the same shall come due. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies. See the caption "Municipal Bankruptcy" herein.

MUNICIPAL BANKRUPTCY

Any county, municipality, school district or other political subdivision of the State has the power to file a petition with any United States court or courts in bankruptcy under the federal bankruptcy act for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts, provided that the approval of the Municipal Finance Commission of New Jersey has been obtained. The powers of the Municipal Finance Commission of New Jersey have been vested in the New Jersey Local Finance Board.

Bankruptcy proceedings by the Township could have adverse effects on the bondholders including (1) delay in the enforcement of their remedies, (2) subordination of their claims to those supplying goods and services to the Township after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Bonds. The federal bankruptcy act contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors, such as the holders of general obligation indebtedness or the Bonds, such creditors will have the benefit of their original

claim or the “indubitable equivalent”. The effect of these and other provisions of the federal bankruptcy act cannot be predicted and may be significantly affected by judicial interpretation.

The above references to the federal bankruptcy act are not to be construed as an indication that the Township expects to resort to the provisions of the federal bankruptcy act or that, if it did, such action would be approved by the Municipal Finance Commission.

NO DEFAULT

There is no record of default in the payment of principal of or interest on bonds or notes of the Township.

ABSENCE OF MATERIAL LITIGATION

In the opinion of the Township Attorney, Thomas N. Ryan, Esquire, Sparta, New Jersey (the “Township Attorney”), no litigation of any nature is now pending or, to the Township Attorney’s knowledge, threatened restraining or enjoining the issuance or delivery of the Bonds or the levy or collection of any taxes to pay the interest on or principal of the Bonds, or in any manner questioning the authority or proceedings for the issuance of the Bonds or for the levy or collection of said taxes, or relating to the Bonds or affecting the validity thereof or the levy or collection of said taxes, and neither the corporate existence or boundaries of the Township nor the title of any of the present officers thereof to their respective offices is being contested, and no authority or proceedings for the issuance of the Bonds has or have been repealed, revoked or rescinded. A signed statement to that effect will be supplied upon delivery of the Bonds. In the opinion of the Township Attorney, there is no litigation pending or, to his knowledge, threatened against the Township which if adversely decided would have a material adverse effect on the financial condition of the Township or which is not otherwise adequately covered by Township insurance.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Township, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Bonds and is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Township in connection with the Bonds, and Bond Counsel has assumed compliance by the Township with certain provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate of the Township to be delivered in connection with the issuance of the Bonds.

In addition, in the opinion of Bond Counsel to the Township, under existing statutes, interest on the Bonds is excluded from gross income under the New Jersey Gross Income Tax Act.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no

opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. By executing its Arbitrage and Use of Proceeds Certificate to be delivered concurrently with the delivery of the Bonds, the Township will certify that, to the extent it is empowered and allowed under applicable law, it will comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Bonds from gross

income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law or otherwise prevent beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

SECONDARY MARKET DISCLOSURE

In order to assist the underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission ("Rule 15c2-12"), the Township has undertaken to provide, on or before the first day of the tenth month following the close of each Fiscal year while the Bonds are outstanding, commencing with the Fiscal year ending December 31, 2017, for filing with the Municipal Securities Rulemaking Board (the "MSRB"), on an annual basis, financial and operating information of the type hereinafter described and included in this Official Statement, which is referred to herein as "Annual Information", together with the annual financial statements of the Township prepared in accordance with

generally accepted accounting principles as modified by governmental accounting standards and mandated State statutory principles as in effect from time to time for municipalities. In addition, the Township has undertaken, for the benefit of the holders of the Bonds, to provide to the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the specified event, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”).

The Annual Information with respect to the Township means annual information concerning the Township which consists of financial and operating data of the Township of the type included in this Official Statement relating to the following: (i) property tax levies and collections; (ii) assessed value of taxable property; (iii) property tax rates; and (iv) outstanding debt.

The Notices include notices of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls (other than mandatory sinking fund redemptions) if material and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Township; (13) the consummation of a merger, consolidation, or acquisition involving the Township or the sale of all or substantially all of the assets of the Township, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The sole and exclusive remedy for breach or default under the undertaking to provide continuing disclosure described above is an action to compel specific performance of the undertaking of the Township, and no person, including any holder of the Bonds, may recover monetary damages thereunder under any circumstances. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the undertaking, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The foregoing undertaking is intended to set forth a general description of the type of financial information and operating data that will be provided; the descriptions are not intended to state more than general categories of financial information and operating data; and where an undertaking calls for information that no longer can be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect will be provided. The undertaking, however, may be amended or modified without consent of the holders of the Bonds under certain circumstances set forth in the undertaking. Copies of the undertaking when executed by the Township upon the delivery of the Bonds will be on file at the office of the Township Clerk.

The Township has entered into prior undertakings to provide continuing disclosure for several outstanding bond issues. The undertakings require the Township to submit financial information 240 days after the end of the fiscal year which occurs on December 31st. Within the five years immediately preceding the date of this official statement, the Township previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) audited financial information for the fiscal years ending December 31, 2011 and 2012; (ii) operating data for the fiscal years ending December 31, 2011 and 2012; and (iii) its most current adopted budget required for fiscal years ending December 31, 2012 and

2013. Additionally, the Township acknowledges that it previously failed to file event notices and late filing notices in connection with its untimely filings of (i) audited financial information; (ii) operating data; (iii) adopted budgets; and (iv) certain rating changes, all as described above. The Township has taken steps to ensure timely filings on a going-forward basis, including hiring Phoenix Advisors, LLC in September of 2014 as its continuing disclosure agent.

CREDIT RATING

S&P Global Ratings, acting through Standard & Poor's Financial Services LLC (the "Rating Agency"), has assigned a rating of "AA+" to the Bonds.

The rating reflects only the view of the Rating Agency and an explanation of the significance of such rating may only be obtained from the Rating Agency. The Township provided the Rating Agency with certain information and materials concerning the Bonds and the Township. There can be no assurance that the rating will be maintained for any given period of time or that the rating will not be raised, lowered or withdrawn entirely, if in the Rating Agency's judgment, circumstances so warrant. Any downward change in, or withdrawal of such rating, may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITING

The Bonds have been purchased from the Township at a public sale by FTN Financial Capital Markets at a price of \$4,923,021.83.

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, served as Municipal Advisor to the Township (the "Municipal Advisor") with respect to the issuance of the Bonds. This Official Statement has been prepared with the assistance of the Municipal Advisor. Certain information set forth herein has been obtained from the Township and other sources, which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein. The Municipal Advisor is a municipal advisory firm, and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiable instrument.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters relating to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel to the Township, whose approving opinion will be delivered with the Bonds substantially in the form set forth in Appendix C hereto. Certain legal matters will be passed upon for the Township by the Township Attorney.

FINANCIAL STATEMENTS

The financial statements of the Township as of December 31, 2016 have been audited by Ferraioli, Wielkotz, Cerullo & Cuva, P.A., independent certified public accountants, as stated in their Independent Auditors' Report appearing in Appendix B hereto. Certain information extracted from the audited financial statements of the Township is included in Appendix B hereto.

PREPARATION OF OFFICIAL STATEMENT

Ferraioli, Wielkocz, Cerullo & Cuva, P.A., has not participated in the preparation of this Official Statement and does not make any warranty or other representation with respect to the accuracy and completeness of such information. Ferraioli, Wielkocz, Cerullo & Cuva, P.A. takes responsibility for the audited financial information set forth in Appendix B hereto to the extent specified in their Independent Auditors' Report set forth in Appendix B hereto.

All other information has been obtained from sources which the Township considers to be reliable but the Township makes no warranty, guaranty or other representation with respect to the accuracy and completeness of such information.

Bond Counsel and the Township Attorney have not participated in the preparation of the financial or statistical information contained in this Official Statement, nor have they verified the accuracy, completeness or fairness thereof and, accordingly, express no opinion with respect thereto.

Upon request, the Chief Financial Officer of the Township will confirm to the purchaser of the Bonds, by certificate signed by the Chief Financial Officer, that to the knowledge of the Chief Financial Officer the descriptions and statements relating to the Township herein, as of the date of this Official Statement, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make such descriptions and statements, in light of the circumstances under which they were made, not misleading.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Grant Rome, Chief Financial Officer, 65 Main Street, Sparta, New Jersey (973) 729-4103 or to the Township's Municipal Advisor, Phoenix Advisors, LLC, 4 West Park Street, Bordentown, New Jersey, telephone (609) 291-0130.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any such statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as part of any contract with the holders of the Bonds.

This Official Statement has been duly executed on behalf of the Township by its Chief Financial Officer.

THE TOWNSHIP OF SPARTA,
in the County of Sussex, New Jersey

By: /s/ Grant Rome
Grant Rome, Chief Financial Officer

APPENDIX A

**TOWNSHIP OF SPARTA
FINANCIAL AND GENERAL INFORMATION**

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INFORMATION REGARDING THE TOWNSHIP¹

The following material presents certain economic and demographic information of the Township of Sparta (the “Township”), in the County of Sussex (the “County”), State of New Jersey (the “State”).

General Information

The Township is a residential community located in the southeastern half of the County, approximately fifty (50) miles from New York City. The Township covers an area of thirty-eight and one half (38.5) square miles with elevations up to 1,200 feet above sea level.

Form of Government

The Township’s form of government is Council-Manager Plan B of the New Jersey Optional Municipal Charter Law. The Township is governed by a five (5) member Township Council. Each member is elected without party affiliation for four (4) year overlapping terms. Each year, the Township Council chooses a Mayor from its members who acts as the Township representative and presides over Township Council meetings. By law, the Township Council has responsibility for all legislative matters ranging from the enactment of ordinances and resolutions to general citizen representation. Policy formulation by the Township Council is assisted by a number of separate advisory boards, committees and citizen input.

Executive responsibilities of the Township are vested in the full-time Township Manager. The Township Manager is appointed by the Township Council and is the chief executive and administrative head of the local government. The Township Manager’s duties include management of the Township’s “day to day” business including the coordination of activities of all departments and employees, implementation of Township Council policy and the enforcement of all ordinances and preparation of the annual budget.

Services

Police protection for the Township is provided by a Police Department consisting of thirty (30) full time officers. The Sparta Volunteer Fire Department operates three (3) stations. It is equipped with one (1) ladder truck, one (1) rescue pumper, five (5) engines and two (2) Chief’s vehicles and has seventy-eight (78) volunteer members providing free twenty-four (24) hour service. The Fire Department is governed by the Township Council. The Sparta Ambulance Service is a mixture of paid and volunteer members providing free twenty-four (24) hour emergency service for the Township. Day-time members are paid by First Aid Squad and night-time members are volunteers.

Utilities/Public Works

Township residents obtain their water from either the Township-owned water utility or from individual wells. The vast majority of residents are served by public water. Individual

¹ Source: The Township, unless otherwise indicated.

property owners' wells must be tested and approved before initial use. Once approved, the homeowner is responsible for testing.

The Township has a municipal sewer utility that serves the Lake Mohawk/White Deer Plaza, Center Street Commercial Area and the Knoll Heights senior citizen housing. The majority of homes have individual septic systems that must conform to County Health Department requirements.

The Township also operates a solid waste utility and recycling service for its residents.

There is a limited area of the Township serviced by natural gas, however, most homes are heated by oil or propane gas. Jersey Central Power & Light supplies electricity, while local telephone service is provided by Century Link.

Education

The Sparta Township Public School District serves students in kindergarten through twelfth grade. Schools in the district are Helen Morgan School, Alpine School, Sparta Middle School, and Sparta High School.

The Township is also home to Sussex County Technical School, a county-wide technical high school.

Retirement Systems

All full-time permanent or qualified Township employees who began employment after 1944 must enroll in one of two retirement systems depending upon their employment status. These systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are set by State law. The Division of Pensions, within the New Jersey Department of Treasury (the "Division"), is the administrator of the funds with the benefit and contribution levels set by the State. The Township is enrolled in the Public Employees' Retirement System ("PERS") and the Police and Firemen's Retirement System ("PFRS").

Pension Information²

Employees who are eligible to participate in a pension plan are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost. The Township's share of pension costs in 2016, which is based upon the annual billings received from the State, amounted to \$615,871 for PERS and \$903,046 for PFRS.

² Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Employment and Unemployment Comparisons

For the following years, the New Jersey Department of Labor reported the following annual average employment information for the Township, the County, and the State:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Township</u>				
2016	9,561	9,196	365	3.8%
2015	9,614	9,192	422	4.4%
2014	9,706	9,221	485	5.0%
2013	9,874	9,221	653	6.6%
2012	10,062	9,379	683	6.8%
<u>County</u>				
2016	75,959	72,391	3,568	4.7%
2015	76,537	72,354	4,183	5.5%
2014	77,535	72,567	4,968	6.4%
2013	78,955	72,686	6,269	7.9%
2012	81,345	74,019	7,326	9.0%
<u>State</u>				
2016	4,524,262	4,299,923	224,315	5.0%
2015	4,543,800	4,288,800	255,000	5.6%
2014	4,513,600	4,209,700	303,900	6.7%
2013	4,528,500	4,157,600	370,800	8.2%
2012	4,585,300	4,158,600	426,800	9.3%

Source: New Jersey Department of Labor, Office of Research and Planning, Division of Labor Market and Demographic Research, Bureau of Labor Force Statistics, Local Area Unemployment Statistics

Income (as of 2015)

	<u>Township</u>	<u>County</u>	<u>State</u>
Median Household Income	\$131,182	\$86,565	\$72,093
Median Family Income	142,727	100,186	88,335
Per Capita Income	54,939	38,810	36,582

Source: US Bureau of the Census, 2015 American Community Survey 5-Year Estimates

Population

The following tables summarize population increases and the decreases for the Township, the County, and the State.

<u>Year</u>	<u>Township</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	19,722	9.08%	149,265	3.54%	8,791,894	4.49%
2000	18,080	19.28	144,166	10.10	8,414,350	8.85
1990	15,157	13.68	130,943	12.77	7,730,188	4.96
1980	13,333	23.24	116,119	49.78	7,365,001	2.75
1970	10,819	61.07	77,528	57.40	7,168,164	18.15

Source: United States Department of Commerce, Bureau of the Census

Largest Taxpayers

The ten largest taxpayers in the Township and their assessed valuations are listed below:

<u>Taxpayers</u>	<u>2017 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Jersey Investors Growth	\$23,109,700	0.78%
Braen Royalty LLC	8,137,900	0.27%
Lake Mohawk Country Club	6,398,100	0.22%
Lake Mohawk Golf Club	6,029,600	0.20%
AHS Hospital Crop	5,828,900	0.20%
376 Lafayette JV LLC	5,767,000	0.19%
Heller Sparta, LLC	5,616,800	0.19%
Grinnell/Cofrancesco, PJ, Inc.	5,607,800	0.19%
Serolf Properties LLC	4,711,800	0.16%
Sparta Property Holdings, Inc	4,456,000	0.15%
Total	<u>\$75,663,600</u>	<u>2.55%</u>

Source: Comprehensive Annual Financial Report of the School District and Municipal Tax Assessor

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year % of Collection</u>
2016	\$93,302,082	\$91,604,136	98.18%
2015	90,922,614	89,593,850	98.54%
2014	89,828,474	87,873,746	97.82%
2013	88,396,063	86,355,633	97.69%
2012	86,801,287	84,566,097	97.42%

Source: Annual Audit Reports of the Township

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2016	\$42,823	\$1,518,392	\$1,561,214	1.67%
2015	43,502	1,302,217	1,345,719	1.48%
2014	635,365	1,496,578	2,131,943	2.37%
2013	974,626	1,302,100	2,276,726	2.58%
2012	279,214	1,913,246	2,192,461	2.53%

Source: Annual Audit Reports of the Township

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2016	\$3,058,000
2015	3,068,880
2014	652,580
2013	652,580
2012	652,580

Source: Annual Audit Reports of the Township

Tax Rates per \$100 of Net Valuations Taxable and Allocations

The table below lists the tax rates for Township residents for the past five (5) years.

<u>Year</u>	<u>Municipal</u>	<u>Municipal Open Space</u>	<u>Local School</u>	<u>County</u>	<u>Total</u>
2017	\$0.618	\$0.011	\$2.016	\$0.527	\$3.172
2016R	0.606	0.012	1.977	0.532	3.127
2015	0.759	0.011	2.462	0.657	3.889
2014	0.740	0.011	2.422	0.653	3.826
2013	0.721	0.011	2.360	0.653	3.745

R: Revaluation

Source: Abstract of Ratables and State of New Jersey – Property Taxes

Valuation of Property

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2017	\$2,972,912,900	\$3,079,781,312	96.53%	\$0	\$3,079,781,312
2016R	2,979,700,200	3,086,812,597	96.53	0	3,086,812,597
2015	2,332,333,100	3,101,506,782	75.20	5,651,983	3,107,158,765
2014	2,333,619,000	3,126,080,375	74.65	4,735,165	3,130,815,540
2013	2,351,133,800	3,156,307,961	74.49	4,469,184	3,160,777,145

R: Revaluation

Source: Abstract of Ratables and State of New Jersey – Table of Equalized Valuations

Classification of Ratables

The table below lists the comparative assessed valuation for each classification of real property within the Township for the past five (5) years.

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2017	\$54,904,000	\$2,581,343,000	\$30,521,400	\$259,127,000	\$41,094,600	\$5,922,900	\$2,972,912,900
2016R	56,577,700	2,585,713,700	31,038,300	259,597,800	40,849,800	5,922,900	2,979,700,200
2015	47,935,200	2,038,625,800	22,735,800	186,852,900	32,594,700	3,588,700	2,332,333,100
2014	50,916,100	2,039,954,500	20,465,900	186,099,100	32,594,700	3,588,700	2,333,619,000
2013	54,059,700	2,056,528,300	17,421,900	186,088,200	32,979,700	4,056,000	2,351,133,800

R: Revaluation

Source: Abstract of Ratables and State of New Jersey – Property Value Classification

Financial Operations

The following table summarizes the Township's Current Fund budget for the past five (5) fiscal years ending December 31. The following summary should be used in conjunction with the tables in the sourced documents from which it is derived.

Summary of Current Fund Budget

<u>Anticipated Revenues</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Fund Balance Utilized	\$2,300,000	\$2,550,000	\$2,550,000	\$2,800,000	\$3,250,000
Miscellaneous Revenues	3,633,218	3,765,346	3,705,725	3,792,336	3,947,630
Receipts from Delinquent Taxes	1,550,000	1,300,000	1,300,000	1,150,000	1,150,000
Amount to be Raised by Taxation	<u>17,026,866</u>	<u>17,322,491</u>	<u>17,777,160</u>	<u>18,105,846</u>	<u>18,360,803</u>
Total Revenue:	<u>\$24,510,084</u>	<u>\$24,937,837</u>	<u>\$25,332,885</u>	<u>\$25,848,182</u>	<u>\$26,708,433</u>
<u>Appropriations</u>					
General Appropriations	\$16,048,153	\$16,678,012	\$17,212,488	\$17,412,782	\$18,043,025
Operations (Excluded from CAPS)	1,759,366	1,677,775	1,685,966	1,706,004	1,715,874
Deferred Charges and Statutory Expenditures	148,700	308,700	290,257	283,000	352,000
Capital Improvement Fund	1,000,000	1,000,000	1,000,000	1,250,000	1,500,000
Municipal Debt Service	2,095,601	1,892,208	1,618,540	1,444,138	1,668,212
Reserve for Uncollected Taxes	<u>3,458,264</u>	<u>3,381,142</u>	<u>3,525,634</u>	<u>3,752,258</u>	<u>3,429,322</u>
Total Appropriations:	<u>\$24,510,084</u>	<u>\$24,937,837</u>	<u>\$25,332,885</u>	<u>\$25,848,182</u>	<u>\$26,708,433</u>

Source: Annual Adopted Budgets of the Township

Fund Balance

Current Fund

The following table lists the Township's fund balance and the amount utilized in the succeeding year's budget for the Current Fund for the past five (5) fiscal years ending December 31.

<u>Year</u>	<u>Fund Balance - Current Fund</u>	
	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2016	\$6,715,504	\$3,250,000
2015	5,750,571	2,800,000
2014	4,779,315	2,550,000
2013	4,371,763	2,550,000
2012	3,943,999	2,300,000

Source: Annual Audit Reports of the Township

Sewer Utility Operating Fund

The following table lists the Township's fund balance and the amount utilized in the succeeding year's budget for the Sewer Utility Operating Fund for the past five (5) fiscal years ending December 31.

<u>Fund Balance - Sewer Utility Operating Fund</u>		
<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2016	\$21,817	\$21,000
2015	82,125	80,400
2014	110,556	94,000
2013	47,037	47,000
2012	75,999	70,000

Source: Annual Audit Reports of the Township

Water Utility Operating Fund

The following table lists the Township's fund balance and the amount utilized in the succeeding year's budget for the Water Utility Operating Fund for the past five (5) fiscal years ending December 31.

<u>Fund Balance - Water Utility Operating Fund</u>		
<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2016	\$595,530	\$600,000
2015	1,147,977	737,000
2014	1,267,735	815,000
2013	811,436	424,001
2012	647,537	155,727

Source: Annual Audit Reports of the Township

Township Indebtedness as of December 31, 2016

General Purpose Debt	
Serial Bonds	\$7,835,000
Bond Anticipation Notes	950,000
Bonds and Notes Authorized but Not Issued	1,175,000
Other Bonds, Notes and Loans	<u>725,000</u>
Total:	\$10,685,000
Local School District Debt	
Serial Bonds	\$65,000,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$65,000,000
Self-Liquidating Debt	
Serial Bonds	\$11,469,000
Bond Anticipation Notes	5,371,000
Bonds and Notes Authorized but Not Issued	200,096
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$17,040,096
TOTAL GROSS DEBT	<u>\$92,725,096</u>
Less: Statutory Deductions	
General Purpose Debt	\$5,101
Local School District Debt	65,000,000
Self-Liquidating Debt	<u>17,040,096</u>
Total:	\$82,045,198
TOTAL NET DEBT	<u>\$10,679,899</u>

Source: Annual Debt Statement of the Township

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Overlapping Debt (as of December 31, 2016)³

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Township Percentage</u>	<u>Township Share</u>
Local School District	\$65,000,000	100.00%	\$65,000,000
County	111,347,324	18.32%	<u>20,393,386</u>
Net Indirect Debt			\$85,393,386
Net Direct Debt			<u>10,679,899</u>
Total Net Direct and Indirect Debt			<u>\$96,073,285</u>

Debt Limit

Average Equalized Valuation Basis (2014, 2015, 2016)	\$3,104,799,918
Permitted Debt Limitation (3 1/2%)	108,667,997
Less: Net Debt	<u>10,679,899</u>
Remaining Borrowing Power	<u>\$97,988,099</u>
Percentage of Net Debt to Average Equalized Valuation	0.344%
Gross Debt Per Capita based on 2010 population of 18,080	5,128.60
Net Debt Per Capita based on 2010 population of 18,080	590.70

Source: Annual Debt Statement of the Township

³ Township percentage of County debt is based on the Township's share of total equalized valuation in the County.

APPENDIX B

REPORT OF EXAMINATION OF FINANCIAL STATEMENTS

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Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkottz, CPA, RMA
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and
Members of the Township Council
Township of Sparta
Sparta, NJ 07871

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the Township of Sparta in the County of Sussex, as of December 31, 2016, and 2015, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Township'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 the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion 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, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the financial statements are prepared by the Township of Sparta on the basis of the financial reporting provisions prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of New Jersey.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Township of Sparta as of December 31, 2016 and 2015 or changes in financial position for the years then ended.

Basis for Qualified Opinion on Regulatory Basis Accounting Principles

We are unable to obtain sufficient evidence to support the cost of fixed assets. As more fully describe in Note 1, due to the length of time over which these fixed assets were acquired, it is not practical to determine their actual costs. We are, therefore, unable to express an opinion as to the general fixed assets account group at December 31, 2016, and 2015, stated as \$53,855,790.00 and \$39,205,438.00, respectively.

Basis for Qualified Opinion on Regulatory Basis Accounting Principles (continued)

As described in Note 17 of the financial statements, the Township participates in a Length of Service Award Program (LOSAP) volunteer fire and rescue personnel. The amount reflected in the trust fund statements of \$154,977.07 and \$120,579.15 for 2016 and 2015, respectively, were not audited and, therefore, we express no opinion on the LOSAP program.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in “Basis for Qualified Opinion on Regulatory Basis Accounting Principles” paragraph, the financial statements referred to above present fairly, in all material respects, the regulatory basis balances sheets as of December 31, 2016 and 2015, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2016 in accordance with the basis of financial reporting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Sparta’s basic financial statements. The supplementary information listed in the table of contents and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter of comments and recommendations section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2017 on our consideration of the Township of Sparta's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Sparta's internal control over financial reporting and compliance.



Thomas M. Ferry, C.P.A.
Registered Municipal Accountant
No. 497

Ferraioli, Wielkottz, Cerullo & Cuva, PA
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Newton, New Jersey

June 14, 2017

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Current Fund

December 31,

<u>Assets</u>	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Current Fund:			
Cash-Treasurer	A-4	9,944,149.57	8,473,329.53
Change Fund	A-5	450.00	450.00
		<u>9,944,599.57</u>	<u>8,473,779.53</u>
Receivables and Other Assets with Full Reserves:			
Delinquent Taxes Receivable	A-8	1,518,391.57	1,302,216.93
Tax Title Liens	A-9	42,882.61	43,502.02
Property Acquired for Taxes - Assessed Valuation	A-10	3,058,000.00	3,068,880.00
Interfund Accounts Receivable	A-12	5,123.78	2,021.22
		<u>4,624,397.96</u>	<u>4,416,620.17</u>
Deferred Charges:			
Special Emergency Authorizations	A-13	360,000.00	643,000.00
		<u>14,928,997.53</u>	<u>13,533,399.70</u>
Federal and State Grant Fund:			
Grants Receivable	A-20	32,405.36	48,683.14
Interfund - Current Fund	A-23	343,195.31	261,818.66
		<u>375,600.67</u>	<u>310,501.80</u>
		<u>15,304,598.20</u>	<u>13,843,901.50</u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Current Fund

December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
<u>Liabilities, Reserves and Fund Balance</u>			
Current Fund:			
Appropriation Reserves:			
Unencumbered	A-3;A-14	1,930,412.17	1,618,179.34
Encumbered	A-3;A-14	270,433.20	490,793.48
Total Appropriation Reserves		<u>2,200,845.37</u>	<u>2,108,972.82</u>
Due to State of New Jersey:			
Senior Citizen and Veteran Deductions	A-7	46,280.46	46,280.46
Interfund Accounts Payable	A-12	343,195.31	261,818.66
Encumbrances Payable - Various Reserves	A-15	20,788.67	133,867.26
Prepaid Taxes	A-16	657,389.37	528,738.67
County Tax Payable	A-18	21,572.88	31,192.72
Tax Overpayments	A-19	71,606.04	29,253.59
Due to State of New Jersey:			
Construction Code Surcharge	A-19	7,168.00	6,285.00
Marriage License Surcharge	A-19	800.00	350.00
Reserve for:			
Tax Maps	A-19	14,276.55	14,276.55
Revaluation of Taxes	A-19	205,172.50	205,172.50
		<u>3,589,095.15</u>	<u>3,366,208.23</u>
Reserve for Receivables	Contra	4,624,397.96	4,416,620.17
Fund Balance	A-1	6,715,504.42	5,750,571.30
		<u>14,928,997.53</u>	<u>13,533,399.70</u>
Federal and State Grant Fund:			
Appropriated Reserve for Grants	A-21	250,527.07	196,687.96
Unappropriated Reserve for Grants	A-22	111,422.10	87,669.73
Encumbrances Payable	A-24	13,651.50	26,144.11
		<u>375,600.67</u>	<u>310,501.80</u>
		<u>15,304,598.20</u>	<u>13,843,901.50</u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Comparative Statement of Operations and Changes in Fund Balance - Regulatory Basis

Current Fund

Year Ended December 31,

	Ref.	2016	2015
Revenues and Other Income:			
Fund Balance Utilized	A-2	2,800,000.00	2,550,000.00
Miscellaneous Revenue Anticipated	A-2	4,073,135.77	4,203,716.15
Receipts from Delinquent Taxes	A-2	1,219,390.19	1,466,689.07
Receipts from Current Taxes	A-2	91,604,136.18	89,593,850.47
Non-Budget Revenue	A-2	159,621.97	84,647.92
Other Credits to Income:			
Interfunds Returned	A-12	2,021.22	
Unappropriated Reserves Cancelled	A-12	1.73	4.06
Unexpended Balance of Appropriation			
Reserves	A-14	1,133,306.75	891,096.58
Canceled School Tax	A-17	1.00	
Cancel Reserve for Hurricane Irene			43,985.28
Total Revenues and Other Income		<u>100,991,614.81</u>	<u>98,833,989.53</u>
Expenditures:			
Budget and Emergency Appropriations:			
Operations - Within Caps:			
Salaries and Wages	A-3	8,288,484.00	8,265,435.00
Other Expenses	A-3	6,953,940.00	6,587,144.00
Deferred Charges and Statutory Expenditures -			
Municipal - Within "CAPS"	A-3	2,170,358.00	2,359,909.00
Operations - Excluded from "CAPS"			
Salaries and Wages	A-3	463,305.00	462,165.00
Other Expenses	A-3	1,242,699.00	1,368,801.00
Capital Improvement Fund	A-3	1,250,000.00	1,000,000.00
Municipal Debt Service	A-3	1,444,136.90	1,618,473.09
Deferred Charges and Statutory Expenditures -			
Municipal - Excluded from "CAPS"	A-3	283,000.00	290,236.51
Judgment			
Refund of Prior Year Revenue	A-4	53.00	
Refund of Prior Year Tax Appeals	A-4	63,885.52	182,343.57
Interfund Advances	A-12	5,123.78	
Municipal Open Space Tax	A-12	327,767.00	257,178.36
Local District School Tax	A-17	58,901,130.00	57,572,424.00
County Taxes including Added Taxes	A-18	15,832,799.49	15,348,623.40
Total Expenditures		<u>97,226,681.69</u>	<u>95,312,732.93</u>
Statutory Excess to Fund Balance		3,764,933.12	3,521,256.60
Fund Balance, January 1,	A	<u>5,750,571.30</u>	<u>4,779,314.70</u>
		9,515,504.42	8,300,571.30
Decreased by:			
Fund Balance Utilized as Budget Revenue		<u>2,800,000.00</u>	<u>2,550,000.00</u>
Fund Balance, December 31,	A	<u>6,715,504.42</u>	<u>5,750,571.30</u>

Township of Sparta, N.J.

Statement of Revenues - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	<u>Ref.</u>	<u>Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Fund Balance Anticipated	A-1	2,800,000.00	2,800,000.00	
Miscellaneous Revenues:				
Licenses:				
Other	A-11	5,000.00	5,470.00	470.00
Alcoholic Beverages	A-11	13,000.00	16,280.00	3,280.00
Fees and Permits	A-2	530,450.00	662,950.58	132,500.58
Fines and Costs:				
Municipal Court	A-11	220,000.00	254,395.81	34,395.81
Interest and Costs on Taxes	A-6	335,000.00	336,641.33	1,641.33
Interest on Investments and Deposits	A-11	42,000.00	89,947.48	47,947.48
Payments in Lieu of Taxes on Senior Housing	A-11	155,000.00	168,649.21	13,649.21
Consolidated Municipal Property Tax Relief Aid	A-11	47,814.00	47,814.00	
Energy Receipts	A-11	1,187,607.00	1,187,607.00	
Watershed Moratorium Offset	A-11	29,328.00	29,328.00	
Garden State Trust	A-11	28,476.00	28,476.00	
Uniform Construction	A-11	375,000.00	381,210.25	6,210.25
Interlocal Dispatch Costs	A-11	410,320.00	410,320.19	0.19
Interlocal Finance Hardyston BOE	A-11	5,519.00	5,588.31	69.31
Interlocal Finance Hardyston	A-11	32,576.00	32,576.00	
Interlocal Finance Hardyston MUA	A-11	14,890.00	14,890.00	
Public and Private Revenues:				
Recycling Grant	A-20	24,898.00	24,898.00	
Clean Communities	A-20	48,810.00	48,810.00	
Body Armor Grant	A-20	3,110.00	3,110.00	
Municipal Alliance on Alcoholism and Drug Abuse	A-20	18,092.00	18,092.00	
Drive Sober or Get Pulled Over	A-20	8,800.00	8,800.00	
Highlands Grant	A-20	25,000.00	25,000.00	
Other Special Items:				
Uniform Fire Safety	A-11	25,000.00	27,705.61	2,705.61
Fire Prevention Fees	A-11	10,000.00	26,995.00	16,995.00
Cable TV Franchise	A-11	81,646.00	80,025.00	(1,621.00)
Solar Renewable Energy Credit	A-11	115,000.00	137,556.00	22,556.00
Total Miscellaneous Revenues	A-1	3,792,336.00	4,073,135.77	280,799.77
Receipts from Delinquent Taxes	A-1;A-2	1,150,000.00	1,219,390.19	69,390.19
 Subtotal General Revenues		<u>7,742,336.00</u>	<u>8,092,525.96</u>	<u>350,189.96</u>
 Amount to be Raised by Taxes for Support of Municipal Budget - Local Tax for Municipal Purposes Including Reserve for Uncollected Taxes	A-2	<u>18,105,846.00</u>	<u>20,294,697.69</u>	<u>2,188,851.69</u>
 Budget Totals		<u>25,848,182.00</u>	<u>28,387,223.65</u>	<u>2,539,041.65</u>
Non-Budget Revenue	A-1;A-2		<u>159,621.97</u>	<u>159,621.97</u>
		<u>25,848,182.00</u>	<u>28,546,845.62</u>	<u>2,698,663.62</u>
		A-3		

Township of Sparta, N.J.

Statement of Revenues - Regulatory Basis

Current Fund

Year Ended December 31, 2016

Analysis of Realized Revenues

	<u>Ref.</u>		
Revenue from Collections	A-1; A-8		91,604,136.18
Allocated to School and County Taxes	A-8		<u>75,061,696.49</u>
Balance for Support of Municipal Budget Appropriations			16,542,439.69
Add : Appropriation - Reserve for Uncollected Taxe	A-3		<u>3,752,258.00</u>
Amount for Support of Municipal Budget Appropriations	A-2		<u>20,294,697.69</u>
Receipts from Delinquent Taxes:			
Delinquent Taxes	A-8	1,214,643.57	
Tax Title Liens	A-9	<u>4,746.62</u>	
	A-2		<u>1,219,390.19</u>
Fees and Permits - Other:			
Board of Health - Registrar	A-11	18,941.00	
Board of Health - Sewer	A-11	20,365.00	
Marriage License	A-11	369.00	
Clerk	A-11	14,773.27	
Zoning	A-11	25,528.00	
Planning Board	A-11	23,722.76	
Tax Assessor	A-11	941.40	
Police	A-11	17,327.27	
Leaf Bags	A-11	2,466.40	
Cell Tower	A-11	352,158.64	
Quarry Royalties	A-11	169,220.19	
Host Community Fee	A-11	17,087.65	
Tax Office	A-6	<u>50.00</u>	
	A-2		<u>662,950.58</u>

Analysis of Non-budget Revenues

	<u>Ref.</u>		
Miscellaneous Reimbursements		7,910.35	
Court - Stale Checks/NSF Fees		30.00	
Void Checks		2,672.06	
FEMA Reimbursements		19,149.95	
PILOTs - Tax Settlement Agreements		74,337.35	
Proceeds from Sale of Municipal Assets		1,030.00	
Cancelled Land Use Escrow		6.01	
Senior & Veteran Deduction - Admin. Fee		2,475.00	
Cancel Tax Sale Premiums		17,800.00	
Admin Fees Police O/S Details		4,311.25	
Proceeds Stan Corp Stock		<u>29,900.00</u>	
	A-4		<u>159,621.97</u>

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended			Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved		
<u>General Appropriations</u>							
Operations - within "CAPS"							
General Administration							
Salaries and Wages		218,800.00	218,800.00	211,972.94	6,827.06		
Other Expenses		11,250.00	11,250.00	10,632.60	617.40		
Purchasing							
Other Expenses		79,250.00	79,250.00	76,751.04	2,498.96		
Township Council							
Salaries and Wages		26,050.00	26,050.00	26,000.42	49.58		
Other Expenses		64,600.00	64,600.00	30,323.96	34,276.04		
Clerk							
Salaries and Wages		109,440.00	109,440.00	109,407.95	32.05		
Other Expenses		15,800.00	15,800.00	7,696.12	8,103.88		
Elections							
Salaries and Wages		3,525.00	3,525.00	515.21	3,009.79		
Other Expenses		17,100.00	17,100.00	15,257.74	1,842.26		
Financial Administration							
Salaries and Wages		137,110.00	137,110.00	130,983.15	6,126.85		
Other Expenses		32,145.00	32,145.00	26,982.08	5,162.92		
Annual Audit		29,450.00	29,450.00	11,247.50	18,202.50		
Computerized Data Processing							
Salaries and Wages		105,000.00	105,000.00	104,725.21	274.79		
Other Expenses		93,302.00	93,302.00	42,346.73	50,955.27		
Collection of Taxes							
Salaries and Wages		73,000.00	73,000.00	69,702.83	3,297.17		
Other Expenses		21,380.00	21,380.00	16,234.39	5,145.61		

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	<u>Ref.</u>	<u>Appropriated</u>		<u>Expended</u>			<u>Unexpended Balance Cancelled</u>
		<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>		
<u>General Appropriations</u>							
Assessment of Taxes							
Salaries and Wages		137,500.00	137,500.00	134,663.38	2,836.62		
Other Expenses		69,950.00	69,950.00	59,934.94	10,015.06		
Legal Services and Costs							
Other Expenses		170,000.00	170,000.00	121,277.54	48,722.46		
Municipal Court							
Salaries and Wages		184,694.00	184,694.00	178,851.68	5,842.32		
Other Expenses		19,050.00	19,050.00	7,060.70	11,989.30		
Public Defender							
Other Expenses		15,000.00	15,000.00	14,988.00	12.00		
Engineering Services and Costs							
Salaries and Wages		100,500.00	100,500.00	63,894.89	36,605.11		
Other Expenses		13,075.00	13,075.00	7,215.86	5,859.14		
Planning Board							
Salaries and Wages		20,665.00	20,665.00	19,550.14	1,114.86		
Other Expenses		54,150.00	54,150.00	45,375.65	8,774.35		
Planning Department							
Salaries and Wages		73,125.00	73,125.00	72,991.66	133.34		
Other Expenses		6,450.00	6,450.00	1,872.20	4,577.80		
Economic Development							
Salaries and Wages		5,830.00	5,830.00		5,830.00		
Other Expenses		13,450.00	13,450.00		13,450.00		

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

General Appropriations	Ref.	Appropriated		Expended		Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved	
Board of Adjustment						
Salaries and Wages		23,095.00	23,095.00	22,139.21	955.79	
Other Expenses		16,250.00	16,250.00	9,248.00	7,002.00	
Insurance:						
General Liability		320,000.00	320,000.00	279,115.14	40,884.86	
Workers Compensation Insurance		259,900.00	259,900.00	254,613.07	5,286.93	
Employee Group Health		2,913,480.00	2,913,480.00	2,637,179.50	276,300.50	
Unemployment Compensation Insurance		1,000.00	1,000.00		1,000.00	
Police						
Salaries and Wages		4,185,465.00	4,185,465.00	4,113,984.44	71,480.56	
Other Expenses		170,000.00	170,000.00	109,562.05	60,437.95	
Purchase of Police Cars		128,000.00	128,000.00	115,773.39	12,226.61	
Police Dispatch/911						
Salaries and Wages		445,500.00	445,500.00	427,340.22	18,159.78	
Other Expenses		3,500.00	3,500.00	2,729.24	770.76	
Emergency Management Services						
Salaries and Wages		15,000.00	15,000.00	15,000.00		
Other Expenses		12,845.00	12,845.00	11,758.08	1,086.92	
Aid to Volunteer Fire Companies						
Other Expenses		16,400.00	16,400.00	16,399.77	0.23	
Aid to Volunteer Ambulance Companies						
Other Expenses		45,000.00	45,000.00	12,813.34	32,186.66	
Fire						
Other Expenses		67,000.00	67,000.00	45,469.43	21,530.57	

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended		Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved	
Fire Hydrant Service						
Other Expenses		13,000.00	13,000.00	13,000.00		
Uniform Fire Safety						
Salaries and Wages		53,065.00	53,065.00	25,868.97	27,196.03	
Other Expenses		5,012.00	5,012.00	2,487.50	2,524.50	
Municipal Prosecutor						
Other Expenses		37,010.00	37,010.00	33,916.63	3,093.37	
Public Works Functions						
Road Repairs and Maintenance						
Salaries and Wages		612,000.00	612,000.00	544,788.83	67,211.17	
Other Expenses		189,880.00	189,880.00	145,476.05	44,403.95	
Garage and Trash Removal						
Other Expenses		55,300.00	55,300.00	31,778.87	23,521.13	
Public Building and Grounds						
Salaries and Wages		59,670.00	59,670.00	54,506.63	5,163.37	
Other Expenses		103,120.00	103,120.00	94,726.22	8,393.78	
Vehicle Maintenance						
Salaries and Wages		269,675.00	269,675.00	253,976.40	15,698.60	
Other Expenses		184,030.00	184,030.00	148,019.80	36,010.20	
Snow Removal						
Salaries and Wages		250,000.00	250,000.00	84,505.25	165,494.75	
Other Expenses		400,000.00	400,000.00	138,587.12	261,412.88	
DPW Administration						
Salaries and Wages		176,480.00	176,480.00	136,792.93	39,687.07	
Other Expenses		10,200.00	10,200.00	2,772.70	7,427.30	

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

General Appropriations	Ref.	Appropriated		Expended		Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved	
Municipal Services Act - Condo Costs		56,200.00	56,200.00			56,200.00
Other Expenses						
Health and Human Services Function				578.50		781.50
Health and Welfare Department		1,360.00	1,360.00			
Other Expenses						
Environmental Commission (NJSA 40:56A-1 etc.)		1,840.00	1,840.00			1,840.00
Salaries and Wages		3,125.00	3,125.00	395.00		2,730.00
Other Expenses						
Animal Regulations		19,435.00	19,435.00			19,435.00
Salaries and Wages		20,000.00	20,000.00			20,000.00
Other Expenses						
Committee on Aging		112,275.00	112,275.00	112,107.85		167.15
Salaries and Wages		30,735.00	30,735.00	22,588.38		8,146.62
Other Expenses						
Parks and Recreation Functions						
Recreation Services Functions		137,965.00	137,965.00	120,655.58		17,309.42
Salaries and Wages		32,662.00	32,662.00	21,736.61		10,925.39
Other Expenses						
Maintenance of Parks						
Salaries and Wages		416,000.00	416,000.00	399,008.57		16,991.43
Other Expenses		125,760.00	125,760.00	75,727.43		50,032.57
Celebration of Public Events						
Other Expenses		24,000.00	24,000.00	21,883.65		2,116.35

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended		Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved	
<u>General Appropriations</u>						
Utility Expenses and Bulk Purchases						
Electricity		155,000.00	155,000.00	137,907.64	17,092.36	
Street Lighting		80,000.00	80,000.00	54,326.96	25,673.04	
Telephone		70,000.00	70,000.00	64,200.83	5,799.17	
Water		10,800.00	10,800.00	5,011.02	5,788.98	
Natural Gas		71,000.00	71,000.00	36,034.50	34,965.50	
Sewerage Processing and Disposal		10,000.00	10,000.00	3,001.52	6,998.48	
Gasoline		250,679.00	250,679.00	111,214.71	139,464.29	
State Uniform Construction Code						
Construction Code Official		315,780.00	315,780.00	287,678.63	28,101.37	
Salaries and Wages		86,290.00	86,290.00	78,262.41	8,027.59	
Other Expenses						
Accumulated Absences						
Other Expenses		250,000.00	250,000.00	248,082.73	1,917.27	
Total Operations within "CAPS"		15,242,424.00	15,242,424.00	13,203,187.81	2,039,236.19	
Detail:						
Salaries and Wages	A-1	8,288,484.00	8,288,484.00	7,721,612.97	566,871.03	
Other Expenses	A-1	6,953,940.00	6,953,940.00	5,481,574.84	1,472,365.16	

Deferred Charges and Statutory Expenditures - Municipal within "CAPS"

Statutory Expenditures:		
Contribution to:		
Public Employees' Retirement System	565,843.00	565,842.79
Social Security System (O.A.S.I.)	684,930.00	647,945.22
		0.21
		36,984.78

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended		Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved	
General Appropriations		919,585.00	919,585.00	919,584.78	0.22	
Police and Firemen's Retirement System of N.J.						
Total Deferred Charges and Statutory Expenditures - Municipal within "CAPS"	A-1	2,170,358.00	2,170,358.00	2,133,372.79	36,985.21	
Total General Appropriations for Municipal Purposes within "CAPS"		17,412,782.00	17,412,782.00	15,336,560.60	2,076,221.40	
Operations - Excluded from "CAPS"						
Maintenance of Free Public Library		1,035,719.00	1,035,719.00	936,095.03	99,623.97	
Emergency Services Volunteer Length of Service Award Program		25,000.00	25,000.00		25,000.00	
Insurance						
Employee Group Health		49,020.00	49,020.00	49,020.00		
Interlocal Municipal Service Agreements:						
Other Municipalities Share of Radio System Costs						
Police Dispatch/911		410,320.00	410,320.00	410,320.00		
Salaries and Wages						
Township of Hardyston Finance Officer		32,576.00	32,576.00	32,576.00		
Salaries and Wages						
Hardyston MUA Finance Officer		14,890.00	14,890.00	14,890.00		
Salaries and Wages						

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

General Appropriations	Ref.	Appropriated		Expended			Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved		
Hardyston BOE Finance		5,519.00	5,519.00	5,519.00			
Salaries and Wages							
Public and Private Programs Offset by Revenues							
Recycling Tonnage Grant		24,898.00	24,898.00	24,898.00			
Clean Communities Program		48,810.00	48,810.00	48,810.00			
Municipal Alliance on Alcoholism and Drug Abuse		16,042.00	16,042.00	16,042.00			
Body Armor Grant		3,110.00	3,110.00	3,110.00			
Drive Sober or Get Pulled Over		8,800.00	8,800.00	8,800.00			
Municipal Alliance on Alcoholism and Drug Abuse - Approp Res		2,050.00	2,050.00	2,050.00			
Matching Funds for Grants:							
Municipal Alliance on Alcoholism and Drug Abuse		4,250.00	4,250.00	4,250.00			
Other Expenses		25,000.00	25,000.00	25,000.00			
Highlands Grant							
Total Operations - Excluded from "CAPS"		1,706,004.00	1,706,004.00	1,581,380.03	124,623.97		
Detail:							
Salaries & Wages	A-1	463,305.00	463,305.00	463,305.00			
Other Expenses	A-1	1,242,699.00	1,242,699.00	1,118,075.03	124,623.97		
Capital Improvements:							
Capital Improvement Fund		1,250,000.00	1,250,000.00	1,250,000.00			
Total Capital Improvements Excluded from "CAPS"	A-1	1,250,000.00	1,250,000.00	1,250,000.00			
Municipal Debt Service:							
Payment of Bond Principal		940,000.00	940,000.00	940,000.00			
Payment of Bond Anticipation Notes		250,000.00	250,000.00	250,000.00			

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended			Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved		
<u>General Appropriations</u>							
Interest on Bonds		241,713.00	241,713.00	241,712.50		0.50	
Interest on Notes		12,425.00	12,425.00	12,424.40		0.60	
Total Municipal Debt Service-Excluded from "CAPS"	A-1	1,444,138.00	1,444,138.00	1,444,136.90		1.10	
Deferred Charges:							
5 Year Special Emergency		283,000.00	283,000.00	283,000.00			
Total Deferred Charges - Municipal - Excluded from "CAPS"	A-1	283,000.00	283,000.00	283,000.00			
Total General Appropriations for Municipal Purposes Excluded from "CAPS"		4,683,142.00	4,683,142.00	4,558,516.93	124,623.97	1.10	
Subtotal General Appropriations		22,095,924.00	22,095,924.00	19,895,077.53	2,200,845.37	1.10	
Reserve for Uncollected Taxes		3,752,258.00	3,752,258.00	3,752,258.00			
Total General Appropriations		25,848,182.00	25,848,182.00	23,647,335.53	2,200,845.37	1.10	

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Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Current Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended		Unexpended Balance Cancelled
		Budget	Budget After Modification	Paid or Charged	Reserved	
<u>General Appropriations</u>						
<u>Analysis of Paid or Charged</u>	<u>Ref.</u>					
Reserve for Uncollected Taxes	A-2.			3,752,258.00		
Cash Disbursed	A-4			19,479,117.53		
Deferred Charges						
Special Emergency Authorization	A-13			283,000.00		
Reserve for Federal and State Grants	A-21			128,710.00		
Matching Funds for Federal and State Grants	A-12			4,250.00		
				<u>23,647,335.53</u>		
<u>Analysis of Appropriation Reserves</u>						
Unencumbered	A				1,930,412.17	
Encumbered	A				270,433.20	
					<u>2,200,845.37</u>	

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Trust Funds

December 31,

<u>Assets</u>	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Assessment Fund:			
Cash	B-1;B-2	5,101.38	
Assessment Receivable	B-3	866,055.87	
Deferred Charge Emergency Authorization	B-4	54,629.80	-
		925,787.05	-
 Animal Control Trust Fund:			
Cash	B-1	36,346.67	42,120.00
Change Fund	B-6	25.00	25.00
		36,371.67	42,145.00
 Other Trust Funds:			
Cash	B-1	3,700,693.16	3,712,649.31
 Emergency Services Volunteer Length of Service Award Program (Unaudited)			
Cash	B-1	121,627.07	103,099.15
Contributions Receivable	B-15	33,350.00	17,480.00
		154,977.07	120,579.15
 Total Assets		4,817,828.95	3,875,373.46

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Trust Funds

December 31,

<u>Liabilities, Reserves & Fund Balance</u>	<u>2016</u>	<u>2015</u>
Assessment Fund:		
NJDEP Loan Payable	B-7 792,132.25	
Reserve for Assessments and Liens	B-8 133,654.80	
	925,787.05	-
 Animal Control Trust Fund:		
Prepaid Licenses	B-10 16,013.00	17,657.00
Reserve for Animal Control		
Fund Expenditures	B-13 19,719.82	23,644.60
Reserve for Encumbrances	B-12 638.85	835.00
Due to State Department of Health	B-14 -	8.40
	36,371.67	42,145.00
 Other Trust Fund:		
Interfund - Current Fund	B-9 5,123.78	2,021.22
Various Reserves	B-11 3,582,426.12	3,688,530.04
Reserve for Encumbrances	B-12 113,143.26	22,098.05
	3,700,693.16	3,712,649.31
 Emergency Services Volunteer Length of Service Award Program (Unaudited)		
Net Assets Available for Benefits	B-16 154,977.07	120,579.15
Total Liabilities, Reserves and Fund Balance	4,817,828.95	3,875,373.46

The accompanying "Notes to Financial Statements" are an integral part of these financial statements.

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

General Capital Fund

December 31,

<u>Assets</u>	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Cash	C-2;C-3	1,914,103.39	1,746,484.86
Deferred Charges to Future Taxation:			
Funded	C-4	7,835,000.00	8,775,000.00
Unfunded	C-5	2,125,000.00	1,200,000.00
		<u>11,874,103.39</u>	<u>11,721,484.86</u>
<u>Liabilities, Reserves and Fund Balance</u>			
General Serial Bonds	C-6	7,835,000.00	8,775,000.00
Bond Anticipation Notes	C-7	950,000.00	1,200,000.00
Improvement Authorizations:			
Funded	C-8	886,201.32	780,006.87
Unfunded	C-8	250,808.08	15,795.09
Capital Improvement Fund	C-9	201,304.16	291,304.16
Reserve for Encumbrances	C-10	1,396,838.31	305,427.22
Reserve for Developers Contribution	C-11	74,566.00	74,566.00
Fund Balance	C-1	279,385.52	279,385.52
		<u>11,874,103.39</u>	<u>11,721,484.86</u>

There were Bonds and Notes Authorized But Not Issued in the Amount of \$1,175,000 as of December 31, 2016 and \$-0- as of December 31, 2015 per Exhibit C-12.

Township of Sparta, N.J.

Comparative Statement of Surplus - Regulatory Basis

General Capital Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Balance - January 31,	C	<u>279,385.52</u>	<u>273,006.69</u>
Increased by:			
Reserve for Bond Closing Costs Cancelled			<u>6,892.16</u>
			279,898.85
Decreased by:			
Audit Adjustment			<u>513.33</u>
Balance - December 31,	C	<u>279,385.52</u>	<u>279,385.52</u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Water Utility Fund

December 31,

	<u>Ref</u>	<u>2016</u>	<u>2015</u>
<u>Assets</u>			
Operating Fund:			
Cash	D-7	1,001,834.51	1,479,726.79
Receivables with Full Reserves:			
Consumers Account Receivable	D-10	363,174.65	287,788.19
Liens Receivable	D-11	0.92	0.92
		363,174.65	287,789.11
Total Operating Fund		1,365,009.16	1,767,515.90
Water Assessment Fund			
Cash	D-7;D-8	45,750.18	41,288.93
Assessment Receivable	D-12	49,699.82	95,411.07
Total Water Assessment Fund		95,450.00	136,700.00
Capital Fund:			
Cash	D-7;D-9	547,741.43	547,885.43
Fixed Capital	D-13	27,983,323.34	27,742,645.43
Fixed Capital Authorized and Uncompleted	D-14	2,898,500.00	2,008,500.00
Total Capital Fund		31,429,564.77	30,299,030.86
Total Assets		32,890,023.93	32,203,246.76

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Water Utility Fund

December 31,

	<u>Ref</u>	<u>2016</u>	<u>2015</u>
<u>Liabilities, Reserves and Fund Balance</u>			
Operating Fund:			
Appropriation Reserves:			
Unencumbered	D-4;D-15	221,380.33	91,906.74
Encumbered	D-4;D-15	66,612.65	51,484.75
Total Appropriation Reserves:		287,992.98	143,391.49
Water Rents Overpayments	D-16	20,861.41	8,966.68
Accrued Interest on Bonds	D-17	86,181.39	136,059.03
Accrued Interest on Loans	D-18		198.46
Accrued Interest on Notes	D-19	11,269.08	43,134.58
		406,304.86	331,750.24
Reserve for Receivables	Contra	363,174.65	287,789.11
Fund Balance	D-1	595,529.65	1,147,976.55
Total Operating Fund		1,365,009.16	1,767,515.90
Water Assessment Fund:			
Bond Anticipation Notes	D-21	65,450.00	106,700.00
Reserve for Assessments Receivable	D-23	30,000.00	30,000.00
Total Water Assessment Fund:		95,450.00	136,700.00
Capital Fund:			
Serial Bonds Payable	D-20	8,239,000.00	8,991,000.00
Bond Anticipation Notes	D-21	5,323,000.00	5,503,000.00
Water Supply Fund Loan Payable	D-22		13,594.74
Improvement Authorizations:			
Funded	D-24	37,403.85	44,656.57
Unfunded	D-24	310,088.99	29,139.62
Capital Improvement Fund	D-25	45,939.00	45,939.00
Encumbrances Payable	D-26	60,958.15	58,703.89
Reserve for Amortization	D-27	15,908,983.15	14,452,710.50
Reserve for Deferred Amortization	D-28	1,440,000.00	820,000.00
Fund Balance	D-3	64,191.63	340,286.54
Total Capital Fund		31,429,564.77	30,299,030.86
Total Liabilities, Reserves and Fund Balances		32,890,023.93	32,203,246.76

The fixed capital reported is taken from the municipal records
and does not necessarily reflect the true condition of such fixed capital.

There were bonds and notes authorized but not issued in the amount of \$195,840.19 and \$195,840.19
on December 31, 2016 and 2015 per Exhibit D-29.

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Statement of Operations and Changes in Fund Balance - Regulatory Basis

Water Utility Operating Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Revenue and Other Income Realized:			
Surplus Anticipated	D-2	737,000.00	815,000.00
Water Rents	D-2	2,965,949.44	3,046,920.70
Fire Hydrant Service	D-2	43,906.28	45,375.83
Cell Tower Fees	D-2	195,530.50	187,093.56
Miscellaneous Revenues Anticipated	D-2	156,665.18	144,000.92
Other Credits to Income:			
Miscellaneous Revenues Not Anticipated	D-2	103,836.49	132,153.29
Unexpended Balance of Appropriation Reserves	D-15	66,024.21	237,409.50
Total Income		<u>4,268,912.10</u>	<u>4,607,953.80</u>
Expenditures:			
Operating	D-4	1,902,565.00	1,737,942.00
Capital Improvements	D-4	510,000.00	510,000.00
Debt Service	D-4	1,558,694.00	1,552,670.00
Deferred Charges and Statutory Expenditures	D-4	113,100.00	112,100.00
Total Expenditures		<u>4,084,359.00</u>	<u>3,912,712.00</u>
Statutory Excess to Surplus		184,553.10	695,241.80
Fund Balance - January 1,	D	<u>1,147,976.55</u>	<u>1,267,734.75</u>
		1,332,529.65	1,962,976.55
Decreased by:			
Utilized as Anticipated Revenue		<u>737,000.00</u>	<u>815,000.00</u>
Fund Balance - December 31,	D	<u><u>595,529.65</u></u>	<u><u>1,147,976.55</u></u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.
Statement of Revenues - Regulatory Basis

Water Utility Operating Fund

Year Ended December 31, 2016

	<u>Ref.</u>	<u>Anticipated Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Surplus Anticipated	D-1	737,000.00	737,000.00	
Water Rents	D-1;D-10	2,977,959.00	2,965,949.44	(12,009.56)
Fire Hydrant Service	D-1;D-7	45,300.00	43,906.28	(1,393.72)
Miscellaneous Anticipated	D-1	143,900.00	156,665.18	12,765.18
Water Tower Cell Phone	D-1;D-7	180,200.00	195,530.50	15,330.50
Budget Totals		<u>4,084,359.00</u>	<u>4,099,051.40</u>	<u>14,692.40</u>

D-4

Analysis of Miscellaneous Revenue Anticipated

Interest on Delinquent Rents	80,469.97	
Meters Sold	7,134.92	
Sprinklers	39,762.95	
Various Miscellaneous	29,297.34	
D-7	<u>156,665.18</u>	

Analysis of Miscellaneous Revenue Not Anticipated

Interest on Investment	9,326.63	
Connection Fees	92,599.30	
Water Assessment Interest	1,910.56	
D-1; D-7	<u>103,836.49</u>	

Township of Sparta, N.J.

Comparative Statement of Fund Balance - Regulatory Basis

Water Capital Utility Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Balance - January 1,	D	340,286.54	444,862.54
Increased by:			
Cancellation of Funded Improvement Authorizations	D-24	30,322.09	
Premium on Sale of Bond Anticipation Notes	D-7	<u>54,583.00</u>	<u>45,424.00</u>
		425,191.63	490,286.54
Decreased by:			
Appropriated to Finance Improvement Authorizations	D-28	<u>361,000.00</u>	<u>150,000.00</u>
Balance - December 31,	D	<u><u>64,191.63</u></u>	<u><u>340,286.54</u></u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.
 Statement of Expenditures - Regulatory Basis
 Water Utility Operating Fund
 Year Ended December 31, 2016

	Ref.	Appropriated		Expended	
		Budget	Budget After Modification	Paid or Charged	Reserved
Operating:					
Salaries and Wages		874,490.00	874,490.00	824,669.56	49,820.44
Other Expenses		1,028,075.00	1,028,075.00	806,450.37	221,624.63
Total Operating	D-1	<u>1,902,565.00</u>	<u>1,902,565.00</u>	<u>1,631,119.93</u>	<u>271,445.07</u>
Capital Improvements					
Capital Improvement Fund		500,000.00	500,000.00	500,000.00	
Capital Outlay	D-1	<u>10,000.00</u>	<u>10,000.00</u>	<u>9,076.46</u>	<u>923.54</u>
Debt Service:					
Payment of Bond and Loan Principal		752,000.00	752,000.00	752,000.00	
Payment of Bond Anticipation Notes		480,000.00	480,000.00	480,000.00	
Interest on Bonds		260,918.00	260,918.00	260,918.00	
Interest on Notes		52,043.00	52,043.00	52,043.00	
Payment of Loan Principal		13,595.00	13,595.00	13,595.00	
Interest on Loans		138.00	138.00	138.00	
Total Debt Service	D-1	<u>1,558,694.00</u>	<u>1,558,694.00</u>	<u>1,558,694.00</u>	
Deferred Charges and Statutory Expenditures:					
Statutory Expenditures:					
Contribution to:					
Public Employee' Retirement System		47,000.00	47,000.00	47,000.00	
Social Security System (O.A.S.I.)		66,100.00	66,100.00	50,475.63	15,624.37
Total Deferred Charges and Statutory Expenditures	D-1	<u>113,100.00</u>	<u>113,100.00</u>	<u>97,475.63</u>	<u>15,624.37</u>
		<u>4,084,359.00</u>	<u>4,084,359.00</u>	<u>3,796,366.02</u>	<u>287,992.98</u>
			D-2		
Analysis of Paid or Charged					
Cash Disbursed	D-7			3,483,267.02	
Interest on Bonds	D-17			260,918.00	
Interest on Loans	D-18			138.00	
Interest on Notes	D-19			52,043.00	
				<u>3,796,366.02</u>	
Analysis of Appropriation Reserve					
Unencumbered	D				221,380.33
Encumbered	D				66,612.65
					<u>287,992.98</u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Schedule of Revenues - Regulatory Basis

Water Utility Assessment Fund

Year Ended December 31, 2016

	Anticipated <u>Budget</u>	<u>Realized</u>
Assessment Cash	<u>41,250.00</u> D-6	<u>41,250.00</u> D-21

Schedule of Revenues - Regulatory Basis

Water Utility Assessment Fund

Year Ended December 31, 2016

	Anticipated <u>Budget</u>	<u>Realized</u>
Payment of Bond Anticipation Notes	<u>41,250.00</u> D-5	<u>41,250.00</u>

Comparative Balance Sheet - Regulatory Basis

Sewer Utility Fund

December 31,

<u>Assets</u>	<u>Ref</u>	<u>2016</u>	<u>2015</u>
Operating Fund:			
Cash	E-6	86,428.68	150,631.51
Receivables with Full Reserves:			
Consumers Account Receivable	E-10	55,881.52	42,033.35
Total Operating Fund		142,310.20	192,664.86
Sewer Assessment Fund			
Cash	E-6;E-7	13,455.28	12,241.65
Assessment Receivable	E-11	8,457.67	9,671.30
Total Sewer Assessment Fund		21,912.95	21,912.95
Capital Fund:			
Cash	E-6;E-8	49,603.50	49,603.50
Fixed Capital	E-12	8,711,594.25	8,711,594.25
Fixed Capital Authorized and Uncompleted	E-13	142,000.00	142,000.00
Total Capital Fund		8,903,197.75	8,903,197.75
Total Assets		9,067,420.90	9,117,775.56

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Comparative Balance Sheet - Regulatory Basis

Sewer Utility Fund

December 31,

	<u>Ref</u>	<u>2016</u>	<u>2015</u>
<u>Liabilities, Reserves and Fund Balance</u>			
Operating Fund:			
Appropriation Reserves:			
Unencumbered	E-5;E-14	6,990.27	2,401.07
Encumbered	E-5;E-14	11,454.56	17,056.37
Total Appropriation Reserves:		18,444.83	19,457.44
Sewer Charge Overpayments	E-15	740.13	2,310.97
Accrued Interest on Bonds	E-16	45,326.59	46,637.72
Accrued Interest on Notes	E-17	100.30	100.30
		64,611.85	68,506.43
Reserve for Receivables	Contra	55,881.52	42,033.35
Fund Balance	E-1	21,816.83	82,125.08
Total Operating Fund		142,310.20	192,664.86
Sewer Assessment Fund:			
Reserve for Assessments Receivable	E-20	8,457.67	9,671.30
Fund Balance	E-4	13,455.28	12,241.65
Total Sewer Assessment Fund:		21,912.95	21,912.95
Capital Fund:			
Serial Bonds Payable	E-18	3,230,000.00	3,520,000.00
Bond Anticipation Notes	E-19	48,000.00	54,000.00
Improvement Authorizations:			
Funded	E-21	132.50	132.50
Unfunded	E-21	44,855.03	44,855.03
Capital Improvement Fund	E-22	8,500.00	8,500.00
Reserve for Amortization	E-23	5,477,338.22	5,187,338.22
Reserve for Deferred Amortization	E-24	94,000.00	88,000.00
Fund Balance	E-3	372.00	372.00
Total Capital Fund		8,903,197.75	8,903,197.75
Total Liabilities, Reserves and Fund Balances		9,067,420.90	9,117,775.56

The fixed capital reported is taken from the municipal records and does not necessarily reflect the true condition of such fixed capital.

There were bonds and notes authorized but not issued on December 31, 2016 and 2015 in the amount \$4,256.03 and \$4,256.03 per Exhibit E-25.

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Statement of Operations and Changes in Fund Balance - Regulatory Basis

Sewer Utility Operating Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Revenue and Other Income Realized:			
Surplus Anticipated	E-2	80,400.00	94,000.00
Sewer Service Charges	E-2	876,796.87	907,523.73
Board of Education Debt Service	E-2	84,927.32	108,757.28
Sewer Reservation Fees	E-2	10,002.70	13,767.00
Sewer Connection Fees	E-2	6,507.60	19,346.13
Miscellaneous	E-2	73,164.26	17,518.69
Other Credits to Income:			
Unexpended Balance of Appropriation Reserves	E-14	<u>390.00</u>	<u>31,082.86</u>
Total Income		<u>1,132,188.75</u>	<u>1,191,995.69</u>
Expenditures:			
Operating	E-5	690,220.00	730,432.00
Capital Improvements			5,000.00
Debt Service	E-5	417,302.00	389,094.13
Deferred Charges and Statutory Expenditures	E-5	<u>4,575.00</u>	<u>1,900.00</u>
Total Expenditures		<u>1,112,097.00</u>	<u>1,126,426.13</u>
Statutory Excess to Surplus		20,091.75	65,569.56
Fund Balance - January 1,	E	<u>82,125.08</u>	<u>110,555.52</u>
		102,216.83	176,125.08
Decreased by:			
Utilized as Anticipated Revenue		<u>80,400.00</u>	<u>94,000.00</u>
Fund Balance - December 31,	E	<u><u>21,816.83</u></u>	<u><u>82,125.08</u></u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Statement of Revenues - Regulatory Basis

Sewer Utility Operating Fund

Year Ended December 31, 2016

	<u>Ref.</u>	<u>Anticipated</u> <u>Budget</u>	<u>Realized</u>	Excess or <u>(Deficit)</u>
Surplus Anticipated	E-1	80,400.00	80,400.00	
Sewer Rents	E-1;E-10	874,997.00	876,796.87	1,799.87
Sewer Connection Fees	E-1E-6	19,000.00	6,507.60	(12,492.40)
Sewer Reservation Fees	E-1;E-10	13,700.00	10,002.70	(3,697.30)
Miscellaneous Fees	E-1; E-2	16,000.00	73,164.26	57,164.26
Board of Education Share of Debt Service	E-1;E-10	108,000.00	84,927.32	(23,072.68)
Budget Totals		<u>1,112,097.00</u>	<u>1,131,798.75</u>	<u>19,701.75</u>
		E-5		
<u>Miscellaneous Revenues Not Anticipated</u>				
Interest on Sewer Assessments	E-9		18.19	
Interest on Sewer Rents		16,808.54		
Interest on Investments - Operating		1,522.38		
Miscellaneous Reimbursements		<u>54,815.15</u>		
	E-6		<u>73,146.07</u>	
	E-2		<u>73,164.26</u>	

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Statement of Fund Balance - Regulatory Basis

Sewer Utility Capital Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Balance - January 1,	E	<u>372.00</u>	<u>372.00</u>
Balance - December 31,	E	<u>372.00</u>	<u>372.00</u>

E-4

Comparative Statement of Assessment Trust Fund Balance - Regulatory Basis

Sewer Assessment Trust Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Balance - January 1,	E	<u>12,241.65</u>	<u>10,509.77</u>
Increased by:			
Collection of Unpledged Assessments and Liens	E-20	<u>1,213.63</u>	<u>1,731.88</u>
Balance - December 31,	E	<u>13,455.28</u>	<u>12,241.65</u>

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Sewer Utility Operating Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Budget After Modification	Expended	
		Budget	Budget After Modification		Paid or Charged	Reserved
Operating:						
Salaries and Wages		29,815.00	29,815.00	28,815.15	999.85	
Other Expenses		189,620.00	189,620.00	172,180.02	17,439.98	
Other Expenses - SCMUA		470,785.00	470,785.00	470,785.00		
Total Operating	E-1	690,220.00	690,220.00	671,780.17	18,439.83	
Debt Service:						
Payment of Bond Principal		290,000.00	290,000.00	290,000.00		
Payment of Bond Anticipation Notes		6,000.00	6,000.00	6,000.00		
Interest on Bonds		120,492.00	120,492.00	120,492.00		
Interest on Notes		830.00	810.00	810.00		
Total Debt Service	E-1	417,322.00	417,302.00	417,302.00		
Deferred Charges and Statutory Expenditures:						
Statutory Expenditures:						
Contribution to:						
Social Security System (O.A.S.I.)		4,555.00	4,575.00	4,570.00	5.00	
Total Deferred Charges and Statutory Expenditures	E-1	4,555.00	4,575.00	4,570.00	5.00	
		1,112,097.00	1,112,097.00	1,093,652.17	18,444.83	
			E-2			
Analysis of Paid or Charged						
Cash Disbursed	E-6			972,350.17		
Interest on Bonds	E-16			120,492.00		
Interest on Notes	E-17			810.00		
				1,093,652.17		
Analysis of Appropriation Reserves						
Unencumbered	E				6,990.27	
Encumbered	E				11,454.56	
					18,444.83	

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Balance Sheet - Regulatory Basis

Solid Waste Utility Fund

December 31,

	<u>Ref</u>	<u>2016</u>	<u>2015</u>
<u>Assets</u>			
Operating Fund:			
Cash	F-4	2,092,703.31	1,950,017.98
Receivables with Full Reserves:			
Consumers Account Receivable	F-5	140,478.33	127,574.68
Liens Receivable	F-6	79.27	79.27
		<u>140,557.60</u>	<u>127,653.95</u>
Total Operating Fund		<u>2,233,260.91</u>	<u>2,077,671.93</u>
<u>Ref</u>			
<u>Liabilities, Reserves and Fund Balance</u>			
Operating Fund:			
Appropriation Reserves:			
Unencumbered	F-3;F-7	146,338.69	133,249.51
Encumbered	F-3;F-7	138,624.72	137,184.03
Total Appropriation Reserves		<u>284,963.41</u>	<u>270,433.54</u>
Accounts Payable	F-8		180.00
Prepaid Solid Waste User Fees	F-9	169,633.64	257,325.45
		<u>454,597.05</u>	<u>527,938.99</u>
Reserve for Receivables	Contra	140,557.60	127,653.95
Fund Balance	F-1	<u>1,638,106.26</u>	<u>1,422,078.99</u>
Total Operating Fund		<u>2,233,260.91</u>	<u>2,077,671.93</u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Statement of Operations and Changes in Fund Balance - Regulatory Basis

Solid Waste Operating Utility Fund

Year Ended December 31,

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Revenue and Other Income Realized:			
Surplus Anticipated	F-2	175,000.00	164,500.00
Solid Waste User Fees	F-2	1,990,754.68	1,998,328.36
Miscellaneous	F-2	22,053.02	22,113.46
Other Credits to Income:			
Unexpended Balance of Appropriation Reserves	F-7	<u>130,069.57</u>	<u>114,352.31</u>
Total Income		<u>2,317,877.27</u>	<u>2,299,294.13</u>
Expenditures:			
Operating	F-3	1,915,850.00	1,908,350.00
Deferred Charges and Statutory Expenditures	F-3	<u>11,000.00</u>	<u>10,000.00</u>
Total Expenditures		<u>1,926,850.00</u>	<u>1,918,350.00</u>
Statutory Excess to Surplus		391,027.27	380,944.13
Fund Balance - January 1,	F	<u>1,422,078.99</u>	<u>1,205,634.86</u>
		1,813,106.26	1,586,578.99
Decreased by:			
Utilized as Anticipated Revenue		<u>175,000.00</u>	<u>164,500.00</u>
Fund Balance - December 31,	F	<u><u>1,638,106.26</u></u>	<u><u>1,422,078.99</u></u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.
Statement of Revenues - Regulatory Basis

Solid Waste Operating Utility Fund

Year Ended December 31, 2016

	<u>Anticipated</u>		Excess or (Deficit)
<u>Ref.</u>	<u>Budget</u>	<u>Realized</u>	
Surplus Anticipated	F-1 175,000.00	175,000.00	
Solid Waste User Fees	F-1;F-5 1,746,850.00	1,990,754.68	243,904.68
Miscellaneous Fees	F-1;F-2 5,000.00	22,053.02	17,053.02
Budget Totals	<u>1,926,850.00</u> F-3	<u>2,187,807.70</u>	<u>260,957.70</u>
 <u>Analysis Realized Revenues</u>			
Interest & Penalties on Solid Waste Fees	14,995.38		
NSF Check Fees	140.00		
Interest on Investments - Operating	F-2;F-4 <u>6,917.64</u>	<u>22,053.02</u>	

Township of Sparta, N.J.

Statement of Expenditures - Regulatory Basis

Solid Waste Operating Utility Fund

Year Ended December 31, 2016

	Ref.	Appropriated		Expended	
		Budget	Budget After Modification	Paid or Charged	Reserved
Operating:					
Salaries and Wages		128,000.00	128,000.00	126,738.45	1,261.55
Other Expenses		1,787,850.00	1,787,850.00	1,515,148.14	272,701.86
Total Operating	F-1	1,915,850.00	1,915,850.00	1,641,886.59	273,963.41
Deferred Charges and Statutory Expenditures:					
Statutory Expenditures:					
Contribution to:					
Social Security System (O.A.S.I.)		11,000.00	11,000.00		11,000.00
Total Deferred Charges and Statutory Expenditures	F-1	11,000.00	11,000.00		11,000.00
		1,926,850.00	1,926,850.00	1,641,886.59	284,963.41
			F-2	F-4	
Unencumbered	F				146,338.69
Encumbered	F				138,624.72
					284,963.41

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

Township of Sparta, N.J.

Comparative Statement of General Fixed Assets - Regulatory Basis

December 31,

(Unaudited)

	<u>2016</u>	<u>2015</u>
<u>General Fixed Assets:</u>		
Land / Land Improvements		
Buildings	39,513,645.00	25,171,500.00
Machinery and Equipment	<u>14,342,145.00</u>	<u>14,033,938.00</u>
	<u>53,855,790.00</u>	<u>39,205,438.00</u>
 Investment in Fixed Assets	 <u>53,855,790.00</u>	 <u>39,205,438.00</u>

The accompanying "Notes to Financial Statements" are an integral part of these Financial Statements.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The GASB Codification establishes seven fund types and two account groups to be used by governmental units when reporting financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (GAAP).

The financial statements of the Township of Sparta have been prepared in conformity with accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Township accounts for its financial transactions through the following separate funds which differ from the fund structure required by GAAP.

A. Reporting Entity

The Township of Sparta (the "Township") operates under a Mayor/Council form of government. The Township's major operations include public safety, road repair and maintenance, sanitation, fire protection, recreation and parks, health services, and general administrative services.

GASB has issued Statement No. 14 which requires the financial reporting entity to include both the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will be by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

However, the municipalities in the State of New Jersey do not prepare financial statements in accordance with GAAP and thus do not comply with all of the GASB pronouncements. The financial statements contained herein include only those boards, bodies, officers or commissions as required by NJS 40A:5-5. Accordingly, the financial statements of the Township do not include the operations of the Municipal Library, Volunteer Fire Department, and First Aid Squad which is considered a component unit under GAAP. Complete financial statements of the above components can be obtained by contacting the Treasurer of the respective entity.

The Township uses funds, as required by the Division, to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial administration by segregating transactions related to certain Township functions or activities. An account group, on the other hand, is designed to provide accountability for certain assets and liabilities that are not recorded in those Funds.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The Township has the following funds and account groups:

Current Fund - This fund accounts for resources and expenditures for governmental operations of a general nature, including Federal and State grants.

Trust Funds - Trust Funds are used to account for assets held by the government in a trustee capacity. Funds held by the Township as an agent for individual, private organizations, or other governments are recorded in the Trust Funds.

Assessment Trust Fund - This fund deals with the handling of special assessment levies against property for the cost of an improvement. The whole or a part of which costs are levied against the property receiving the benefit.

Other Trust Fund - This fund is established to account for the assets and resources which are also held by the Township as a trustee or agent for individuals, private organizations, other governments and/or other funds.

Animal Control Trust Fund - This fund is used to account for fees collected from dog licenses and expenditures which are regulated by NJS 4:19-15.11.

General Capital Fund - This fund is used to account for the receipt and disbursement of funds used for acquisition or improvement of general capital facilities, other than those acquired in the Current Fund.

Water Operating and Water Capital Funds - Account for the operations and acquisition of capital facilities of the municipally owned water utility.

Sewer Operating and Sewer Capital Funds - Account for the operations and acquisition of capital facilities of the municipally owned sewer utility.

Solid Waste Operating Fund - Account for the operations of the Solid Waste Utility.

Public Assistance Fund - This fund is used to account for the receipt and disbursement of funds that provide assistance to certain residents of the Township pursuant to Title 44 of New Jersey Statutes.

General Fixed Assets Account Group - To account for all fixed assets of the Township. The Township's infrastructure is not reported in the group.

A modified accrual basis of accounting is followed by the Township of Sparta. Under this method of accounting revenues, except State/Federal Aid, are recognized when received and expenditures are recorded, when incurred. The accounting principles and practices prescribed for municipalities by the Division differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. The more significant differences are as follows:

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Property Tax Revenues - Real property taxes are assessed locally, based upon the assessed value of the property. The tax bill includes a levy for Municipal, County and School purposes. The bills are mailed annually in June for that calendar year's levy. Taxes are payable in four quarterly installments on February 1, May 1, August 1, and November 1. The amounts of the first and second installments are determined as one quarter of the total tax levied against the property for the preceding year. The installment due the third and fourth quarters is determined by taking the current year levy less the amount previously charged for the first and second installments, with the remainder being divided equally. If unpaid on these dates, the amount due becomes delinquent and subject to interest at 8% per annum, or 18% on any delinquency amount in excess of \$1,500. The school levy is turned over to the Board of Education as expenditures are incurred, and the balance, if any, must be transferred as of June 30, of each fiscal year. County taxes are paid quarterly on February 15, May 15, August 15 and November 15, to the County by the Township. When unpaid taxes or any municipal lien, or part thereof, on real property, remain in arrears on the 11th day of the 11th month of the fiscal year levied, the collector in the municipality shall subject to the provisions of the New Jersey Statutes enforce the lien by placing the property on a tax sale. Annual in rem tax foreclosure proceedings are instituted to enforce the tax collection or acquisition of title to the property by the Township. In accordance with the accounting principles prescribed by the State of New Jersey, current and delinquent taxes are realized as revenue when collected. Since delinquent taxes and liens are fully reserved, no provision has been made to estimate that portion of the taxes receivable and tax title liens that are uncollectible. GAAP requires tax revenues to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Miscellaneous Revenues - Miscellaneous revenues are recognized on a cash basis. Receivables for the miscellaneous items that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the Township's Current Fund and Water Operating Fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Grant Revenues - Federal and State grants, entitlements or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the Township's budget. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Budgets and Budgetary Accounting

An annual budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures for the current fund and the water operating fund. Budget amounts presented in the accompanying financial statements represent amounts adopted by the Township and approved by the State Division of Local Government Services per N.J.S.A. 40-A:4 et seq.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

The Township is not required to adopt budgets for the following funds:

General Capital Fund	Sewer Capital Fund
Animal Control Trust Fund	Solid Waste Capital Fund
Public Assistance Fund	Trust Fund
Water Capital Fund	

The governing body shall introduce and approve the annual budget not later than February 10, of the fiscal year. The budget shall be adopted not later than March 20, and prior to adoption must be certified by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Director of the Division of Local Government Services, with the approval of the Local Finance Board may extend the introduction and approval and adoption dates of the municipal budget. The budget is prepared by fund, function, activity and line item (salary or other expense) and includes information on the previous year. The legal level of control for appropriations is exercised at the individual line item level for all operating budgets adopted. Emergency appropriations, those made after the adoption of the budget and determination of the tax rate, may be authorized by the governing body of the municipality. During the last two months of the fiscal year, the governing body may, by a 2/3 vote, amend the budget through line item transfers. Management has no authority to amend the budget without the approval of the Governing Body. Expenditures may not legally exceed budgeted appropriations at the line item level. During 2016, the Governing Body did increase the original Current Fund budget. Also, several budget transfers were approved by the governing body.

Expenditures - Are recorded on the "budgetary" basis of accounting. Generally, expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with an encumbrance accounting system. Outstanding encumbrances at December 31, are reported as a cash liability in the financial statements. Unexpended or uncommitted appropriations, at December 31, are reported as expenditures through the establishment of appropriations reserves unless canceled by the governing body. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

Encumbrances - Contractual orders outstanding at December 31, are reported as expenditures through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures under GAAP.

Appropriation Reserves - Are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding year. Lapsed appropriation reserves are recorded as additions to income. Appropriation reserves do not exist under GAAP.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Compensated Absences - Expenditures relating to obligations for unused vested accumulated vacation and sick pay are not recorded until paid. GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining obligations be recorded as a long-term obligation.

Property Acquired for Taxes - Is recorded in the Current Fund at the assessed valuation when such property was acquired and fully reserved. GAAP requires such property to be recorded in the General Fixed Assets Account Group at market value on the date of acquisition.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves. GAAP does not require the establishment of an offsetting reserve.

Inventories - The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the various balance sheets.

Cash and Investments - Cash includes amounts in demand deposits as well as short-term investments with a maturity date within one year of the date acquired by the government. Investments are stated at cost and are limited by NJSA 40A:5-15.1(a).

Deferred Charges to Future Taxation Funded and Unfunded - Upon the authorization of capital projects, the Township establishes deferred charges for the costs of the capital projects to be raised by future taxation. Funded deferred charges relate to permanent debt issued, whereas unfunded deferred charges relate to temporary or non-funding of the authorized cost of capital projects. According to N.J.S.A. 40A:2-4, the Township may levy taxes on all taxable property within the local unit to repay the debt. Annually, the Township raises the debt requirements for that particular year in the current budget. As the funds are raised by taxation, the deferred charges are reduced.

Comparative Data - Comparative data for the prior year has been presented in the accompanying balance sheets and statements of operations in order to provide an understanding of changes in the Township's financial position and operations. However, comparative data has not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

Use of Estimates - The preparation of financial statements requires management of the Township to make estimates and assumptions that affect the reported amounts 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. Accordingly, actual results could differ from those estimates.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

General Fixed Assets - The Township of Sparta has developed a fixed asset accounting and reporting system, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles.

Fixed Assets used in Governmental Operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets sidewalks and drainage systems are not capitalized.

All fixed assets are valued at historical cost or estimated cost if actual historical cost is not available.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the Capital funds until such time as the construction is completed and put into operation.

Fixed assets acquired through grants in aid or contributed capital have not been accounted for separately.

GAAP requires that all fixed assets be capitalized at historical cost if actual historical cost is not available.

Recent Accounting Pronouncements

In February 2015, the Government Accounting Standards Board issued GASB Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement is effective for periods beginning after June 15, 2015. The Township is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2015, the Government Accounting Standards Board issued 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. This Statement is effective for periods beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for periods beginning after June 15, 2016. The Township is currently reviewing what effect, if any, this Statement might have on future financial statements.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Recent Accounting Pronouncements (continued)

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for periods beginning after June 15, 2016. The Township is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for periods beginning after June 15, 2017. The Township is currently reviewing what effect, if any, this Statement might have on future financial statements.

In June 2015, the Government Accounting Standards Board issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. This Statement is effective for periods beginning after June 15, 2015. The Township is currently reviewing what effect, if any, this Statement might have on future financial statements.

In August 2015, the Government Accounting Standards Board issued GASB Statement No. 77, *Tax Abatement Disclosures*, which improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The Township is currently reviewing what effect, if any, this Statement might have on future financial statements.

In December 2015, the Government Accounting Standards Board issued GASB 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.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Recent Accounting Pronouncements (continued)

68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement is effective for reporting periods beginning after December 15, 2015. The Township is currently reviewing what effects, if any, this Statement might have on future financial statements.

In December 2015, the Government Accounting Standards Board issued GASB 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. Specifically, it established criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for periods beginning after June 15, 2015, and for certain provisions, periods beginning after December 15, 2015. The Township is currently reviewing what effects, if any, this Statement might have on future financial statements.

In January 2016, the Government Accounting Standards Board issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provides clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The Township does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB 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. The Township does not believe this Statement will have any effect on future financial statements.

In March 2016, the Government Accounting Standards Board issued GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statement 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 is effective for reporting periods beginning after June 15, 2016. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statements

The GASB Codification also defines the financial statements of a governmental unit to be presented in the general purpose financial statements to be in accordance with GAAP. The Township presents the financial statements listed in the table of contents which are required by the Division and which differ from the financial statements required by GAAP. In addition, the Division requires the financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from GAAP.

NOTE 2: BUDGETARY INFORMATION

Under New Jersey Statutes, the annual budget is required to be a balanced cash basis document. To accomplish this, the municipality is required to establish a reserve for uncollected taxes. The 2016 statutory budget included a reserve for uncollected taxes in the amount of \$3,752,258.00. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2016 statutory budget was \$2,800,000.00.

Inter department budget transfers are not permitted prior to November 1. After November 1, budget transfers can be made in the form of a resolution and approved by the Mayor and Council.

N.J.S.A. 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2016, there were no items of special revenue and appropriation inserted into the budget.

The municipality may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year. Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. During 2016, there were no emergency authorizations.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 3: DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS

Certain expenditures are required to be deferred to budgets of succeeding years. At December 31, 2016, the Township had the following deferred charges:

	<u>Balance Dec. 31, 2016</u>	<u>2017 Budget Appropriation</u>	<u>Balance to Succeeding Years</u>
Current Fund:			
Special Emergency Authorization -			
Revision of Tax Maps	\$ 40,000.00	\$ 40,000.00	\$ -
Revaluation of Taxes	<u>320,000.00</u>	<u>160,000.00</u>	<u>160,000.00</u>
	<u>\$360,000.00</u>	<u>\$200,000.00</u>	<u>\$160,000.00</u>

NOTE 4: GENERAL FIXED ASSETS (UNAUDITED)

The following schedule is a summarization of changes in the general fixed assets account group for the year 2016.

	<u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Dec. 31, 2016</u>
Land, Land Improvements & Buildings	\$25,171,500.00	\$14,342,145.00 (1)	\$ -	\$39,513,645.00
Machinery & Equipment	<u>14,033,938.00</u>	<u>1,060,883.00</u>	<u>752,676.00</u>	<u>14,342,145.00</u>
	<u>\$39,205,438.00</u>	<u>\$15,403,028.00</u>	<u>\$752,676.00</u>	<u>\$53,855,790.00</u>

(1) Previous reports did not include buildings

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5: MUNICIPAL DEBT

Long-term debt as of December 31, 2016 consisted of the following:

	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>	<u>Amount Due</u> <u>Within One Year</u>
General Capital Fund:					
Bonds Payable	\$ 8,775,000.00	\$ -	\$ 940,000.00	\$ 7,835,000.00	\$ 990,000.00
Assessment Trust Fund:					
N.J. D.E.P. Loan	-	846,762.05	54,629.80	792,132.25	41,141.10
Water Capital Fund:					
Bonds Payable	8,991,000.00	-	752,000.00	8,239,000.00	750,000.00
Water Supply Loan Payable	13,594.74	-	13,594.74	-	-
	<u>9,004,594.74</u>	<u>-</u>	<u>765,594.74</u>	<u>8,239,000.00</u>	<u>750,000.00</u>
Sewer Capital Fund:					
Serial Bonds Payable	<u>3,520,000.00</u>	<u>-</u>	<u>290,000.00</u>	<u>3,230,000.00</u>	<u>300,000.00</u>
Compensated Absences Payable	<u>4,162,913.00</u>	<u>-</u>	<u>539,324.41 (1)</u>	<u>3,623,588.59</u>	<u>-</u>
	<u>\$25,462,507.74</u>	<u>\$846,762.05</u>	<u>\$2,589,548.95</u>	<u>\$23,719,720.84</u>	<u>\$2,081,141.10</u>

(1) Net Additions, including retirements, resignations and time used.

The Local Bond law governs the issuance of bonds and notes to finance capital expenditures. General obligation bonds have been issued for the general capital fund. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Township are general obligations bonds, backed by the full faith and credit of the Township. Bond anticipation notes, which are issued to temporarily finance capital projects, must be paid off within ten years and five months or retired by the issuance of bonds.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5: MUNICIPAL DEBT (CONTINUED)

The Township's debt is summarized as follows:

<u>Issued</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
General:			
Bonds and Notes	8,785,000.00	9,975,000.00	11,848,200.00
Assessment Trust Fund:			
Loan Payable	792,132.25	-	-
Water Utility:			
Bonds, Notes and Loans	13,562,000.00	14,507,594.74	15,280,635.78
Assessment Notes	65,450.00	106,700.00	146,300.00
Sewer Utility:			
Bonds and Notes	<u>3,278,000.00</u>	<u>3,574,000.00</u>	<u>3,857,000.00</u>
 Total Issued	 <u>26,482,582.25</u>	 <u>28,163,294.74</u>	 <u>31,132,135.78</u>
 <u>Less</u>			
Funds Temporarily Held by Pay			
Bonds, Notes and Loans:			
Assessment Trust Assessments	5,101.38	-	-
Water Utility Assessments	<u>45,750.18</u>	<u>41,288.93</u>	<u>39,697.95</u>
 Total Deductions	 <u>50,851.56</u>	 <u>41,288.93</u>	 <u>39,697.95</u>
 Net Debt Issued	 <u>26,431,730.69</u>	 <u>28,122,005.81</u>	 <u>31,092,437.83</u>
 <u>Authorized but not Issued</u>			
General Capital:			
Bonds and Notes	1,175,000.00	-	7,236.51
Water Utility:			
Bonds and Notes	195,840.19	195,840.19	694,340.19
Sewer Utility:			
Bonds and Notes	<u>4,256.03</u>	<u>4,256.03</u>	<u>4,256.03</u>
 Total Authorized but not Issued	 <u>1,375,096.22</u>	 <u>200,096.22</u>	 <u>705,832.73</u>
 Less:			
Self Liquidating - Utility	<u>17,040,096.22</u>	<u>18,281,690.96</u>	<u>19,836,232.00</u>
 Net Debt	 <u><u>10,766,730.69</u></u>	 <u><u>10,040,411.07</u></u>	 <u><u>11,962,038.56</u></u>

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5: MUNICIPAL DEBT (CONTINUED)

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 0.347%.

SUMMARY OF STATUTORY DEBT CONDITION - ANNUAL DEBT STATEMENT

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School Dist. Debt	\$65,000,000.00	\$65,000,000.00	\$ -
Sewer Utility Debt	3,282,256.03	3,282,256.03	-
Water Utility Debt	13,757,840.19	13,757,840.19	-
Water Assessment Debt	65,450.00	45,750.18	19,699.82
General Debt	9,960,000.00	-	9,960,000.00
Assessment Trust Fund	792,132.25	5,101.38	787,030.87
	<u>\$92,065,546.22</u>	<u>\$82,090,948.02</u>	<u>\$10,766,730.69</u>

Net Debt \$10,766,730.69 divided by Equalized Valuation Basis per N.J.S. 40A:2-2 as amended, 3,104,799,918.00 = 0.347%.

SUMMARY EQUALIZED VALUATION PER N.J.S. 40A:2-2 AS AMENDED

2016	3,104,799,918.00	
2015		3,127,965,039.33
2014		3,197,988,008.33

BORROWING POWER UNDER N.J.S. 40A:2-6 AS AMENDED

3.50% of Equalized Valuation Basis (Municipal)	\$108,667,997.13
Net Debt	<u>10,766,730.69</u>
Remaining Borrowing Power	<u>\$ 97,901,266.44</u>

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 5: MUNICIPAL DEBT (CONTINUED)

CALCULATION OF "SELF-LIQUIDATING PURPOSE", WATER UTILITY PER N.J.S. 40A:2-45

Cash Receipts from fees, rents or other charges for year		\$4,099,051.40
Deductions:		
Operating and Maintenance Cost	\$2,015,665.00	
Net Debt	<u>1,558,694.00</u>	
Total Deductions		<u>3,574,359.00</u>
Excess/(Deficit) in Revenue		<u>\$ 524,692.40</u>

If there is an "excess in revenue" all such utility debt is deductible. If there is a deficit, then utility debt is not deductible to the extent of 20 times such deficit amount.

CALCULATION OF "SELF-LIQUIDATING PURPOSE", SEWER UTILITY PER N.J.S. 40A:2-45

Cash Receipts from fees, rents or other charges for year		\$1,131,798.75
Deductions:		
Operating and Maintenance Cost	\$694,795.00	
Net Debt	<u>417,302.00</u>	
Total Deductions		<u>1,112,097.00</u>
Excess/(Deficit) s in Revenue)		<u>\$ 19,701.75</u>

If there is an "excess in revenue" all such utility debt is deductible. If there is a deficit, then utility debt is not deductible to the extent of 20 times such deficit amount.

CALCULATION OF "SELF-LIQUIDATING PURPOSE", SOLID WASTE UTILITY PER N.J.S. 40A:2-45

Cash Receipts from fees, rents or other charges for year		\$2,187,807.70
Deductions:		
Operating and Maintenance Cost		<u>1,926,850.00</u>
Excess/(Deficit) in Revenue		<u>\$ 260,957.70</u>

If there is an "excess in revenue" all such utility debt is deductible. If there is a deficit, then utility debt is not deductible to the extent of 20 times such deficit amount.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5: MUNICIPAL DEBT (CONTINUED)

The forgoing debt information is not in agreement with the Annual Debt Statement filed by the Chief Financial Officer, a revised copy will be filed.

An analysis of long-term debt as of December 31, 2016, consisted of the following:

Paid from Current Fund:

Refunding Bond of 2011 - dated 9/08/2011, in the amount of \$5,015,000.00. This bond is payable in annual installments through 4/01/2023. Interest is paid semi-annually at a rate of 2.00-5.00% per annum. The balance as of December 31, 2016 was \$3,395,000.00. Outstanding bond principal and interest are paid from the Current Fund of the Township.

General Bond of 2013 - dated 10/15/2013, in the amount of \$4,590,000.00. This bond is payable in annual installments through 10/15/2024. Interest is paid semi-annually at a rate of 1.00-3.00% per annum. The balance as of December 31, 2016 was \$3,590,000.00. Outstanding bond principal and interest are paid from the Current Fund of the Township.

Refunding Bond of 2014 - dated 9/10/2014, in the amount of \$1,010,000.00. This bond is payable in annual installments through 1/01/2021. Interest is paid semi-annually at a rate of 3.00-5.00% per annum. The balance as of December 31, 2016 was \$850,000.00. Outstanding bond principal and interest are paid from the Current Fund of the Township.

Paid from Water Utility Fund:

Water Bond of 2011- dated 4/28/2011, in the amount of \$2,310,000.00. This bond is payable in annual installments through 4/01/2026. Interest is paid semi-annually at a rate of 2.00-4.00% per annum. The balance as of December 31, 2016 was \$1,535,000.00. Outstanding bond principal and interest are paid from the Water Operating Fund of the Township.

Water Bond of 2013- dated 10/15/2013, in the amount of \$1,424,000.00. This bond is payable in annual installments through 10/15/2033. Interest is paid semi-annually at a rate of 1.00-4.00% per annum. The balance as of December 31, 2016 was \$1,269,000.00. Outstanding bond principal and interest are paid from the Water Operating Fund of the Township.

Water Refunding Bond of 2014- dated 9/10/2014, in the amount of \$5,828,000.00. This bond is payable in annual installments through 1/01/2026. Interest is paid semi-annually at a rate of 3.50-5.00% per annum. The balance as of December 31, 2016 was \$5,435,000.00. Outstanding bond principal and interest are paid from the Water Operating Fund of the Township.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5: MUNICIPAL DEBT (CONTINUED)

Paid from Sewer Utility Fund:

Sewer Bond of 2011- dated 4/28/2011, in the amount of \$2,317,000.00. This bond is payable in annual installments through 4/01/2026. Interest is paid semi-annually at a rate of 2.00-4.00% per annum. The balance as of December 31, 2016 was \$1,720,000.00. Outstanding bond principal and interest are paid from the Sewer Operating Fund of the Township.

Sewer Refunding Bond of 2014- dated 9/10/2014, in the amount of \$1,627,000.00. This bond is payable in annual installments through 1/01/2026. Interest is paid semi-annually at a rate of 3.00-5.00% per annum. The balance as of December 31, 2016 was \$1,510,000.00. Outstanding bond principal and interest are paid from the Sewer Operating Fund of the Township.

Paid from Assessment Trust Fund:

On August 25, 2015, the Township entered into an agreement for a loan repayment for the Glen Lake Dam Restoration Project in the amount of \$846,762.05, which includes principal and interest. Payments are made semi-annually on May 24 and November 24 in the amount of \$27,314.91, at an interest rate of 2.00%. At December 31, 2016, the balance remaining is \$792,132.25.

Total General Capital Bond - listed in above	<u>\$7,835,000.00</u>
Total Water Utility Capital Bonds and Loans - listed in above	<u>\$8,239,000.00</u>
Total Sewer Utility Capital Bonds and Loans - listed in above	<u>\$3,230,000.00</u>
<u>Total Assessment Trust Loan</u>	<u>\$ 792,132.25</u>

**SCHEDULE OF ANNUAL DEBT SERVICE FOR PRINCIPAL AND INTEREST FOR BONDED DEBT
ISSUED AND OUTSTANDING**

Calendar Year	General			Water Fund		
	Principal	Interest	Total	Principal	Interest	Total
2017	990,000.00	215,862.50	1,205,862.50	750,000.00	283,753.76	1,033,753.76
2018	1,020,000.00	191,506.25	1,211,506.25	755,000.00	257,753.76	1,012,753.76
2019	1,060,000.00	165,437.50	1,225,437.50	760,000.00	228,731.89	988,731.89
2020	1,105,000.00	137,650.00	1,242,650.00	765,000.00	200,597.51	965,597.51
2021	1,120,000.00	107,375.00	1,227,375.00	760,000.00	177,597.51	937,597.51
2022-2026	2,540,000.00	127,725.00	2,667,725.00	3,855,000.00	445,409.37	4,300,409.37
2027-2031	-	-	-	420,000.00	83,725.00	503,725.00
2032-2034	-	-	-	174,000.00	10,520.00	184,520.00
	<u>7,835,000.00</u>	<u>945,556.25</u>	<u>8,780,556.25</u>	<u>8,239,000.00</u>	<u>1,688,088.80</u>	<u>9,927,088.80</u>

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 5: MUNICIPAL DEBT (CONTINUED)

SCHEDULE OF ANNUAL DEBT SERVICE FOR PRINCIPAL AND INTEREST FOR BONDED DEBT
ISSUED AND OUTSTANDING (continued)

	<u>Sewer Fund</u>			<u>Assessment Trust Fund</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	300,000.00	111,431.25	411,431.25	41,141.10	13,488.71	54,629.81
2018	305,000.00	101,206.25	406,206.25	41,968.04	12,661.77	54,629.81
2019	315,000.00	89,928.12	404,928.12	42,811.59	11,818.21	54,629.80
2020	325,000.00	78,287.50	403,287.50	43,672.11	10,957.70	54,629.81
2021	325,000.00	67,650.00	392,650.00	44,549.92	10,079.90	54,629.82
2022-2026	1,660,000.00	150,062.50	1,810,062.50	236,546.83	36,602.22	273,149.05
2027-2031	-	-	-	233,979.96	11,854.19	245,834.15
2032-2034	-	-	-	-	-	-
	<u>3,230,000.00</u>	<u>598,565.62</u>	<u>3,828,565.62</u>	<u>684,669.55</u>	<u>107,462.70</u>	<u>792,132.25</u>

	<u>Yearly Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	2,081,141.10	624,536.22	2,705,677.32
2018	2,121,968.04	563,128.03	2,685,096.07
2019	2,177,811.59	495,915.72	2,673,727.31
2020	2,238,672.11	427,492.71	2,666,164.82
2021	2,249,549.92	362,702.41	2,612,252.33
2022-2026	8,291,546.83	759,799.09	9,051,345.92
2027-2031	653,979.96	95,579.19	749,559.15
2032-2034	174,000.00	10,520.00	184,520.00
	<u>19,988,669.55</u>	<u>3,339,673.37</u>	<u>23,328,342.97</u>

NOTE 6: BOND ANTICIPATION NOTES

The Township issued bond anticipation notes to temporarily fund various capital projects prior to the issuance of serial bonds. The term of the notes cannot exceed one year but the notes may be renewed from time to time for a period not exceeding one year. Generally, such notes must be paid no later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original notes. The State of New Jersey also prescribes that on or before the third anniversary date of the original note a payment of an amount at least equal to the first legally payable installment of the bonds in anticipation of such notes issued be paid or retired. A second and third legal installment must be paid if the notes are to be renewed beyond the fourth and fifth anniversary date of the original issuance.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 6: BOND ANTICIPATION NOTES (CONTINUED)

The following activity related to Bond Anticipation Notes occurred during the calendar year ended December 31, 2016:

	<u>Balance</u> <u>Dec. 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Dec. 31, 2016</u>
General Capital:				
TD Securities	\$1,200,000.00	\$ -	\$1,200,000.00	\$ -
Jefferies, LLC	<u>-</u>	<u>950,000.00</u>	<u>-</u>	<u>950,000.00</u>
Water Capital Fund:				
TD Securities	5,503,000.00	-	5,503,000.00	-
Jefferies, LLC	<u>-</u>	<u>5,323,000.00</u>	<u>-</u>	<u>5,323,000.00</u>
Water Assessment:				
TD Securities	<u>106,700.00</u>	<u>-</u>	<u>106,700.00</u>	<u>-</u>
Jefferies, LLC	<u>-</u>	<u>65,450.00</u>	<u>-</u>	<u>65,450.00</u>
Sewer Capital Fund:				
TD Securities	<u>54,000.00</u>	<u>-</u>	<u>54,000.00</u>	<u>-</u>
Jefferies LLC	<u>-</u>	<u>48,000.00</u>	<u>-</u>	<u>48,000.00</u>
	<u>\$6,863,700.00</u>	<u>\$6,434,450.00</u>	<u>\$6,863,700.00</u>	<u>\$6,434,450.00</u>

The Township has outstanding at December 31, 2016, a bond anticipation note in the amount of \$950,000.00 payable to Jefferies, LLC . This note will mature on October 27, 2017 and it is the intent of the Township Council to renew this note for another one year period. The current interest rate on this note is 2.00%. Principal and interest on this note is paid from the Current Fund Budget of the Township.

The Township has outstanding at December 31, 2016, a bond anticipation note in the amount of \$5,323,000.00 payable to Jefferies, LLC . This note will mature on October 27, 2017 and it is the intent of the Township Council to renew this note. The current interest rate on this note is 2.00%. Principal and interest on this note is paid from the Water Operating Fund Budget of the Township.

The Township has outstanding at December 31, 2016, a bond anticipation note in the amount of \$65,450.00 payable to Jefferies, LLC . This note will mature on October 27, 2017 and it is the intent of the Township Council to renew this note for another one year period. The current interest rate on this note is 2.00%. Principal and interest on this note is paid from the Water Assessment Budget of the Township.

The Township has outstanding at December 31, 2016, a bond anticipation note in the amount of \$48,000.00 payable to Jefferies, LLC . This note will mature on October 27, 2017 and it is the intent of the Township Council to renew this note. The current interest rate on this note is 2.00%. Principal and interest on this note is paid from the Sewer Operating Fund Budget of the Township.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 7: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2016 and 2015 which were appropriated and included as anticipated revenue in their own respective funds for the years ending December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current Fund	<u>\$3,250,000.00</u>	<u>\$2,800,000.00</u>
Water Utility Operating Fund	<u>\$ 600,000.00</u>	<u>\$ 737,000.00</u>
Sewer Utility Operating Fund	<u>\$ 21,000.00</u>	<u>\$ 80,400.00</u>
Solid Waste Operating Fund	<u>\$ 184,000.00</u>	<u>\$ 175,000.00</u>

NOTE 8: ACCRUED VACATION AND SICK BENEFITS

The Township allows employees to accrue a limited amount of unused vacation and sick pay, which may be taken as time off or paid upon retirement or separation at an agreed-upon rate. However, it is expected that the cost of such unpaid compensation would be included in the Township budget operating expenditures in the year in which it is used. It is estimated that the current cost of such unpaid compensation would approximate \$3,623,588.59.

The amount is not reported either as an expenditure or a liability. The Township has reserved \$355,631.80 from previous budgets to be used to offset this liability and is reflected on the Trust Fund balance sheet. See Exhibit B-11 for an analysis. It is expected that any remaining cost of such unpaid compensation would be included in the Township's budget operating expenditures in the year in which it is used.

NOTE 9: DUE TO/FROM OTHER FUNDS

Balances due to/from other funds at December 31, 2016 consist of the following:

\$343,195.31 Due to Federal and State Grant Fund from Current Fund for receipts and disbursements made from Current Fund for the Federal and State Grant Fund

5,123.78 Due from Other Trust Fund to the Current Fund for receipts and disbursements.

\$348,319.09

It is anticipated that all interfunds will be liquidated during the calendar year.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 10: PENSION PLANS

Description of Plans:

Township employees participate in one of the two contributory, defined benefit public employee retirement systems: the State of New Jersey Public Employees' Retirement System (PERS) or the State of New Jersey Police and Firemen's Retirement System (PFRS); or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(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 the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Benefits Provided

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

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 10: PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS), (continued)

Benefits Provided, (continued)

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 50 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.

Police and Firemens' Retirement System (PFRS)

Plan Description

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

Benefits Provided

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for disability benefits, which vest after 4 years of service. The following represents the membership tiers for PFRS:

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

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (Tiers 1 and 2 members) and

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 10: PENSION PLANS (CONTINUED)

Police and Firemens' Retirement System (PFRS), (continued)

Benefits Provided, (continued)

60% (Tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Defined Contribution Retirement Program

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or PFRS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

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

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012 and 8.5% for PFRS, which increased to 10% in October 2011, of the employee's annual compensation, as

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 10: PENSION PLANS (CONTINUED)

Contribution Requirements, (continued)

defined by law. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS and PFRS. In the PERS and PFRS, the employer contribution includes funding for post-retirement medical premiums.

The Township's contribution to the various plans, equal to the required contributions for each year, were as follows:

<u>Year</u>	<u>PERS</u>	<u>PFRS</u>	<u>DCRP</u>
2016	\$637,842.79	\$919,584.78	\$2,922.13
2015	611,865.47	1,148,542.82	1,623.60
2014	548,053.00	808,081.76	2,691.05

Statement No's 68 and 71 require a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. However, since the financial statements are prepared on another comprehensive basis of accounting, the net pension liability of the various pension systems is not recorded in the financial statements and is only required to be disclosed in the notes to the financial statements.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employees Retirement System (PERS)

At December 31, 2016, the Township had a liability of \$21,152,820.00 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Township's proportion of the net pension liability was based on a projection of the Township's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2016, the Township's proportion was 0.0714208916 percent, which was an increase/(decrease) of (0.0002353839) percent from its proportion measured as of June 30, 2015.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS), (continued)

For the year ended December 31, 2016, the Township recognized pension expense of \$565,842.79. At December 31, 2016, 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>
Difference between expected and actual experience	\$393,378.00	\$ -
Changes of assumptions	4,381,734.00	-
Net difference between projected and actual earnings on pension plan investments	806,576.00	-
Changes in proportion and differences between the Township's contributions and proportionate share of contributions	92,422.00	37,565.00
Township contributions subsequent to the measurement date	<u>652,629.00</u>	<u>-</u>
Total	<u>\$6,326,739.00</u>	<u>\$37,565.00</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2016) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended June 30:	
2017	1,256,667.00
2018	1,256,667.00
2019	1,455,890.00
2020	1,223,161.00
2021	389,304.00

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.57, 5.72 and 6.44 years for 2016, 2015 and 2014 amounts respectively.

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 10: PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS), (continued)

Additional Information

Local Group Collective balances at June 30, 2016 and June 30, 2015 are as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Collective deferred outflows of resources	\$8,685,338,380	\$3,578,755,666
Collective deferred inflows of resources	870,133,595	993,410,455
Collective net pension liability	29,617,131,759	22,447,996,119
Township's Proportion	0.0714208916 %	0.0716562755 %

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which rolled forward to June 30, 2016. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.08 Percent
Salary Increases:	
Through 2016	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.65 Percent

The actuarial assumptions used in the June 30, 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.

Mortality Rates

Pre-mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS), (continued)

Mortality Rates (continued)

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 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 scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included 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%	.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 Markets	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Returns	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS), (continued)

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State 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 Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2016 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 - percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2016		
	1% Decrease	At Current Discount Rate	1% Increase
	<u>2.98%</u>	<u>3.98%</u>	<u>4.98%</u>
Township's proportionate share of the pension liability	\$25,920,311	\$21,152,820	\$17,216,842

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Police and Firemen's Retirement System (PFRS)

At December 31, 2016, the Township had a liability of \$21,572,492.00 for its proportionate share of the PFRS net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Township's proportion of the net pension liability was based on a projection of the Township's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2016, the Township's proportion was 0.1129298612 percent, which was an increase/(decrease) of (0.0020763326) percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Township recognized pension expense of \$919,584.78. At December 31, 2016, deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in actual and expected experience	\$ -	\$141,411.00
Changes of assumptions	2,987,967.00	-
Net difference between projected and actual earnings on pension plan investments	1,511,541.00	-
Changes in proportion and differences between Township contributions and proportionate share of contributions	547,493.00	334,216.00
Township contributions subsequent to the measurement date	<u>920,763.00</u>	<u>-</u>
Total	<u>\$5,967,764.00</u>	<u>\$475,627.00</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2016) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$1,043,224.00
2018	1,043,224.00
2019	1,405,630.00
2020	831,197.00
2021	34,823.00

TOWNSHIP OF SPARTA, N.J.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 10: PENSION PLANS (CONTINUED)

Police and Firemen's Retirement System, (continued)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.58, 5.53 and 6.17 years for 2016, 2015 and 2014 amounts respectively.

Additional Information

Local Group Collective balances at June 30, 2016 and June 30, 2015 are as follows:

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Collective deferred outflows of resources	\$4,547,316,543	\$3,512,729,953
Collective deferred inflows of resources	688,197,590	871,083,367
Collective net pension liability	20,706,699,056	16,656,514,197
Township's Proportion	0.1129298612%	0.1150061938%

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which rolled forward to June 30, 2016. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.08 Percent
Salary Increases:	
Through 2026	2.10-8.98 Percent (based on age)
Thereafter	3.10-9.98 Percent (based on age)
Investment Rate of Return	7.65 Percent

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Police and Firemen's Retirement System, (continued)

Mortality Rates

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

Long-Term Rate of Return

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

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Police and Firemen's Retirement System, (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	.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 Markets	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Returns	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 5.55% and 5.79% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the non-employer contributing entity 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 2050. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2050, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 10: PENSION PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, (continued)

Police and Firemen's Retirement System, (continued)

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2016, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 - percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2016		
	1% Decrease	At Current Discount Rate	1% Increase
	<u>4.55%</u>	<u>5.55%</u>	<u>6.55%</u>
Township's proportionate share of the pension liability	\$30,152,013	\$21,572,492	\$17,865,177

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Police and Firemen's Retirement System (PFRS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

NOTE 11: LOCAL SCHOOL DISTRICT AND REGIONAL HIGH SCHOOL TAXES

Regulations provide for the deferral of not more than 50% of the annual levy when school taxes are raised for a school year and have not been requisitioned by the school district. The Township of Sparta has not elected to defer school taxes.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 12: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Township's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2016, \$121,627.07 of the Township's bank balance of \$19,921,749.16 was exposed to custodial credit risk. In comparison, as of December 31, 2015, \$103,099.15 of the Township's bank balance of \$18,383,997.18 was exposed to custodial credit risk.

Investments

Investment Rate Risk

The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk

New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America, bonds or other obligations of the Townships or bonds or other obligations of the local unit or units within which the Township is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

The Township places no limit on the amount the Township may invest in any one issuer.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 12: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Unaudited Investments

As more fully described in NOTE 17, the Township has created a Length of Service Award Program (LOSAP) for emergency service volunteers. The LOSAP investments are similar to those allowed in a deferred compensation program as specified in NJSA 43:15B-1 et seq. except that all investments are retained in the name of the Township. All investments are valued at fair value. In accordance with NJAC 5:30-14.37, the investments are maintained by Variable Annuity Life Insurance Co., which is an authorized provider approved by the Division of Local Government Services. The balance in the account on December 31, 2016 and 2015 amounted to \$121,627.07 and \$103,099.15 respectively.

The following investments represent 5% or more of the total invested with Variable Annuity Life Insurance Co. on December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments under 5%	\$ 11,672.58	\$ 8,288.24
Fidelity VIP ContraFund Portfolio	6,950.97	5,385.69
Fixed	46,622.28	41,311.12
LVIP SSgA S&P 500 Index Fund	<u>56,381.24</u>	<u>48,114.10</u>
Total	<u>\$121,627.07</u>	<u>\$103,099.15</u>

NOTE 13: RISK MANAGEMENT

The Township is exposed to various risks of loss related to general liability, automobile coverage, damage and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained insurance coverage to guard against these events which will provide minimum exposure to the Township should they occur. During the 2016 calendar year, the Township did not incur claims in excess of their coverage and the amount of coverage did not significantly decrease.

NOTE 14: LEASES

On July 19, 2011 the Township entered into a long-term lease for the purchase of eleven (11) copiers, totaling \$84,822.46. The lease is for a three (3) year term expiring on 9/15/2014. On January 12, 2014, the Township entered into a long-term lease for twelve (12) copiers to replace the eleven (11) contracted on July 19, 2011. This lease is for a 36 month term beginning 4/1/2014, expiring on 3/1/2017.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 14: LEASES (CONTINUED)

The following is a schedule of future minimum lease payments as of December 31, 2016:

Total minimum lease payment	\$7,575.00
Less: amount representing interest	<u>48.97</u>
Present Value of net minimum lease payments	<u>\$7,526.03</u>

Calendar Year	<u>Principal</u>	<u>Interest</u>	Total Lease Payments
2017	<u>7,526.03</u>	<u>48.97</u>	<u>7,575.00</u>

NOTE 15: PUBLIC ASSISTANCE

The Township of Sparta has elected to have the County of Sussex process all public assistance granted to the residents. Therefore, the Township of Sparta no longer has a public assistance director.

NOTE 16: HEALTH INSPECTIONS

The Township of Sparta has elected to have the County of Sussex, Department of Health, do all the health inspections. Therefore, the Township does not have a health inspector.

NOTE 17: EMERGENCY SERVICES VOLUNTEER LENGTH OF SERVICE AWARD PLAN (LOSAP)

On November 9, 2010, the Division of Local Government Services approved the Township's LOSAP plan, provided by Lincoln Financial. The purpose of this plan is to enhance the Township's ability to retain and recruit volunteer firefighters and volunteer members of emergency service squads.

Lincoln Financial will provide for the benefit of participants, a multi-fund variable annuity contract as its funding vehicle. The plan's contribution requirements are as follows: the contribution for each participating active volunteer member shall be between the minimum contribution of \$115.00 and the maximum contribution of \$1,150.00. The Township's contribution shall be included in the current year's budget.

All amounts awarded under a length of service award plan shall remain the asset of the sponsoring agency; the obligation of the sponsoring agency to participating volunteers shall be contractual only; and no preferred or special interest in the awards made shall accrue to such participants. Such money shall be subject to the claims of the sponsoring agency's general creditors until distributed to any or all participants.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

**NOTE 17: EMERGENCY SERVICES VOLUNTEER LENGTH OF SERVICE AWARD PLAN
(LOSAP) (CONTINUED)**

We have reviewed the plan for the year ended December 31, 2016 in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Accounting and Review Services.

NOTE 18. TAXES COLLECTED IN ADVANCE

Taxes collected in advance are recorded as cash liabilities in the financial statements. Following is a comparison of the liability for the previous two years:

	<u>Balance Dec 31, 2016</u>	<u>Balance Dec 31, 2015</u>
Prepaid Taxes	<u>\$657,389.37</u>	<u>\$528,738.67</u>
Cash Liability for Taxes Collected in Advance	<u>\$657,389.37</u>	<u>\$528,738.67</u>

NOTE 19: RELATED PARTY TRANSACTIONS

During 2016, Christine Quinn was a Trustee of the Free Public Library as well as Mayor of the Township of Sparta. In 2016, \$936,095.03 was paid from 2016 municipal appropriations and \$57,517.22 was paid from the 2015 reserves to the Township of Sparta Free Public Library.

NOTE 20: POST-RETIREMENT BENEFITS

A. PLAN OVERVIEW

Township of Sparta ("Sparta") provides post-employment benefits other than pensions ("OPEB") to employees who meet certain criteria. As a result of offering such benefits, Sparta will be required to report the value of such benefits and the associated costs according to the accounting requirements of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting "by Employers for Postemployment Benefits Other Than Pensions ("GASB 45").

Sparta provides medical benefits to retirees who retired from Sparta with 20 years of service for Police and 25 years of service for others.

The summary below presents the results of the actuarial valuation of the post-retirement medical obligations as of December 31, 2014, including a determination of financial reporting information for the year ending December 31, 2014.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 20: POST-RETIREMENT BENEFITS (CONTINUED)

Results of Valuation

- *Actuarial Accrued Liability*

The Actuarial Accrued Liability (“AAL”) as of December 31, 2014 is \$59,711,504.00 based upon a discount rate of 4.50% per annum and the plan provisions in effect on December 31, 2014.

- *Annual Required Contribution*

The Annual Required Contribution (“ARC”) is the measure of annual cost on an accrual basis. It is comprised of the “Normal Cost” which is the portion of future liabilities attributable to the measurement year, plus 30 year amortization of the Unfunded Actuarial Accrued Liability (“UAAL”). As of the measurement date, the plan had no assets to offset any portion of the AAL, so the UAAL and AAL are equal.

The ARC as of December 31, 2014 is \$5,503,034.00 based upon a discount rate of 4.50% per annum and the plan provisions in effect on December 31, 2014. The breakdown of the ARC is as follows:

(1) Normal Cost	\$ 1,837,253.00
(2) Actuarial Accrued Liability	\$ 59,711,504.00
(3) Assets	-
(4) UAAL = (2)-(3)	\$ 59,711,504.00
(5) 30 Year Amortization of UAAL at Discount Rate	\$ 3,665,781.00
(6) ARC = (1)+(5)	\$ 5,503,034.00

Basis of Valuation

This valuation has been conducted as of December 31, 2014 based upon census, plan design and claims information provided by The Fund. Census includes 41 participants currently receiving retiree benefits, and 100 active participants of whom 11 are eligible to retirees of the valuation date. The average age of the active population is 47 and the average age of the retiree population is 64.

Actuarial assumptions were selected with the intention of satisfying the requirements of New Jersey Local Finance Notice 2007-15 in addition to Statement of Government Accounting Standard Number 45.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 20: POST-RETIREMENT BENEFITS (CONTINUED)

Basis of Valuation (conitnued)

Demographic assumptions were selected based on those used in by the State Division of Pensions and Benefits in calculating pension benefits taken from the July 1, 2013 report from Buck Consultants. While some assumptions were simplified to reflect the smaller population, and to simplify the valuation process, the valuation results reasonably conform to the requirements of LFN 2007-15.

Health care (economic) assumptions were selected based on those used by the State Health Benefits Program in calculating SHBP member OPEB requirements taken from the July 1, 2013 report from Aon Consultants.

Key Actuarial Assumptions

<i>Mortality</i>	<i>RP 2000 Combined Healthy Male Mortality Rates Set Forward Three Years</i>
<i>Turnover</i>	<i>NJ State Pensions Ultimate Withdrawal Rates- prior to benefits eligibility</i>
<i>Assumed Retirement Age</i>	<i>At first eligibility after completing 20 years of service for police; 25 years of service for all others</i>
<i>Full Attribution Period</i>	<i>Service to Assumed Retirement Age</i>
<i>Annual Discount Rate</i>	<i>4.50%</i>
<i>Medical Trend</i>	<i>8% in 2014, reducing by 0.5% per annum, leveling at 5% per annum in 2020</i>
<i>Medical Cost Aging Factor</i>	<i>NJ SHBP Medical Morbidity Rates</i>

- Attribution period - The attribution period begins with the date of hire and ends with full benefits eligibility date.
- Per capita cost methods - The valuation reflects per capita net premium costs based on actual 2014 medical, and prescription drug premiums and the plan option selected. Dental benefits are covered at the retiree's expense except for those current retirees where otherwise reported. Plan selections are assumed to remain unchanged in retirement. The age specific cost was derived based on per person costs at the average age of the active population (47) and scaled to each age based on the medical cost aging factors. At age 65, Medicare becomes the primary payor of medical benefits and consequentially, per capita plan costs are offset by Medicare payments. Thus, post 65 medical costs were decreased using the assumption that Medicare picks up 66.7%. The 2014 employer cost for retiree benefits as reported by the Fund was \$860 thousand.

TOWNSHIP OF SPARTA, N.J.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)**

NOTE 20: POST-RETIREMENT BENEFITS (CONTINUED)

Key Actuarial Assumptions (continued)

- Retiree Contributions - NJ Chapter 78 requires that certain future retirees contribute toward the cost of their benefits. Specifically, those who had retired prior to passage of Chapter 78 and those employees that had more than 25 years of service on the date of passage are grandfathered. All others are subject to the contribution rates in effect when they retire, but not less than 1.5% of their annual retirement allowance from the Public Employees Retirement System. For purposes of this valuation, we have assumed that future retiree contribution percentages will be equal to the current percentages of premium as reported by the Fund so as not to understate actuarial measurements.
- Actuarial valuation method - Projected Unit Credit Funding Method.

NOTE 21: COMMITMENTS AND CONTINGENT LIABILITIES

Counsel for the Township has advised us of the following:

There are some matters being defended by the Joint Insurance Fund that the amount either cannot be determined at this time or will not result in a material detrimental effect on the Township's financial position.

NOTE 22: SUBSEQUENT EVENT

The Township has evaluated subsequent events through June 14, 2017, the date which the financial statements were available to be issued and no other items were noted for disclosure.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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Hawkins Delafield & Wood LLP

A NEW YORK LIMITED LIABILITY PARTNERSHIP

NEWARK
NEW YORK
WASHINGTON
HARTFORD
LOS ANGELES
SACRAMENTO
SAN FRANCISCO
PORTLAND
ANN ARBOR

ONE GATEWAY CENTER
NEWARK, NJ 07102
WWW.HAWKINS.COM

October 4, 2017

C. STEVEN DONOVAN
ROBERT H. BEINFELD
ERIC J. SAPIR
CHARLES G. TOTO
KRISTINE L. FLYNN
DAVID S. HANDLER

Township Council of The
Township of Sparta, in the
County of Sussex, New Jersey

Ladies and Gentlemen:

We have acted as bond counsel to The Township of Sparta, in the County of Sussex, a municipal corporation of the State of New Jersey, situate in said County of Sussex (the "Township"), and have examined a record of proceedings relating to the issuance by the Township of \$4,781,000 Water Bonds of 2017 (the "Bonds"). The Bonds are issued pursuant to the Local Bond Law of the State of New Jersey, and as provided by a resolution of the Township Council of the Township, entitled: "Resolution providing for the combination of certain issues of bonds of the Township of Sparta, in the County of Sussex, New Jersey, into a single issue of Water Bonds aggregating \$4,781,000 in principal amount", adopted August 22, 2017, and the bond ordinances referred to therein.

The Bonds are dated the date hereof, and bear interest from their dated date at the rates per annum (payable semi-annually on each April 1 and October 1 until maturity or earlier redemption, commencing April 1, 2018) and mature on October 1 in the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2018	\$200,000	2.00%	2026	\$350,000	2.00%
2019	225,000	2.00	2027	350,000	2.50
2020	250,000	2.00	2028	375,000	2.50
2021	275,000	2.00	2029	400,000	2.75
2022	300,000	3.00	2030	400,000	2.75
2023	300,000	3.00	2031	400,000	3.00
2024	300,000	3.00	2032	356,000	3.00
2025	300,000	3.00			

The Bonds maturing prior to October 1, 2026 are not subject to redemption prior to their stated maturities at the option of the Township. The Bonds maturing on or after October 1, 2026 are subject to redemption prior to their stated maturities at the option of the Township upon notice as described in the Resolution in whole or in part on any date, in any order of maturity, and by lot within a maturity if less than all the Bonds of such maturity are to be redeemed, on or after October 1, 2025 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements to be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. We have examined the Arbitrage and Use of Proceeds Certificate of the Township delivered in connection with the issuance of the Bonds which contains provisions and procedures regarding compliance with the requirements of the Code. By said Arbitrage and Use of Proceeds Certificate, the Township has certified that, to the extent it is empowered and allowed under applicable law, it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds is excludable from gross income under Section 103 of the Code. In rendering this opinion we have assumed that the Township will comply with the provisions and procedures set forth in its Arbitrage and Use of Proceeds Certificate.

In our opinion, the Bonds are valid and legally binding obligations of the Township and, unless paid from other sources, are payable from ad valorem taxes levied upon all the taxable property within the Township without limitation as to rate or amount. The enforceability of rights or remedies with respect to the Bonds may be limited by bankruptcy, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

In our opinion, under existing statutes and court decisions, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in our opinion, under existing statutes, interest on the Bonds is excluded from gross income under the New Jersey Gross Income Tax Act.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the Township other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to the purchaser of the Bonds.

We express no opinion regarding any other federal or state consequences with respect to the Bonds. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Bonds, or under state and local tax law.

We have examined an executed bond and, in our opinion, the form of said bond and its execution are regular and proper.

Very truly yours,