

AMENDMENT NO. 1 DATED DECEMBER 3, 2018

TO THE

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 21, 2018

RELATING TO

**THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY OF CAMDEN**

STATE OF NEW JERSEY

\$3,157,000 SCHOOL BONDS, SERIES 2018

(Book-Entry Bonds) (Parity Bid) (Callable) (Bank Qualified)

The purpose of this Amendment No. 1 (the "Amendment") is to amend certain information, as described below, contained in the Preliminary Official Statement dated November 21, 2018 (the "POS") of The Board of Education of the Borough of Somerdale, in the County of Camden, a school district of the State of New Jersey (the "School District") relating to its \$3,157,000 School Bonds, Series 2018 (the "Bonds"). The Amendment should be read in conjunction with the POS.

Terms used in the Amendment have the same meaning as in the POS, unless specifically otherwise defined herein.

New Facts and Circumstances

In observance of the passing of United States President George H. W. Bush it was announced that the municipal markets are to be closed on December 5, 2018. The originally scheduled sale date for the Bonds was December 5, 2018.

Amended POS Cover Language

Given the new facts and circumstances known to the School District on December 3, 2018, the following amendments to the cover of the POS are hereby made:

Closing On or about December 20, 2018.

ELECTRONIC PROPOSALS SUBMITTED VIA THE PARITY ELECTRONIC BIDDING SYSTEM WILL BE RECEIVED FOR THE BONDS UNTIL 11:30 AM ON DECEMBER 12, 2018. ALL PROPOSALS MUST BE IN ACCORDANCE WITH THE REVISED NOTICE OF SALE FOR THE BONDS.

All Other Provisions of the POS Remain in Full Force and Effect

Other than the above described amendments, all other information in the POS remains complete and accurate.

NOTICE OF SALE - REVISED

**THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY OF CAMDEN**

STATE OF NEW JERSEY

\$3,157,000 SCHOOL BONDS, SERIES 2018

(Book-Entry Bonds) (Parity Bid) (Callable) (Bank Qualified)

ELECTRONIC BIDS VIA PARITY will be received by the Board Secretary of The Board of Education of the Borough of Somerdale, in the County of Camden, a school district of the State of New Jersey (the "Board") at the offices of the School District, 301 Grace Street, Somerdale, New Jersey 08083, on **Wednesday, December 12, 2018** until 11:30 AM, at which time they will be publicly announced for the purchase of \$3,157,000 School Bonds, Series 2018 of the School District maturing on September 1 of each year until maturity, in the principal amounts as follows (the "Bonds"):

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2019	\$100,000	2029	\$165,000
2020	\$120,000	2030	\$170,000
2021	\$125,000	2031	\$175,000
2022	\$130,000	2032	\$180,000
2023	\$135,000	2033	\$185,000
2024	\$140,000	2034	\$190,000
2025	\$145,000	2035	\$195,000
2026	\$150,000	2036	\$200,000
2027	\$155,000	2037	\$180,000
2028	\$160,000	2038	\$157,000

To the extent any instructions or directions set forth in PARITY conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about PARITY, potential bidders may contact i-Deal LLC at 40 West 23d Street, 5th Floor, New York, New York 10010, Telephone No. (212) 404-8102.

All bidders for the Bonds must be participants of The Depository Trust Company, New York, New York ("DTC") or affiliated with its participants. The Bonds will be issued in fully registered form to DTC, and registered in the name of DTC's nominee, Cede & Co. One bond certificate will be issued for each year of maturity of the Bonds, numbered SB-1 to SB-20 in order of maturity. DTC will hold the Bonds and not physically distribute bond certificates to the DTC participants or beneficial owners of the Bonds.

The Bonds will be dated the date of delivery thereof. The Bonds will mature on September 1 of each year until maturity, in the principal amounts set forth therein. The Bonds will bear interest at the interest rates per annum specified by the successful bidder therefor in accordance herewith, payable on September 1, 2019 and semiannually thereafter on March 1 and September 1 of each year until maturity (each, an "Interest Payment Date"). Principal of and

interest on the Bonds will be paid by the School District, or its designee in its capacity as paying agent (the "Paying Agent"), to DTC as of each February 15 and August 15 (whether or not a business day) immediately preceding the respective Interest Payment Date. DTC will in turn remit the principal and interest payments received from the School District to the DTC participants, which will remit such payments to the beneficial owners of the Bonds.

The Bonds maturing on or after September 1, 2026 will be redeemable at the option of the School District in whole or in part on any date on or after September 1, 2025 at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.

Notice of redemption shall be distributed by electronic mail and / or First-Class Mail to the registered owners of the Bonds at least 30, but not more than 60, days prior to the date fixed for redemption, at their respective addresses as they last appear on the registration books kept for that purpose by the School District or a duly appointed Bond Registrar / Paying Agent. If the School District determines to redeem a portion of the Bonds prior to maturity, such Bonds shall be selected by such method as the School District shall determine.

If notice of redemption has been given as provided herein, the Bonds or the portion thereof called for redemption shall be due and payable on the date fixed for redemption at the redemption price, together with accrued interest to the date fixed for redemption. Interest shall cease to accrue on the Bonds after the date fixed for redemption and no further interest shall accrue beyond the redemption date.

Each proposal submitted must name the rate or rates of interest per annum to be borne by the Bonds, expressed in multiples of 1/8 or 1/20 of 1%. Not more than one rate of interest may be named for bonds of the same maturity. There is no limitation on the number of rates of interest that may be named. If more than one rate of interest is named, no rate of interest named for any maturity may be less than the rate of interest named for any prior maturity. The maximum rate of interest named shall in no event exceed 4.50% per annum, and the difference between the highest and the lowest rates of interest named shall not exceed 3 percentage points. Each proposal submitted must state the purchase price, which must not be less than \$3,157,000 (the par amount of the Bonds to be delivered) nor more than \$3,158,000 (the par amount of the Bonds to be delivered plus a maximum \$1,000 premium). The Bonds will be awarded to the bidder on whose bid the total loan may be made at the lowest net interest cost (the "Purchaser"). Such net interest cost shall be computed, as to each bid, by adding to the total principal amount of the Bonds offered for sale the total interest cost to maturity in accordance with such bid and by deduction therefrom of the amount of the premium, if any, bid. No proposal shall be considered that offers to pay an amount less than the principal amount of the Bonds offered for sale or under which the total loan is made at an interest cost higher than the lowest net interest cost to the School District under any legally acceptable proposal.

The right is reserved to reject all bids, and any bid not complying with the terms of this notice will be rejected.

A Good Faith Deposit (the "Deposit") in the amount of \$63,140 is required for each bid to be considered. The Deposit may be in the form of either: (i) a certified, treasurer's or cashier's check payable to the order of "The Board of Education of the Borough of Somerdale, in the County of Camden"; or (ii) a wire transfer of immediately available funds.

If a certified, treasurer's or cashier's check is used, it must be received by the School District c/o Melissa Engelhardt, Board Secretary, Somerdale BOE, 301 Grace Street, Somerdale, New Jersey 08083 no later than 11:00 AM on the date of the sale.

If a wire transfer is used, bidders must contact the Board Secretary via Telephone No. (856) 783-6261 ext. 803, or email to mengelhardt@somerdale-park.org, no later than 24 hours prior to the bid opening to obtain the School District's wire instructions. The wire transfer for the Deposit must be received and confirmed received by the School District no later than 11:00 AM on the date of the sale. No interest on the Deposit will accrue to the Purchaser.

Certified, treasurer's or cashier's checks or a wire transfer for the Deposit will be returned to the unsuccessful bidders. The unsuccessful bidders must advise the School District, via email to mengelhardt@somerdale-park.org, where to return the checks or wire transfer of the Deposit no later than 1:00 PM on the date of the sale.

Award of the Bonds to the successful bidder or rejection of all bids is expected to be made within 2 hours after opening of the bids, but such successful bidder may not withdraw its proposal until after 2:00 PM of the day of such bid-opening and then only if such award has not been made prior to the withdrawal.

The Bonds will be delivered within 30 days of the date of sale at the law firm of Winne Banta Basralian & Kahn, P.C., 21 Main Street, Hackensack, New Jersey 07601 ("Bond Counsel") or at such other place as may be agreed upon with the successful bidder. **PAYMENT FOR THE BONDS AT THE TIME OF ORIGINAL ISSUANCE AND DELIVERY SHALL BE BY WIRE IN IMMEDIATELY AVAILABLE FUNDS.**

The Purchaser at its option may refuse to accept the Bonds if prior to their delivery any change in the Internal Revenue Code of 1986, as amended (the "Code") shall provide that the interest thereon is includable or shall be includable in gross income at a future date for federal income tax purposes. In such case the Deposit shall be returned and the Purchaser will be relieved of its contractual obligations arising from the acceptance of its proposal.

If the Bonds qualify for issuance of any policy of municipal bond insurance, the Purchaser may, at its sole option and expense, purchase such insurance. Any failure of the Bonds to be so insured shall not in any way relieve the Purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds.

It is anticipated that CUSIP identification numbers will be printed on the Bonds. The request for the assignment of a CUSIP identification number shall be the responsibility of Phoenix Advisors, LLC, 625 Farnsworth Avenue, Bordentown, New Jersey 08505 ("Municipal Advisor"). The CUSIP Service Bureau charge shall be the responsibility of, and shall be paid for by, the Purchaser.

The obligation hereunder to deliver and to accept the Bonds shall be conditioned on the availability and the delivery, at the time of delivery of the Bonds, of the approving opinion of Bond Counsel, which will be furnished without cost to the successful bidder, such opinion to be substantially in the form set forth in the Official Statement distributed in preliminary form in connection with the sale of the Bonds and certificates in form satisfactory to that law firm evidencing the proper execution and delivery of the Bonds, the receipt of payment therefor, the compliance with the requirements of the Code necessary to preserve tax exemption, the completeness and accuracy of the information contained in the Preliminary Official Statement and

the Official Statement, and the absence of litigation pending or (to the knowledge of the signer or signers thereof) threatened affecting the validity of the Bonds. A copy of the approving opinion of Bond Counsel will be attached to the Bonds.

The School District will execute and deliver at closing a Secondary Market Disclosure Undertaking, in a form approved by Bond Counsel, in order to comply with the secondary market disclosure requirements contemplated by Rule 15c2-12 adopted by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

The School District has authorized the distribution of a Preliminary Official Statement deemed final for purposes of Rule 15c2-12. The final Official Statement will be delivered to the Purchaser within 7 business days following the sale of the Bonds.

If the competitive sale requirements of Treasury Regulation Section 1.148-1(f)(3)(i) are not met with respect to the initial sale of the Bonds, the School District shall treat the first price at which 10% of a maturity of the Bonds is sold to the public as the issue price of that maturity, applied on a maturity-by-maturity basis (and to each separate CUSIP number within that maturity). The Purchaser will be required to advise the School District if any maturity of the Bonds satisfies the 10% test as of the date and time of the award of the Bonds. The School District will not the Purchaser to comply with the "hold-the-offering-price-rule" and therefore does not intend to use the initial offering price to the public as of the sale date of any maturity of the Bonds as the issue price of that maturity in the event that the competitive sale requirements are not satisfied. Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied. Bidders should prepare their bids on the assumption that all of the maturities of the Bonds will be subject to the 10% test in order to establish the issue price of the Bonds.

The Bonds will be qualified tax-exempt obligations for purposes of Section 265 of the Code.

For additional information concerning the Bonds, please contact the School District's Municipal Advisor, Sherry L. Tracey of Phoenix Advisors, LLC at (609) 291-0130, or the School District's Bond Counsel, Jason P. Capizzi, Esq. of Winne Banta Basralian & Kahn, P.C. at (201) 562-1003.

Melissa Engelhardt
Board Secretary

PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 21, 2018

**THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY OF CAMDEN**

STATE OF NEW JERSEY

\$3,157,000 SCHOOL BONDS, SERIES 2018

(Book-Entry Bonds) (Parity Bid) (Callable) (Bank Qualified)

Dated: Date of Delivery

Due: September 1, as shown
on the inside cover page

This Official Statement has been prepared by The Board of Education of the Borough of Somerdale, in the County of Camden, a school district of the State of New Jersey (the "School District") to provide information on its \$3,157,000 School Bonds, Series 2018 (the "Bonds"). Select information is presented on this cover page and the following page for the convenience of the user. To make an informed decision regarding the Bonds, a prospective purchaser should read this Official Statement in its entirety.

Credit Rating S&P: "A+" (See "Credit Rating" herein).

Federal Tax Exemption Assuming continuing compliance by the School District with certain covenants described herein, under current law, interest on the Bonds is exempt from federal income taxation. Interest on the Bonds is not includable when calculating the federal alternative minimum tax on individuals. However, interest on the Bonds is includable when calculating the federal alternative minimum tax on corporations with taxable years that began prior to January 1, 2018.

State Tax Exemption Interest on the Bonds, and any gain from the sale thereof, is not includable in gross income under the New Jersey Gross Income Tax Act.

Redemption The Bonds are subject to redemption prior to their stated maturities as described herein.

Security The Bonds will be valid and legally binding general obligations of the School District and, unless paid from other sources, will be payable from *ad valorem* taxes to be levied upon all the taxable property within the School District without limitation as to rate or amount, except to the extent that enforcement of such payment may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors' rights generally. Further, the Bonds are secured under the provisions of the New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17, et seq.).

Purpose Proceeds from the sale and issuance of the Bonds will be used by the School District as described herein.

Denominations Increments of \$5,000, plus integral multiples of \$1,000 in excess thereof.

Interest Payment Dates September 1, 2019 and semiannually thereafter on March 1 and September 1 of each year until maturity.

Interest Rates See inside cover.

Bond Counsel Winne Banta Basralian & Kahn, P.C.
Hackensack, New Jersey

Closing On or about December 13, 2018.

Book-Entry System The Depository Trust Company
New York, New York

Issuer Contact Melissa Engelhardt, Business Administrator / Board Secretary
(856) 783-6261 ext. 803

**ELECTRONIC PROPOSALS SUBMITTED VIA THE PARITY ELECTRONIC BIDDING SYSTEM
WILL BE RECEIVED FOR THE BONDS UNTIL 11:30 AM ON DECEMBER 5, 2018.
ALL PROPOSALS MUST BE IN ACCORDANCE WITH THE NOTICE OF SALE FOR THE BONDS.**

This is a Preliminary Official Statement and the information contained herein is subject to completion, amendment or other change without notice. The securities described herein may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the applicable securities laws of any such jurisdiction.

**THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY OF CAMDEN**

STATE OF NEW JERSEY

\$3,157,000 SCHOOL BONDS, SERIES 2018

(Book-Entry Bonds) (Parity Bid) (Callable) (Bank Qualified)

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u>
09/01/2019	\$100,000	___%	___%	
09/01/2020	\$120,000	___%	___%	
09/01/2021	\$125,000	___%	___%	
09/01/2022	\$130,000	___%	___%	
09/01/2023	\$135,000	___%	___%	
09/01/2024	\$140,000	___%	___%	
09/01/2025	\$145,000	___%	___%	
09/01/2026	\$150,000	___%	___%	
09/01/2027	\$155,000	___%	___%	
09/01/2028	\$160,000	___%	___%	
09/01/2029	\$165,000	___%	___%	
09/01/2030	\$170,000	___%	___%	
09/01/2031	\$175,000	___%	___%	
09/01/2032	\$180,000	___%	___%	
09/01/2033	\$185,000	___%	___%	
09/01/2034	\$190,000	___%	___%	
09/01/2035	\$195,000	___%	___%	
09/01/2036	\$200,000	___%	___%	
09/01/2037	\$180,000	___%	___%	
09/01/2038	\$157,000	___%	___%	

CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers are provided by CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. The CUSIP numbers listed above are being provided solely for the convenience of holders of the Bonds only at the time of issuance of the Bonds and the School District and the Underwriters / Purchasers thereof do not make any representations 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.

**THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY OF CAMDEN**

STATE OF NEW JERSEY

MEMBERS OF THE BOARD

James Walsh, President
Monique Howard, Vice President
James Anderson
Kim Barkoff
Jason Bishop
Alicia Conte
Colm Fidgeon
Susan Lowdan
Melissa Moore

SUPERINTENDENT

Mark Pease

BUSINESS ADMINISTRATOR / BOARD SECRETARY

Melissa Engelhardt

BOARD ATTORNEY

Wade, Long, Wood & Long, LLC
Laurel Springs, New Jersey

BOARD AUDITOR

Bowman & Company LLP
Voorhees, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

BOND COUNSEL

Winne Banta Basralian & Kahn, P.C.
Hackensack, New Jersey

No dealer, broker, salesperson or other person has been authorized by the School District 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 School District. 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 School District since the date hereof.

The information which is set forth herein has been provided by the School District and by other sources, but the information provided by such other sources is not guaranteed as to accuracy or completeness by the School District. 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 School District 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
RELATING TO
THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY OF CAMDEN
STATE OF NEW JERSEY
\$3,157,000 SCHOOL BONDS, SERIES 2018**

INTRODUCTION

This Official Statement (the “Official Statement”), which includes the cover page hereof and the appendices hereto, has been prepared by The Board of Education of the Borough of Somerdale, in the County of Camden, a school district of the State of New Jersey (the “School District”) and provides certain information regarding the financial and economic condition of the School District in connection with the sale of the School District’s \$3,157,000 School Bonds, Series 2018 (the “Bonds”). This Official Statement has been executed by and on behalf of the School District by the Business Administrator / Board Secretary and its distribution and use in connection with the sale of the Bonds has been authorized by the School District.

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 School District 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 School District.

THE SCHOOL DISTRICT

The School District is a Type II school district without a board of school estimate, coterminous with the boundaries of the Borough of Somerdale, a municipal corporation of the State of New Jersey (the “State”) located in the County of Camden. The School District provides a full range of educational services appropriate to students in grades Pre-K through 8.

The School District board consists of 9 elected members. The School District board appoints a Superintendent of Schools, who is the Chief Administrative Officer of the School District and a Business Administrator / Board Secretary, who oversees the business functions, and is the financial officer, of the School District board.

General information concerning the School District, including statistical, demographic and other relevant data, is set forth in Appendix A hereto.

The audited financial statements of the School District for the fiscal years ending June 30, 2017 and 2016 prepared by Bowman & Company LLP, Voorhees, New Jersey are set forth in Appendix B hereto.

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 mature on September 1 of each year until maturity, in the principal amounts as set forth on the inside cover page hereof. The Bonds will bear interest at the interest rates per annum as set forth on the inside cover page hereof, payable on September 1, 2019 and semiannually thereafter on March 1 and September 1 of each year until maturity (each, an “Interest Payment Date”).

Denominations and Place of Payment

The Bonds shall be issued in fully registered form to The Depository Trust Company, New York, New York (“DTC”), and registered in the name of DTC’s nominee, Cede & Co. One bond certificate shall be issued for each year of maturity of the Bonds, numbered SB-1 to SB-20 in order of maturity. DTC will hold the Bonds and not physically distribute bond certificates to the DTC participants or beneficial owners of the Bonds.

Principal of and interest on the Bonds will be paid by TD Bank, N.A. in its capacity as paying agent (the “Paying Agent”), to DTC as the registered owner of the Bonds as of each February 15 and August 15 (whether or not a business day) immediately preceding the respective Interest Payment Date (each, a “Record Date”). DTC will in turn remit the principal and interest payments received from the School District to the DTC participants, which will remit such payments to the beneficial owners of the Bonds.

The Bonds may be purchased in increments of \$5,000, plus integral multiples of \$1,000 in excess thereof. Purchasers of the Bonds will not receive bond certificates representing their beneficial ownership interest in the amount of Bonds purchased.

So long as Cede & Co. is the registered owner of the Bonds, references herein (except under the captions “Tax Matters” and “Secondary Market Disclosure”) to the registered owner(s) shall mean Cede & Co. and shall not mean the beneficial owners of the Bonds. See “Book-Entry System” herein.

Redemption

The Bonds maturing on or after September 1, 2026 are redeemable at the option of the School District in whole or in part on any date on or after September 1, 2025 at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.

Notice of redemption shall be distributed by electronic mail and / or First-Class Mail to the registered owners of the Bonds at least 30, but not more than 60, days prior to the date fixed for redemption, at their respective addresses as they last appear on the registration books kept for that purpose by the School District or a duly appointed Bond Registrar / Paying Agent. If the School District determines to redeem a portion of the Bonds prior to maturity, such Bonds shall be selected by such method as the School District shall determine.

If notice of redemption has been given as provided herein, the Bonds or the portion thereof called for redemption shall be due and payable on the date fixed for redemption at the redemption price, together with accrued interest to the date fixed for redemption. Interest shall cease to accrue on the Bonds after the date fixed for redemption and no further interest shall accrue beyond the redemption date.

Book-Entry System

DTC will act as securities depository for the Bonds (the “Securities”). The Securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each year of maturity of the Securities, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world’s largest securities 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 a 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.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (a “Beneficial Owner”) is in turn to be recorded on the Direct Participants’ 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 Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Securities, except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct Participants 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 Cede & Co. If less than all of the Securities 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 Securities unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an omnibus proxy to the School District 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 Securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, redemption and interest payments on the Securities 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 School District 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 School District, 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 School District 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 Securities at any time by giving reasonable notice to the School District 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 School District 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 to DTC.

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

Discontinuance of Book-Entry System

In the event that DTC determines to discontinue providing its service with respect to the Bonds or is removed by the School District, and if no successor Securities Depository is appointed, the Bonds which were registered in the name of Cede & Co. shall be registered in the names of the beneficial owners to be provided to the School District from the DTC participants. Upon such registration, the beneficial owners will become the registered owners of the Bonds and the following provisions shall apply: (i) the Bonds shall be exchanged for an equal aggregate principal amount of bonds (in any authorized denomination, and in the same maturities of the Bonds) (the “Substitute Bonds”) upon surrender thereof at the office of the School District or the Paying Agent, if any; (ii) the transfer of any Bonds shall be registered on the books maintained by the School District or the Paying Agent, if any, for such purposes upon the surrender of the Bonds to the School District or the Paying Agent, if any, together with duly executed assignments in a form satisfactory to the School District or the Paying Agent, if any; and (iii) for every exchange or registration of transfer of the Bonds, the Paying Agent, if any, shall be reimbursed by the School District for any charges required to be paid by the Paying Agent, if any, with respect to any such Substitute 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. Principal on the Bonds and redemption price, if any, when due, shall be paid to the registered owners of the Bonds upon surrender thereof to the School District or the Paying Agent, if any.

AUTHORIZATION AND PURPOSE

The Bonds are to be issued pursuant to the Education Law of the State of New Jersey (N.J.S.A. 18A:24-1, et seq.) (the “Education Law”). The Bonds are authorized by virtue of a proposal adopted by the School District on June 7, 2018 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on October 2, 2018; and a resolution adopted by the School District on November 15, 2018.

The Bonds are being issued to provide funds which will be used for: (i) the purchase and installation of a new roof for the Somerdale Park School; (b) the planning, design and construction of an additional parking lot for the Somerdale Park School; (c) the purchase and installation of recreational and playground improvements, and site/building utility work related to drainage for same, at the Somerdale Park School.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Taxing Power

The Bonds will be general obligations of the School District and the full faith, credit and taxing power of the School District are irrevocably pledged for the payment of the principal of and interest on the Bonds. The Bonds, unless paid from other sources, will be payable from *ad valorem* taxes to be levied upon all taxable property within the School District without limitation as to rate or amount, except to the extent that enforcement of such payment may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors’ rights generally.

In accordance with Section 56 of the Education Law (N.J.S.A. 18A:24-56), the Bonds shall be liens upon the real estate situated in the School District, the personal estates of the inhabitants of the School District and the property of the School District, and such estates and property shall be liable for the payment of the Bonds.

New Jersey School Bond Reserve Act

The Bonds will be further secured under the provisions of the New Jersey School Bond Reserve Act of 1980, as amended (N.J.S.A. 18A:56-1, *et seq.*) (the “School Bond Reserve Act”). Pursuant to the School Bond Reserve Act, there shall be a reserve comprised of two accounts, one in an amount equal to at least 1.5% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued before July 1, 2003 (the “Old Reserve Account”) and another in an amount equal to at least 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued on or after July 1, 2003 (the “New Reserve Account”, together with the Old Reserve Account, the “School Bond Reserve”). The amount to be held within the State Fund (“Fund”) for the Support of Free Public Schools as the School Bond Reserve pledged by law to secure payments of principal and interest due on such bonds in the event of the inability of the issuer to make payment shall be determined on June 30 of each fiscal year by the State Treasurer and shall be funded in the amount determined by the State Treasurer on September 15 of the ensuing fiscal year. If the Old Reserve Account exceeds the amount determined to be required, the State Treasurer may transfer the excess to the New Reserve Account. The School Bond Reserve is required to be composed entirely of direct obligations of the United States Government or obligations guaranteed by the full faith and credit of the United States Government. The amount of the School Bond Reserve may not exceed the moneys available in the Fund. If a county, municipality or school district is unable to meet payment of principal or interest on any of its bonds issued for school purposes, it shall certify such liability to the Commissioner of Education (the “Commissioner”) and the Director of the Division of Local Government Services of the New Jersey Department of Community Affairs (the “Director”) at least 10 days prior to the date any such payment is due. If the Commissioner and Director approve the certification, they shall certify the same to the trustees of the Fund. The trustees of the Fund will purchase such bonds at par value or will pay to the Bondholders the interest due or to become due within the limit of funds available in either account of the School Bond Reserve in accordance with the provisions of the School Bond Reserve Act. Payment by the trustees of the Fund on behalf of any county, municipality or school district shall be deducted from the appropriation or apportionment of State aid which may otherwise be payable to the county, municipality or school district, and shall not obligate the State or entitle the county, municipality or school district to the payment of any additional appropriation or apportionment. To date, there has been no occasion to call upon this Fund.

S&P Global Ratings currently rates the School Bond Reserve Act “BBB+”, and views the outlook for this rating as stable.

GENERAL INFORMATION REGARDING NEW JERSEY SCHOOL DISTRICTS

State’s Role in Public Education

The Constitution of the State of New Jersey provides that the maintenance of and the support of a thorough and efficient system of public schools for the instruction of all children between 5 and 18 years of age is a legislative responsibility. Federal and State case law has expanded the responsibility to include children between the ages of 3 and 21. Below is a summary of the role of the State.

The responsibilities of the State with respect to the general supervision and control of public education have been delegated to the State Department of Education (the “Department”) which is a part of the executive branch of the State government. The Department is governed by the State Board of Education (the “State Board”). The State Board is responsible for the general supervision and control of public education and is obligated to formulate plans and to make recommendations for the unified, continuous and efficient development of public education of all people of all ages within the State. To

fulfill these responsibilities, the State Board has the power, *inter alia*, to adopt rules and regulations that are binding upon school districts, to acquire land and other property and decide appeals from decisions of the Commissioner on matters of school law or State Board regulations.

The Commissioner is the chief executive and administrative officer of the Department. The Commissioner is appointed by the Governor of the State, with the advice and consent of the State Senate, for a 5 year, salaried term. The Commissioner is responsible for the supervision of all school districts in the State and is obligated to enforce the rules and regulations of the State Board. The Commissioner's consent is required for authorization to sell school bonds that exceed the statutory debt limits, and the Commissioner also may set the amount to be raised by taxation in a school district in a fiscal year, if a school budget has not been approved by the voters of the school district or by a board of school estimate, as the case may be, or by the governing body of the municipality.

An Executive County Superintendent of Schools (the "County Superintendent") is appointed in each county in the State by the Governor of the State, with the advice and consent of the State Senate. The County Superintendent is the local representative of the Commissioner and is responsible for the daily supervision of the school districts in the county, *inter alia*, as set forth in the Uniform Shared Services and Consolidation Act (N.J.S.A. 40A:65-1, et seq.).

Structure of New Jersey School Districts

State school districts are generally coterminous with the boundaries of the municipalities they serve. They are characterized by the manner in which the governing body takes office. Type I school districts, most commonly found in cities, have a board of education appointed by the mayor or chief executive officer of the municipality. In Type II districts, the board of education is elected by the voters of the school district. Almost all regional and consolidated school districts operate as Type II school districts. The School District is a Type II school district.

There is a procedure whereby a school district may change from one type to the other after an approving public referendum. Such a public referendum must be held whenever directed by the municipal governing body or board of education in a Type I school district, or the board of education in a Type II school district, or when petitioned for by 15% of the voters of any school district.

STATE AID TO SCHOOL DISTRICTS

General

In 1973, the State Supreme Court (the "Supreme Court") ruled that the existing method of financing school costs primarily through property taxation was unconstitutional. Pursuant to the Supreme Court's ruling, the State Legislature enacted the Public School Education Act of 1975 (N.J.S.A. 18A:7A-1, et seq.) (the "Act"), which required funding of the State's school aid through the State Gross Income Tax Act (P.L. 1976, c. 47). The Act also intended to provide property tax relief. A new formula (N.J.S.A. 18A:7A-1, et seq.), which took into account a local school district's ability to pay for its operating costs, was made available commencing July 1, 1976.

On June 5, 1990, the Supreme Court ruled in *Abbott v. Burke*, that the school aid formula described above did not distribute funds fairly. The Supreme Court found that poorer urban districts were significantly disadvantaged under the then funding formula because revenues were derived primarily from property taxes. The Supreme Court found that wealthy districts were able to spend more, yet tax less for educational purposes. In urban areas, on the other hand, the Supreme Court found the opposite to be true.

Quality Education Act of 1990

The Legislative response to *Abbott v. Burke* was the passage of the Quality Education Act of 1990 (the “Quality Education Act”) (N.J.S.A. 18A:7D-1, et seq.), which was signed into law on July 3, 1990. This law established a new formula for the distribution of state aid for public education commencing with the 1991-92 fiscal year. The law provided a formula that took into account property value and personal income to determine a district’s capacity to raise money for public education. A budgetary limitation or “CAP” on expenditures was also provided in the law. The “CAP” was intended to control the growth in local property taxes. The Quality Education Act was amended and revised by Chapter 62 of the Pamphlet Laws of 1991 of the State, effective March 14, 1991, and further amended by Chapter 7 of the Pamphlet Laws of 1993 effective January 14, 1993.

On July 12, 1994, the Supreme Court declared the school aid formula under the Quality of Education Act of 1990, as amended, unconstitutional on several grounds as it is applied to the 30 special needs districts designated by the State in ongoing litigation commonly known as *Abbott v. Burke II*. No specific remediation was ordered, but the Supreme Court ultimately held that the Legislature and the Governor were required to have a new funding formula in effect by December 31, 1996 so that the new formula would be implemented in the 1997-98 fiscal year.

Comprehensive Educational Improvement and Financing Act of 1996

In keeping with the Supreme Court’s deadline, then Governor Christine Todd Whitman signed into law on December 20, 1996, the Comprehensive Educational Improvement and Financing Act of 1996 (N.J.S.A. 18A:7F-1, et seq.) (“CEIFA” or “Comprehensive Plan”). The Comprehensive Plan affects how public schools are funded by the State, beginning in the 1997-98 fiscal year.

The Comprehensive Plan departs from other funding formulas adopted in the State in defining what constitutes a “thorough and efficient” education, which is what the State Constitution requires every public school student to receive. The Comprehensive Plan further establishes the costs to provide each student with a “thorough and efficient” education.

In defining what constitutes a “thorough” education, the State Board adopted a set of Core Curriculum Content Standards. The purpose of these standards is to provide all students with the knowledge and skills that will enable them to be productive citizens when they graduate from any State high school, regardless of the school’s location or socioeconomic condition. The Comprehensive Plan provides state aid assistance in the form of Core Curriculum Standards Aid based on a school district’s financial ability to raise sufficient tax revenue for its students to achieve the Core Curriculum Contents Standards.

The definition of an “efficient” education under the Comprehensive Plan determines the cost to provide each student with an education that fulfills the requirements for the Core Curriculum Content Standards. The efficiency standard defines such things as optimal class size, administrator/teachers per student, schools per district, and the types and amount of classroom supplies, services, and materials. The Comprehensive Plan establishes an approximate amount per student to educate each student at various grade levels in the Core Curriculum Content Standards. This amount will be adjusted biennially for inflation by the consumer price index.

In determining how much Core Curriculum Standards Aid a school district will receive, the Comprehensive Plan considers each school district’s financial ability to fund such a level of education. This component of the Comprehensive Plan is referred to as the local share requirement, namely, the amount of taxes that a school district can raise relative to other school districts based on property wealth

and income levels. The purpose of the Core Curriculum Standards Aid is to provide school districts with adequate State assistance that is proportionate to their ability to pay. The purpose of this type of aid is to ensure that all school districts have the economic ability to provide their students with the ability to achieve the Core Curriculum Content Standards. In addition to the Core Curriculum Standards Aid, the Comprehensive Plan also provides per pupil assistance from the State for special education, early childhood programs, demonstrably effective programs, instructional supplement, bilingual education, county vocational schools and distance learning network.

Another form of aid that is provided by CEIFA is school facilities aid. During the 1997-98 fiscal period, this type of aid was provided to those school districts that qualified for aid under the Quality Education Act. The amount of school facilities aid that the State provided during the 1997- 98 fiscal year was determined by the amount budgeted in the approved State budget.

Beginning in the 1998-99 fiscal year, State aid for school facilities consisted of a ratio that divides (i) the amount of debt service or the amount of facilities rent for lease terms that exceed 5 years required to be budgeted for a fiscal year period into (ii) the costs that are approved by the Department for a proposed building or renovation project. The approved facility costs under the Comprehensive Plan have not yet been determined. The Comprehensive Plan requires the Governor to submit to the legislature criteria for determining approved facilities costs, State support levels and maintenance incentives applicable to the fiscal year.

The Comprehensive Plan also limits the amount school districts can increase their annual current expense and capital outlay budgets. Generally, these budgets can increase by either 2.5% or the consumer price index, whichever is greater. Recent amendments to the Comprehensive Plan lowered the budget cap to 2.5% from 3%. Budgets can also increase because of certain adjustments for enrollment increases, certain capital outlay expenditures, pupil transportation costs, and special education costs that exceed \$40,000 per pupil. Waivers are available from the Commissioner based on increasing enrollments and other fairly narrow grounds or by approval of the voters at the annual school election.

Under the Comprehensive Plan, rent payments made pursuant to a facilities lease purchase agreement for a term that exceeds five years are treated as debt service for accounting purposes. These rent payments will be eligible for aid in an amount determined in the State budget for the respective fiscal year. Rent payments under a facilities lease with a term not exceeding 5 years and under equipment leases are budgeted in the general fund and are subject to the school district's spending growth limitations under the Comprehensive Plan.

On May 14, 1997, the Supreme Court held that the Comprehensive Plan was unconstitutional as applied to the 28 special needs districts ("Abbott Districts") because: (i) its funding provisions fail to assure that students in such districts will receive a thorough and efficient education; and (ii) supplemental programs to increase student performance in such districts have neither been adequately identified nor funded. They recognized the Core Curriculum Standards as a valid means of identifying what is a "thorough and efficient" education under the State Constitution, but found that the State did not adequately determine or provide the adequate funding level to allow those standards to be met in the Abbott Districts. The Comprehensive Plan was not held unconstitutional as applied to the non-Abbott Districts. The School District is not an Abbott District.

The Supreme Court ordered the State: (i) to increase State aid to the Abbott Districts for the 1997-98 school year to a level such that the per-pupil expenditure in such districts is equivalent to the average per-pupil expenditure in wealthy suburban districts; (ii) through the Commissioner, to manage the additional spending to assure that it will be used to allow the students to meet the education content

standards; and (iii) under the supervision of the Superior Court, Chancery Division, to determine a plan to provide supplemental educational and facilities programs in the Abbott Districts.

Provisions for the additional amounts of money were appropriated in the State budgets. The Supreme Court then ruled that the Commissioner and the Department will be responsible for maintaining the educational system in accordance with the orders of the Supreme Court. In response to the order, the State enacted the Educational Facilities Construction and Financing Act discussed below.

Educational Facilities Construction and Financing Act

In response to the Supreme Court's order under CEIFA, then Governor Whitman signed into law on July 18, 2000, the Educational Facilities Construction and Financing Act (the "Facilities Act"). The Facilities Act provides for full funding of the qualified costs of school facilities required in the Abbott Districts and for the funding of the qualified costs of school facilities for all other school districts in an amount equal to the ratio between their core curriculum facilities aid and their thorough and efficient budget times 115% or 40% of the qualified costs, whichever is greater. In lieu of debt service aid, school districts may elect to receive grants for the State's share of the capital project and authorize bonds only for the local share of the capital project. School districts may receive debt service aid under the same formula for certain capital projects which were begun prior to the effective date of the Facilities Act.

A challenge was made to have the Facilities Act declared unconstitutional because it authorized the issuance of debt paid out of the State's General Fund without voter approval. On August 21, 2002, the Supreme Court upheld the Facilities Act as constitutional advancing the guarantee of a "thorough and efficient" education.

School Funding Reform Act of 2008

On January 7, 2008, the New Jersey Legislature adopted Senate Bill No. 4000 (companion Assembly Bill No. 500) entitled the "School Funding Reform Act of 2008" (the "School Funding Reform Act"), which establishes a new system for the funding of public school districts. The intent of the School Funding Reform Act is to create a fair, equitable, and predictable funding formula based on student characteristics, regardless of the community in which a student resides. The legislation was signed into law by Governor Corzine on January 13, 2008.

The School Funding Reform Act maintains the requirements for the establishment and update by the State Board of Education of the core curriculum content standards that define the substance of a thorough education; however it repeals certain sections of the Comprehensive Educational Improvement and Financing Act of 1996, P.L.1996, c.138, which established the State aid formulas that supported school district programs to implement such standards. In addition, the School Funding Reform Act establishes revised formulas for calculating such State aid.

In the 2009-2010 and 2010-2011 school years under the School Funding Reform Act, districts are to receive adjustment aid in such amount as to ensure that the district receives the greater of the amount of State aid calculated for the district in accordance with the School Funding Reform Act's provisions or the amount of State aid, other than educational adequacy aid, that the district received for the 2008-2009 school year.

The School Funding Reform Act also establishes 2 categorical State aid programs. The 1st categorical aid program will support the cost of providing services to general special education students that is not supported through the adequacy budget. The 2d categorical aid program will support security costs for school districts. The School Funding Reform Act also includes preschool education State aid,

which will fund a significant expansion of early childhood programs. The School Funding Reform Act continues extraordinary special education aid, but with a number of revisions. In addition, the School Funding Reform Act establishes the State aid category of educational adequacy aid for certain school districts that received education opportunity aid in the 2007-2008 school year and are spending below adequacy.

Moreover, the School Funding Reform Act provides a new formula for determining the amount of state aid received by a school district or county vocational school district for transportation aid.

The School Funding Reform Act also addresses issues associated with the funding of charter school students, as well as remaining choice students. The School Funding Reform Act also amends the school construction law, the “Educational Facilities Construction and Financing Act,” to establish the category of a “SDA” district, which is a district that received education opportunity aid or preschool expansion aid in the 2007-2008 school year. For these “SDA” districts, the State share for their school facilities projects will remain at 100% and they will be constructed by the New Jersey Schools Development Authority. The School Funding Reform Act also revises numerous sections of law that are related to school funding and school budgeting procedures.

In May 2009 the New Jersey Supreme Court upheld the constitutionality of the School Funding Reform Act as applied to the State’s 31 Abbott Districts in *Abbott v. Burke*, and ordered the immediate implementation of the formula set forth therein, subject to further mandatory judicial review after 3 years. The State’s obligations under the School Funding Reform Act were reaffirmed in 2011 following additional litigation challenging cuts to educational funding in the State’s Fiscal Year 2011 Budget. In September 2016, the State filed a motion before the New Jersey Supreme Court seeking an order to 1) eliminate the State’s obligation to provide funding to Abbott Districts under the School Funding Reform Act; and 2) grant the Commissioner a) unlimited discretion to override collectively bargained employment terms for teachers in Abbott Districts, as well as b) veto power over education statutes. This motion was denied.

FEDERAL AID TO SCHOOL DISTRICTS

Federal funds are available for certain programs approved by the federal government with allocation decided by the State, which assigns a proportion to each local school district. The Every Student Succeeds Act of 2015 is a federal assistance program for which a school district qualifies to receive aid. Such Federal aid is generally received in the form of block grants.

SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO SCHOOL DISTRICTS AND SCHOOL DEBT

Set forth below is a summary of various statutory provisions and requirements relevant to the School District’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.

Levy and Collection of Taxes

School districts in the State do not levy or collect taxes to pay for those budgeted amounts that are not provided by the State. The municipalities, within which a school district is situated, levy and collect the required taxes and must remit them in full to the school district.

School Budgets

In a Type II school district, the elected board of education develops the budget proposal and, after a public hearing, submits it for voter approval. Debt service provisions are not subject to referendum. If approved, the budget goes into effect. If defeated, the governing bodies of the constituent municipalities served by the school district have until May 19 to fix the amount to be raised by taxation and to certify that amount to the County Board of Taxation. The School District may then appeal the action of the governing body to the Commissioner.

The Commissioner must also review every proposed local school district budget for the then current school year. The Commissioner has the power to increase or decrease individual line items in a budget. Any amendments in the school district's budget must be approved by the board of the school district.

The Budget Election Law (N.J.S.A. 19:60-1.1, et seq.) (the "Budget Election Law") establishes procedures that allow the date of the annual school election of a Type II school district, without a board of school estimate, to be moved from April to the 1st Tuesday after the 1st Monday in November, to be held simultaneously with the general election. Such change in the annual school election date must be authorized by resolution of either the board of education or the governing bodies of the constituent municipalities served by the school district, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters, is filed with the board of education. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for 4 years.

Type II school districts that choose to move their annual school election to November are not required to submit their proposed budgets for voter approval if said budgets are at or below the 2% property tax levy cap pursuant to P.L. 2010, c. 44. If said budgets propose spending above the 2% property tax levy cap, it would need to be presented to the voters for approval at the annual school election in November.

As of 2012, the Board has held its annual school election in November.

Limitation of increase in the Net Current Expense Budget

Annual increases in a school district budget are limited by law subject to certain limited exceptions. Specifically, P.L. 2010, c. 44, which became effect on July 13, 2010, limits the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election. P.L. 2010, c. 44 eliminates the process for obtaining waivers from the Commissioner for additional increases over the tax levy or spending limitations set forth in P.L. 2007, c. 62.

The restrictions are solely on the tax levy for the general fund and are not applicable to the debt service fund. There are no restrictions on a local school district's ability to raise funds for debt service, and nothing would limit the obligation of a school district to levy *ad valorem taxes* upon all taxable real property within the district to pay debt service on its bonds or notes.

Uniform System of Bookkeeping

Effective July 1, 1993, the State mandated that all school districts develop and implement accounting practices consistent with generally accepted accounting principles ("GAAP"). In addition, the

districts are required to comply with the Uniform Minimum Chart of Accounts (Federal Handbook 2R2) for their internal accounting reporting systems. The School District's financial statements since the above effective date have been prepared in accordance with the GAAP requirements.

Annual Audits

The board of education of each school district annually shall have a licensed public school accountant perform an audit of a school district's accounts and financial transactions. Within 5 months after the end of the school fiscal year, the Commissioner shall receive certified copies of each school district's audit. In addition, the audit must be summarized and discussed at a regular public meeting of the local board of education within 30 days of its completion.

School Bonds and Notes

School bonds and notes of a school district are required to be issued in conformity with the Education Law, which establishes debt limits on the issuance of school bonds or notes. The debt limits vary depending on the type of school system.

The School District is a Type II school district. All authorizations of debt in a Type II school district not having a board of school estimate require an approving referendum. The Local Finance Board, in the Division of Local Government Services of the New Jersey Department of Community Affairs (the "Local Finance Board") and the Commissioner must approve any proposed authorization of debt that exceeds the combined statutory debt limitations of a Type II district and the municipality or municipalities coterminous therewith. When such obligations are issued, they are issued in the name of the school district.

Prior to final approval, all authorizations of debt must be reported by a supplemental debt statement filed with Division of Local Government Services of the New Jersey Department of Community Affairs.

Temporary notes may be issued in anticipation of the issuance of permanent bonds for a capital improvement or capital project. Such notes may not exceed in the aggregate the amount of school bonds authorized for such improvement or project. A school district's notes may be issued for 1 year periods, with the final maturity not exceeding 5 years from the date of original issuance; provided, however, that no such notes shall be renewed beyond the 3d anniversary date of the original notes unless an amount of such notes, at least equal to the 1st legally payable installment of the school bonds in anticipation of which said notes are issued, is paid and retired in each year subsequent to said third anniversary date.

Refunding School Bonds

Notwithstanding the above provisions regarding issuance of debt, including debt limits and voter referendums, school districts may authorize and issue refunding school bonds for the purpose of paying any refunded school bonds, together with the costs of issuing the bonds. School Districts may issue refunding school bonds without the prior approval of the Local Finance Board if the proposed issuance meets certain conditions set forth in N.J.A.C. 5:30-2.5.

Debt Limit

Except as provided below, no additional debt shall be authorized if the principal amount, when added to the net debt previously authorized, exceeds a statutory percentage of the average equalized valuation of taxable property in a school district. As a Pre-K through 8th grade school district, the School

District can borrow up to 3.0% of the average equalized valuation of taxable property in the School District. The School District has not exceeded its 3.0% debt limit. See Appendix A.

Exceptions to Debt Limit

A Type II school district, (other than a regional district), may also utilize its constituent municipality's remaining statutory borrowing power (i.e. the excess of 3.5% of the average equalized valuation of taxable property within the constituent municipality over the constituent municipality's net debt). The School District has not utilized its constituent municipalities' borrowing margin. A school district may also authorize debt in excess of this limit with the consent of the Commissioner and the Local Finance Board.

Capital Lease Financing

School districts are permitted to enter into lease purchase agreements for the acquisition of equipment ("Equipment Lease") and for the construction of improvements or additions to school district buildings ("Facility Leases"). Generally, the term of lease purchase agreements may not exceed 5 years in duration, with the exception of certain energy-saving equipment, which may be leased for up to 15 years if paid from energy savings received by the school district. In addition, all Facility Leases must be approved by the Commissioner of the Department of Education. The payment of rent on all lease purchase agreements is treated as a current expense and is contained within a school district's budget under the spending limitations imposed by applicable law.

Energy Savings Obligations

School districts are permitted to issue "energy savings obligations" without voter approval to fund certain improvements that result in reduced energy use, facilities for production of renewable energy or water conservation improvements provided that the amount of the savings will cover the cost of the improvements pursuant to N.J.S.A. 18A:18A-4.6.

Related Constitutional and Statutory Provisions

In the general election of November 2, 1976, as amended by the general election of November 6, 1984, the following Article 8, Section 1, Paragraph 7, in respect of a state income tax, was added to the State Constitution:

No tax shall be levied on personal incomes of individuals, estates and trusts of this State unless the entire net receipts therefrom shall be received into the treasury, placed in a perpetual fund and be annually appropriated, pursuant to formulas established from time to time by the Legislature, to the several counties, municipalities and school districts of this State exclusively for the purpose of reducing or offsetting property taxes. In no event, however, shall a tax so levied on personal income be levied on payments received under the federal Social Security Act, the federal Railroad Retirement Act, or any federal law which substantially reenacts the provisions of either of those laws.

A progressive state income tax is currently in effect in the State. Interest payable on the Bonds is exempt therefrom.

The State Constitution may only be amended after: (i) approval of a proposed amendment by 3/5 of all of the members of each house of the State Legislature and approval by a majority vote in a statewide referendum; or (ii) approval in 2 successive legislative years by a majority of all of the

members of each house and approval by a majority vote in a statewide referendum. Amendments failing to receive voter approval may not be resubmitted for voter approval before the 3d succeeding general election after such disaffirmance.

BANKRUPTCY

The undertakings of the School District should be considered with reference to Chapter IX of the Bankruptcy Act (11 U.S.C. 401, *et seq.*), as amended by P.L. 94-260; the Bankruptcy Reform Act of 1978 (P.L. 95-598), as amended by P.L. 100-597; the Bankruptcy Reform Act of 1994 (P.L. 103-394); and other bankruptcy laws affecting creditors' rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter IX and permit a state or any political subdivision, public agency or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debts provided such entity is authorized by applicable state law; directs such a petitioner to file with the court a list of a petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owned for services or material actually provided within 3 months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least 2/3 in amount or more than 1/2 in number of the listed creditors. These amendments were incorporated into the Bankruptcy Reform Act of 1978 with only minor changes.

Reference should also be made to N.J.S.A. 52:27-40, *et seq.*, which provides that a municipality or school district has the power to file a petition in bankruptcy provided 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 Local Finance Board. The Bankruptcy Act specifically provides that Chapter IX does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality or school district must follow in order to take advantage of the provisions of the Bankruptcy Act.

The above references to the Bankruptcy Act are not to be construed as an indication that the School District expects to resort to the provisions of the Bankruptcy Act or that, if it did, such action would be approved by the Local Finance Board, or that any proposed plan would include a dilution of the source of payment of and security for the Bonds.

NO DEFAULT

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

ABSENCE OF MATERIAL LITIGATION

In the opinion of Wade, Long, Wood & Long, LLC, Laurel Springs, New Jersey (the "Board Attorney"), the duly chosen, qualified and acting attorney for the School District, no litigation of any nature is now pending, or to the best of their knowledge, information and belief 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; neither the corporate existence or boundaries of the School District 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. Additionally, in the opinion of the Board Attorney, no litigation of any nature is now pending, or to the best of their knowledge, information and belief threatened, by or against the

School District wherein an adverse judgement or ruling would have a material adverse impact on the financial condition of the School District or which is not otherwise adequately covered by insurance. A signed statement to that effect will be supplied upon delivery of the Bonds.

TAX MATTERS

Federal

The School District has covenanted to comply with any continuing requirements that may be necessary to preserve the tax exempt status of the Bonds under the Internal Revenue Code of 1986, as amended (the “Code”). In the opinion of Winne Banta Basralian & Kahn, P.C., West New York, New Jersey (“Bond Counsel”) to be delivered at the time of original issuance of the Bonds, assuming continuing compliance by the School District with its covenant, under current law, interest on the Bonds is not includable in gross income for federal income tax purposes under Section 103 of the Code and is not an item of tax preference under Section 57 of the Code when calculating the federal alternative minimum tax on individuals. However, interest on the Bonds is includable in the relevant income computation for purposes of calculating the federal alternative minimum tax on corporations with taxable years that began prior to January 1, 2018. No opinion is expressed regarding other federal tax consequences or other federal taxes arising with respect to the Bonds.

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order to assure that interest on the Bonds will be, and remains, excludable from gross income for federal income tax purposes. These requirements include, but are not limited to, requirements relating to use and expenditure of proceeds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on investments of gross proceeds of the Bonds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Bonds to become subject to federal income taxation retroactive to their date of issuance, regardless of the date on which such noncompliance occurs or is discovered. The School District will deliver an Arbitrage and Tax Certificate concurrently with the issuance of the Bonds, which will contain provisions and covenants relating to its compliance with the requirements of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the School District in connection with the Bonds, and Bond Counsel has assumed compliance by the School District with its covenant to comply with any continuing requirements that may be necessary to preserve the tax exempt status of the Bonds under the Code. The Bonds are not “private activity bonds” as defined in the Code.

Bank Qualification. The Code denies the interest deduction for indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax exempt obligations. The denial to such institutions of 100% of the deduction for interest paid on funds allocable to tax exempt obligations applies to those tax exempt obligations acquired by such institutions after August 7, 1986. For certain issues, which must be so designated by the issuer as qualified under Section 265 of the Code, 80% of such interest may be deducted as a business expense by such institutions.

The Bonds will be designated as qualified under Section 265 of the Code by the School District for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax exempt obligations.

Possible Government Action. Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service (“IRS”) has established an expanded audit program for tax exempt obligations. There can be no assurance that legislation enacted or proposed, or an audit initiated or concluded by the IRS involving the Bonds or other

tax exempt obligations, after the issue date of the Bonds will not have an adverse effect on the tax exempt status or market price of the Bonds.

State

In the opinion of Bond Counsel, under current law interest on the Bonds, and any gain on the sale thereof, is not includable in gross income under the New Jersey Gross Income Tax Act.

ALL PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE.

SECONDARY MARKET DISCLOSURE

The School District will enter into a written Secondary Market Disclosure Undertaking in order to comply with the secondary market disclosure requirements contemplated by Rule 15c2-12 adopted by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the "Rule"). A form of the Secondary Market Disclosure Undertaking to be delivered at closing is set forth in Appendix D hereto. Annual Financial Information, Operating Data and notices of Material Events shall be filed with www.emma.msrb.org ("EMMA").

Within the five years immediately preceding the date of this Official Statement, the School District previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements late filing notices and/or event notices in connection with certain bond insurer rating changes in 2014. Such notices of events and late filings have since been filed on EMMA.

As of the date hereof, the School District has taken all necessary steps to ensure future compliance with the Rule, including the appointment of Phoenix Advisors, LLC, Bordentown, New Jersey as continuing disclosure agent.

CREDIT RATING

Standard & Poor's Financial Services LLC ("S&P Global Ratings") has assigned a rating of "A+" to the Bonds, and views the outlook for this rating as stable. This rating, which does not include the outlook as related to Rule 15c2-12, reflects only the view of S&P Global Ratings and an explanation thereof may be obtained only from S&P Global Ratings. Certain information and materials, including information and materials not included in this Official Statement, were furnished by the School District to S&P Global Ratings. Generally, S&P Global Ratings bases its ratings on the information and materials so furnished and on its investigations, studies and assumptions.

S&P Global Ratings currently rates the School Bond Reserve Act "BBB+", and views the outlook for this rating as stable.

There is no assurance any such rating will remain in effect for any given period of time or that any such rating will not be revised downward, suspended or withdrawn entirely by a rating agency if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision, suspension or withdrawal of a rating may have an adverse effect on the market price or the marketability of the Bonds. The School District has not undertaken any responsibility to oppose any such downward revision, suspension or withdrawal of a rating.

LEGALITY

All legal matters relating to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of Winne Banta Basralian & Kahn, P.C., Hackensack, New Jersey (“Bond Counsel”), whose approving opinion will be delivered with the Bonds substantially in the form set forth in Appendix C hereto. Except to the extent necessary to issue its approving opinion as to the validity of the Bonds and the exemption of the interest earned on the Bonds from taxation, Bond Counsel has made no inquiry of any School District officials or other persons as to any financial information, documents, statements or materials, and has not independently verified any such financial information, documents, statements or materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Bonds. Accordingly, Bond Counsel will not express any opinion with respect to the accuracy or completeness of any such financial information, documents, statements or materials.

Bond Counsel has reviewed the statements made in the Official Statement under the captions entitled “Description of the Bonds” (other than the information pertaining to DTC and Book-Entry System), “Authorization and Purpose of the Bonds”, “Municipal Bankruptcy”, “Tax Matters”, “Secondary Market Disclosure” (first paragraph only) and “Legality”. Bond Counsel has neither reviewed nor made any independent verification of the accuracy or completeness of any other portions of the Official Statement, and will not express any opinion with respect to such portions.

Certain legal matters will be passed upon for the School District by the Board Attorney. The Board Attorney has reviewed the statements made in the Official Statement under the caption entitled “Absence of Material Litigation”. The Board Attorney has neither reviewed nor made any independent verification of the accuracy or completeness of any other portions of the Official Statement, and will not express any opinion with respect to such portions.

FINANCIAL STATEMENTS

The financial statements of the School District for the fiscal years ended June 30, 2017 and 2016 have been presented by Bowman & Company LLP, Voorhees, New Jersey (the “Auditor”). Accordingly, the Auditor takes responsibility for their Independent Auditor’s Report, and the audited financial information specified therein, set forth in Appendix B hereto.

The Auditor has reviewed the statements made in the Official Statement under the caption entitled “Appendix B”. The Auditor has neither reviewed nor made any independent verification of the accuracy or completeness of any other portions of the Official Statement, and will not express any opinion with respect to such portions.

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey (the “Municipal Advisor”) serves as municipal advisor to the School District 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 School District 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 will be realized. The Municipal Advisor is a financial advisory firm, and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiable instrument.

The Municipal Advisor is an Independent Registered Municipal Advisor pursuant to the Dodd-Frank Act.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Melissa Engelhardt, Business Administrator / Board Secretary, 301 Grace Street, Somerdale, New Jersey 08083, Telephone No. (856) 783-6261 ext. 803.

MISCELLANEOUS

All information used in the preparation of this Official Statement and the Appendices hereto has been obtained from sources which the School District considers to be reliable. However, the School District makes no warranty, guaranty or other representation with respect to the accuracy and completeness of any such information.

Upon request, the Business Administrator / Board Secretary of the School District will confirm to the purchasers of the Bonds, by certificate signed by the Business Administrator / Board Secretary, that to the knowledge of the Business Administrator / Board Secretary the descriptions and statements relating to the School District 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.

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 School District by its Business Administrator / Board Secretary.

**THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE COUNTY
OF CAMDEN**

By: _____
Melissa Engelhardt
Business Administrator / Board Secretary

Dated: _____, 2018

APPENDIX A

GENERAL INFORMATION RELATING TO THE SCHOOL DISTRICT AND ECONOMIC AND
DEMOGRAPHIC INFORMATION RELATING TO THE BOROUGH OF SOMERDALE

EDUCATION(1)

Primary and Secondary Education

The Board of Education of the Borough of Somerdale (“Board” when referring to the governing body and “School District” when referring to the legal entity governed by the Board) is a type II school district, consisting of nine members who are elected at large for three-year terms.

The School District operates one school, grades pre-kindergarten through eight. The School District provides a variety of regionally recognized educational programs, ranging from advanced curriculum for the educationally gifted to specialized programs for the functionally impaired student.

The Board annually prepares a current expense and debt service budget. The amounts to be raised by taxation for current expense and debt service are submitted to the voters for approval. If the amounts are disapproved, the Borough Council fixes an amount and certifies the same to the Board and the County Board of Taxation. If the Board determines that the amount certified by the Borough is insufficient to operate a thorough and efficient school system, the Board may appeal to the State Commission of Education to restore the local funds eliminated.

The Borough high school students attend the Sterling Regional High School District along with students from the Boroughs of Magnolia and Stratford.

BOROUGH OF SOMERDALE SCHOOL DISTRICT ENROLLMENTS(2)

<u>Grade</u>	<u>As of October 15,</u>				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Pre-K	21	16	25	26	23
Special Education	65	64	66	65	69
K	41	55	55	56	52
1	31	50	49	48	56
2	42	46	50	54	41
3	41	47	42	42	47
4	36	42	41	48	55
5	43	44	45	53	47
6	46	43	52	45	43
7	41	47	41	46	51
8	<u>45</u>	<u>46</u>	<u>47</u>	<u>46</u>	<u>44</u>
Total	<u>452</u>	<u>500</u>	<u>513</u>	<u>529</u>	<u>528</u>

PRESENT SCHOOL FACILITIES AND CAPACITY(2)

<u>Facilities</u>	<u>Date Constructed</u>	<u>Renovations/ Additions</u>	<u>Grades</u>	<u>Functional Capacity</u>
Park School	1956	1957, 1967, 1991, 2000	Pre-K-8, Sp. Ed.	<u>567</u>

(1) Source: School District officials

(2) Source: Application for State School Aid

STERLING REGIONAL HIGH SCHOOL ENROLLMENTS(1)

As of June 30,

<u>Grades 9 thru 12</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Totals	<u>203</u>	<u>194</u>	<u>216</u>	<u>222</u>	<u>170</u>

HIGHER EDUCATION FACILITIES

Rutgers University-Camden Campus

Rutgers University-Camden ("Rutgers"), is a comprehensive, publicly-supported, co-educational four-year institution accredited by the Middle States Association of Colleges and Secondary Schools and funded primarily by the State, was founded in 1950 on a 23.8 acre campus in the City of Camden. For the 2016-2017 school year, there were approximately 5,021 undergraduate students and 1,622 graduate students.

Camden County College

Fully accredited by the Middle States Association of Colleges and Secondary Schools, Camden County College ("College") is a comprehensive publicly supported, co-educational two-year institution developed under the State Department of Higher Education. It is funded in part by the County Board of Chosen Freeholders who appoint an eleven (11) member Board of Trustees. The College has three distinct campuses in Blackwood, Camden and Cherry Hill – along with its satellite locations in Lakeland, Sicklerville and elsewhere throughout the County.

As of the Fall of 2017, full time enrollment was 5,041 and part-time enrollment was 5,451 for a total of 10,492.

Camden County Technical Schools

From a vocational school that opened with 400 students in 12 trade areas in 1928, Camden County Technical Schools ("CCTS") has grown to be one of the largest and most comprehensive technical schools in the nation. The CCTS today encompasses a full range of day and evening programs at campuses in Pennsauken and Gloucester Township. Beginning in 2012, the adult programs were operated by Camden County College as part of the Camden County shared services agreement.

For high school students, there are 32 career programs from which to choose. For the 2017-2018 school year, 1,325 students are enrolled at the Gloucester Township Campus, and 771 at the Pennsauken Campus, including 323 Special Education Students between the two campuses. Seniors are offered the opportunity to participate in several of our school-to-career programs and are offered lifetime job placement assistance. In addition, students are offered a full-range of athletics and activities to complement their education. Through Camden County College, high school juniors and seniors at CCTS have various opportunities to earn college credit for college level work completed while in high school. Students may bank the credits earned for future enrollment at colleges and universities.

In addition to the facilities mentioned above, Stockton University, University of Pennsylvania, Temple University, LaSalle University, Villanova University, St. Joseph's University, Drexel University and Rowan University are all within a commuting distance from the Borough.

(1) Source: Regional District officials

LOCAL SCHOOL DISTRICT BUDGETS

	<u>2018-19 *</u>	<u>2017-18 *</u>
Revenues:		
General Fund:		
Fund Balance Appropriated	\$ 289,417	\$ 230,002
Local District School Taxes	4,628,926	4,484,804
Federal and State Aid	3,233,018	3,094,057
Withdraw from Capital Reserve	119,165	112,800
Tuition	14,000	20,000
Interest Earned on Capital Reserve Funds	1,080	
Miscellaneous	14,171	9,700
	<u>8,299,777</u>	<u>7,951,363</u>
Special Revenue Fund:		
State, Federal and Local Aid	403,483	376,888
	<u>403,483</u>	<u>376,888</u>
Debt Service Fund:		
Fund Balance Appropriated	5,002	
Debt Service Aid Type II	81,856	90,101
Local Tax Levy	168,555	191,038
	<u>255,413</u>	<u>281,139</u>
Total Debt Service Fund	<u>255,413</u>	<u>281,139</u>
Total Revenues/Sources	<u>8,958,673</u>	<u>8,609,390</u>
Transfers from Operating Budget	41,381	46,530
	<u>41,381</u>	<u>46,530</u>
Total Revenues/Sources Net of Transfers	<u>\$ 8,917,292</u>	<u>\$ 8,562,860</u>
Appropriations:		
General Fund:		
Current Expense:		
Regular Programs--Instruction	\$ 2,671,673	\$ 2,515,837
Special Education--Instruction	547,891	427,520
Basic Skills/Remedial--Instruction	423,419	411,764
Bilingual Education--Instruction	123,290	142,271
School Sponsored Co-Curriculum Activities--Instruction	70,992	68,944
School Sponsored Athletics--Instruction	43,579	38,070
Summer School	77,481	71,111
Undistributed Expenditures:		
Tuition	125,400	244,722
Attendance and Social Work Services	34,622	35,813
Health Services	93,068	90,559
Other Support Services--Student--Related and Extraordinary Svs.	148,320	134,997
Other Support Services--Students--Guidance	60,512	28,022
Other Support Serices--Students--Child Study Teams	264,756	225,913

(Continued)

* As Approved by the Board of Education

LOCAL SCHOOL DISTRICT BUDGETS

	<u>2018-19 *</u>	<u>2017-18 *</u>
Appropriations (Cont'd):		
General Fund (Cont'd):		
Improvement of Instructional Services	\$ 121,921	\$ 92,872
Educational Media Services--School Library	94,880	105,172
Instructional Staff Training Services	18,014	51,651
Support Services--General Administration	352,189	342,335
Support Services--School Administration	78,104	77,286
Central Svcs & Admin Info Technology	274,087	301,407
Operation and Maintenance of Plant Services	772,122	728,626
Student Transportation Services	181,374	104,854
Unallocated Benefits--Employee Benefits	<u>1,527,735</u>	<u>1,510,247</u>
 Total Current Expense	 <u>8,105,429</u>	 <u>7,749,993</u>
 Capital Outlay:		
Equipment	79,877	
Facilities Acquisition and Construction Services	54,146	68,327
Interest Deposit to Capital Reserve	<u>1,080</u>	
 Total Capital Outlay	 <u>135,103</u>	 <u>68,327</u>
 Capital Reserve - Transfer of Funds to Capital Projects		 <u>112,800</u>
 Transfer of Funds to Charter Schools	 <u>59,245</u>	 <u>20,243</u>
 Total General Fund	 <u>8,299,777</u>	 <u>7,951,363</u>
 Special Revenue Fund:		
State, Federal and Local Projects	<u>403,483</u>	<u>376,888</u>
 Debt Service Fund:		
Principal	255,413	260,000
Interest		<u>21,138</u>
 Total Debt Service	 <u>255,413</u>	 <u>281,139</u>
 Total Expenditures/Appropriations	 <u>8,958,673</u>	 <u>8,609,390</u>
 Transfers from Operating Budget	 <u>41,381</u>	 <u>46,530</u>
 Total Expenditures/Appropriations	 <u>\$ 8,917,292</u>	 <u>\$ 8,562,860</u>

* As Approved by the Board of Education

**HISTORICAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
ALL GOVERNMENTAL FUND TYPES (1)**

	Fiscal Year Ended June 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Revenues:					
Tax Levy	\$ 4,508,318	\$ 4,315,328	\$ 4,291,793	\$ 4,018,380	\$ 3,655,665
Tuition Charges	55,062	47,421	31,510	26,494	1,228
Miscellaneous	26,708	17,607	17,553	14,086	21,873
State Sources	4,247,156	4,047,287	3,923,235	3,725,992	3,598,744
Federal Sources	295,977	314,052	318,174	274,208	318,297
Total Revenue	9,133,221	8,741,696	8,582,265	8,059,160	7,595,807
Expenditures:					
Instruction					
Regular Instruction	2,645,531	2,563,991	3,017,969	2,739,563	2,636,680
Special Education Instruction	363,877	397,317	453,149	464,744	513,003
Other Special Instruction	657,983	580,769	421,236	323,783	226,942
Undistributed					
Tuition	195,420	128,519	25,119	190,260	241,507
Student and Instruction Related Services	733,055	745,209	685,787	578,008	570,240
School Administrative Services	669,181	665,316	636,845	662,407	571,327
Plant Operations and Maintenance	718,674	731,718	638,111	635,514	527,274
Pupil Transportation	85,199	72,808	61,648	94,839	144,554
Unallocated Benefits	1,253,739	1,265,832	1,388,336	1,351,879	1,324,738
Reimbursed TPAF Social Security Contributions	920,350	789,785	674,805	585,050	639,903
Special Schools					13,181
Capital Outlay	218,335	388,314	311,822	64,339	143,123
Debt Service	297,619	300,587	307,306	314,057	321,619
Transfer to Charter Schools	25,296			11,151	
Total Expenditures	8,784,258	8,630,164	8,622,134	8,015,593	7,874,091
Excess (Deficiency) of Revenues Over (Under) Expenditures	348,963	111,532	(39,869)	43,567	(278,283)
Other Financing Sources (Uses):					
Cancellation of Prior Year State Aid Receivable			(105,412)		
Capital Leases (Non-Budgeted)			185,450		
Total Other Financing Sources (Uses)	-	-	80,038	-	-
Net Change in Fund Balances	348,963	111,532	40,169	43,567	(278,283)
Fund Balances, July 1	721,140	609,609	569,440	525,873	804,157
Fund Balances, June 30	\$ 1,070,103	\$ 721,140	\$ 609,609	\$ 569,440	\$ 525,873

(1) Source: School District Reports of Audit

HISTORICAL REVENUES, EXPENDITURES AND CHANGES IN NET POSITION
ALL PROPRIETARY FUND TYPES (1)

	Fiscal Year Ended June 30,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES:					
Local Sources:					
Daily Sales - Reimbursable Programs:	\$ 60,510	\$ 53,208	\$ 47,996	\$ 45,009	\$ 45,400
Daily Sales Non-Reimbursable Programs	23,677	26,609	27,679	24,494	23,013
Sales - Hardware	25,510				
Sales - Software	64,814				
Back up Services		8,000			
Managed Services	155,285	60			
Migration and Set Up Services		2,000			
Other On-site Services	64,463				
Total Operating Revenue	394,259	89,877	75,675	69,503	68,413
OPERATING EXPENSES:					
Cost of sales-reimbursable programs	62,860	68,676			
Cost of sales-non-reimbursable programs	14,376	11,868			
Salaries	86,471	76,578	69,417	67,675	100,426
Management Fee	12,999	12,190	12,075	11,960	11,787
Food			73,468	74,782	75,107
Supplies	40,240	5,426	7,535	16,122	11,369
Other Purchased Services	286,507				
Insurance Fee	2,775	2,969	2,803	2,680	2,908
Miscellaneous Fee	6,108	20,706	7,818	6,782	5,001
Repairs and Maintenance	8,977	9,426	12,996	3,715	2,300
Depreciation	4,006	4,006	4,291	4,576	4,684
Total Operating Expenses	525,321	211,845	190,403	188,293	213,581
Operating Loss	(131,062)	(121,968)	(114,728)	(118,790)	(145,168)
NONOPERATING REVENUES:					
State Sources:					
State School Lunch Program	1,995	2,141	2,225	2,284	2,414
Federal Sources:					
National School Lunch Program	78,675	83,889	87,075	85,326	88,254
School Breakfast Program	14,844	14,673	13,457	14,278	14,971
Food Distribution Program	18,521	18,413	14,864	17,633	18,072
Interest Revenue	141	68	75	75	301
Total Nonoperating Revenues	114,177	119,185	117,697	119,597	124,012
Change in Net Position	(16,886)	(2,783)	2,968	807	(21,156)
Net Position - July 1	45,086	47,869	44,901	44,094	65,250
Net Position - June 30	\$ 28,201	\$ 45,086	\$ 47,869	\$ 44,901	\$ 44,094

(1) Source: School District Reports of Audit

BOROUGH OF SOMERDALE SCHOOL DISTRICT
SCHEDULE OF DEBT SERVICE
(BONDED DEBT ONLY)
AS OF JUNE 30, 2017

<u>Fiscal Year</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 260,000	\$ 21,138	\$ 281,138
2019	245,000	10,413	255,413
	<hr/>	<hr/>	<hr/>
	\$ 505,000	\$ 31,550	\$ 536,550

Source: School District Auditor

GENERAL INFORMATION ON THE BOROUGH

History

In 1929 by an act of the New Jersey State Legislature, the Borough of Somerdale, in the County of Camden, New Jersey (the "Borough") was incorporated, evolving from the division of Clementon Borough into several separate self-governing boroughs.

During the early years, development was minimal due to the economics of the 1930's and the effects of World War II. Following the war and the return to normality, several large farm and woodland areas were opened to residential development. During the next twenty years, most of the residential area was developed with a few exceptions. In the 1960's, commercial development emerged, which included the construction of an industrial park.

The Borough is located in the central part of the County of Camden (the "County") in the State of New Jersey (the "State"). The Borough's bordered by the Borough of Lawnside, the Borough of Magnolia, the Township of Gloucester, the Borough of Hi-Nella, the Borough of Stratford, the Borough of Lindenwold and the Township of Voorhees.

Local Government

The Borough operates under a Mayor-Council form of government. The governing body is comprised of the Mayor and six Council members. The Mayor is elected for a four-year term. Two Council members are elected each year for three-year terms.

Executive and administrative responsibility rests with the Mayor, who is assisted by the Borough Clerk.

The financial affairs of the Borough are administered by the Chief Financial Officer, who reports to the Borough Council. With the Borough Administrator, the Chief Financial Officer prepares and then monitors the annual municipal budget after adoption by the Borough Council.

Fire Protection and Emergency Services

There is one volunteer fire company ("Company") which is supported by the Borough. All equipment is owned by the Borough, which provides an annual appropriation for its operation. The Company has two late model pumpers, one "Quint" combination pumper & ladder truck, a utility truck, and an Air Systems truck used to carry extra equipment and lighting units. The Borough shares ambulance services with two adjacent municipalities, the Boroughs of Magnolia and Stratford. It alternates the purchasing of ambulances with Magnolia and has purchased a new ambulance in 2014. The EMS squad is comprised of volunteers who are residents of the Borough and the Borough of Magnolia as well as a paid staff to augment the volunteer availability.

The Company is dispatched to emergency situations by the Camden County Communications Center, which activates an instalert alarm system in the volunteer's home as well as sounding a public siren.

Library

Borough residents have access to the Camden County Library, which is located in nearby Voorhees Township. The County Library provides a full range of services for patrons including audio-visual collections, records and cassettes.

Police

The safety and security of the residents are protected by 14 full-time, trained and supervised police officers and two part-time special officers. The Borough's police force provides twenty-four hour patrol car surveillance.

Public Works

The Public Works Department has the responsibility of maintaining streets and roads, all recreational areas and Senior Center buildings. In addition, the Public Works Department provides pick-up for recyclable paper, glass and metals. Pick-up of large items, grass and chipping of large tree branches/limbs are also provided by Public Works Department.

The Borough is currently in the 3rd year of a 4 year contract with Republic Services for the removal of solid waste in the Borough. The Borough is currently required to take part in the Resource Recovery System in the County.

Recreation

The recreation program within the community is administered by the Recreation Commission whose function is to sponsor community events throughout the year. Borough facilities include four baseball fields, three basketball courts, a Senior Center, two playgrounds, and an indoor practice facility.

Sewer and Water

The Borough owns and operates several pumping stations and a sewerage collection system that run throughout the Borough. The current Borough rate for each user is \$41.00 per domestic consumer unit per quarter, or \$164.00 per year.

Sewer treatment services are provided by the Camden County Municipal Utilities Authority ("CCMUA"). The CCMUA is an autonomous body that owns and operates the treatment facility, and has established an annual rate of \$88.00 per equivalent dwelling unit per quarter, or \$352.00 per year for 2018.

Water is supplied to the Borough by the New Jersey-American Water Company.

Population (1)

2010 Federal Census	5,151
2000 Federal Census	5,192
1990 Federal Census	5,440
1980 Federal Census	5,900
1970 Federal Census	6,520

Selected Census 2015 Data for the Borough(1)

Median household income	\$51,633
Median family income	\$63,182
Per capita income	\$27,468

(1) Source: U.S. Department of Commerce, Bureau of Census.

Labor Force (1)

The following table discloses annual average labor force data for the Borough.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Borough					
Labor Force	2,889	2,859	2,843	2,773	2,786
Employed	2,748	2,700	2,663	2,557	2,517
Unemployed	141	159	180	216	269
Unemployment Rate	4.9%	5.6%	6.3%	7.8%	9.7%
County					
Labor Force	256,929	255,629	254,888	253,330	258,682
Employment	243,835	241,640	238,354	233,858	234,569
Unemployment	13,094	13,989	16,534	19,472	24,113
Unemployment Rate	5.1%	5.5%	6.5%	7.7%	9.3%
State					
Labor Force	4,518,800	4,524,300	4,543,817	4,518,700	4,585,550
Employment	4,309,700	4,299,900	4,277,317	4,218,400	4,198,492
Unemployment	209,100	224,300	266,525	300,300	387,067
Unemployment Rate	4.6%	5.0%	5.9%	6.6%	8.4%

Business and Industry

Industrial and commercial operations in the Borough cover a broad spectrum of activities including numerous shopping facilities, restaurants, sheet metal fabrication, food vending services, beer brewing, and printing. Included in the numerous shopping centers is Somerdale Square which consists of 17 retail stores and Coopertown Center consisting of a Walmart Super Center, sixteen screen movie theater, a restaurant, and other small retail stores.

Building, Zoning and Development Codes

The Borough has established development regulations governing the size of lots for various types of construction. The land requirements are based on the type and nature of the building.

The Borough's building codes conform to standards of the State Uniform Construction Code. These codes and other Municipal Codes are codified as a basis for improved administration and regulation.

In January, 1977, the Borough adopted the Municipal Land Use Law. The Municipal Land Use Law gave the Borough Planning Board and the Borough Zoning Board of Adjustment authority to regulate most land use other than single-family residential use. In this way, the Borough is able to guide the approximate use or development of land to promote the public health, safety and general welfare.

(1) Source: New Jersey Department of Labor

Building Permits (1)

<u>Year</u>	<u>Number of Permits</u>	<u>Value of Construction</u>
2018(2)	218	\$ 2,704,412
2017	319	1,757,770
2016	292	591,500
2015	276	294,400
2014	307	831,600
2013	354	1,707,500

LARGEST NON-GOVERNMENTAL EMPLOYERS(3)

<u>Employer</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
Walmart	Retail Store	550
Pepco Manufacturing	Sheet Metal	100
Applebee's Bar and Grill	Restaurant	80
WAWA	Convenience Store	50
Cinemark	Movie Theatre	48
Youth Consultation Service	Children's Behavioral Health Agency	44
LA Fitness	Gym	39
Coit	Restoration	35
Flying Fish Brewery	Craft Brewery	26

CERTAIN TAX INFORMATION**TEN LARGEST REAL PROPERTY TAXPAYERS(4)**

<u>Name of Taxpayer</u>	<u>Nature of Business</u>	<u>2018 Assessed Valuation</u>
Wal-Mart	Retail	\$17,573,100
Buchman, Myron & Tanya Toby	Apartments	3,700,000
National Reality Property Owners	Retail	3,130,600
East Coast Warwick Terrace, LC	Apartments	2,029,000
Somerdale Equities, LLC	Retail	1,924,900
JMK Investment Co., Inc.	Industrial	1,906,100
Somerdale Partners	Retail	1,891,100
P. Kiejdan Family, LLC	Apartments	1,624,000
Rite Aid of New Jersey	Drug Store	1,512,900
WAWN, LLC	Apartments	1,338,200

(1) Source: Borough Construction Office

(2) As of October 15, 2018

(3) Source: Borough officials

(4) Source: Borough Tax Assessor

CURRENT TAX COLLECTIONS (1)

<u>Year</u>	<u>Total Levy</u>	<u>Collected in Year of Levy</u>		<u>Outstanding Dec. 31</u>	
		<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
2017	\$ 13,915,960	\$ 13,495,080	96.98%	\$ 389,296	2.80%
2016	13,335,237	12,953,461	97.14	361,154	2.71
2015	13,021,250	12,548,862	96.37	443,372	3.40
2014	12,368,327	11,963,589	96.73	381,207	3.08
2013	12,208,376	11,873,313	97.26	309,087	2.53

DELINQUENT TAXES (1)

<u>Year</u>	<u>Outstanding Jan. 1</u>	<u>Added</u>	<u>Collected</u>		<u>Transferred to Liens</u>	<u>Other Credits</u>	<u>Outstanding Dec. 31</u>
			<u>Amount</u>	<u>Percentage</u>			
2017	\$ 369,315	\$ 1,250	\$ 352,493	95.12%	\$ 10,232		\$ 7,840
2016	450,509	2,250	443,865	98.04	733		8,161
2015	382,545	1,250	376,490	98.42	168		7,137
2014	309,087	2,500	308,951	99.96	1,299		1,338
2013	409,510	1,500	407,975	99.26	3,035		

TAX TITLE LIENS (1)

<u>Year</u>	<u>Balance Jan. 1</u>	<u>Added by Sales and Transfers</u>	<u>Collected</u>	<u>Transfer to Foreclosed Property</u>	<u>Balance Dec. 31</u>
2017	\$ 11,320	\$ 32,681	\$ 12,809		\$ 31,192
2016	372	14,440	3,492		11,320
2015	137,712	7,580	23,666	\$ 121,253	373
2014	115,923	24,154	2,365		137,712
2013	99,728	20,827	4,632		115,923

FORECLOSED PROPERTY (1)(2)

<u>Year</u>	<u>Balance Jan. 1</u>	<u>Adjustment to Assessed Value</u>	<u>Transferred from</u>			<u>Sales</u>	<u>Balance Dec. 31</u>
			<u>Tax Liens</u>	<u>Sewer Utility Liens</u>	<u>Taxes Receivable</u>		
2017	\$ 192,590						\$ 192,590
2016	386,590					\$194,000	192,590
2015	66,190	\$ 185,137	\$ 121,253	\$ 658	\$ 13,352		386,590
2014	66,190						66,190
2013	66,190						66,190

(1) Source: Annual Reports of Audit

(2) These amounts are reflected on the basis of assessed value in the year of acquisition in accordance with the regulation of the Division of Local Government Services.

CURRENT SEWER COLLECTIONS (1)

<u>Year</u>	<u>Beginning Balance</u>	<u>Total Levy</u>	<u>Collected in Year of Levy</u>		<u>Outstanding Dec. 31</u>	
			<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
2017	\$ 77,543	\$ 483,767	\$ 498,407	88.79%	\$ 61,832	11.02%
2016	77,134	481,179	479,888	85.95	77,543	13.89
2015	102,905	461,388	486,287	86.18	77,134	16.72
2014	28,878	456,903	382,875	83.80	102,905	22.52
2013	27,716	408,480	406,932	93.29	28,878	6.62

NET ASSESSED VALUATIONS AND ANNUAL TAX RATES (2) (3)

<u>Year</u>	<u>Net Valuation Taxable</u>	<u>Total Tax Rate</u>	<u>County</u>	<u>Local School</u>	<u>Municipal</u>	<u>Regional School District</u>
2018	\$ 330,140,900	\$4.305	\$0.953	\$1.435	\$1.103	\$0.814
2017	325,739,600	4.259	0.942	1.409	1.099	0.809
2016	321,669,800	4.141	0.925	1.372	1.094	0.750
2015	318,691,200	4.082	0.916	1.351	1.090	0.725
2014	315,585,500	3.912	0.870	1.316	1.084	0.642

RATIO OF ASSESSED VALUATION TO TRUE VALUE AND TRUE VALUE PER CAPITA (4)

<u>Year</u>	<u>Real Property Assessed Valuation</u>	<u>Percentage of True Value</u>	<u>True Value</u>	<u>True Value Per Capita (5)</u>
2018	\$ 330,140,900	94.19%	\$ 350,505,255	\$ 68,046
2017	325,739,500	95.05	342,703,314	66,531
2016	321,669,700	96.14	334,584,668	64,955
2015	318,691,100	96.25	331,107,636	64,280
2014	315,585,400	98.55	320,228,716	62,168

(1) Source: Annual Reports of Audit

(2) Source: Camden County Abstract of Ratables

(3) Per \$100 of assessed valuation.

(4) Source: State of New Jersey, Department of Treasury, Division of Taxation

(5) Based upon 2010 Federal Census Data

REAL PROPERTY CLASSIFICATION (1)

Year	Assessed Value of Land and Improvements	<u>Vacant Land</u>	<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>
2018	\$ 330,140,900	\$ 5,865,300	\$ 254,517,500	\$ 48,314,600	\$ 10,775,200	\$ 10,668,300
2017	325,739,500	6,724,800	250,669,200	46,902,000	10,775,200	10,668,300
2016	321,669,700	6,704,500	246,715,700	46,806,000	10,775,200	10,668,300
2015	318,691,100	7,849,900	242,242,700	47,337,200	10,593,000	10,668,300
2014	315,585,400	7,592,900	238,044,700	48,685,600	10,593,900	10,668,300

(1) Source: Borough Tax Assessor

**BOROUGH OF SOMERDALE
STATEMENT OF INDEBTEDNESS
AS OF DECEMBER 31, 2017**

The following table summarizes the direct debt of the Borough of Somerdale as of December 31, 2017 in accordance with the requirements of the Local Bond Law of the State of New Jersey (N.J.S.A. 40A:2-2- et.seq.). The gross debt comprises short and long-term debt issued and debt authorized but not issued, including General, Sewer Utility, debt of the Borough of Somerdale School District and debt of the Sterling Regional High School District. Deductions from gross debt to arrive at net debt include deductible school debt, and debt considered to be self-liquidating. The resulting net debt of \$5,870,309 represents 1.734% of the average of equalized valuations for the Borough for the last three years, within the 3.5% limit imposed by N.J.S.A. 40A:2-6.

	<u>Debt Issued</u>		<u>Deductions</u>			
	<u>Bonds, Notes and Loans</u>	<u>Authorized But Not Issued</u>	<u>Gross Debt</u>	<u>School Debt</u>	<u>Self-Liquidating Debt</u>	<u>Net Debt</u>
General	\$ 5,870,000	\$ 309	\$ 5,870,309			\$ 5,870,309
School - Local	505,000		505,000	\$ 505,000		
School - Regional	1,797,863		1,797,863	1,797,863		
Sewer	3,386,330	266,300	3,652,630		\$ 3,652,630	
	<u>\$ 11,559,193</u>	<u>\$ 266,609</u>	<u>\$ 11,825,802</u>	<u>\$ 2,302,863</u>	<u>\$ 3,652,630</u>	<u>\$ 5,870,309</u>

Source: Annual Debt Statement

DEBT RATIOS AND VALUATIONS(1)

Average of Equalized Valuations of Real Property with Improvements and Second Class Railroad Property for 2015, 2016 and 2017	\$ 338,580,135
Statutory Net Debt as a Percentage of the Average of Equalized Valuations of Real Property with Improvements for 2015, 2016 and 2017	1.734%
2018 Net Valuation Taxable	\$ 330,140,900
2018 Equalized Valuation of Real Property and Taxable Personal Property Used in Communications	\$ 350,505,255
Gross Debt (2):	
As a percentage of 2018 Net Valuation Taxable	4.33%
As a percentage of 2018 Equalized Valuation of Real Property and Taxable Personal Property Used in Communications	4.08%
Net Debt (2):	
As a percentage of 2018 Net Valuation Taxable	1.78%
As a percentage of 2018 Equalized Valuation of Real Property and Taxable Personal Property Used in Communications	1.67%
Gross Debt Per Capita (3)	\$ 2,773
Net Debt Per Capita (3)	\$ 1,140

TOWNSHIP BORROWING CAPACITY(1)

3.5% of Averaged (2015-17) Equalized Valuation of Real Property including Improvements (\$338,580,135)	\$ 11,850,305
Net Debt	<u>5,870,309</u>
Remaining Borrowing Capacity	<u><u>\$ 5,979,996</u></u>

LOCAL SCHOOL DISTRICT BORROWING CAPACITY(1)

3% of Averaged (2015-17) Equalized Valuation of Real Property including Improvements (\$338,580,135)	\$ 10,157,404
School Debt	<u>505,000</u>
Remaining Borrowing Capacity	<u><u>\$ 9,652,404</u></u>

REGIONAL HIGH SCHOOL DISTRICT BORROWING CAPACITY (1)

3% of Average (2015-17) Equalized Valuation of Real Property including Improvements (\$801,882,213)	\$ 24,056,466
Regional School Debt(4)	<u>4,258,000</u>
Remaining Borrowing Capacity	<u><u>\$ 19,798,466</u></u>

(1) As of December 31, 2017

(2) Excluding overlapping debt

(3) Based on Federal 2010 Census of 5,151

(4) Debt portion allocated to the Township \$1,797,863

**BOROUGH OF SOMERDALE
OVERLAPPING DEBT AS OF DECEMBER 31, 2017**

DEBT ISSUED					
	<u>Debt Outstanding</u>	<u>Deductions</u>	<u>Statutory Net Debt Outstanding</u>	<u>Net Debt Outstanding Allocated to the Issuer</u>	<u>Debt Auth. but not Issued</u>
County of Camden(1):					
General:					
Bonds	\$ 36,125,000	\$ 8,342,385 (2)	\$ 27,782,615	\$ 252,822 (4)	\$ 11,960,225
Notes	35,461,125		35,461,125	322,696 (4)	
Loan Agreements	314,966,900		314,966,900	2,866,199 (4)	
Bonds Issued by Other Public Bodies Guaranteed by the County	276,594,254	276,594,254 (3)			
	<u>\$ 663,147,279</u>	<u>\$ 284,936,639</u>	<u>\$ 378,210,640</u>	<u>\$ 3,441,717</u>	<u>\$ 11,960,225</u>

(1) Source: County of Camden.

(2) Includes Reserve for Payment of Bonds, Other Accounts Receivable and General Obligation Pension Refunding Bonds.

(3) Deductible in accordance with N.J.S. 40:37A-80.

(4) Such debt is allocated as a proportion of the Issuer's share of the total 2017 Net Valuation on which County taxes are apportioned, which is .91%.

Camden County Municipal Utilities Authority

The Camden County Municipal Utilities Authority ("CCMUA") is a public body corporate and politic of the State and was originally created as the Camden County Sewerage Authority ("Sewerage Authority") by a resolution of the County adopted on December 5, 1967. The Sewerage Authority was reorganized in 1972 as a utilities authority and changed its name to the Camden County Municipal Utilities Authority pursuant to a resolution of the County adopted on April 13, 1972. The CCMUA operates under the supervision of nine commissioners who are appointed by the Board for five-year staggered terms. The County has entered into a deficiency agreement with the CCMUA ("Deficiency Agreement") whereby the County is obligated to pay to the CCMUA any annual charges equal to any deficits in CCMUA revenues necessary to pay or provide for: (i) operation and maintenance expenses of the CCMUA's regional sewer system, (ii) principal and interest payments on bonds and notes of the CCMUA in an aggregate principal amount not to exceed \$685,500,000, and (iii) the maintenance of reserves required under the bond resolution securing the CCMUA's bonds and notes. The obligation of the County pursuant to the provisions of the Deficiency Agreement is a direct and general obligation of the County, and any annual charges are ultimately payable by the County from the levy of *ad valorem* taxes on all the taxable real property within the jurisdiction of the County in amounts sufficient to enable the County to meet its obligations under the Deficiency Agreement. **To date, no payments have been required to be made by the County pursuant to the Deficiency Agreement.** The County and the CCMUA may agree to amend the Deficiency Agreement at any time to increase the obligations of the County thereunder.

The CCMUA owns and operates a sewage collection and treatment system which serves all County residents connected to local sewer collection systems. The CCMUA's system does not include the local sewage collection system of any CCMUA participant, but it owns and operates interceptor sewer lines connecting the local systems to the CCMUA's sewage treatment facilities.

The CCMUA is required to charge and collect service charges for the use of its facilities such that revenues of the CCMUA will at all times be adequate to pay all operating and maintenance expenses, including reserves, insurance, extensions and replacements, and to pay punctually the principal of and interest on any bonds and notes of the CCMUA and to maintain reserves and sinking funds therefor as may be required by the terms of any agreements with the holders thereof.

The gross debt as of December 31, 2017 for the CCMUA was \$171,431,116. The County guarantees up to \$685,500,000 of debt issued by the CCMUA.

Camden County Improvement Authority

The Camden County Improvement Authority ("CCIA") is a public body corporate and politic of the State and was created by a resolution of the County Board. The CCIA operates under the supervision of a five (5) member Board who are appointed for five (5) year staggered terms by the County Board. The CCIA has from time to time issued its revenue bonds for projects involving the County and for which the County has a repayment obligation or guaranty. The CCIA also issues conduit debt from time to time which is not included in the overlapping debt as there is no obligation by the taxpayers to repay the associated debt service.

The amount of debt which the County has guaranteed or for which it has a repayment obligation as of December 31, 2017 was \$432,082,097.

APPENDIX B

REPORT OF EXAMINATION OF FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Education
Borough of Somerdale School District
Somerdale, New Jersey 08083

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Somerdale School District, in the County of Camden, State of New Jersey, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in compliance with audit requirements as prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Somerdale School District, in the County of Camden, State of New Jersey, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Somerdale School District's basic financial statements. The School District's Comprehensive Annual Report for the fiscal year ended June 30, 2017 includes certain required supplementary information, including the management's discussion and analysis, budgetary comparison information, schedule of the School District's proportionate share of the net pension liability, and schedule of School District's contributions, and other information that is not included with this presentation of the basic financial statements.

Respectfully submitted,

/s/BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

/s/Kirk N. Applegate
Certified Public Accountant
Public School Accountant No. 20CS00223300

Voorhees, New Jersey
October 2, 2017

FISCAL YEAR 2017

BASIC FINANCIAL STATEMENTS

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
Cash and Cash Equivalents	\$ 999,375.01	\$ 16,774.41	\$ 1,016,149.42
Receivables, net	4,363.59		4,363.59
Intergovernmental Receivables	74,474.41	5,902.12	80,376.53
Internal Balances	20,000.00	(20,000.00)	
Prepaid Expenses	15,939.57		15,939.57
Inventory		12,702.94	12,702.94
Capital Assets, net	<u>4,440,865.77</u>	<u>12,821.26</u>	<u>4,453,687.03</u>
Total Assets	<u>5,555,018.35</u>	<u>28,200.73</u>	<u>5,583,219.08</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Related to Pensions	<u>428,334.00</u>	-	<u>428,334.00</u>
LIABILITIES:			
Accounts Payable	69,121.68		69,121.68
Unearned Revenue	4,920.92		4,920.92
Accrued Interest Payable	3,446.41		3,446.41
Noncurrent Liabilities:			
Due within One Year	313,323.71		313,323.71
Due beyond One Year	<u>1,741,138.48</u>		<u>1,741,138.48</u>
Total Liabilities	<u>2,131,951.20</u>	-	<u>2,131,951.20</u>
DEFERRED INFLOWS OF RESOURCES:			
Related to Pensions	<u>262,440.00</u>	-	<u>262,440.00</u>
NET POSITION:			
Net Investment in Capital Assets	3,828,120.82	12,821.26	3,840,942.08
Restricted for:			
Debt Service	5,002.55		5,002.55
Unrestricted (Deficit)	<u>(244,162.22)</u>	<u>15,379.47</u>	<u>(228,782.75)</u>
Total Net Position	<u>\$ 3,588,961.15</u>	<u>\$ 28,200.73</u>	<u>\$ 3,617,161.88</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 2,682,605.74	\$ 55,061.65	\$ 384,244.00		\$ (2,243,300.09)		\$ (2,243,300.09)
Special Education	363,876.61				(363,876.61)		(363,876.61)
Other Special Instruction	657,983.13				(657,983.13)		(657,983.13)
Support Services:							
Tuition	195,419.56				(195,419.56)		(195,419.56)
Student and Instruction Related Services	733,055.08		41,226.00		(691,829.08)		(691,829.08)
School Administrative Services	686,496.10				(686,496.10)		(686,496.10)
Plant Operations and Maintenance	874,848.06				(874,848.06)		(874,848.06)
Pupil Transportation	85,199.00				(85,199.00)		(85,199.00)
Unallocated Benefits	3,650,350.98		1,431,303.00		(2,219,047.98)		(2,219,047.98)
Interest on Long-Term Debt	29,841.84		10,107.36		(19,734.48)		(19,734.48)
Assessment for Debt Service on SDA Funding	6,081.00				(6,081.00)		(6,081.00)
Transfer to Charter School	25,296.00				(25,296.00)		(25,296.00)
Total Governmental Activities	9,991,053.10	55,061.65	1,866,880.36	\$ -	(8,069,111.09)	\$ -	(8,069,111.09)
Business-Type Activities:							
Food Service	229,484.70	84,186.44	114,035.52			(31,262.74)	(31,262.74)
Other	295,836.07	310,072.10				14,236.03	14,236.03
Total Business-Type Activities	525,320.77	394,258.54	114,035.52	-	-	(17,026.71)	(17,026.71)
Total	\$ 10,516,373.87	\$ 449,320.19	\$ 1,980,915.88	\$ -	(8,069,111.09)	(17,026.71)	(8,086,137.80)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					4,508,318.00		4,508,318.00
Federal and State Aid not Restricted					4,107,555.73		4,107,555.73
Miscellaneous Income					26,707.78	141.14	26,848.92
Total General Revenues					8,642,581.51	141.14	8,642,722.65
Change in Net Position					573,470.42	(16,885.57)	556,584.85
Net Position -- July 1					3,015,490.73	45,086.30	3,060,577.03
Net Position -- June 30					\$ 3,588,961.15	\$ 28,200.73	\$ 3,617,161.88

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Governmental Funds
 Balance Sheet
 June 30, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and Cash Equivalents	\$ 994,372.46		\$ 5,002.55	\$ 999,375.01
Receivables, net:				
Interfunds Receivable:				
Special Revenue Fund	32,723.38			32,723.38
Payroll Agency Fund	4,363.59			4,363.59
Proprietary Fund	20,000.00			20,000.00
Receivables from Other Governments	36,830.11	\$ 37,644.30		74,474.41
Prepaid Expenses	15,939.57			15,939.57
Total Assets	<u>\$ 1,104,229.11</u>	<u>\$ 37,644.30</u>	<u>\$ 5,002.55</u>	<u>\$ 1,146,875.96</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Interfund Payable		\$ 32,723.38		\$ 32,723.38
Accounts Payable	\$ 39,128.68			39,128.68
Unearned Revenue		4,920.92		4,920.92
Total Liabilities	<u>39,128.68</u>	<u>37,644.30</u>	<u>\$ -</u>	<u>76,772.98</u>
Fund Balances:				
Nonspendable:				
Prepaid Expenses	15,939.57			15,939.57
Restricted:				
Capital Reserve	604,487.15			604,487.15
Debt Service			5,002.55	5,002.55
Excess Surplus - Subsequent Year's Expenditures	230,001.87			230,001.87
Unassigned	214,671.84			214,671.84
Total Fund Balances	<u>1,065,100.43</u>	<u>-</u>	<u>5,002.55</u>	<u>1,070,102.98</u>
Total Liabilities and Fund Balances	<u>\$ 1,104,229.11</u>	<u>\$ 37,644.30</u>	<u>\$ 5,002.55</u>	

Amounts reported for *governmental activities* in the Statement of Net Position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$7,560,536.82 and the accumulated depreciation is \$3,119,671.05.	4,440,865.77
Accrued interest payable is not due and payable in the current period and therefore is not reported as liabilities in the funds.	(3,446.41)
Net Pension Liability	(1,163,101.00)
Accounts payable related to the April 1, 2018 required PERS pension contribution that is not to be liquidated with current financial resources	(29,993.00)
Deferred Outflows of Resources - Related to Pensions	428,334.00
Deferred Inflows of Resources - Related to Pensions	(262,440.00)
Long-term liabilities, including bonds and leases payable and compensated absences, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(891,361.19)
Net position of governmental activities.	<u>\$ 3,588,961.15</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
REVENUES:				
Local Sources	\$ 4,310,214.00		\$ 198,104.00	\$ 4,508,318.00
Tuition Charges	55,061.65			55,061.65
Miscellaneous	26,707.78			26,707.78
State Sources	4,024,229.09	\$ 129,493.00	93,434.00	4,247,156.09
Federal Sources		295,977.00		295,977.00
Total Revenues	8,416,212.52	425,470.00	291,538.00	9,133,220.52
EXPENDITURES:				
Current:				
Regular Instruction	2,259,397.36	386,134.00		2,645,531.36
Special Education Instruction	363,876.61			363,876.61
Other Special Instruction	657,983.13			657,983.13
Undistributed Expenditures:				
Tuition	195,419.56			195,419.56
Student and Instruction Related Services	691,829.08	41,226.00		733,055.08
School Administrative Services	669,180.55			669,180.55
Plant Operations and Maintenance	718,674.19			718,674.19
Pupil Transportation	85,199.00			85,199.00
Unallocated Benefits	1,253,739.05			1,253,739.05
Reimbursed TPAF and Social Security	920,349.84			920,349.84
Debt Service:				
Interest			31,537.50	31,537.50
Redemption of Principal			260,000.00	260,000.00
Assessment for Debt Service on SDA Funding	6,081.00			6,081.00
Capital Outlay	218,335.12			218,335.12
Transfer to Charter School	25,296.00			25,296.00
Total Expenditures	8,065,360.49	427,360.00	291,537.50	8,784,257.99
Excess (Deficiency) of Revenues over Expenditures	350,852.03	(1,890.00)	0.50	348,962.53

(Continued)

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
OTHER FINANCING SOURCES				
Transfer from General Fund	\$ (1,890.00)	\$ 1,890.00	\$ -	\$ -
Net Change in Fund Balances	348,962.03	-	0.50	348,962.53
Fund Balance -- July 1	716,138.40	-	5,002.05	721,140.45
Fund Balance -- June 30	<u>\$ 1,065,100.43</u>	<u>\$ -</u>	<u>\$ 5,002.55</u>	<u>\$ 1,070,102.98</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ 348,962.53
<p>Amounts reported for governmental activities in the statement of activities (A-2) are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the period.</p>	
Total Capital Outlay per Exhibit B-2	\$ 218,335.12
Depreciation Expense	<u>(235,102.18)</u>
	(16,767.06)
<p>Repayment of capital leases principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of Net Position and is not reported in the statement of activities.</p>	
	24,538.38
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.</p>	
	260,000.00
<p>In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation.</p>	
	1,695.66
<p>Governmental funds report school district pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned is reported as pension expense. This is the amount by which pension benefits earned exceeded the school district's pension contribution in the current period.</p>	
	(40,694.00)
<p>In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount the difference is an addition to the reconciliation.</p>	
	<u>(4,265.09)</u>
Change in Net Position of Governmental Activities	<u>\$ 573,470.42</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Proprietary Fund
 Statement of Net Position
 As of June 30, 2017

	Business-Type Activities-- Enterprise Funds		
	<u>Food Service</u>	<u>Park Tech Services</u>	<u>Total</u>
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 1,149.60	\$ 15,624.81	\$ 16,774.41
Accounts Receivable:			
State	128.83		128.83
Federal	5,773.29		5,773.29
Inventories	<u>12,702.94</u>		<u>12,702.94</u>
Total Current Assets	<u>19,754.66</u>	<u>15,624.81</u>	<u>35,379.47</u>
Noncurrent Assets:			
Furniture, Fixtures and Equipment	123,399.90		123,399.90
Less: Accumulated Depreciation	<u>(110,578.64)</u>		<u>(110,578.64)</u>
Total Noncurrent Assets	<u>12,821.26</u>	<u>-</u>	<u>12,821.26</u>
Total Assets	<u>32,575.92</u>	<u>15,624.81</u>	<u>48,200.73</u>
LIABILITIES:			
Current Liabilities:			
Interfund Loan Payable	<u>20,000.00</u>		<u>20,000.00</u>
Total Liabilities	<u>20,000.00</u>	<u>-</u>	<u>20,000.00</u>
NET POSITION:			
Net Investment in Capital Assets	12,821.26		12,821.26
Unrestricted (Deficit)	<u>(245.34)</u>	<u>15,624.81</u>	<u>15,379.47</u>
Total Net Position	<u>\$ 12,575.92</u>	<u>\$ 15,624.81</u>	<u>\$ 28,200.73</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2017

	Business-Type Activities-- Enterprise Funds		
	Food Service	Park Tech Services	Total
OPERATING REVENUES:			
Local Sources:			
Daily Sales - Reimbursable Programs:	\$ 60,509.62		\$ 60,509.62
Daily Sales Non-Reimbursable Programs	23,676.82		23,676.82
Sales - Hardware		\$ 25,510.23	25,510.23
Sales - Software		64,814.37	64,814.37
Managed Services		155,284.50	155,284.50
Other On-site Services		64,463.00	64,463.00
Total Operating Revenue	<u>84,186.44</u>	<u>310,072.10</u>	<u>394,258.54</u>
OPERATING EXPENSES:			
Cost of sales-reimbursable programs	62,860.26		62,860.26
Cost of sales-non-reimbursable programs	14,376.00		14,376.00
Salaries	78,467.69	8,003.73	86,471.42
Management Fee	12,999.42		12,999.42
Supplies	40,240.14		40,240.14
Other Purchased Services		286,506.89	286,506.89
Insurance Fee	2,775.18		2,775.18
Miscellaneous Fee	4,782.73	1,325.45	6,108.18
Repairs and Maintenance	8,977.45		8,977.45
Depreciation	4,005.83		4,005.83
Total Operating Expenses	<u>229,484.70</u>	<u>295,836.07</u>	<u>525,320.77</u>
Operating Income (Loss)	<u>(145,298.26)</u>	<u>14,236.03</u>	<u>(131,062.23)</u>
NONOPERATING REVENUES:			
State Sources:			
State School Lunch Program	1,994.87		1,994.87
Federal Sources:			
National School Lunch Program	78,675.39		78,675.39
School Breakfast Program	14,844.46		14,844.46
Food Distribution Program	18,520.80		18,520.80
Interest Revenue	86.65	54.49	141.14
Total Nonoperating Revenues	<u>114,122.17</u>	<u>54.49</u>	<u>114,176.66</u>
Change in Net Position	(31,176.09)	14,290.52	(16,885.57)
Net Position - July 1	<u>43,752.01</u>	<u>1,334.29</u>	<u>45,086.30</u>
Net Position - June 30	<u>\$ 12,575.92</u>	<u>\$ 15,624.81</u>	<u>\$ 28,200.73</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Proprietary Fund
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2017

	Business-Type Activities-- Enterprise Funds		
	Food Service	Park Tech Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 84,186.44	\$ 310,072.10	\$ 394,258.54
Payments to Employees	(78,467.69)	(8,003.73)	(86,471.42)
Payments to Suppliers	(142,274.62)	(287,832.34)	(430,106.96)
Net Cash Provided by (Used for) Operating Activities	(136,555.87)	14,236.03	(122,319.84)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
State Sources	2,139.30		2,139.30
Federal Sources	101,355.94		101,355.94
Interfund Loan Receipt from General Fund	20,000.00		20,000.00
Net Cash Provided by Non-Capital Financing Activities	123,495.24	-	123,495.24
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Revenue	86.65	54.49	141.14
Net Cash Provided by Investing Activities	86.65	54.49	141.14
Net Increase (Decrease) in Cash and Cash Equivalents	(12,973.98)	14,290.52	1,316.54
Balance -- July 1	14,123.58	1,334.29	15,457.87
Balance -- June 30	\$ 1,149.60	\$ 15,624.81	\$ 16,774.41
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for)			
Operating Activities:			
Operating Income (Loss)	\$ (145,298.26)	\$ 14,236.03	\$ (131,062.23)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:			
Depreciation	4,005.83		4,005.83
Federal Commodities	18,520.80		18,520.80
Change in Assets and Liabilities:			
(Increase)/Decrease in Inventory	(4,918.24)		(4,918.24)
Increase/(Decrease) in Interfund	(8,866.00)		(8,866.00)
Total Adjustments	8,742.39	-	8,742.39
Net Cash Provided by (Used for) Operating Activities	\$ (136,555.87)	\$ 14,236.03	\$ (122,319.84)

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Fiduciary Funds
 Statement of Fiduciary Net Position
 June 30, 2017

	Private-Purpose Trust Fund	Agency Funds		Total
	Unemployment Compensation <u>Insurance</u>	Student Activity	Payroll	
ASSETS:				
Cash and Cash Equivalents	\$ 49,752.98	\$ 15,965.42	\$ 56,304.86	\$ 122,023.26
LIABILITIES:				
Payroll Deductions Payable			\$ 51,941.27	51,941.27
Interfund Payable:				
General Fund			4,363.59	4,363.59
Payable to Student Groups		\$ 15,965.42		15,965.42
Total Liabilities	-	\$ 15,965.42	\$ 56,304.86	72,270.28
NET POSITION:				
Held in Trust for Unemployment Claims and Other Purposes	49,752.98			49,752.98
Total Net Position	\$ 49,752.98			\$ 49,752.98

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 For the Fiscal Year Ended June 30, 2017

	Private Purpose Trust Fund Unemployment Compensation Trust
<hr/>	
ADDITIONS:	
Plan Members	\$ 6,946.93
Investment Earnings:	
Interest	111.14
Total Additions	7,058.07
DEDUCTIONS:	
Unemployment Compensation Insurance Claims	741.97
Change in Net Position	6,316.10
Net Position -- July 1	43,436.88
Net Position -- June 30	\$ 49,752.98

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Borough of Somerdale School District (the "School District") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Description of the Financial Reporting Entity

The School District is a Type II district located in the County of Camden, State of New Jersey. As a Type II district, the School District functions independently through a Board of Education (the "Board"). The Board is comprised of nine members elected to three-year terms. These terms are staggered so that three member's terms expire each year. The Superintendent is appointed by the Board to act as executive officer of the School District. The purpose of the School District is to educate students in grades Pre-K through eighth at its school. The School District has an approximate enrollment at June 30, 2017 of 500.

The primary criterion for including activities within the School District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards*, is the degree of oversight responsibility maintained by the School District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the School District over which the Board exercises operating control.

Component Units

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the School District has no component units.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Government-wide and Fund Financial Statements**

The School District's basic financial statements consist of government-wide statements and fund financial statements which provide a more detailed level of financial information.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. It is the policy of the School District to not allocate indirect expenses to functions in the statement of activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

In regards to the fund financial statements, the School District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes are recognized as revenues in the year for which they are levied. The Camden County Board of Taxation is responsible for the assessment of properties, and the respective municipal tax collector is responsible for the collection of property taxes. Assessments are certified and property taxes are levied on January 1. Property tax payments are due February 1, May 1, August 1 and November 1. Unpaid property taxes are considered delinquent the following January 1 and are then subject to municipal lien. In accordance with New Jersey State Statute, the School District is entitled to receive moneys under an established payment schedule, and any unpaid amount is considered as an accounts receivable. The governing body of each municipality is required to pay over to the School District, within forty (40) days after the beginning of the school year, twenty percent (20%) of the moneys from school tax due. Thereafter, but prior to the last day of the school year, the municipality must pay the balance of moneys from school tax due for school purposes in such amounts as requested, with certain limitations, from time to time by the School District, within thirty days after each request.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are deemed both available and measurable. Available means when revenues are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Measurable means that the amount of revenue can be determined. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)**

Property taxes, tuition, reimbursable-type grants, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the School District.

The School District reports the following major governmental funds:

General Fund - The general fund is the primary operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment classified in the capital outlay sub-fund.

As required by the New Jersey State Department of Education, the School District includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America, as they pertain to governmental entities, state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid, ad valorem tax revenues, and appropriated fund balance. Expenditures are those which result in the acquisition of or additions to capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to, or remodeling of buildings, and the purchase of built-in equipment.

Special Revenue Fund - The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Fund - The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds. The financial resources are derived from New Jersey Economic Development Authority grants, temporary notes, serial bonds which are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election, or from the general fund by way of transfers from capital outlay or the capital reserve account.

Debt Service Fund - The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Proprietary funds are used to account for the School District's ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All items not meeting this definition are reported as nonoperating revenues and expenses.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)**

The School District reports the following major proprietary funds:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the School District.

Park Technology Services Fund - This fund accounts for the financial transactions related to the technology service operations of the School District.

Fiduciary funds are used to account for assets held by the School District on behalf of outside related organizations or on behalf of other funds within the School District. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

The School District maintains the following fiduciary funds:

Agency Funds - Agency funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and / or other funds (i.e., payroll and student activities). The School District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District maintains the following agency funds: student activity fund and payroll fund.

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for the principal and income for all other trust arrangements that benefit individuals, private organizations, or other governments. The School District maintains the following private-purpose trust funds:

New Jersey Unemployment Compensation Insurance Trust Fund - Revenues consist of contributions that have been included in the annual budget of the School District, employee payroll withholdings, and interest income. Expenditures represent claims incurred for unemployment.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

Budgets / Budgetary Control

Annual appropriated budgets are prepared in the spring of each fiscal year for the general, special revenue, and debt service funds, and are submitted to the county office of education. In accordance with P.L. 2011, c. 202, the School District passed a resolution to move the school board election to the first Tuesday after the first Monday in November, starting in November of 2012, to be held simultaneously with the general election. As a result, a vote is not required on the School District's general fund tax levy for the budget year, other than the general fund tax levy required to support a proposal for additional funds, if any. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23A-16.2(f)1. Transfers of appropriations may be made by school board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23A-13.3.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Budgets / Budgetary Control (Cont'd)**

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only, and the special revenue fund. N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

The accounting records of the special revenue fund are maintained on the budgetary basis. The budgetary basis differs from GAAP in that the budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

The budget, as detailed on exhibit C-1, exhibit C-2, and exhibit I-3, includes all amendments to the adopted budget, if any.

Exhibit C-3 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounting, as presented in the general fund budgetary comparison schedule and the special revenue fund budgetary comparison schedule, to the GAAP basis of accounting as presented in the statement of revenues, expenditures and changes in fund balances - governmental funds. Note that the School District does not report encumbrances outstanding at fiscal year-end as expenditures in the general fund since the general fund budget follows the modified accrual basis of accounting, with the exception of the aforementioned revenue recognition policy for the one or more June state aid payments.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to assign a portion of the applicable appropriation, is utilized for budgetary control purposes. Encumbrances are a component of fund balance at fiscal year-end as they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services. Open encumbrances in the governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included within committed or assigned fund balance, as appropriate.

Open encumbrances in the special revenue fund, however, for which the School District has received advances of grant awards, are reflected on the balance sheet as unearned revenues at fiscal year-end.

The encumbered appropriation authority carries over into the next fiscal year. An entry will be made at the beginning of the next fiscal year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current fiscal year end.

Cash, Cash Equivalents and Investments

Cash and cash equivalents, for all funds, include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows for the proprietary funds. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Cash, Cash Equivalents and Investments (Cont'd)**

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

Inventories

Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out method.

The cost of inventories in the governmental fund financial statements is recorded as expenditures when purchased rather than when consumed.

Inventories recorded on the government-wide financial statements and in the proprietary fund types are recorded as expenses when consumed rather than when purchased.

Tuition Receivable

Tuition charges were established by the School District based on estimated costs. The charges are subject to adjustment when the final costs are determined.

Prepaid Expenses

Prepaid expenses recorded on the government-wide financial statements and the governmental fund type financial statements represent payments made to vendors for services that will benefit periods beyond June 30, 2017.

Short-Term Interfund Receivables / Payables

Short-term interfund receivables / payables (internal balances) represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund within the School District, and that are due within one year. Such balances are eliminated in the statement of net position to minimize the grossing up of internal balances, thus leaving a net amount due between the governmental and business-type activities that are eliminated in the total government column. Balances with fiduciary activities are not considered to be internal balances; therefore, such balances appear on the statement of net position as accounts receivable.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the School District. Purchased capital assets are recorded as expenditures in the governmental fund financial statements and are capitalized at cost on the government-wide statement of net position and proprietary fund statement of net position. In the case of gifts or contributions, such capital assets are recorded at acquisition value at the time received.

The School District's capitalization threshold is \$2,000.00. Other costs incurred for repairs and maintenance is expensed as incurred. All reported capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 20 Years
Buildings and Improvements	10 - 50 Years
Furniture, Fixtures and Equipment	5 - 20 Years

The School District does not possess any infrastructure assets.

Deferred Outflows and Deferred Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after total liabilities, represents an acquisition of net position that applies to a future periods and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflows of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The School District is required to report the following as deferred outflows of resources and deferred inflows of resources:

Defined Benefit Pension Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the School District's proportion of expenses and liabilities to the pension as a whole, differences between the School District's pension contribution and its proportionate share of contributions, and the School District's pension contributions subsequent to the pension valuation measurement date.

Tuition Payable

Tuition charges for the fiscal years ended June 30, 2017 and 2016 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and is recorded as a liability until the revenue is both measurable and the School District is eligible to realize the revenue.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Accrued Salaries and Wages**

Certain School District employees who provide services to the School District over the ten-month academic year have the option to have their salaries evenly disbursed during the entire twelve-month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account. As of June 30, 2017, the amounts earned by these employees were disbursed to the employees' own individual accounts.

Compensated Absences

Compensated absences are payments to employees for accumulated time such as paid vacation, paid holidays, sick pay, and sabbatical leave. A liability for compensated absences that is attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the School District and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the School District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

The School District uses the vesting method to calculate the compensated absences amount. The entire compensated absence liability, including the employer's share of applicable taxes, is reported on the government-wide financial statements. The portion related to employees in the proprietary funds is recorded at the fund level. The current portion is the amount estimated to be used in the following fiscal year. Expenditures are recognized in the governmental funds as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner, and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the governmental fund financial statements when due.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Pension and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), and additions to/deductions from TPAF's and PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Net Position**

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

Net Investment in Capital Assets - This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.

Restricted - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted - Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance

The School District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School District's classifications, and policies for determining such classifications, are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

Restricted - The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, which, for the School District, is the Board of Education. Such formal action consists of an affirmative vote by the Board of Education, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purpose unless the Board of Education removes, or changes, the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - The assigned fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. *Intent* is expressed by either the Board of Education or by the business administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business administrator is established by way of a formal job description for the position and standard operating procedures, approved by the Board of Education.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Fund Balance (Cont'd)**

Unassigned - The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, it is the policy of the School District to spend restricted fund balances first. Moreover, when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the School District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures / expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources / uses in governmental funds and after non-operating revenues / expenses in proprietary funds. Reimbursements from funds responsible for particular expenditures / expenses to the funds that initially paid for them are not presented on the financial statements.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Impact of Recently Issued Accounting Principles**Recently Issued and Adopted Accounting Pronouncements**

The School District implemented the following GASB Statements for the fiscal year ended June 30, 2017:

Statement No. 77, *Tax Abatement Disclosures*. This Statement provides financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The adoption of this Statement required the School District to disclose certain information related to tax abatement programs (see note 20).

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles (Cont'd)****Recently Issued and Adopted Accounting Pronouncements (Cont'd)**

Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The adoption of this Statement had no impact on the basic financial statements of the School District.

Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. 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 for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The adoption of this Statement did not have a significant impact on the basic financial statements of the School District.

Note 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be recovered. Although the School District does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000.00 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the School District in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled agency funds such as salary withholdings, and student activity funds, or funds that may pass to the School District relative to the happening of a future condition. Such funds are classified as uninsured and uncollateralized.

As of June 30, 2017, all of the School District's bank balances of \$1,507,635.72 were insured by either FDIC or GUDPA insurance.

Note 3: CAPITAL RESERVE ACCOUNT

A capital reserve account was established by the School District by inclusion of \$125,000.00 on June 11, 2015 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. Subsequent to the establishment of the capital reserve account, the School District transferred \$82,217.05 from its balance in capital projects fund to the capital reserve account. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the School District's approved Long Range Facilities Plan ("LRFP"). Upon submission of the LRFP to the Department, a school district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at fiscal year-end (June 1 to June 30) of any unanticipated revenue or unexpended line-item appropriation amounts, or both. A school district may also appropriate additional amounts when the express approval of the voters has been obtained by either a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6A:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

Note 3: CAPITAL RESERVE ACCOUNT (CONT'D)

The activity of the capital reserve for the July 1, 2016 to June 30, 2017 fiscal year is as follows:

Beginning Balance, July 1, 2016		\$ 408,782.40
Increased by:		
Interest Earnings	\$ 806.75	
Deposits:		
Transfer approved by Board Resolution on June 8, 2017	300,000.00	
		300,806.75
		709,589.15
Decreased by:		
Withdrawals:		
Cash Disbursements - Budget		105,102.00
Ending Balance, June 30, 2017		\$ 604,487.15

The capital reserve balance at June 30, 2017 is less than the local support costs of uncompleted capital projects in the District's approved LRFP. The withdrawals from the capital reserve were for use in a Department of Education approved facilities projects, consistent with the School District's LRFP.

Note 4: TRANSFERS FROM CAPITAL RESERVE TO CAPITAL OUTLAY

During the fiscal year ended June 30, 2017, the School District transferred \$105,102.00 to the capital outlay accounts. The transfer was made from the capital reserve account to supplement capital projects previously approved by the voters in the budget certified for taxes pursuant to N.J.A.C. 6A:23A-8.4.

Note 5: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2017 consisted of intergovernmental awards / grants. All receivables are considered collectible in full due to the stable condition of federal and state programs, the current fiscal year guarantee of federal funds, and the regulated budgetary control of governmental entities in New Jersey.

Accounts receivable as of fiscal year end for the School District's individual major funds, in the aggregate, are as follows:

Description	Governmental Funds		Proprietary Funds			Total
	General Fund	Special Revenue Fund	Total Governmental Activities	Food Service Fund	Total Business-Type Activities	
Interfund (Fiduciary)	\$ 4,363.59		\$ 4,363.59			\$ 4,363.59
Federal Awards		\$ 37,644.30	37,644.30	\$ 5,773.29	\$ 5,773.29	43,417.59
State Awards	36,830.11		36,830.11	128.83	128.83	36,958.94
	\$ 36,830.11	\$ 37,644.30	\$ 74,474.41	\$ 5,902.12	\$ 5,902.12	\$ 80,376.53

Note 6: INVENTORY

Inventory recorded at June 30, 2017 in business-type activities on the government-wide statement of net position and on the food service enterprise fund statement of net position, consisted of the following:

Food	\$ 11,508.01
Supplies	<u>1,194.93</u>
	<u>\$ 12,702.94</u>

Note 7: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 is as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities:					
Capital Assets, not being Depreciated:					
Land	\$ 38,163.00				\$ 38,163.00
Total Capital Assets, not being Depreciated	<u>38,163.00</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>38,163.00</u>
Capital Assets, being Depreciated:					
Land Improvements	75,485.00	16,975.00			92,460.00
Buildings and Improvements	6,508,756.25	48,000.00			6,556,756.25
Furniture, Fixtures and Equipment	719,797.45	153,360.12			873,157.57
Total Capital Assets, being Depreciated	<u>7,304,038.70</u>	<u>218,335.12</u>	<u>-</u>	<u>-</u>	<u>7,522,373.82</u>
Total Capital Assets, Cost	<u>7,342,201.70</u>	<u>218,335.12</u>	<u>-</u>	<u>-</u>	<u>7,560,536.82</u>
Less Accumulated Depreciation for:					
Land Improvements	(48,114.52)	(1,444.98)			(49,559.50)
Buildings and Improvements	(2,556,751.59)	(158,759.68)			(2,715,511.27)
Furniture, Fixtures and Equipment	(279,702.76)	(74,897.52)			(354,600.28)
Total Accumulated Depreciation	<u>(2,884,568.87)</u>	<u>(235,102.18)</u>	<u>-</u>	<u>-</u>	<u>(3,119,671.05)</u>
Total Capital Assets, being Depreciated, Net	<u>4,419,469.83</u>	<u>(16,767.06)</u>	<u>-</u>	<u>-</u>	<u>4,402,702.77</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,457,632.83</u>	<u>\$ (16,767.06)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,440,865.77</u>
	<u>Balance</u> <u>July 1, 2016</u>	<u>Increases</u>	<u>Transfers</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2017</u>
Business-Type Activities:					
Capital Assets, being Depreciated:					
Furniture, Fixtures and Equipment	\$ 123,399.90				\$ 123,399.90
Less Accumulated Depreciation	(106,572.82)	(4,005.82)			(110,578.64)
Business-Type Activities Capital Assets, Net	<u>\$ 16,827.08</u>	<u>\$ (4,005.82)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,821.26</u>

Note 7: CAPITAL ASSETS (CONT'D)

Depreciation expense was charged to functions / programs of the School District as follows:

Governmental Activities:	
Instruction	\$ 37,074.38
General and Business Administrative Services	17,315.55
Plant Operations and Maintenance	<u>180,712.25</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 235,102.18</u>
Business-Type Activities:	
Food Service	<u>\$ 4,005.82</u>

Note 8: LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2017, the following changes occurred in long-term obligations for governmental activities:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Due within</u> <u>One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 765,000.00	\$ -	\$ 260,000.00	\$ 505,000.00	\$ 260,000.00
Other Liabilities:					
Obligations under Capital Lease	132,283.33		24,538.38	107,744.95	25,462.09
Compensated Absences	274,351.15	4,265.09		278,616.24	27,861.62
Net Pension Liability (note 9)	1,192,961.00	540,048.00	569,908.00	1,163,101.00	
Total Other Liabilities	<u>1,599,595.48</u>	<u>544,313.09</u>	<u>594,446.38</u>	<u>1,549,462.19</u>	<u>53,323.71</u>
Governmental Activity Long-Term Liabilities	<u>\$ 2,364,595.48</u>	<u>\$ 544,313.09</u>	<u>\$ 854,446.38</u>	<u>\$ 2,054,462.19</u>	<u>\$ 313,323.71</u>

The bonds payable are generally liquidated by the debt service fund, while obligations under capital leases, compensated absences and net pension liability are liquidated by the general fund.

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

On February 1, 1999, the School District issued \$4,288,000.00 general obligation bonds at an interest rate of 4.7% for various construction and renovation projects. In May 2009, the District refunded the remaining 1999 bonds by issuing Series 2009 refunding bonds totaling \$2,565,000.00. The final maturity of these bonds is May 1, 2019. The bonds will be paid from property taxes.

Principal and interest due on bonds outstanding is as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 260,000.00	\$ 21,137.50	\$ 281,137.50
2019	245,000.00	10,412.50	255,412.50
Total	<u>\$ 505,000.00</u>	<u>\$ 31,550.00</u>	<u>\$ 536,550.00</u>

Bonds Authorized but not Issued - As of June 30, 2017, the School District had no authorizations to issue additional bonded debt.

Note 8: LONG-TERM LIABILITIES (CONT'D)

Obligations under Capital Lease - The School District is leasing lighting equipment totaling \$185,449.50 under capital leases. This capital lease's term is for seven years. Capital leases are depreciated in a manner consistent with the School District's depreciation policy for owned assets.

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2017.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 25,462.09	\$ 4,055.91	\$ 29,518.00
2019	26,420.57	3,097.43	29,518.00
2020	27,415.14	2,102.86	29,518.00
2021	28,447.15	1,070.85	29,518.00
	<u>\$ 107,744.95</u>	<u>\$ 10,327.05</u>	<u>\$ 118,072.00</u>

Compensated Absences - As previously stated, compensated absences will be paid from the fund from which the employees' salaries are paid. Refer to note 15 for a description of the School District's policy.

Net Pension Liability - For details on the net pension liability, refer to note 10. The School District's annual required contribution to the Public Employees' Retirement System is budgeted and paid from the general fund on an annual basis.

Note 9: OPERATING LEASES

At June 30, 2017, the School District had operating lease agreements in effect for copy machines and I-Pads. The present value of the future minimum rental payments under the operating lease agreements are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2018	\$ 91,903.12
2019	91,903.12
2020	19,128.00
2021	375.00
	<u>\$ 203,309.24</u>

Rental payments under operating leases for the fiscal year ended June 30, 2017 were \$83,511.14.

Note 10: PENSION PLANS

A substantial number of the School District's employees participate in one of the following defined benefit pension plans: the Teachers' Pension and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), which are administered by the New Jersey Division of Pensions and Benefits (the "Division"). In addition, School District employees may participate in the Defined Contribution Retirement Program, which is a defined contribution pension plan. This plan is administered by Prudential Financial for the Division. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295
<http://www.nj.gov/treasury/pensions>

General Information about the Pension Plans**Plan Descriptions**

Teachers' Pension and Annuity Fund - The Teachers' Pension and Annuity Fund is a cost-sharing multiple-employer defined benefit pension plan, with a special funding situation, which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The State of New Jersey (the "State") is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. The TPAF's designated purpose is to provide retirement benefits, death, disability and medical benefits to certain qualified members. Membership in the TPAF is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, who have titles that are unclassified, professional and certified. The TPAF's Board of Trustees is primarily responsible for the administration of the TPAF.

Public Employees' Retirement System - The Public Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A. The PERS's designated purpose is to provide retirement, death, disability and medical benefits to certain qualified members. Membership in the PERS is mandatory for substantially all full-time employees of the School District, provided the employee is not required to be a member of another state-administered retirement system or other state pensions fund or local jurisdiction's pension fund. The PERS's Board of Trustees is primarily responsible for the administration of the PERS.

Defined Contribution Retirement Program - The Defined Contribution Retirement Program is a multiple-employer defined contribution pension fund established on July 1, 2007 under the provisions of Chapter 92, P.L. 2007, and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) § 401(a) et seq., and is a "governmental plan" within the meaning of IRC § 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in TPAF or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees enrolled in SPRS or PFRS after May 21, 2010, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in TPAF or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least \$5,000.00 annually; and employees otherwise eligible to enroll in TPAF or PERS after May 21, 2010 who do not work the minimum number of hours per week required for tiers 4 or 5 enrollment, but who earn salary of at least \$5,000.00 annually.

Note 10: PENSION PLANS (CONT'D)**General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions**

Teachers' Pension and Annuity Fund - The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF 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 TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

The following represents the membership tiers for TPAF:

Tier Definition

- 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 21, 2010
- 4 Members who were eligible to enroll after May 21, 2010 and prior to June 28, 2011
- 5 Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier.

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.

Public Employees' Retirement System - The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The 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 the PERS.

The membership tiers for PERS are the same as previously noted for TPAF.

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

Note 10: PENSION PLANS (CONT'D)**General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions (Cont'd)**

Defined Contribution Retirement Program - Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and nonforfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and nonforfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

Contributions

Teachers' Pension and Annuity Fund - The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.20% in State fiscal year 2017. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The State's contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2017, the State's pension contribution was less than the actuarial determined amount.

Under current statute, all employer contributions are made by the State of New Jersey on-behalf of the School District and all other related non-contributing employers. No normal or accrued liability contribution by the School District has been required over several preceding fiscal years. These on-behalf contributions by the State of New Jersey are considered a special funding situation, under the definition of GASB 68, *Accounting and Financial Reporting for Pensions*.

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 6.75% of the School District's covered payroll, of which 0.00% of payroll was required from the School District and 100.00% of payroll was required from the State of New Jersey. The School District was not required to make any contributions to the pension plan during the fiscal year ended June 30, 2017 because of the 100.00% special funding situation with the State of New Jersey.

Based on the most recent TPAF measurement date of June 30, 2016, the State's contractually required contribution, on-behalf of the School District, to the pension plan for the fiscal year ended June 30, 2017 was \$241,412.00, and was paid by April 1, 2017. School District employee contributions to the pension plan during the fiscal year ended June 30, 2017 were \$259,693.21.

Public Employees' Retirement System - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over seven years beginning in July 2012. The member contribution rate was 7.20% in State fiscal year 2017. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The School District's contribution amounts are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability.

Note 10: PENSION PLANS (CONT'D)

General Information about the Pension Plans (Cont'd)

Contributions

Public Employees' Retirement System (Cont'd) - The School District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 14.72% of the School District's covered payroll. This amount was actuarially determined as the amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2016, the School District's contractually required contribution to the pension plan for the fiscal year ended June 30, 2017 was \$34,888.00, and was paid by April 1, 2017. School District employee contributions to the pension plan during the fiscal year ended June 30, 2017 were \$17,066.08.

Defined Contribution Retirement Program - The contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the School District contributes 3% of the employees' base salary, for each pay period, to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

For the fiscal year ended June 30, 2017, the School District did not have any employees enrolled in the Defined Contribution Retirement Program.

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

Teachers' Pension and Annuity Fund - At June 30, 2017, the School District was not required to report a liability for its proportionate share of the net pension liability because of a 100% special funding situation by the State of New Jersey.

The State's proportionate share of net pension liability, attributable to the School District is as follows:

School District's Proportionate Share of Net Pension Liability	\$ -
State of New Jersey's Proportionate Share of Net Pension Liability Associated with the School District	23,846,050.00
	<u>\$ 23,846,050.00</u>

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 July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. For the June 30, 2016 measurement date, the School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State of New Jersey, actuarially determined. At June 30, 2016, the School District proportion was 0.00% due to the 100% special funding situation with the State of New Jersey. For the June 30, 2016 measurement date, the State's proportionate share of the TPAF net pension liability associated with the School District was .0303128903%, which was a decrease of .0003655728% from its proportion measured as of June 30, 2015.

Note 10: PENSION PLANS (CONT'D)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)**

Teachers' Pension and Annuity Fund (Cont'd) - For the fiscal year ended June 30, 2017, the School District recognized \$1,791,699.00 in pension expense and revenue, in the government-wide financial statements, for the State of New Jersey on-behalf TPAF pension contributions. This pension expense and revenue was based on the pension plans June 30, 2016 measurement date.

Public Employees' Retirement System - At June 30, 2017, the School District reported a liability of \$1,163,101.00 for its proportionate share of the 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 July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. For the June 30, 2016 measurement date, the School District's proportion was .0039271230%, which was a decrease of .0013872087% from its proportion measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the School District recognized pension expense of \$75,580.00, in the government-wide financial statements. This pension expense was based on the pension plans June 30, 2016 measurement date.

At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 21,630.00	\$ -
Changes of Assumptions	240,932.00	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	44,350.00	-
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	91,429.00	262,440.00
School District Contributions Subsequent to the Measurement Date	29,993.00	-
	<u>\$ 428,334.00</u>	<u>\$ 262,440.00</u>

Note 10: PENSION PLANS (CONT'D)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)**

Public Employees' Retirement System (Cont'd) - Deferred outflows of resources totaling \$29,993.00, will be included as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,			
2018	\$	33,777	
2019		33,777	
2020		44,731	
2021		30,391	
2022		(6,775)	
		<u>135,901.00</u>	<u>\$ 135,901.00</u>

The amortization of the above other deferred outflows of resources and deferred inflows of resources related to pensions will be over the following number of years:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

Note 10: PENSION PLANS (CONT'D)**Actuarial Assumptions**

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 July 1, 2015. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	<u>TPAF</u>	<u>PERS</u>
Inflation	2.50%	3.08%
Salary Increases:		
2012-2021	Varies Based on Experience	
Through 2026		1.65% - 4.15% Based on Age
Thereafter	Varies Based on Experience	2.65% - 5.15% Based on Age
Investment Rate of Return	7.65%	7.65%
Mortality Rate Table	RP-2000	RP-2000
Period of Actuarial Experience		
Study upon which Actuarial		
Assumptions were Based	July 1, 2012 - June 30, 2015	July 1, 2011 - June 30, 2014

For TPAF, pre-retirement, post-retirement and disabled mortality rates were based on the experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.

For PERS, pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. Mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 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).

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

Note 10: PENSION PLANS (CONT'D)Actuarial Assumptions (Cont'd)

<u>Asset Class</u>	<u>TPAF</u>		<u>Asset Class</u>	<u>PERS</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>		<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.39%	Cash	5.00%	0.87%
U.S. Government Bonds	1.50%	1.28%	U.S. Treasuries	1.50%	1.74%
U.S. Credit Bonds	13.00%	2.76%	Investment Grade Credit	8.00%	1.79%
U.S. Mortgages	2.00%	2.38%	Mortgages	2.00%	1.67%
U.S. Inflation-Indexed Bonds	1.50%	1.41%	High Yield Bonds	2.00%	4.56%
U.S. High Yield Bonds	2.00%	4.70%	Inflation-Indexed Bonds	1.50%	3.44%
U.S. Equity Market	26.00%	5.14%	Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	5.91%	Developed Foreign Equities	13.25%	6.83%
Emerging Markets Equity	6.50%	8.16%	Emerging Market Equities	6.50%	9.95%
Private Real Estate Property	5.25%	3.64%	Private Equity	9.00%	12.40%
Timber	1.00%	3.86%	Hedge Funds / Absolute Return	12.50%	4.68%
Farmland	1.00%	4.39%	Real Estate (Property)	2.00%	6.91%
Private Equity	9.00%	8.97%	Commodities	0.50%	5.45%
Commodities	0.50%	2.87%	Global Debt ex U.S.	5.00%	-0.25%
Hedge Funds - MultiStrategy	5.00%	3.70%	REIT	5.25%	5.63%
Hedge Funds - Equity Hedge	3.75%	4.72%			
Hedge Funds - Distressed	3.75%	3.49%			
	<u>100.00%</u>			<u>100.00%</u>	

Discount Rate - The discount rates used to measure the total pension liability at June 30, 2016 were 3.22% and 3.98% for TPAF and PERS, respectively. For TPAF and PERS, the respective single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rates for TPAF and PERS 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. 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 2029 for TPAF and 2034 for PERS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2029 for TPAF and 2034 for PERS, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Note 10: PENSION PLANS (CONT'D)**Sensitivity of School District's Proportionate Share of Net Pension Liability to Changes in the Discount Rate**

Teachers' Pension and Annuity Fund (TPAF) - As previously mentioned, TPAF, has a special funding situation where the State pays 100% of the School District's annual required contribution. As such, the proportionate share of the net pension liability as of June 30, 2016, the pension plans measurement date, attributable to the School District is \$0, and the State of New Jersey's proportionate share of the net pension liability, attributable to the School District, using a discount rate of 3.22%, as well as using a discount rate that is 1% lower or 1% higher than the current rates used is as follows:

	TPAF		
	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
School District's Proportionate Share of the Net Pension Liability	\$ -	\$ -	\$ -
State of New Jersey's Proportionate Share of Net Pension Liability associated with the School District	28,477,513.00	23,846,050.00	20,063,863.00
	<u>\$ 28,477,513.00</u>	<u>\$ 23,846,050.00</u>	<u>\$ 20,063,863.00</u>

Public Employees' Retirement System (PERS) - The following presents the School District's proportionate share of the net pension liability at June 30, 2016, the plans measurement date, calculated using a discount rate of 3.98%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	PERS		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
School District's Proportionate Share of the Net Pension Liability	\$ 1,425,245.00	\$ 1,163,101.00	\$ 946,679.00

Pension Plan Fiduciary Net Position

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the respective fiduciary net position of the TPAF and PERS and additions to/deductions from TPAF and PERS's respective fiduciary net position have been determined on the same basis as they are reported by TPAF and PERS. Accordingly, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For additional information about TPAF and PERS, please refer to the plan's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions.

Note 11: SCHOOL EMPLOYEES HEALTH BENEFITS PROGRAM

P.L. 1987, c.384 of P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of postemployment medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of postemployment medical benefits for retired State employees and retired educational employees. As of June 30, 2016, there were 110,512 retirees receiving postemployment medical benefits, and the State contributed \$1.37 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992 c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service. The State paid \$231.2 million toward Chapter 126 benefits for 20,045 eligible retired members in fiscal year 2016.

The School Employees Health Benefits Program ("SEHBP") Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et. Seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SEHBP. That report may be obtained from the Treasury website at:

<http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>

Note 12: ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2017, the School District has recognized as revenues and expenditures on-behalf payments made by the State for normal costs and post-retirement medical costs related to TPAF, in the fund financial statements. The amounts recognized as revenues and expenditures in the fund financial statements for normal costs, post-retirement medical costs, long-term disability insurance, and non-contributory insurance were \$347,795.00, \$300,292.00, \$1,261.00 and \$12,601.00, respectively.

Note 13: RISK MANAGEMENT

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

New Jersey Unemployment Compensation Insurance - The School District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the School District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The School District is billed quarterly for amounts due to the State.

The following is a summary of the activity of the School District's private-purpose trust fund for the unemployment claims for the current and previous two fiscal years:

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>School</u> <u>District</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Interest</u> <u>Income</u>	<u>Claims</u> <u>Incurred</u>	<u>Ending</u> <u>Balance</u>
2017	\$ -	\$ 6,946.93	\$ 111.14	\$ 741.97	\$ 49,752.98
2016	28,000.00	6,187.10	81.48	19,201.00	43,436.88
2015	18,000.00	6,635.91	40.18	9,919.85	28,369.30

Note 13: RISK MANAGEMENT (CONT'D)

Joint Insurance Pool - The School District is a member of the New Jersey Schools Insurance Group (the "Group"). The Group provides its members with the following coverage:

Workers' Compensation and Employer's Liability
 Liability other than Motor Vehicles
 Property Damage other than Motor Vehicles
 Motor Vehicles Liability
 School Board Legal Liability
 Boiler & Machinery
 Umbrella Liability
 Crime Bonds
 Student Accident

Contributions to the Group, including a reserve for contingencies, are payable in two installments and are based on actuarial assumptions determined by the Group's actuary. The Commissioner of Insurance may order additional assessments to supplement the Group's claim, loss retention, or administrative accounts to assure the payment of the Group's obligations.

The Group publishes its own financial report for the fiscal year ended June 30, 2017, which can be obtained from:

New Jersey Schools Insurance Group
 6000 Midlantic Drive
 Mount Laurel, New Jersey 08054

Note 14: DEFERRED COMPENSATION

The School District offers its employees a choice of three deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, which are administered by the entities listed below, permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death, or unforeseeable emergency. The plan administrators are as follows:

The Equitable
 Thomas Seely Agency
 Lincoln Investment Planning

Note 15: COMPENSATED ABSENCES

The School District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

School District employees who are employed for ten months are entitled to ten paid sick leave days per fiscal school year. School District employees who are employed for twelve months are entitled to twelve paid sick leave days per fiscal school year. Unused sick leave may be accumulated and carried forward to the subsequent years. School District employees are entitled to two personal days which may be carried forward to subsequent years. Vacation days not used during the year may not be accumulated and carried forward. Benefits paid in any future year will be calculated according to formulas outlined in the School Districts' agreements with the various employee unions and included in the current years' budget.

The liability for vested compensated absences is recorded within those funds as the benefits accrue to employees. At June 30, 2017, the liability for compensated absences reported on the government-wide statement of net position was \$278,616.24.

Note 16: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2017 is as follows:

<u>Fund</u>	<u>Interfunds Receivable</u>	<u>Interfunds Payable</u>
General	\$ 57,086.97	
Special Revenue		32,723.38
Food Service		20,000.00
Fiduciary		4,363.59
	<u>\$ 57,086.97</u>	<u>\$ 57,086.97</u>

The interfund receivables and payables above predominately resulted from payments made by certain funds on behalf of other funds. During the fiscal year 2018, the School District expects to liquidate such interfunds, depending upon the availability of cash flow.

During the fiscal year ended June 30, 2017, the general fund transferred \$1,890.00 to the special revenue fund as a local contribution to the preschool program.

Note 17: CONTINGENCIES

Grantor Agencies - Amounts received or receivable from grantor agencies could be subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amount, if any, to be immaterial.

Litigation - The School District is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the School District, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

Note 18: CONCENTRATIONS

The School District depends on financial resources flowing from, or associated with, both the federal government and the State of New Jersey. As a result of this dependency, the School District is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations.

Note 19: FUND BALANCES**NONSPENDABLE**

As stated in note 1, the nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The nonspendable fund balance of the School District, as of June 30, 2017, is summarized as follows:

General Fund - The School District recorded a prepaid expense when the District entered into an inter-local agreement with the Borough of Somerdale for snow plowing of the School's parking lot. A budget charge is recorded when the School's parking lot is plowed and the prepaid amount is decreased. As a result, because prepaid expense is recorded as an asset, even though it does not represent expendable financial resources, it is necessary to set aside fund balance at fiscal year-end for an amount equal to the prepayment. As of June 30, 2017, the nonspendable fund balance was \$15,939.57.

Note 19: FUND BALANCES (CONT'D)**RESTRICTED**

As stated in note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the School District's fund balance are summarized as follows:

General Fund

For Excess Surplus - In accordance with N.J.S.A. 18A:7F-7, as amended, the designation of restricted fund balance - excess surplus is the result of a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to restrict general fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2017 is \$275,039.11. Additionally, \$230,001.87 of excess fund balance generated during 2015-2016 has been restricted and designated for utilization in the 2017-2018 budget.

For Capital Reserve Account - As of June 30, 2017, the balance in the capital reserve account is \$604,487.15. These funds are restricted for future capital outlay expenditures for capital projects in the School District's approved Long Range Facilities Plan (LRFP).

Debt Service Fund - In accordance with N.J.A.C. 6A:23A-8.6, a district board of education shall appropriate annually all debt service fund balances in the budget certified for taxes unless expressly authorized and documented by the voters in a bond referendum. The School District did not anticipate as revenue any of its debt service fund balance for the fiscal year ending June 30, 2018. The debt service fund balance as of June 30, 2017 totaling \$5,002.55 will be anticipated in a future budget.

UNASSIGNED

As stated in note 1, the unassigned fund balance classification represents fund balance that has not been restricted, committed, or assigned to specific purposes. The School District's unassigned fund balance is summarized as follows:

General Fund - As of June 30, 2017, \$264,378.00 of general fund balance was unassigned.

Note 20: TAX ABATEMENTS

As defined by the Governmental Accounting Standards Board (GASB), a tax abatement is an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. School districts are not authorized by New Jersey statute to enter into tax abatement agreements. However, the county or municipality in which the school district is situated may have entered into tax abatement agreements, and that potential must be disclosed in these financial statements. If the county or municipality entered into tax abatement agreements, those agreements will not directly affect the school district's local tax revenue because N.J.S.A. 54:4-75 and N.J.S.A. 54:4-76 require that amounts so forgiven must effectively be recouped from other taxpayers and remitted to the school district.

The Borough of Somerdale has entered into two property tax abatement agreements with properties having aggregate assessed valuations of \$8,225,000.00. Based on the School District's 2017 certified tax rate of \$1.409, abated taxes totaled \$115,890.25.

FISCAL YEAR 2016

BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Education
Borough of Somerdale School District
Somerdale, New Jersey 08083

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Somerdale School District, in the County of Camden, State of New Jersey, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in compliance with audit requirements as prescribed by the Division of Administration and Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District'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 School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Somerdale School District, in the County of Camden, State of New Jersey, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Somerdale School District's basic financial statements. The School District's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016, includes certain required supplementary information, including the management's discussion and analysis, budgetary comparison information, schedule of the School District's proportionate share of the net pension liability, and schedule of School District's contributions, and other information that is not included with this presentation of the basic financial statements.

Respectfully submitted,

/s/BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

/s/Kirk N. Applegate
Certified Public Accountant
Public School Accountant No. 20CS00223300

Voorhees, New Jersey
November 18, 2016

BOROUGH OF SOMERDALE SCHOOL DISTRICT

Statement of Net Position

June 30, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 925,931.49	\$ 15,457.87	\$ 941,389.36
Receivables, net	4,351.59	13,882.65	18,234.24
Intergovernmental Receivables	38,826.60		38,826.60
Prepaid Expenses	18,952.71		18,952.71
Inventory		7,784.70	7,784.70
Capital Assets, net (Note 6)	4,457,632.83	16,827.08	4,474,459.91
Total Assets	5,445,695.22	53,952.30	5,499,647.52
DEFERRED OUTFLOWS OF RESOURCES:			
Related to Pensions (Note 9)	307,468.00	-	307,468.00
LIABILITIES:			
Accounts Payable	296,889.02	8,866.00	305,755.02
Unearned Revenue	4,920.92		4,920.92
Accrued Interest Payable	5,142.07		5,142.07
Noncurrent Liabilities:			
Due within One Year	311,973.50		311,973.50
Due beyond One Year	2,052,621.98		2,052,621.98
Total Liabilities	2,671,547.49	8,866.00	2,680,413.49
DEFERRED INFLOWS OF RESOURCES:			
Related to Pensions (Note 9)	66,125.00	-	66,125.00
NET POSITION:			
Net Investment in Capital Assets	3,560,349.50	16,827.08	3,577,176.58
Restricted for:			
Debt Service	5,002.05		5,002.05
Unrestricted (Deficit)	(549,860.82)	28,259.22	(521,601.60)
Total Net Position	\$ 3,015,490.73	\$ 45,086.30	\$ 3,060,577.03

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2016

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction:							
Regular	\$ 2,589,645.43	\$ 47,421.28	\$ 387,866.33		\$ (2,154,357.82)		\$ (2,154,357.82)
Special Education	397,317.42				(397,317.42)		(397,317.42)
Other Special Instruction	580,768.72				(580,768.72)		(580,768.72)
Support Services:							
Tuition	128,519.07				(128,519.07)		(128,519.07)
Student and Instruction Related Services	745,208.63		50,757.75		(694,450.88)		(694,450.88)
School Administrative Services	680,406.23				(680,406.23)		(680,406.23)
Plant Operations and Maintenance	878,543.04				(878,543.04)		(878,543.04)
Pupil Transportation	72,807.50				(72,807.50)		(72,807.50)
Unallocated Benefits	2,984,937.89		941,243.00		(2,043,694.89)		(2,043,694.89)
Interest on Long-Term Debt	38,207.13		12,661.19		(25,545.94)		(25,545.94)
Assessment for Debt Service on SDA Funding	6,081.00				(6,081.00)		(6,081.00)
Total Governmental Activities	9,102,442.06	47,421.28	1,392,528.27	\$ -	(7,662,492.51)	\$ -	(7,662,492.51)
Business-Type Activities:							
Food Service	203,114.43	79,816.84	119,116.41			(4,181.18)	(4,181.18)
Other	8,730.17	10,060.00				1,329.83	1,329.83
Total Business-Type Activities	211,844.60	89,876.84	119,116.41	-	-	(2,851.35)	(2,851.35)
Total Primary Government	\$ 9,314,286.66	\$ 137,298.12	\$ 1,511,644.68	\$ -	(7,662,492.51)	(2,851.35)	(7,665,343.86)
General Revenues:							
Taxes:							
Property Taxes, Levied for General Purposes, net					4,315,328.00		4,315,328.00
Federal and State Aid not Restricted					3,910,053.75		3,910,053.75
Miscellaneous Income					17,607.42	68.47	17,675.89
Loss on Disposal of Capital Assets					(13,875.59)		(13,875.59)
Total General Revenues					8,229,113.58	68.47	8,229,182.05
Change in Net Position					566,621.07	(2,782.88)	563,838.19
Net Position -- July 1					2,448,869.66	47,869.18	2,496,738.84
Net Position -- June 30					\$ 3,015,490.73	\$ 45,086.30	\$ 3,060,577.03

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Governmental Funds
 Balance Sheet
 June 30, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS:				
Cash and Cash Equivalents	\$ 920,929.44		\$ 5,002.05	\$ 925,931.49
Receivables, net:				
Interfunds Receivable:				
Special Revenue Fund	10,853.38			10,853.38
Payroll Agency Fund	4,351.59			4,351.59
Receivables from Other Governments	23,052.30	\$ 15,774.30		38,826.60
Prepaid Expenses	18,952.71			18,952.71
Total Assets	\$ 978,139.42	\$ 15,774.30	\$ 5,002.05	\$ 998,915.77
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Interfund Payable		\$ 10,853.38		\$ 10,853.38
Accounts Payable	\$ 262,001.02			262,001.02
Unearned Revenue		4,920.92		4,920.92
Total Liabilities	262,001.02	15,774.30	\$ -	277,775.32
Fund Balances:				
Nonspendable:				
Prepaid Expenses	18,952.71			18,952.71
Restricted:				
Capital Reserve	408,782.40			408,782.40
Debt Service			5,002.05	5,002.05
Excess Surplus - Subsequent Year's Expenditures	130,598.83			130,598.83
Unassigned	157,804.46			157,804.46
Total Fund Balances	716,138.40	-	5,002.05	721,140.45
Total Liabilities and Fund Balances	\$ 978,139.42	\$ 15,774.30	\$ 5,002.05	

Amounts reported for *governmental activities* in the Statement of Net Position (A-1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$7,342,201.70 and the accumulated depreciation is \$2,884,568.87.	4,457,632.83
Accrued interest payable is not due and payable in the current period and therefore is not reported as liabilities in the funds.	(5,142.07)
Net Pension Liability	(1,192,961.00)
Accounts payable related to the April 1, 2017 required PERS pension contribution that is not to be liquidated with current financial resources	(34,888.00)
Deferred Outflows of Resources - Related to Pensions	307,468.00
Deferred Inflows of Resources - Related to Pensions	(66,125.00)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	<u>(1,171,634.48)</u>
Net position of governmental activities.	<u>\$ 3,015,490.73</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2016

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES:				
Local Sources	\$ 4,110,206.00		\$ 205,122.00	\$ 4,315,328.00
Tuition Charges	47,421.28			47,421.28
Miscellaneous	17,607.42			17,607.42
State Sources	3,828,329.94	\$ 124,572.08	94,385.00	4,047,287.02
Federal Sources		314,052.00		314,052.00
	<u>8,003,564.64</u>	<u>438,624.08</u>	<u>299,507.00</u>	<u>8,741,695.72</u>
Total Revenues				
EXPENDITURES:				
Current:				
Regular Instruction	2,168,544.76	395,446.33		2,563,991.09
Special Education Instruction	397,317.42			397,317.42
Other Special Instruction	580,768.72			580,768.72
Undistributed Expenditures:				
Tuition	128,519.07			128,519.07
Student and Instruction Related Services	694,450.88	50,757.75		745,208.63
School Administrative Services	665,315.51			665,315.51
Plant Operations and Maintenance	731,718.33			731,718.33
Pupil Transportation	72,807.50			72,807.50
Unallocated Benefits	1,265,832.01			1,265,832.01
Reimbursed TPAF and Social Security	789,784.84			789,784.84
Debt Service:				
Interest			39,506.26	39,506.26
Redemption of Principal			255,000.00	255,000.00
Assessment for Debt Service on SDA Funding	6,081.00			6,081.00
Capital Outlay	388,313.83			388,313.83
	<u>7,889,453.87</u>	<u>446,204.08</u>	<u>294,506.26</u>	<u>8,630,164.21</u>
Total Expenditures				
Excess (Deficiency) of Revenues over Expenditures	<u>114,110.77</u>	<u>(7,580.00)</u>	<u>5,000.74</u>	<u>111,531.51</u>

(Continued)

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Fiscal Year Ended June 30, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
OTHER FINANCING SOURCES				
Transfer from General Fund	\$ (7,580.00)	\$ 7,580.00	\$ -	\$ -
Net Change in Fund Balances	106,530.77	-	5,000.74	111,531.51
Fund Balance -- July 1	<u>609,607.63</u>	<u>-</u>	<u>1.31</u>	<u>609,608.94</u>
Fund Balance -- June 30	<u>\$ 716,138.40</u>	<u>\$ -</u>	<u>\$ 5,002.05</u>	<u>\$ 721,140.45</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 111,531.51
<p>Amounts reported for governmental activities in the statement of activities (A-2) are different because:</p>	
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the period.</p>	
Total Capital Outlay per Exhibit B-2	\$ 388,313.83
Depreciation Expense	<u>(211,217.94)</u>
	177,095.89
<p>Repayment of capital leases principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of Net Position and is not reported in the statement of activities.</p>	
	23,648.17
<p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.</p>	
	255,000.00
<p>In the statement of activities, the loss on the disposal of capital assets is reported, whereas in the governmental funds it is not reported. Thus, the change in net position will differ from the change in fund balance by the loss on the disposal of capital assets.</p>	
	(13,875.59)
<p>In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation.</p>	
	1,299.13
<p>Governmental funds report school district pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned is reported as pension expense. This is the amount by which pension benefits earned exceeded the school district's pension contribution in the current period.</p>	
	(46,577.00)
<p>In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount the difference is an addition to the reconciliation.</p>	
	<u>58,498.96</u>
Change in Net Position of Governmental Activities	<u>\$ 566,621.07</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT

Proprietary Fund
Statement of Net Position
As of June 30, 2016

	Business-Type Activities-- Enterprise Funds		
	<u>Food Service</u>	<u>Park Tech Services</u>	<u>Total</u>
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	\$ 14,123.58	\$ 1,334.29	\$ 15,457.87
Accounts Receivable:			
State	273.26		273.26
Federal	13,609.39		13,609.39
Inventories	7,784.70		7,784.70
Total Current Assets	<u>35,790.93</u>	<u>1,334.29</u>	<u>37,125.22</u>
Noncurrent Assets:			
Furniture, Fixtures and Equipment	123,399.90		123,399.90
Less Accumulated Depreciation	<u>(106,572.82)</u>		<u>(106,572.82)</u>
Total Noncurrent Assets	<u>16,827.08</u>	<u>-</u>	<u>16,827.08</u>
Total Assets	<u>52,618.01</u>	<u>1,334.29</u>	<u>53,952.30</u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	<u>8,866.00</u>		<u>8,866.00</u>
Total Liabilities	<u>8,866.00</u>	<u>-</u>	<u>8,866.00</u>
NET POSITION:			
Net Investment in Capital Assets	16,827.08		16,827.08
Unrestricted	<u>26,924.93</u>	<u>1,334.29</u>	<u>28,259.22</u>
Total Net Position	<u>\$ 43,752.01</u>	<u>\$ 1,334.29</u>	<u>\$ 45,086.30</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2016

	Business-Type Activities-- Enterprise Funds		
	<u>Food Service</u>	<u>Park Tech Services</u>	<u>Total</u>
OPERATING REVENUES:			
Local Sources:			
Daily Sales - Reimbursable Programs:	\$ 53,208.13		\$ 53,208.13
Daily Sales Non-Reimbursable Programs	26,608.71		26,608.71
Backup Services		\$ 8,000.00	8,000.00
Managed Services		60.00	60.00
Migration and Set Up Services		2,000.00	2,000.00
Total Operating Revenue	<u>79,816.84</u>	<u>10,060.00</u>	<u>89,876.84</u>
OPERATING EXPENSES:			
Cost of sales-reimbursable programs	68,675.81		68,675.81
Cost of sales-non-reimbursable programs	11,867.99		11,867.99
Salaries	75,275.86	1,302.57	76,578.43
Management Fee	12,189.68		12,189.68
Supplies	5,312.23	113.60	5,425.83
Insurance Fee	2,969.31		2,969.31
Miscellaneous Fee	13,391.84	7,314.00	20,705.84
Repairs and Maintenance	9,425.88		9,425.88
Depreciation	4,005.83		4,005.83
Total Operating Expenses	<u>203,114.43</u>	<u>8,730.17</u>	<u>211,844.60</u>
Operating Income (Loss)	<u>(123,297.59)</u>	<u>1,329.83</u>	<u>(121,967.76)</u>
NONOPERATING REVENUES:			
State Sources:			
State School Lunch Program	2,141.38		2,141.38
Federal Sources:			
National School Lunch Program	83,888.98		83,888.98
School Breakfast Program	14,672.58		14,672.58
Food Distribution Program	18,413.47		18,413.47
Interest Revenue	64.01	4.46	68.47
Total Nonoperating Revenues	<u>119,180.42</u>	<u>4.46</u>	<u>119,184.88</u>
Change in Net Position	(4,117.17)	1,334.29	(2,782.88)
Net Position - July 1	<u>47,869.18</u>	<u>-</u>	<u>47,869.18</u>
Net Position - June 30	<u>\$ 43,752.01</u>	<u>\$ 1,334.29</u>	<u>\$ 45,086.30</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT

Proprietary Fund

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2016

	Business-Type Activities-- Enterprise Funds		
	Food Service	Park Tech Services	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from Customers	\$ 79,816.84	\$ 10,060.00	\$ 89,876.84
Payments to Employees	(75,275.86)	(1,302.57)	(76,578.43)
Payments to Suppliers	(97,195.16)	(7,427.60)	(104,622.76)
Net Cash Provided by (Used for) Operating Activities	<u>(92,654.18)</u>	<u>1,329.83</u>	<u>(91,324.35)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
State Sources	2,047.42		2,047.42
Federal Sources	90,142.25		90,142.25
Net Cash Provided by Non-Capital Financing Activities	<u>92,189.67</u>	<u>-</u>	<u>92,189.67</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest Revenue	64.01	4.46	68.47
Net Cash Provided by Investing Activities	<u>64.01</u>	<u>4.46</u>	<u>68.47</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(400.50)	1,334.29	93,123.46
Balance -- July 1	14,524.08	-	14,524.08
Balance -- June 30	<u>\$ 14,123.58</u>	<u>\$ 1,334.29</u>	<u>\$ 15,457.87</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ (123,297.59)	\$ 1,329.83	(121,967.76)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) by Operating Activities:			
Depreciation	4,005.83		4,005.83
Federal Commodities	18,413.47		18,413.47
Change in Assets and Liabilities:			
(Increase)/Decrease in Inventory	(641.89)		(641.89)
Increase/(Decrease) in Interfund	8,866.00		8,866.00
Total Adjustments	<u>30,643.41</u>	<u>-</u>	<u>30,643.41</u>
Net Cash Provided (Used) in Operating Activities	<u>\$ (92,654.18)</u>	<u>\$ 1,329.83</u>	<u>\$ (91,324.35)</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Fiduciary Funds
 Statement of Fiduciary Net Position
 June 30, 2016

	Private-Purpose Trust Fund	Agency Funds		Total
	Unemployment Compensation Insurance	Student Activity	Payroll	
ASSETS:				
Cash and Cash Equivalents	\$ 43,436.88	\$ 14,164.16	\$ 19,481.62	\$ 77,082.66
LIABILITIES:				
Payroll Deductions Payable			\$ 15,130.03	15,130.03
Interfund Payable:				
General Fund			4,351.59	4,351.59
Payable to Student Groups		\$ 14,164.16		14,164.16
Total Liabilities	-	\$ 14,164.16	\$ 19,481.62	33,645.78
NET POSITION:				
Held in Trust for Unemployment Claims and Other Purposes	43,436.88			43,436.88
Total Net Position	\$ 43,436.88			\$ 43,436.88

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
 Fiduciary Funds
 Statement of Changes in Fiduciary Net Position
 For the Year Ended June 30, 2016

	Private Purpose Trust Fund Unemployment Compensation Trust
ADDITIONS:	
Payroll Deductions	\$ 34,187.10
Investment Earnings:	
Interest	81.48
Total Additions	34,268.58
DEDUCTIONS:	
Unemployment Compensation Insurance Claims	19,201.00
Change in Net Position	15,067.58
Net Position -- July 1	28,369.30
Net Position -- June 30	\$ 43,436.88

The accompanying Notes to Financial Statements are an integral part of this statement.

BOROUGH OF SOMERDALE SCHOOL DISTRICT
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Borough of Somerdale School District (the "School District") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Description of the Financial Reporting Entity

The School District is a Type II district located in the County of Camden, State of New Jersey. As a Type II district, the School District functions independently through a Board of Education (the "Board"). The Board is comprised of nine members elected to three-year terms. These terms are staggered so that three member's terms expire each year. The Superintendent is appointed by the Board to act as executive officer of the School District. The purpose of the School District is to educate students in grades Pre-K through eighth at its school. The School District has an approximate enrollment at June 30, 2016 of 513.

The primary criterion for including activities within the School District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board *Codification of Governmental Accounting and Financial Reporting Standards*, is the degree of oversight responsibility maintained by the School District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the School District over which the Board exercises operating control.

Component Units

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the School District has no component units, and is not a component unit of another governmental agency.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Government-wide and Fund Financial Statements**

The School District's basic financial statements consist of government-wide statements, and fund financial statements which provide a more detailed level of financial information.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. It is the policy of the School District to not allocate indirect expenses to functions in the statement of activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

In regards to the fund financial statements, the School District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Property taxes are recognized as revenues in the year for which they are levied. The Camden County Board of Taxation is responsible for the assessment of properties, and the respective municipal tax collector is responsible for the collection of property taxes. Assessments are certified and property taxes are levied on January 1. Property tax payments are due February 1, May 1, August 1 and November 1. Unpaid property taxes are considered delinquent the following January 1 and are then subject to municipal lien. In accordance with New Jersey State Statute, the School District is entitled to receive moneys under an established payment schedule, and any unpaid amount is considered as an accounts receivable. The governing body of each municipality is required to pay over to the School District, within forty (40) days after the beginning of the school year, twenty percent (20%) of the moneys from school tax due. Thereafter, but prior to the last day of the school year, the municipality must pay the balance of moneys from school tax due for school purposes in such amounts as requested, with certain limitations, from time to time by the School District, within thirty days after each request.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are deemed both available and measurable. Available means when revenues are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Measurable means that the amount of revenue can be determined. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, tuition, reimbursable-type grants, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the School District.

The School District reports the following major governmental funds:

General Fund - The general fund is the primary operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment classified in the capital outlay sub-fund.

As required by the New Jersey State Department of Education, the School District includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America, as they pertain to governmental entities, state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid, ad valorem tax revenues, and appropriated fund balance. Expenditures are those which result in the acquisition of or additions to capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to, or remodeling of buildings, and the purchase of built-in equipment.

Special Revenue Fund - The special revenue fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Fund - The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds. The financial resources are derived from New Jersey Economic Development Authority grants, temporary notes, serial bonds which are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election, or from the general fund by way of transfers from capital outlay or the capital reserve account.

Debt Service Fund - The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)**

Proprietary funds are used to account for the School District's ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All items not meeting this definition are reported as non-operating revenues and expenses.

The School District reports the following major proprietary funds:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the School District.

Park Tech Services Fund - This fund accounts for the financial transactions related to the technology service operations of the School District.

Fiduciary funds are used to account for assets held by the School District on behalf of outside related organizations or on behalf of other funds within the School District. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

The School District maintains the following fiduciary funds:

Agency Funds - Agency funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and / or other funds (i.e., payroll and student activities). The School District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District maintains the following agency funds: student activity fund and payroll fund.

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for the principal and income for all other trust arrangements that benefit individuals, private organizations, or other governments. The School District maintains the following private-purpose trust funds:

New Jersey Unemployment Compensation Insurance Trust Fund - Revenues consist of contributions that have been included in the annual budget of the School District, employee payroll withholdings, and interest income. Expenditures represent claims incurred for unemployment.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Budgets / Budgetary Control**

Annual appropriated budgets are prepared in the spring of each fiscal year for the general, special revenue, and debt service funds, and are submitted to the county office of education. In accordance with P.L. 2011, c. 202, the School District passed a resolution to move the school board election to the first Tuesday after the first Monday in November, starting in November of 2012, to be held simultaneously with the general election. As a result, a vote is not required on the School District's general fund tax levy for the budget year, other than the general fund tax levy required to support a proposal for additional funds, if any. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23A-16.2(f)1. Transfers of appropriations may be made by school board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23A-13.3.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only, and the special revenue fund. N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

The accounting records of the special revenue fund are maintained on the budgetary basis. The budgetary basis differs from GAAP in that the budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

The budget, as detailed on exhibit C-1, exhibit C-2 and exhibit I-3 includes all amendments to the adopted budget, if any.

Exhibit C-3 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounting, as presented in the general fund budgetary comparison schedule and the special revenue fund budgetary comparison schedule, to the GAAP basis of accounting as presented in the statement of revenues, expenditures and changes in fund balances - governmental funds. Note that the School District does not report encumbrances outstanding at fiscal year-end as expenditures in the general fund since the general fund budget follows the modified accrual basis of accounting, with the exception of the aforementioned revenue recognition policy for the one or more June state aid payments.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to assign a portion of the applicable appropriation, is utilized for budgetary control purposes. Encumbrances are a component of fund balance at fiscal year-end as they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services. Open encumbrances in the governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included within committed or assigned fund balance, as appropriate.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Encumbrances (Cont'd)**

Open encumbrances in the special revenue fund, however, for which the School District has received advances of grant awards, are reflected on the balance sheet as unearned revenues at fiscal year-end.

The encumbered appropriation authority carries over into the next fiscal year. An entry will be made at the beginning of the next fiscal year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current fiscal year end.

Cash, Cash Equivalents and Investments

Cash and cash equivalents, for all funds, include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows for the proprietary funds. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act ("GUDPA"), a multiple financial institutional collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the amount of their deposits to the governmental units.

Inventories

Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out method.

The cost of inventories in the governmental fund financial statements is recorded as expenditures when purchased rather than when consumed.

Inventories recorded on the government-wide financial statements and in the proprietary fund types are recorded as expenses when consumed rather than when purchased.

Tuition Receivable

Tuition charges were established by the School District based on estimated costs. The charges are subject to adjustment when the final costs are determined.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Prepaid Expenses**

Prepaid expenses recorded on the government-wide financial statements, governmental fund type financial statements and in the proprietary fund types represent payments made to vendors for services that will benefit periods beyond June 30, 2016.

Short-Term Interfund Receivables / Payables

Short-term interfund receivables / payables (internal balances) represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund within the School District, and that are due within one year. Such balances are eliminated in the statement of net position to minimize the grossing up of internal balances, thus leaving a net amount due between the governmental and business-type activities that are eliminated in the total government column. Balances with fiduciary activities are not considered to be internal balances; therefore, such balances appear on the statement of net position as accounts receivable.

Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the School District. Purchased capital assets are recorded as expenditures in the governmental fund financial statements and are capitalized at cost on the government-wide statement of net position and proprietary fund statement of net position. In the case of gifts or contributions, such capital assets are recorded at fair market value at the time received.

The School District's capitalization threshold is \$2,000.00. Other costs incurred for repairs and maintenance is expensed as incurred. All reported capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10 - 20 Years
Buildings and Improvements	10 - 50 Years
Furniture, Fixtures and Equipment	5 - 20 Years

The School District does not possess any infrastructure assets.

Deferred Outflows and Deferred Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after total liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Deferred Outflows and Deferred Inflows of Resources (Cont'd)**

Transactions are classified as deferred outflows of resources and deferred inflows of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The School District is required to report the following as deferred outflows of resources and deferred inflows of resources:

Defined Benefit Pension Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the School District's proportion of expenses and liabilities to the pension as a whole, differences between the School District's pension contribution and its proportionate share of contributions, and the School District's pension contributions subsequent to the pension valuation measurement date.

Tuition Payable

Tuition charges for the fiscal years ended June 30, 2016 and 2015 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and is recorded as a liability until the revenue is both measurable and the School District is eligible to realize the revenue.

Accrued Salaries and Wages

Certain School District employees who provide services to the School District over the ten-month academic year have the option to have their salaries evenly disbursed during the entire twelve-month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account. As of June 30, 2016, the amounts earned by these employees were disbursed to the employees' own individual accounts.

Compensated Absences

Compensated absences are payments to employees for accumulated time such as paid vacation, paid holidays, sick pay, and sabbatical leave. A liability for compensated absences that is attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the School District and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the School District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

The School District uses the vesting method to calculate the compensated absences amount. The entire compensated absence liability, including the employer's share of applicable taxes, is reported on the government-wide financial statements. The portion related to employees in the proprietary funds is recorded at the fund level. The current portion is the amount estimated to be used in the following fiscal year. Expenditures are recognized in the governmental funds as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner, and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds, are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the governmental fund financial statements when due.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Pension and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), and additions to/deductions from TPAF's and PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Bond Discounts / Premiums

Bond discounts / premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in systematic and rational method, as a component of interest expense. Bond discounts / premiums are presented as an adjustment of the face amount of the bonds on the government-wide statement of net position and on the proprietary fund statement of net position.

Net Position

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

Net Investment in Capital Assets - This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.

Restricted - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Unrestricted - Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Fund Balance**

The School District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School District's classifications, and policies for determining such classifications, are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

Restricted - The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, which, for the School District, is the Board of Education. Such formal action consists of an affirmative vote by the Board of Education, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purpose unless the Board of Education removes, or changes, the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - The assigned fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. *Intent* is expressed by either the Board of Education or by the business administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business administrator is established by way of a formal job description for the position and standard operating procedures, approved by the Board of Education.

Unassigned - The unassigned fund balance classification is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, it is the policy of the School District to spend restricted fund balances first. Moreover, when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the School District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures / expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources / uses in governmental funds and after non-operating revenues / expenses in proprietary funds. Reimbursements from funds responsible for particular expenditures / expenses to the funds that initially paid for them are not presented on the financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Impact of Recently Issued Accounting Principles**Recently Issued and Adopted Accounting Pronouncements**

For the fiscal year ended June 30, 2016, the School District adopted 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 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. The adoption of this Statement had no impact on the basic financial statements of the School District.

In addition, the School District adopted 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*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption of this Statement had no impact on the basic financial statements of the School District.

Lastly, the School District adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The adoption of this Statement had no impact on the basic financial statements of the School District.

Recently Issued Accounting Pronouncements

The GASB has issued the following Statements during the fiscal year ended June 30, 2016 which will become effective in future fiscal years as shown below:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement will become effective for the School District in fiscal year 2017. Management does not expect this Statement will have an impact on the basic financial statements of the School District.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles (Cont'd)****Recently Issued Accounting Pronouncements (Cont'd)**

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the School District in fiscal year 2018. Management has not yet determined the impact of this Statement on the basic financial statements of the School District.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Statement will become effective for the School District in fiscal year 2017. Management does not expect this Statement will have an impact on the basic financial statements of the School District.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This 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. The Statement will become effective for the School District in fiscal year 2017. Management does not expect this Statement will have an impact on the basic financial statements of the School District.

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. The Statement will become effective for the School District in fiscal year 2017. Management does not expect this Statement will have an impact on the basic financial statements of the School District.

Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Statement will become effective for the School District in fiscal year 2017. Management does not expect this Statement will have an impact on the basic financial statements of the School District.

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 Statement will become effective for the School District in fiscal year 2018. Management does not expect this Statement will have an impact on the basic financial statements of the School District.

Statement No. 82, *Pension Issues and amendment of GASB Statements No. 67, No. 68, and No. 73*. 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 for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement will become effective for the School District in fiscal year 2017. Management does not expect this Statement will have a material impact on the basic financial statements of the School District.

Note 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be recovered. Although the School District does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000.00 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the School District in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled agency funds such as salary withholdings, and student activity funds, or funds that may pass to the School District relative to the happening of a future condition. Such funds are classified as uninsured and uncollateralized.

As of June 30, 2016, all of the School District's bank balances totaling \$1,343,775.92 were insured by either FDIC or GUDPA Insurance.

Note 3: CAPITAL RESERVE ACCOUNT

A capital reserve account was established by the School District by inclusion of \$125,000.00 on June 11, 2015 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. Subsequent to the establishment of the capital reserve account, the School District transferred \$82,217.05 from its balance in capital projects fund to the capital reserve account. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the School District's approved Long Range Facilities Plan ("LRFP"). Upon submission of the LRFP to the Department, a school district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at fiscal year-end (June 1 to June 30) of any unanticipated revenue or unexpended line-item appropriation amounts, or both. A school district may also appropriate additional amounts when the express approval of the voters has been obtained by either a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6A:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve for the July 1, 2015 to June 30, 2016 fiscal year is as follows:

Beginning Balance, July 1, 2015		\$ 207,217.05
Increased by:		
Deposits:		
Transfer approved by Board Resolution		
on June 9, 2016	\$ 200,000.00	
Interest Earnings	<u>1,565.35</u>	
		<u>201,565.35</u>
Ending Balance, June 30, 2016		<u><u>\$ 408,782.40</u></u>

Note 4: ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 consisted of intergovernmental awards / grants. All receivables are considered collectible in full due to the stable condition of federal and state programs and the current fiscal year guarantee of federal funds.

Accounts receivable as of fiscal year end for the School District's individual major funds, in the aggregate, are as follows:

<u>Description</u>	<u>Governmental Funds</u>		<u>Proprietary Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Activities</u>	<u>Food Service Fund</u>	
Federal Awards		\$ 15,774.30	\$ 15,774.30	\$ 13,609.39	\$ 29,383.69
State Awards	\$ 23,052.30		23,052.30	273.26	23,325.56
	<u>\$ 23,052.30</u>	<u>\$ 15,774.30</u>	<u>\$ 38,826.60</u>	<u>\$ 13,882.65</u>	<u>\$ 52,709.25</u>

Note 5: INVENTORY

Inventory recorded at June 30, 2016 in business-type activities on the government-wide statement of net position, and on the food service enterprise fund statement of net position, consisted of the following:

Food	\$6,572.27
Supplies	<u>1,212.43</u>
	<u>\$7,784.70</u>

Note 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 is as follows:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Balance June 30, 2016</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 38,163.00	\$ -	\$ -	\$ 38,163.00
Capital Assets, being Depreciated:				
Land Improvements	54,490.00	27,485.00	(6,490.00)	75,485.00
Buildings and Improvements	6,395,324.74	113,431.51		6,508,756.25
Furniture, Fixtures and Equipment	692,989.55	247,397.32	(220,589.42)	719,797.45
Total Capital Assets, being Depreciated	<u>7,142,804.29</u>	<u>388,313.83</u>	<u>(227,079.42)</u>	<u>7,304,038.70</u>
Total Capital Assets, Cost	<u>7,180,967.29</u>	<u>-</u>	<u>(227,079.42)</u>	<u>7,342,201.70</u>
Less Accumulated Depreciation for:				
Land Improvements	(54,490.00)	(114.52)	6,490.00	(48,114.52)
Buildings and Improvements	(2,404,893.59)	(151,858.00)		(2,556,751.59)
Furniture, Fixtures and Equipment	(427,171.17)	(59,245.42)	206,713.83	(279,702.76)
Total Accumulated Depreciation	<u>(2,886,554.76)</u>	<u>(211,217.94)</u>	<u>213,203.83</u>	<u>(2,884,568.87)</u>
Total Capital Assets, being Depreciated, Net	<u>4,256,249.53</u>	<u>177,095.89</u>	<u>(13,875.59)</u>	<u>4,419,469.83</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,294,412.53</u>	<u>\$ 177,095.89</u>	<u>\$ (13,875.59)</u>	<u>\$ 4,457,632.83</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
	<u>July 1, 2015</u>		<u>and Transfers</u>	<u>June 30, 2016</u>
Business-Type Activities:				
Capital Assets, being Depreciated:				
Furniture, Fixtures and Equipment	\$ 131,199.90			\$ 131,199.90
Less Accumulated Depreciation	(110,366.99)	\$ (4,005.83)		(114,372.82)
Business-Type Activities Capital Assets, Net	<u>\$ 20,832.91</u>	<u>\$ (4,005.83)</u>	<u>\$ -</u>	<u>\$ 16,827.08</u>

Depreciation expense was charged to functions / programs of the School District as follows:

Governmental Activities:	
Regular Instruction	\$ 25,654.34
General and Business Administrative Services	15,090.72
Plant Operations and Maintenance	<u>170,472.88</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 211,217.94</u>
Business-Type Activities:	
Food Service	<u>\$ 4,005.83</u>

Note 7: LONG-TERM LIABILITIES

During the fiscal year ended June 30, 2016, the following changes occurred in long-term obligations for governmental activities:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Due within</u> <u>One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 1,020,000.00	\$ -	\$ 255,000.00	\$ 765,000.00	\$ 260,000.00
Other Liabilities:					
Compensated Absences	332,850.11		58,498.96	274,351.15	27,435.12
Obligations under Capital Lease	155,931.50		23,648.17	132,283.33	24,538.38
Net Pension Liability	858,254.00	334,707.00		1,192,961.00	
Total Other Liabilities	<u>1,347,035.61</u>	<u>334,707.00</u>	<u>82,147.13</u>	<u>1,599,595.48</u>	<u>51,973.50</u>
Governmental Activity Long-Term Liabilities	<u>\$ 2,367,035.61</u>	<u>\$ 334,707.00</u>	<u>\$ 337,147.13</u>	<u>\$ 2,364,595.48</u>	<u>\$ 311,973.50</u>

The bonds payable are generally liquidated by the debt service fund, while the compensated absences, obligations under capital lease and net pension liability are liquidated by the general fund.

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

On February 1, 1999, the School District issued \$4,288,000.00 general obligation bonds at an interest rate of 4.7% for various construction and renovation projects. In May 2009, the District refunded the remaining 1999 bonds by issuing Series 2009 refunding bonds totaling \$2,565,000.00. The final maturity of these bonds is May 1, 2019. The bonds will be paid from property taxes.

Principal and interest due on bonds outstanding is as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 260,000.00	\$ 31,537.50	\$ 291,537.50
2018	260,000.00	21,137.50	281,137.50
2019	<u>245,000.00</u>	<u>10,412.50</u>	<u>255,412.50</u>
Total	<u>\$ 765,000.00</u>	<u>\$ 63,087.50</u>	<u>\$ 828,087.50</u>

Bonds Authorized but not Issued - As of June 30, 2016, the School District had no authorizations to issue additional bonded debt.

Note 7: LONG-TERM LIABILITIES (CONT'D)

Obligations under Capital Lease - The School District is leasing lighting equipment totaling \$185,449.50 under capital leases. This capital lease's term is for seven years. Capital leases are depreciated in a manner consistent with the School District's depreciation policy for owned assets.

The following is a schedule of the future minimum lease payments under these capital leases, and the present value of the net minimum lease payments at June 30, 2016.

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 24,538.38	\$ 4,979.62	\$ 29,518.00
2018	25,462.09	4,055.91	29,518.00
2019	26,420.57	3,097.43	29,518.00
2020	27,415.14	2,102.86	29,518.00
2021	28,447.15	1,070.85	29,518.00
	<u>\$ 132,283.33</u>	<u>\$ 15,306.67</u>	<u>\$ 147,590.00</u>

Compensated Absences - As previously stated, compensated absences will be paid from the fund from which the employees' salaries are paid. Refer to note 14 for a description of the School District's policy.

Net Pension Liability - For details on the net pension liability, refer to note 9. The School District's annual required contribution to the Public Employees' Retirement System are budgeted and paid from the general fund on an annual basis.

Note 8: OPERATING LEASES

At June 30, 2016, the School District had operating lease agreements in effect for copy machines. The present value of the future minimum rental payments under the operating lease agreements are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Amount</u>
2017	\$ 23,196.96
2018	19,128.00
2019	19,128.00
2020	19,128.00
2021	375.00
	<u>\$ 80,955.96</u>

Rental payments under operating leases for the fiscal year ended June 30, 2016 were \$23,537.27.

Note 9: PENSION PLANS

A substantial number of the School District's employees participate in one of the following defined benefit pension plans: the Teachers' Pension and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), which are administered by the New Jersey Division of Pensions and Benefits (the "Division"). In addition, several School District employees participate in the Defined Contribution Retirement Program, which is a defined contribution pension plan. This plan is administered by Prudential Financial for the Division. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295
<http://www.nj.gov/treasury/pensions>

General Information about the Pension Plans**Plan Descriptions**

Teachers' Pension and Annuity Fund - The Teachers' Pension and Annuity Fund is a cost-sharing multiple-employer defined benefit pension plan, with a special funding situation, which was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66. The State of New Jersey (the "State") is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. The TPAF's designated purpose is to provide retirement benefits, death, disability and medical benefits to certain qualified members. Membership in the TPAF is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, who have titles that are unclassified, professional and certified. The TPAF's Board of Trustees is primarily responsible for the administration of the TPAF.

Public Employees' Retirement System - The Public Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A. The PERS's designated purpose is to provide retirement, death, disability and medical benefits to certain qualified members. Membership in the PERS is mandatory for substantially all full-time employees of the School District, provided the employee is not required to be a member of another state-administered retirement system or other state pensions fund or local jurisdiction's pension fund. The PERS's Board of Trustees is primarily responsible for the administration of the PERS.

Defined Contribution Retirement Program - The Defined Contribution Retirement Program is a multiple-employer defined contribution pension fund established on July 1, 2007 under the provisions of Chapter 92, P.L. 2007, and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) § 401(a) et seq., and is a "governmental plan" within the meaning of IRC § 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in TPAF or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees enrolled in SPRS or PFRS after May 21, 2010, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in TPAF or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least \$5,000.00 annually; and employees otherwise eligible to enroll in TPAF or PERS after May 21, 2010 who do not work the minimum number of hours per week required for tiers 4 or 5 enrollment, but who earn salary of at least \$5,000.00 annually.

Note 9: PENSION PLANS (CONT'D)**General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions**

Teachers' Pension and Annuity Fund - The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF 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 TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

The following represents the membership tiers for TPAF:

Tier Definition

- 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 21, 2010
- 4 Members who were eligible to enroll after May 21, 2010 and prior to June 28, 2011
- 5 Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier.

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.

Public Employees' Retirement System - The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The PERS provides retirement, death and disability benefits. All benefits vest after 10 years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of the PERS.

The membership tiers for PERS are the same as previously noted for TPAF.

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

Note 9: PENSION PLANS (CONT'D)**General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions (Cont'd)**

Defined Contribution Retirement Program - Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and nonforfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and nonforfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

Contributions

Teachers' Pension and Annuity Fund - The contribution policy is set by N.J.S.A. 18A:66 and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.06% in State fiscal year 2016. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2016, the State's pension contribution was less than the actuarial determined amount.

Under current statute, all employer contributions are made by the State of New Jersey on-behalf of the School District and all other related non-contributing employers. No normal or accrued liability contribution by the School District has been required over several preceding fiscal years. These on-behalf contributions by the State of New Jersey are considered a special funding situation, under the definition of GASB 68, *Accounting and Financial Reporting for Pensions*.

The School District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 4.91% of the School District's covered payroll, of which 0.00% of payroll was required from the School District and 100.00% of payroll was required from the State of New Jersey. The School District was not required to make any contributions to the pension plan during the fiscal year ended June 30, 2016 because of the 100.00% special funding situation with the State of New Jersey.

Based on the most recent TPAF measurement date of June 30, 2015, the State's contractually required contribution, on-behalf of the School District, to the pension plan for the fiscal year ended June 30, 2016 was \$164,874.00, and was paid by April 1, 2016. School District employee contributions to the pension plan during the fiscal year ended June 30, 2016 were \$238,113.66.

Public Employees' Retirement System - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.06% in State fiscal year 2016.

Note 9: PENSION PLANS (CONT'D)**General Information About the Pension Plans (Cont'd)****Contributions (Cont'd)**

Public Employees' Retirement System (Cont'd) - The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The School District's contribution amounts are based on an actuarially determined rate which included the normal cost and unfunded accrued liability.

The School District's contractually required contribution rate for the fiscal year ended June 30, 2016 was 15.55% of the School District's covered payroll. This amount was actuarially determined as the amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2015, the School District's contractually required contribution to the pension plan for the fiscal year ended June 30, 2016 was \$45,689.00, and was paid by April 1, 2016. School District employee contributions to the pension plan during the fiscal year ended June 30, 2016 were \$15,835.60.

Defined Contribution Retirement Program - The contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the School District contributes 3% of the employees' base salary, for each pay period, to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

For the fiscal year ended June 30, 2016, employee contributions totaled \$1,639.00, and the School District recognized pension expense of \$839.00. There were no forfeitures during the fiscal year.

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

Teachers' Pension and Annuity Fund - At June 30, 2016, the School District was not required to report a liability for its proportionate share of the net pension liability because of a 100% special funding situation by the State of New Jersey.

The State's proportionate share of net pension liability, attributable to the School District is as follows:

School District's Proportionate Share of Net Pension Liability	\$ -
State of New Jersey's Proportionate Share of Net Pension Liability Associated with the School District	19,390,099.00
	<u>\$ 19,390,099.00</u>

Note 9: PENSION PLANS (CONT'D)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)**

Teachers' Pension and Annuity Fund (Cont'd) - The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. For the June 30, 2015 measurement date, the School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers and the State of New Jersey, actuarially determined. At June 30, 2015, the School District proportion was 0.00% due to the 100% special funding situation with the State of New Jersey. For the June 30, 2015 measurement date, the State's proportionate share of the TPAF net pension liability associated with the School District was .0306784631%, which was an increase of .0005848480% from its proportion measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the School District recognized \$1,183,940.00 in pension expense and revenue, in the government-wide financial statements, for the State of New Jersey on-behalf TPAF pension contributions. This pension expense and revenue was based on the pension plans June 30, 2015 measurement date.

Public Employees' Retirement System - At June 30, 2016, the School District reported a liability of \$1,192,961.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The School District's proportion of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. For the June 30, 2015 measurement date, the School District's proportion was .0053143317%, which was a decrease of .0007303117% from its proportion measured as of June 30, 2014.

For the fiscal year ended June 30, 2016, the School District recognized pension expense of \$92,262.00, in the government-wide financial statements. This pension expense was based on the pension plans June 30, 2015 measurement date.

Note 9: PENSION PLANS (CONT'D)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)**

Public Employees' Retirement System (Cont'd) - At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 28,460.00	\$ -
Changes of Assumptions	128,114.00	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	19,181.00
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions	116,006.00	46,944.00
School District Contributions Subsequent to the Measurement Date	<u>34,888.00</u>	<u>-</u>
	<u>\$ 307,468.00</u>	<u>\$ 66,125.00</u>

Deferred outflows of resources, totaling \$34,888.00 will be included as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2017	\$ 38,737.00
2018	38,737.00
2019	38,738.00
2020	51,523.00
2021	<u>38,720.00</u>
	<u>\$ 206,455.00</u>

Note 9: PENSION PLANS (CONT'D)**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont'd)**

Public Employees' Retirement System (Cont'd) – The amortization of the above other deferred outflows of resources and deferred inflows of resources related to pensions will be over the following number of years:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
Changes in Proportion and Differences between School District Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72

Note 9: PENSION PLANS (CONT'D)**Actuarial Assumptions**

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

	<u>TPAF</u>	<u>PERS</u>
Inflation	2.50%	3.04%
Salary Increases:		
2012-2021	Varies Based on Experience	2.15% - 4.40% Based on Age
Thereafter	Varies Based on Experience	3.15% - 5.40% Based on Age
Investment Rate of Return	7.90%	7.90%
Mortality Rate Table	RP-2000	RP-2000
Period of Actuarial Experience		
Study upon which Actuarial		
Assumptions were Based	July 1, 2009 - June 30, 2012	July 1, 2008 - June 30, 2011

For TPAF, mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements were based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement.

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

For TPAF and PERS, in accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in TPAF's and PERS's target asset allocation as of June 30, 2015 are summarized in the following tables:

Note 9: PENSION PLANS (CONT'D)**Actuarial Assumptions (Cont'd)**

<u>Asset Class</u>	<u>TPAF</u>		<u>Asset Class</u>	<u>PERS</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>		<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Cash	5.00%	0.53%	Cash	5.00%	1.04%
US Government Bonds	1.75%	1.39%	U.S. Treasuries	1.75%	1.64%
US Credit Bonds	13.50%	2.72%	Investment Grade Credit	10.00%	1.79%
US Mortgages	2.10%	2.54%	Mortgages	2.10%	1.62%
US Inflation-Indexed Bonds	1.50%	1.47%	High Yield Bonds	2.00%	4.03%
US High Yield Bonds	2.00%	4.57%	Inflation-Indexed Bonds	1.50%	3.25%
US Equity Market	27.25%	5.63%	Broad U.S. Equities	27.25%	8.52%
Foreign-Developed Equity	12.00%	6.22%	Developed Foreign Equities	12.00%	6.88%
Emerging Markets Equity	6.40%	8.46%	Emerging Market Equities	6.40%	10.00%
Private Real Estate Property	4.25%	3.97%	Private Equity	9.25%	12.41%
Timber	1.00%	4.09%	Hedge Funds/Absolute Return	12.00%	4.72%
Farmland	1.00%	4.61%	Real Estate (Property)	2.00%	6.83%
Private Equity	9.25%	9.15%	Commodities	1.00%	5.32%
Commodities	1.00%	3.58%	Global Debt ex U.S.	3.50%	-0.40%
Hedge Funds - MultiStrategy	4.00%	4.59%	REIT	4.25%	5.12%
Hedge Funds - Equity Hedge	4.00%	5.68%			
Hedge Funds - Distressed	4.00%	4.30%			
				<u>100.00%</u>	
	<u>100.00%</u>				

Discount Rate - The discount rates used to measure the total pension liability were 4.13% and 4.68% for TPAF as of June 30, 2015 and 2014, respectively, and 4.90% and 5.39% for PERS as of June 30, 2015 and 2014, respectively. For TPAF and PERS, the respective single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% as of June 30, 2015, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rates for TPAF and PERS assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years 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 2027 for TPAF and 2033 for PERS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027 for TPAF and 2033 for PERS, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Note 9: PENSION PLANS (CONT'D)**Sensitivity of School District's Proportionate Share of Net Pension Liability to Changes in the Discount Rate**

Teachers' Pension and Annuity Fund (TPAF) - As previously mentioned, TPAF, has a special funding situation where the State pays 100% of the School District's annual required contribution. As such, the proportionate share of the net pension liability as of June 30, 2015, the pension plans measurement date, attributable to the School District is \$0, and the State of New Jersey's proportionate share of the net pension liability, attributable to the School District, using a discount rate of 4.13%, as well as using a discount rate that is 1% lower or 1% higher than the current rates used is as follows:

	TPAF		
	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
School District's Proportionate Share of the Net Pension Liability	\$ -	\$ -	\$ -
State of New Jersey's Proportionate Share of Net Pension Liability associated with the School District	23,044,408.00	19,390,099.00	16,241,693.00
	<u>\$ 23,044,408.00</u>	<u>\$ 19,390,099.00</u>	<u>\$ 16,241,693.00</u>

Public Employees' Retirement System (PERS) - The following presents the School District's proportionate share of the net pension liability at June 30, 2015, the plans measurement date, calculated using a discount rate of 4.90%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	PERS		
	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
School District's Proportionate Share of the Net Pension Liability	\$ 1,482,705.00	\$ 1,192,961.00	\$ 950,042.00

Pension Plan Fiduciary Net Position

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the respective fiduciary net position of the TPAF and PERS and additions to/deductions from TPAF and PERS' respective fiduciary net position have been determined on the same basis as they are reported by TPAF and PERS. Accordingly, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For additional information about TPAF and PERS, please refer to the plan's Comprehensive Annual Financial Report (CAFR) which can be found at www.nj.gov/treasury/pensions/annrpts.shtml.

Note 10: STATE POST-RETIREMENT MEDICAL BENEFITS

P.L. 1987, c.384 of P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of postemployment medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of postemployment medical benefits for retired State employees and retired educational employees. As of June 30, 2015, there were 107,314 retirees receiving postemployment medical benefits, and the State contributed \$1.25 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992 c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service. The State paid \$214.1 million toward Chapter 126 benefits for 19,056 eligible retired members in fiscal year 2015.

Note 11: ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2016, the School District has recognized as revenues and expenditures on-behalf payments made by the State for normal costs and post-retirement medical costs related to TPAF, in the fund financial statements. The amounts recognized as revenues and expenditures in the fund financial statements for normal costs, post-retirement medical contributions and non-contributory insurance were \$242,697.00, \$288,985.00 and \$11,516.00, respectively.

Note 12: RISK MANAGEMENT

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

New Jersey Unemployment Compensation Insurance - The School District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the School District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The School District is billed quarterly for amounts due to the State.

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>School</u> <u>District</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Interest</u> <u>Income</u>	<u>Claims</u> <u>Incurred</u>	<u>Ending</u> <u>Balance</u>
2016	\$ -	\$ 34,187.10	\$ 81.48	\$ 19,201.00	\$ 43,436.88
2015	-	24,635.91	40.18	9,919.85	28,369.30
2014	-	13,959.08	17.62	6,318.21	13,613.06

Note 12: RISK MANAGEMENT (CONT'D)

Joint Insurance Pool - The School District is a member of the New Jersey School Boards Association Insurance Group. The Fund provides its members with the following coverage:

Workers' Compensation and Employer's Liability
 Liability other than Motor Vehicles
 Property Damage other than Motor Vehicles
 Motor Vehicles Liability
 School Board Legal Liability
 Boiler & Machinery
 Umbrella Liability
 Crime Bonds
 Student Accident

Contributions to the Fund, including a reserve for contingencies, are payable in two installments and are based on actuarial assumptions determined by the Fund's actuary. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention, or administrative accounts to assure the payment of the Fund's obligations.

The Fund publishes its own financial report for the fiscal year ended June 30, 2016, which can be obtained from:

New Jersey School Boards Association Insurance Group
 450 Veterans Drive
 Burlington, New Jersey 08016

Note 13: DEFERRED COMPENSATION

The School District offers its employees a choice of three deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, which are administered by the entities listed below, permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death, or unforeseeable emergency. The plan administrators are as follows:

The Equitable
 Thomas Seely Agency
 Lincoln Investment Planning

Note 14: COMPENSATED ABSENCES

The School District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), *Accounting for Compensated Absences*. A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

School District employees who are employed for ten months are entitled to ten paid sick leave days per fiscal school year. School District employees who are employed for twelve months are entitled to twelve paid sick leave days per fiscal school year. Unused sick leave may be accumulated and carried forward to the subsequent years. School District employees are entitled to two personal days which may be carried forward to subsequent years. Vacation days not used during the year may not be accumulated and carried forward. Benefits paid in any future year will be calculated according to formulas outlined in the School Districts' agreements with the various employee unions and included in the current years' budget.

Note 14: COMPENSATED ABSENCES (CONT'D)

The liability for vested compensated absences is recorded within those funds as the benefits accrue to employees. At June 30, 2016, the liability for compensated absences reported on the government-wide statement of net position was \$274,351.15.

Note 15: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2016 is as follows:

<u>Fund</u>	<u>Interfunds Receivable</u>	<u>Interfunds Payable</u>
General	\$ 15,204.97	
Special Revenue		\$ 10,853.38
Fiduciary		4,351.59
	<u>\$ 15,204.97</u>	<u>\$ 15,204.97</u>

The interfund receivables and payables above predominately resulted from payments made by certain funds on behalf of other funds. During the fiscal year 2017, the School District expects to liquidate such interfunds, depending upon the availability of cash flow.

During the fiscal year ended June 30, 2016, the general fund transferred \$7,580.00 to the special revenue fund as a local contribution to the preschool program.

Note 16: CONTINGENCIES

Grantor Agencies - Amounts received or receivable from grantor agencies could be subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amount, if any, to be immaterial.

Litigation - The School District is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the School District, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

Note 17: CONCENTRATIONS

The School District depends on financial resources flowing from, or associated with, both the federal government and the State of New Jersey. As a result of this dependency, the School District is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations.

Note 18: FUND BALANCES**NONSPENDABLE**

As stated in note 1, the nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The nonspendable fund balance of the School District, as of June 30, 2016, is summarized as follows:

General Fund - The School District recorded a prepaid expense when the District entered into an inter-local agreement with the Borough of Somerdale for snow plowing of the School's parking lot. A budget charge is recorded when the School's parking lot is plowed and the prepaid amount is decreased. As a result, because prepaid expense is recorded as an asset, even though it does not represent expendable financial resources, it is necessary to set aside fund balance at fiscal year-end for an amount equal to the prepayment. As of June 30, 2016, the nonspendable fund balance was \$18,952.71.

RESTRICTED

As stated in note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the School District's fund balance are summarized as follows:

General Fund

For Excess Surplus - In accordance with N.J.S.A. 18A:7F-7, as amended, the designation of restricted fund balance - excess surplus is the result of a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to restrict general fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2016 is \$230,001.87. Additionally, \$130,598.83 of excess fund balance generated during 2014-2015 has been restricted and designated for utilization in the 2016-2017 budget.

For Capital Reserve Account - As of June 30, 2016, the balance in the capital reserve account is \$408,782.40. These funds are restricted for future capital outlay expenditures for capital projects in the School District's approved Long Range Facilities Plan (LRFP).

Debt Service Fund - In accordance with N.J.A.C. 6A:23A-8.6, a district board of education shall appropriate annually all debt service fund balances in the budget certified for taxes unless expressly authorized and documented by the voters in a bond referendum. The School District did not anticipate as revenue any of its debt service fund balance for the fiscal year ending June 30, 2017. The debt service fund balance as of June 30, 2016 totaling \$5,002.05 will be anticipated in a future budget.

UNASSIGNED

As stated in note 1, the unassigned fund balance classification represents fund balance that has not been restricted, committed, or assigned to specific purposes. The School District's unassigned fund balance is summarized as follows:

General Fund - As of June 30, 2016, \$158,804.46 of general fund balance was unassigned.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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MATTHEW COHEN +(RET)
WALTER G. WINNE (1889-1972)
HORACE F. BANTA (1895-1985)
BRUCE F. BANTA (1932-1983)
PETER G. BANTA (1935-2016)

CHRISTINE R. SMITH
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FRANK J. FRANZINO, JR. +
COUNSEL TO THE FIRM

f CERTIFIED BY THE SUPREME COURT OF
NEW JERSEY AS A CIVIL TRIAL ATTORNEY
+ MEMBER NEW YORK BAR ALSO
* MEMBER CONNECTICUT BAR ALSO
p MEMBER PENNSYLVANIA BAR ALSO
m MEMBER FLORIDA BAR ALSO
d MEMBER WASHINGTON, D.C. BAR ALSO
m MEMBER MARYLAND BAR ALSO
x R. 1:40 QUALIFIED MEDIATOR

[FORM OF APPROVING OPINION]

December __, 2018

The Board of Education of the Borough of
Somerdale, in the County of Camden
Somerdale, New Jersey

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of \$3,157,000 School Bonds, Series 2018 (the "Bonds") of The Board of Education of the Borough of Somerdale, in the County of Camden, a school district the State of New Jersey (the "School District") dated December __, 2018. The Bonds are issued pursuant to the Education Law of the State of New Jersey (N.J.S.A. 18A:24-1, et seq.). The Bonds are authorized by virtue of a proposal adopted by the School District on June 7, 2018 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on October 2, 2018; and a resolution adopted by the School District on _____, 2018 (the "Authorization Proceedings").

The Bonds are issued in fully registered form to The Depository Trust Company, New York, New York ("DTC"), and registered in the name of DTC's nominee, Cede & Co. One bond certificate is issued for each year of maturity of the Bonds, numbered SB-1 to SB-__ in order of maturity.

The Bonds mature in the principal amounts on September 1 of each year until maturity, and bear interest at the interest rates per annum payable on September 1, 201__ and semiannually thereafter on March 1 and September 1 of each year until maturity, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u>
2019	\$100,000	%	%	
2020	\$120,000	%	%	
2021	\$125,000	%	%	
2022	\$130,000	%	%	
2023	\$135,000	%	%	
2024	\$140,000	%	%	

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP No.</u>
2025	\$145,000	%	%	
2026	\$150,000	%	%	
2027	\$155,000	%	%	
2028	\$160,000	%	%	
2029	\$165,000	%	%	
2030	\$170,000	%	%	
2031	\$175,000	%	%	
2032	\$180,000	%	%	
2033	\$185,000	%	%	
2034	\$190,000	%	%	
2035	\$195,000	%	%	
2036	\$200,000	%	%	
2037	\$180,000	%	%	
2038	\$157,000	%	%	

The Bonds maturing on or after September 1, 20__ are redeemable at the option of the School District in whole or in part on any date on or after September 1, 20__ at a redemption price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption.

In our opinion, the Authorization Proceedings have been validly adopted, executed and delivered, and are in full force and effect. The Bonds are valid and legally binding general obligations of the School District, enforceable in accordance with its terms and the Authorization Proceedings, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws relating to the enforcement of creditors' rights. The Bonds, unless paid from other sources, are payable from *ad valorem* taxes to be levied upon all the taxable property within the School District without limitation as to rate or amount. Further, payment of the Bonds is secured under the provisions of the New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 *et seq.*).

The School District has covenanted to comply with any continuing requirements that may be necessary to preserve the tax exempt status of the Bonds under the Internal Revenue Code of 1986, as amended (the "Code"). In the event that the School District continuously complies with its covenant, it is our opinion that interest on the Bonds is not includable in gross income for federal income tax purposes under Section 103 of the Code. It is also our opinion that interest on the Bonds is not an item of tax preference under Section 57 of the Code when calculating the federal alternative minimum tax on individuals. However, interest on the Bonds is includable in the relevant income computation for purposes of calculating the federal alternative minimum tax on corporations with taxable years that began prior to January 1, 2018. The Bonds are not "private activity bonds" as defined in the Code. We express no opinion regarding other federal tax consequences or other federal taxes arising with respect to the Bonds.

Further, in our opinion, interest on the Bonds, and any gain on the sale thereof, is not includable in gross income under the New Jersey Gross Income Tax Act.

Very truly yours,

WINNE BANTA BASRALIAN & KAHN, P.C.

APPENDIX D

FORM OF SECONDARY MARKET DISCLOSURE UNDERTAKING

[FORM OF SECONDARY MARKET DISCLOSURE UNDERTAKING]

This UNDERTAKING is made as of December __, 2018 by The Board of Education of the Borough of Somerdale, in the County of Camden, a school district the State of New Jersey (the "Issuer") in order to comply with the secondary market disclosure requirements contemplated by Rule 15c2-12 adopted by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 (the "Rule"). Defined terms used in this UNDERTAKING shall have the definitions set forth in the Rule unless the context of this UNDERTAKING clearly indicates otherwise.

Section 1. The obligations with respect to which this UNDERTAKING applies are the Issuer's \$3,157,000 School Bonds, Series 2018 described in Appendix A hereto (the "Municipal Securities").

Section 2. The term of this UNDERTAKING is from the date of delivery of the Municipal Securities to the date of the last payment of the principal amount or redemption price, if any, and interest to accrue thereon, of the Municipal Securities.

Section 3. The Issuer is the only Obligated Person with respect to the Municipal Securities.

Section 4. The Issuer undertakes to provide the following Annual Financial Information and Operating Data to the Municipal Securities Rulemaking Board in an electronic format to be filed with the Electronic Municipal Market Access system ("EMMA", www.emma.msrb.org) for each fiscal year ending on or after June 30, 2019:

- (1) Audited Financial Statements (or Unaudited Financial Statements as set forth in Section 5(1) of this UNDERTAKING);
- (2) Property Valuation;
- (3) Tax Rate;
- (4) Tax Levy and Collection Data;
- (5) New Debt; and
- (6) Litigation.

Section 5. The Issuer shall file the Annual Financial Information and Operating Data with EMMA on or before April 1 following the close of the Issuer's fiscal year ending on the preceding June 30.

- (1) If the Issuer's Audited Financial Statements are not available by the April 1 filing deadline, the Issuer shall file its Unaudited Financial Statements on or before the April 1 filing deadline and thereafter file its Audited Financial Statements as soon as it becomes available.
- (2) If the Issuer fails to file the Annual Financial Information and Operating Data with EMMA by the April 1 deadline, the Issuer shall file a notice with

EMMA of such failure on April 2 and thereafter file the Annual Financial Information and Operating Data with EMMA as soon it becomes available.

- (3) If the fiscal year of the Issuer changes, notice of such change and of the subsequent change in the aforementioned filing deadlines shall be filed with EMMA within 10 days after such occurrence.

Section 6. The accounting principles followed by the Issuer are the Generally Accepted Accounting Principles ("GAAP") and GASB #34 and Budgetary Basis of accounting. If the Issuer is required by law or regulation to adopt different accounting principles, notice of such change shall be provided at the time the Issuer files its next succeeding Annual Financial Information and Operating Data.

Section 7. The Issuer undertakes to file notices with EMMA of the occurrence of any of the following events of which it has direct knowledge with respect to the Municipal Securities, within 10 days after such occurrence:

- (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 of 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 or determinations with respect to the tax status of the Municipal Securities, or other material events affecting the tax status of the Municipal Securities;
- (7) Modifications to the rights of the holders of the Municipal Securities, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Municipal Securities, if material;
- (11) Rating changes of the Issuer, but not of a credit enhancement provider such as a Bond Insurer, if any, for the Municipal Securities, unless the Issuer has direct knowledge of such ratings changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Issuer;

- (13) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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 Issuer, from time to time, may choose to file notices with EMMA of the occurrence of any event, in addition to those listed above. Nevertheless, the Issuer does not undertake to file any such notice with EMMA of the occurrence of any event except those events set forth and enumerated (1) through (14) above. Notices filed with EMMA pursuant to this UNDERTAKING shall be drafted substantially in the form set forth in Appendix B hereto.

Section 8. This UNDERTAKING is made for the benefit of the holders or beneficial owners of the Municipal Securities and may be enforced by any such holder or beneficial owner. The sole remedy of any such holder or beneficial owner shall be for specific performance of this UNDERTAKING and not for money damages in any amount.

Section 9. The Issuer designates the Business Administrator / Board Secretary as the person charged with the responsibility to execute the obligations set forth in this UNDERTAKING. The Issuer, from time to time, may hereafter designate an Agent with such responsibility by resolution of its governing body.

Section 10. The Issuer may amend any provision of this UNDERTAKING if the Issuer's bond counsel issues an opinion supporting a determination that:

- (1) This UNDERTAKING, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Municipal Securities, after taking into account any amendments or interpretations of the Rule; and
- (2) The amendment does not materially impair the interests of the holders or beneficial owners of the Municipal Securities.

Notice of any amendment to this UNDERTAKING shall be filed with EMMA in a timely manner.

Section 11. The Issuer may rely on an opinion of its bond counsel when determining questions of materiality relating to any provision of this UNDERTAKING and the Rule.

IN WITNESS WHEREOF, The Board of Education of the Borough of Somerdale, in the County of Camden has caused this UNDERTAKING to be executed in its name by the Board President, and its official seal to be affixed hereon and attested to by the Board Secretary, all as of the date specified above.

[SEAL]

THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE
COUNTY OF CAMDEN

Melissa Engelhardt
Board Secretary

By: _____
James Walsh
Board President

Appendix A

DESCRIPTION OF THE MUNICIPAL SECURITIES

Appendix B

FORM OF
NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE VIA
ELECTRONIC MUNICIPAL MARKET ACCESS

Name of Issuer/

Obligated Person: THE BOARD OF EDUCATION OF THE BOROUGH OF SOMERDALE,
IN THE COUNTY OF CAMDEN

NOTICE IS HEREBY GIVEN that the Issuer/Obligated Person failed to file, in a timely manner, as required pursuant to its prior secondary market disclosure undertakings: (1) Annual Financial Information for the fiscal years ending June 30, _____ and _____; and (2) Operating Data for the fiscal years ending June 30, _____, and _____. The Issuer/Obligated Person has subsequently filed the required information.

DATED: _____

THE BOARD OF EDUCATION OF THE
BOROUGH OF SOMERDALE, IN THE
COUNTY OF CAMDEN

STATE OF NEW JERSEY