

OFFICIAL STATEMENT DATED APRIL 22, 2015

NEW ISSUE – Book-Entry Only

Rating: See “RATING” herein

In the opinion of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey (“Bond Counsel”), under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants described herein, interest on the Bonds (as herein defined) (i) is not includable in gross income for Federal income tax purposes pursuant to section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not treated as a preference item under Section 57 of the Code for purposes of computing the Federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act, as amended. See “TAX EXEMPTION” herein.

**\$2,453,000**  
**SCHOOL BONDS, SERIES 2015**  
**THE BOARD OF EDUCATION OF THE BOROUGH OF SOUTH RIVER**  
**IN THE COUNTY OF MIDDLESEX, NEW JERSEY**  
**(New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended)**

**NON-CALLABLE**  
**BANK-QUALIFIED**

**Dated: Date of Delivery**

**Due: June 1, as shown below**

The \$2,453,000 aggregate principal amount of School Bonds, Series 2015 (the “Bonds”), of The Board of Education of the Borough of South River in the County of Middlesex, New Jersey (the “Board” when referring to the governing body and the “School District” when referring to the territorial boundaries governed by the Board) are valid and legally binding general obligations of the Board, and unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the School District for the payment of the Bonds and the interest thereon without limitation as to rate or amount. Payment of the principal of and interest on the Bonds is also secured under the provisions of the New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended.

The Bonds will be issued as fully registered bonds in book-entry only form (without certificates) in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of and held by Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in the principal amount of \$1,000 each, or any integral multiple thereof with a minimum purchase of \$5,000 required, through book-entries made on the books and the records of DTC and its participants. Individual purchasers of the Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each book-entry Bond owner will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial transaction statement stating the details of the Bonds purchased. See “BOOK-ENTRY ONLY SYSTEM” herein.

The Bonds shall bear interest from their date of delivery, which interest shall be payable semi-annually on the first day of June and December in each year, commencing December 1, 2015, until maturity. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each immediately preceding November 15 and May 15 (the “Record Dates” for the payment of interest on the Bonds).

The Bonds are not subject to optional redemption prior to their stated maturities.

**MATURITY SCHEDULE,**  
**INTEREST RATES AND YIELDS**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2017	\$225,000	1.50%	0.90%	2022	\$225,000	2.00%	1.90%
2018	225,000	1.50	1.20	2023	225,000	2.00	2.00
2019	225,000	2.00	1.40	2024	428,000	2.25	2.10
2020	225,000	2.00	1.60	2025	450,000	2.50	2.30
2021	225,000	2.00	1.75				

The Bonds are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel to the Board, and certain other conditions described herein. Certain legal matters will be passed upon for the Board by Kenney, Gross, Kovats & Parton, Red Bank, New Jersey, General Counsel to the Board. Phoenix Advisors, LLC, Bordentown, New Jersey, served as financial advisor to the Board in connection with the Bonds. Delivery of the Bonds in definitive form to DTC in New York, New York is anticipated to occur on or about May 6, 2015.

**THE BOARD OF EDUCATION OF THE  
BOROUGH OF SOUTH RIVER  
IN THE COUNTY OF MIDDLESEX, NEW JERSEY**

**BOARD MEMBERS**

President – Regis Wyluda  
Vice President – Cynthia A. Urbanik  
Edward Andre  
John Budzin  
Renaë Bush  
Kelly Cruz  
Elizabeth Lell  
Kevin Nielsen  
Anthony Razzano

**SUPERINTENDENT**

Michael J. Pfister

**BUSINESS ADMINISTRATOR/BOARD SECRETARY**

Kenneth J. Kokoszka

**BOARD ATTORNEY**

Kenney, Gross, Kovats & Parton  
Red Bank, New Jersey

**BOARD AUDITOR**

Samuel Klein and Company  
Freehold, New Jersey

**FINANCIAL ADVISOR**

Phoenix Advisors, LLC  
Bordentown, New Jersey

**BOND COUNSEL**

Wilentz, Goldman & Spitzer, P.A.  
Woodbridge, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Board to give any information or to make any representations with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the Board. 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 in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale.

The information contained herein has been provided by the Board, DTC and other sources deemed reliable by the Board; however, such information is not guaranteed as to its accuracy or completeness and such information is not to be construed as a representation or warranty by the Board, as to information from sources other than itself. The Board has not confirmed the accuracy or completeness of information relating to DTC, which information has been provided by DTC.

This Official Statement is not to be construed as a contract or agreement among the Board, the Underwriter and the owners of any of the Bonds. 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 any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

References in this Official Statement to the Constitution of the State of New Jersey, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents or laws are qualified in their entirety by reference to the particular source, the full text of which may contain qualifications of and exceptions to statements made herein, and copies of which may be inspected at the offices of the Board during normal business hours.

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

In order to facilitate the distribution of the Bonds, the Underwriter may engage in transactions intended to stabilize the price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities law, but the Underwriter does not guarantee the accuracy or completeness of such information.

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**OFFICIAL STATEMENT**

**OF**

**THE BOARD OF EDUCATION OF THE  
BOROUGH OF SOUTH RIVER  
IN THE COUNTY OF MIDDLESEX, NEW JERSEY**

**\$2,453,000  
SCHOOL BONDS, SERIES 2015  
(NEW JERSEY SCHOOL BOND RESERVE ACT, 1980 N.J. Laws c. 72, as amended)**

**NON-CALLABLE  
BANK-QUALIFIED**

**INTRODUCTION**

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by The Board of Education of the Borough of South River in the County of Middlesex, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the offering, sale and issuance of its \$2,453,000 aggregate principal amount of School Bonds, Series 2015 (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the Business Administrator/Board Secretary and its distribution and use in connection with the offering and sale of the Bonds have been authorized by the Board.

This Official Statement contains specific information relating to the Bonds including their general description, certain matters affecting the financing, 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 Board 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 Board.

**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 shall be dated their date of delivery and shall mature on June 1, in each of the years and in the amounts set forth on the cover page hereof. The Bonds shall bear interest from their date of delivery which interest shall be payable semi-annually on the first day of June and December (each an "Interest Payment Date"), commencing on December 1, 2015, in each of the years and at the interest rates set forth on the cover page hereof until maturity by check mailed by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each November 15 and May 15 immediately preceding the respective Interest Payment Date (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds will be issued in fully registered book-entry only form, without certificates. One certificate shall be issued for the aggregate principal amount of the Bonds maturing in each year, and when issued, will be registered in the name of and held by Cede & Co., as nominee of DTC. DTC will act as Securities Depository for the Bonds (the "Securities Depository"). The certificates will be on deposit with DTC. DTC will be responsible for maintaining a book-entry system for recording the interests of its participants and transfers of the interests among its participants. The participants will be responsible for maintaining records regarding the beneficial ownership interests in the Bonds on behalf of the individual purchasers. Individual purchases may be made in the principal amount of \$1,000 each, or any integral multiple thereof with a minimum purchase of \$5,000 required, through book-entries made on the books and records of DTC and its participants. Individual purchasers of the Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each book-entry owner will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial transaction statement stating the details of the Bonds purchased. See "BOOK-ENTRY ONLY SYSTEM" herein.

### **Redemption**

The Bonds of this issue are not subject to optional redemption prior to their stated maturities.

### **Security for the Bonds**

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable real property within the School District without limitation as to rate or amount. The Bonds are additionally secured by the New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended.

### **School Bond Reserve Act (1980 N.J. Laws c. 72)**

All school bonds are secured by the School Bond Reserve (the "School Bond Reserve") established in the Fund for the Support of Free Public Schools of the State of New Jersey (the "Fund") in accordance with the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 *et seq.* (P.L. 1980, c. 72, approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003 (the "Act")). The 2003 amendments to the Act provide that the Fund will be divided into two School Bond Reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1-1/2% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes (the "Old School Bond Reserve Account") and all bonds, including the Bonds, issued on or after July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes (the "New School Bond Reserve Account"), provided such amounts do not exceed the moneys available in the Fund. If a municipality, county or school district is unable to make payment of principal of or interest on any of its bonds issued for school purposes, the trustees of the Fund will purchase such bonds at par value and will pay to the bondholders the interest due or to become due within the limits of funds available in the applicable School Bond Reserve account in accordance with the provisions of the Act.

The Act provides that the School Bond Reserve shall 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. Securities representing at least one-third of the minimal market value to be held in the School Bond Reserve shall be due to mature within one year of issuance or purchase. Beginning with the fiscal year ending on June 30, 2003 and continuing on each June 30 thereafter, the State Treasurer shall calculate the amount necessary to fully fund the Old School Bond Reserve Account and the New School Bond Reserve Account as required pursuant to the Act. To the extent moneys are insufficient to maintain each account in the School Bond Reserve at the required levels, the State agrees that the State Treasurer shall, no later than September 15 of the fiscal year following the June 30 calculation date, pay to the trustees for deposit in the School Bond Reserve such amounts as may be necessary to maintain

the Old School Bond Reserve Account and the New School Bond Reserve Account at the levels required by the Act. No moneys may be borrowed from the Fund to provide liquidity to the State unless the Old School Bond Reserve Account and New School Bond Reserve Account each are at the levels certified as full funding on the most recent June 30 calculation date. The amount of the School Bond Reserve in each account is pledged as security for the prompt payment to holders of bonds benefited by such account of the principal of and the interest on such bonds in the event of the inability of the issuer to make such payments. In the event the amounts in either the Old School Bond Reserve Account or the New School Bond Reserve Account fall below the amount required to make payments on bonds, the amounts in both accounts are available to make payments for bonds secured by the School Bond Reserve.

The Act further provides that the amount of any payment of interest or purchase price of school bonds paid pursuant to the Act shall be deducted from the appropriation or apportionment of State aid, other than certain State aid which may be otherwise restricted pursuant to law, payable to the school district, county or municipality and shall not obligate the State to make, nor entitle the school district, county or municipality to receive, any additional appropriation or apportionment. Any amount so deducted shall be applied by the State Treasurer to satisfy the obligation of the school district, county or municipality arising as a result of the payment of interest or purchase price of bonds pursuant to the Act. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. currently maintains a rating of "A" and Moody's Investors Service, Inc. currently maintains a rating of "Aa3" in connection with the School Bond Reserve.

### **Authorization and Purpose**

The Bonds have been authorized and are issued pursuant to Title 18A, Chapter 24 of the New Jersey Statutes, Chapter 271 of the Laws of 1967, as amended and supplemented, (ii) a proposal adopted by the Board on November 24, 2014, and approved by the affirmative vote of a majority of the legal voters present and voting at a special school district election held on February 10, 2015 and (iii) a resolution duly adopted by the Board on March 26, 2015 (the "Resolution").

The proceeds of the Bonds will be used to finance various capital improvements in and for the School District (the "Project") and to pay the costs of issuance associated with the issuance of the Bonds. The total Project cost is \$5,222,111. The State has awarded the School District aid in the amount of 53.02% of the total cost of the Project.

### **BOOK-ENTRY ONLY SYSTEM**

The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, and other payments on the Bonds to DTC Participants or Beneficial Owners (as such terms are defined or used herein), confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners, is based on certain information furnished by DTC to the Board. Accordingly, the Board does not make any representations concerning these matters.

DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, as set forth on the inside front cover hereof, in the aggregate principal amount of 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 and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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



Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct 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 and Indirect Participant and not of DTC, nor its nominee, Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or 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 and Indirect Participants.

DTC may discontinue providing its services as Securities Depository with respect to the Bonds at any time by giving reasonable notice to the Board or 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.

Paying Agent, upon direction of the Board, may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Securities Depository). In that event, Bond certificates will be printed and delivered.

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

#### **Discontinuance of Book-Entry Only System**

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

### **THE SCHOOL DISTRICT AND THE BOARD**

The Board is a nine (9) member board with members elected for staggered three (3) year terms. The Superintendent of Schools is the chief administrative officer of the School District. The Business Administrator/Board Secretary is the chief financial officer of the School District and oversees the Board's business functions. The Business Administrator/Board Secretary reports through the Superintendent of Schools.

The School District provides a full range of educational services appropriate to Pre-Kindergarten (Pre-K) through grade twelve (12), including regular and special education programs for the students of the Borough of South River (the "Borough"). The School District operates one (1) primary school, one (1) elementary school, one (1) middle school and one (1) high school. See APPENDIX A.

## THE STATE'S ROLE IN PUBLIC EDUCATION

The Constitution of the State of New Jersey provides that the State shall provide for the maintenance and support of a thorough and efficient ("T&E") system of free public schools for the instruction of all children between the ages of 5 and 18 years. Case law has expanded the responsibility to include children between the ages of 3 and 21.

The responsibilities of the State with respect to the general supervision and control of public education have been delegated to the New Jersey Department of Education (the "Department"), which is a part of the executive branch of the State government and was created by the State Legislature. The Department is governed and guided by the policies set forth by the New Jersey 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 have the effect of law and that are binding upon school districts, to acquire land and other property and to decide appeals from decisions of the Commissioner (as hereinafter defined) on matters of school law or State Board regulations.

The Commissioner of Education (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, and serves at the pleasure of the Governor during the Governor's term of office. The Commissioner is Secretary and Chief Executive Officer of the State Board and 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 has the authority to recommend the withholding of State financial aid and the Commissioner's consent is required for authorization to sell school bonds that exceed the debt limit of the municipality in which the school district is located and may also set the amount to be raised by taxation for a board of education if a school budget has not been approved by a board of school estimate or by the voters.

An Executive County Superintendent of Schools (the "County Superintendent") is appointed for each county in the State by the Governor, upon the recommendation of the Commissioner with the advice and consent of the State Senate. The County Superintendent is the local representative of the Commissioner. The County Superintendent is responsible for the daily supervision of the school districts in the county and is charged with the enforcement of rules pertaining to the certification of teachers, pupil registers and financial reports and the review of budgets. Under the Uniform Shared Services and Consolidation Act, P.L. 2007, c. 63 approved April 3, 2007 (A4), the role of the County Superintendent was changed to create the post of the Executive County Superintendent with expanded powers for the operation and management of school districts to, among other things, promote administrative and operational efficiencies, eliminate non-operating school districts and recommend a school district consolidation plan to eliminate districts through the establishment or enlargement of regional school districts, subject to voter approval.

## STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY

### Categories of School Districts

State school districts are characterized by the manner in which the board of education or the governing body takes office. School districts are principally classified in the following categories:

(1) Type I, in which the mayor or chief executive officer ("CEO") of a municipality appoints the members of a board of education and a board of school estimate. The board of school estimate consists of two (2) members of the board of education, two (2) members of the governing body of the municipality and the mayor or CEO of the municipality comprising the school district, and approves all fiscal matters;

(2) Type II, in which the registered voters within a school district elect the members of a board of education and either (a) the registered voters also vote upon all fiscal matters with the exception set forth in the new Budget Election Law (as hereinafter defined in "School Budgetary Process"), or (b) a board of school estimate, consisting of two (2) members of the governing body of and the CEO of each municipality within the school district and the president of and one member of the board of education, approves all fiscal matters;

(3) Regional and consolidated school districts comprising the territorial boundaries of more than one municipality in which the registered voters within the school district elect members of the board of education and vote upon all fiscal matters with certain exceptions. Regional school districts may be "All Purpose Regional School Districts" or "Limited Purpose Regional School Districts";

(4) State-operated school districts created by the State Board, pursuant to State law, when a local board of education cannot or will not correct severe educational deficiencies;

(5) County vocational school districts have boards of education consisting of the County Superintendent and four (4) members unless it is a county of the first class, which adopted an ordinance, in which case it can have a board consisting of seven (7) appointed members which the board of chosen freeholders of the county appoints. Such vocational school districts shall also have a board of school estimate, consisting of two (2) members appointed by the board of education of the school district, two (2) members appointed by the board of chosen freeholders and a fifth member being the county executive or the director of the board of chosen freeholders of the county, which approves all fiscal matters; and

(6) County special services school districts have boards of education consisting of the County Superintendent and six (6) persons appointed by the board of chosen freeholders of the county. Such special services school districts shall also have a board of school estimate, consisting of two (2) members appointed by the board of education of the school, two (2) members appointed by the board of chosen freeholders and a fifth member being the freeholder-director of the board of chosen freeholders, which approves all fiscal matters.

There is a procedure whereby a Type I school district or a Type II 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 district, or the board of education in a Type II district, or when petitioned for by fifteen percent (15%) of the voters of any school district. The School District is a Type II school district.

### **School Budgetary Process (N.J.S.A. 18A:22-1 et seq.)**

In a Type I school district, a separate body from the school district, known as the board of school estimate, examines the budget requests and fixes the appropriation amounts for the next year's operating budget at or after a public hearing. This board, whose composition is fixed by statute, certifies the budget to the municipal governing body or board of education. If the board of education disagrees with the certified budget of the board of school estimate, then it can appeal to the Commissioner to request changes if such certified budget is less than or equal to the maximum T&E budget and may appeal to the Commissioner if such certified budget amount is in excess of the maximum T&E budget. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

In a Type II school district, the elected board of education develops the budget proposal and, at or after a public hearing, submits it for voter approval. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing bodies of the constituent municipalities must develop the school budget by May 19 of each year. Should the governing bodies be unable to do so, the Commissioner establishes the local school budget.

The New Budget Election Law (P.L. 2011, c. 202, effective January 17, 2012) (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 first Tuesday after the first

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 body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least fifteen percent (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 four (4) years.

School districts that opt to move the annual school election to November would no longer be required to submit the budget to the voters for approval if the budget is at or below the two percent (2%) property tax levy cap as provided in the New Cap Law (as hereinafter defined). For school districts that opt to change the annual school election date to November, proposals to spend above the two percent (2%) property tax levy cap would be presented to voters at the annual school election in November.

## **SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT**

### **Levy and Collection of Taxes**

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

### **Budgets and Appropriations**

School districts in the State must operate on an annual cash basis budget. Each school district must adopt an annual budget in such detail and upon forms as prescribed by the Commissioner, to which must be attached an itemized statement showing revenues, including State and Federal aid, and expenditures. The Commissioner must approve a budget prior to its final adoption and has the power to increase or decrease individual line items in a budget. Any amendments to a school district's budget must be approved by the board of education or the board of school estimate, as the case may be. Every budget submitted must provide no less than the minimum permissible amount deemed necessary under State law to provide for a thorough and efficient education as mandated by the State Constitution. The Commissioner may not approve any budget unless the Commissioner is satisfied that the school district has adequately implemented within the budget the Core Curriculum Content Standards (as defined herein) required by State law. If necessary, the Commissioner is authorized to order changes in the local school district's budget. The Commissioner will also ensure that other provisions of law are met including the limitations on taxes and spending explained below.

### **Tax and Spending Limitations**

The Public School Education Act of 1975, N.J.S.A. 18A:7A-1 et seq., P.L. 1975, c. 212 (as amended and partially repealed), first limited the amount of funds that could be raised by a local school district. It limited the annual increase of any school district's net current expense budget. The budgetary limitations were known as a "CAP" on expenditures. The "CAP" was intended to control the growth in local property taxes. Subsequently there have been numerous legislative changes as to how the spending limitations would be applied.

The Quality Education Act of 1990, N.J.S.A. 18A:7D-1 et seq., P.L. 1990, c. 52 (the "QEA") (now repealed), also limited the annual increase in the school district's current expense and capital outlay budgets by a statutory formula linked to the annual percentage increase in per capita income. The QEA was amended and revised by chapter 62 of the Laws of New Jersey of 1991, and further amended by chapter 7 of the Laws of New Jersey of 1993.

The Comprehensive Educational Improvement and Financing Act of 1996, N.J.S.A. 18A:7F-1 et seq., P.L. 1996, c. 138 (the "CEIFA"), as amended by P.L. 2004, c. 732, effective July 1, 2004 and P.L. 2010, c. 44, effective July 13, 2010, which followed QEA, also limits the annual increase in a school district's general fund tax levy which does not exceed the school district's adjusted tax levy, defined as

the amount raised by property taxation for the purposes of the school district, excluding any debt service payments (the "Adjusted Tax Levy"). The CEIFA limited the amount school districts can increase their annual current expenses and capital outlay budgets (the "Spending Growth Limitations"). Generally, budgets could increase either by two and one-half percent (2.5%) or the consumer price index, whichever is greater. Prior amendments to the CEIFA decreased the budget cap to two and one-half percent (2.5%) from three percent (3%). As a result of recent amendments to CEIFA, the budget presented to the voters may not have an increase in the Adjusted Tax Levy that exceeds the pre-budget year Adjusted Tax Levy and an adjustment for enrollment by two percent (2%). See the description of the New Cap Law (as defined herein) below. A school district is required to submit, as applicable, to the board of school estimate or to the voters of the district at the annual school budget election, a general fund tax levy if it exceeds the school district's Adjusted Tax Levy as calculated by N.J.S.A. 18A:7F-38 and 39. Any school district may also submit at the annual school budget election, a separate proposal or proposals for additional funds, including interpretive statements, specifically identifying the program purposes for which the proposed funds shall be used. The Executive County Superintendent may prohibit the submission of such a separate proposal if he or she determines that the district has not implemented all potential efficiencies in the administrative operations of the district, which efficiencies would eliminate the need for such additional funds. Parts of the CEIFA have been found to be unconstitutional. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

P.L. 2010, c. 44, effective July 13, 2010 (the "New Cap Law"), further provides limitations on school district spending by limiting the amount a school district can raise for school district purposes through the property tax levy by two percent (2%) over the prior year's tax levy. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein. The New Cap Law provides for certain adjustments to the tax levy cap for specific circumstances relating to enrollment increases, health care cost increases and increases in amounts for certain normal and accrued liability pension contributions.

The New Cap Law provides that school districts may submit to voters during April school elections or on other dates set by regulation of the Commissioner, a proposal or proposals to increase the Adjusted Tax Levy by more than the allowable amount authorized pursuant to N.J.S.A. 18A:7F-38. The proposal or proposals to increase the Adjusted Tax Levy shall be approved if a majority of the people voting shall vote affirmatively. For school districts with boards of school estimate, the additional Adjusted Tax Levy shall be authorized only if a quorum is present for the vote and a majority of those board members who are present vote affirmatively to authorize the Adjusted Tax Levy.

Debt service on bonds, such as the Bonds, is not limited either by the two percent (2%) cap on the tax levy increase imposed by the New Cap Law.

### **Issuance of Debt**

Among the provisions for the issuance of school debt are the following requirements: (i) bonds must mature in serial installments within the statutory period of usefulness of the projects being financed but not exceeding forty (40) years, (ii) debt must be authorized by a resolution of a board of education (and approved by a board of school estimate in a Type I school district), and (iii) there must be filed with the State by each municipality comprising a school district a Supplemental Debt Statement and a school debt statement setting forth the amount of bonds and notes authorized but unissued and outstanding for such school district.

### **Annual Audit (N.J.S.A. 18A:23-1 et seq.)**

Every board of education is required to provide an annual audit of the school district's accounts and financial transactions. The audit must be performed by a licensed public school accountant no later than five (5) months after the end of the school fiscal year. The audit, in conformity with statutory requirements, must be filed with the board of education and the Commissioner. Additionally, the audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days following receipt of the annual audit by such board of education.

### **Temporary Financing (N.J.S.A. 18A:24-3)**

Temporary notes may be issued in anticipation of the issuance of permanent bonds for a capital improvement or capital project. Such temporary notes may not exceed in the aggregate the amount of bonds authorized for such improvement or project. A school district's temporary notes may be issued for one (1) year periods, with the final maturity not exceeding five (5) years from the date of original issuance; provided, however, that no such notes shall be renewed beyond the third anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which said notes are issued, is paid and retired subsequent to such third anniversary date from funds other than the proceeds of obligations. School districts must include in each annual budget the amount of interest due and payable in each fiscal year on all outstanding temporary notes.

### **Capital Lease Financing**

School districts are permitted to enter into lease purchase agreements for the acquisition of equipment or for the improvement of school buildings. Generally, lease purchase agreements cannot exceed five (5) years except for certain energy-saving equipment which may be leased for up to fifteen (15) years if paid from energy savings. Lease purchase agreements for a term of five (5) years or less must be approved by the Commissioner. The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72, repealed the authorization to enter into facilities leases in excess of five (5) years. The payment of rent on an equipment lease and on a five (5) year and under facilities lease is treated as a current expense and within the cap on the school district's budget. Under the CEIFA, lease purchase payments on leases in excess of five (5) years issued under prior law are treated as debt service payments and, therefore, will receive debt service aid if the school district is entitled and are outside the school district's tax levy cap.

### **Debt Limitation (N.J.S.A. 18A:24-19)**

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 grades Pre-Kindergarten (K) through twelve (12) school district, the School District can borrow up to 4% of the average equalized valuation of taxable property in the School District. The School District has not exceeded its 4% debt limit. See "APPENDIX A – Debt Limit of the School District."

### **Exceptions to Debt Limitation**

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). A school district may also authorize debt in excess of this limit with the consent of the Commissioner and the Local Finance Board.

### **Energy Saving Obligations**

Under P.L. 2009, c. 4, approved January 21, 2009 and effective 60 days thereafter, school districts may 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.

## **SUMMARY OF STATE AID TO SCHOOL DISTRICTS**

In 1973, the Supreme Court of the State of New Jersey (the "Court") ruled in *Robinson v. Cahill* that the method then used to finance public education principally through property taxation was unconstitutional. Pursuant to the Court's ruling, the Legislature enacted the Public School Education Act of 1975, N.J.S.A. 18A:7A-1 *et seq.*, P.L. 1975, c. 212 (the "Public School Education Act") (as amended and partially repealed), which required funding of the State's school aid through the New Jersey Gross

Income Tax Act, P.L. 1976, c. 47, as amended and supplemented, enacted for the purpose of providing property tax relief.

On June 5, 1990, the Court ruled in *Abbott v. Burke* that the school aid formula enacted under the Public School Education Act was unconstitutional as applied. The Court found that poorer urban school districts ("Abbott Districts") were significantly disadvantaged under that school funding formula because school revenues were derived primarily from property taxes. The Court found that wealthy school districts were able to spend more, yet tax less for educational purposes.

The School District is not an "Abbott District".

The legislative response to *Abbott v. Burke* was the passage of the QEA (now repealed). The QEA established a new formula for the distribution of State aid for public education, beginning with the 1991-92 fiscal year. The QEA provided a formula that took into account property values and personal income to determine a school 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 QEA was amended and revised by chapter 62 of the Laws of New Jersey of 1991, and further amended by chapter 7 of the Laws of New Jersey of 1993.

On July 12, 1994, the Court declared the school aid formula under the QEA unconstitutional on several grounds as it applied to the 28 Abbott Districts in the ongoing litigation commonly known as *Abbott v. Burke II*. No specific remediation was ordered, but the 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 any new formula would be implemented during the 1997-1998 fiscal period and thereafter.

In keeping with the Court's deadline, the Governor signed the CEIFA into law on December 20, 1996. The CEIFA departed from other funding formulas adopted in the State by defining what constituted a "thorough and efficient" education, as is required by the Constitution of the State. The CEIFA further established the costs necessary provide each student with such an education.

In defining what constitutes a "thorough" education, the State Board adopted a set of Core Curriculum Content Standards (the "Core Curriculum Content Standards"). The purpose of the Core Curriculum Content 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 CEIFA provided State funding assistance in the form of Core Curriculum Content Standards Aid based on a school district's financial ability to raise sufficient tax revenue for its students to achieve the Core Curriculum Content Standards.

On May 14, 1997, the Court held that the CEIFA was unconstitutional as applied to the Abbott Districts because (1) its funding provisions failed to assure that students in such districts would receive a thorough and efficient education and (2) supplemental programs to increase student performance in such districts were neither adequately identified nor funded. The Court recognized the Core Curriculum Content Standards as a valid means of identifying 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. To bridge the gap between Abbott Districts and non-special needs districts, the Court ordered the parity remedy, designed as an interim remedy whereby the State would provide parity aid and supplemental funding to Abbott Districts. The CEIFA has not been used to calculate State aid for public schools since the 2001-2002 school year.

Pursuant to the Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 (the "EFCFA"), which became law on July 18, 2000, the State provides aid to school facilities projects. Under the EFCFA, the State provides one hundred percent (100%) State funding for school facilities projects undertaken by Abbott Districts; for non-Abbott Districts, the State provides aid in an amount equal to the greater of the district aid percentage or forty percent (40%) times the eligible costs determined by the Commissioner either in the form of a grant or debt service aid as determined under the EFCFA. The amount of the aid is established prior to the authorization of the project.

Since the 2010-2011 fiscal year, the State has funded debt service aid at eighty-five (85%) of the amount that a School District was entitled to receive under the EFCFA. See "Recent Developments in the Reduction of State Aid" herein.

### **The School Funding Reform Act of 2008**

The School Funding Reform Act of 2008 (the "SFRA") was signed into law in January 2008 and is a five-year product of the State's latest effort to craft a redesigned school funding formula that satisfies the constitutional standard. While the SFRA maintains the Core Curriculum Content Standards established by the CEIFA, it repeals the provisions of the CEIFA which established State aid formulas for programs to support the Core Curriculum Content Standards and has established new formulas. Essentially, the SFRA provides State aid to school districts while also requiring certain levels of local funding. It is a weighted school funding formula which identifies a base cost associated with the education of an elementary pupil without any particular special needs. Once the per-pupil amount is identified, the amount is increased to reflect factors that increase the cost of education, such as (i) grade level, and whether the pupil is (ii) an at-risk pupil (eligible for free or reduced-price lunch), (iii) a Limited English Proficiency ("LEP") pupil, or (iv) a special education student of mild, moderate or severe classification.

The formula is further comprised of several funding mechanisms, the central component being the Adequacy Budget, a wealth equalized budget based on the school district's ability to provide funding through local resources (the "Adequacy Budget"). The Adequacy Report (the "Adequacy Report") establishes the base pupil cost necessary to provide the thorough and efficient education for an elementary school student. Such amount will be adjusted to reflect the differing cost of education a student at the middle and high school levels and various other factors as set forth in the SFRA. Based upon the school district's property and personal income wealth, a local share of such Adequacy Budget is determined. State aid will be provided for that portion of the Adequacy Budget which cannot be supported locally. The SFRA guarantees a minimum two percent (2%) increase in State aid for each school district.

The Department must provide an Adequacy Report every three (3) years addressing the weighted factors that comprise the Adequacy Budget and the various additional components of the SFRA: equalization aid, categorical aid, preschool aid, extraordinary aid, adjustment aid and education adequacy aid.

Under the SFRA, the base per pupil amount for 2013-2014 was \$11,009.

The constitutionality of the SFRA was challenged and was held to be constitutional by the Court on May 28, 2009.

### **Recent Developments in the Reduction of State Aid**

The State provides aid to school districts in accordance with amounts provided annually in the State budget. Such aid includes equalization aid, special education categorical aid, transportation aid, preschool education aid, supplemental core curriculum standards aid, choice aid, education adequacy aid, security aid, adjustment aid and other aid as determined in the discretion of the Commissioner.

The State has reduced debt service aid by fifteen percent (15%) since fiscal year 2011. As a result of the debt service aid reduction for such years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, for such years, school districts which received grants under the EFCFA, which grants were financed through the New Jersey Economic Development Authority (the "EDA"), were assessed an amount in such years' budgets representing fifteen percent (15%) of the school district's proportionate share of such respective years' principal and interest payments on the outstanding EDA bonds issued to fund such grants.



## SUMMARY OF 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 Elementary and Secondary Education Act of 1965, as amended and restated by the No Child Left Behind Act of 2001, 20 U.S.C.A. § 6301 et seq., is a Federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is available under Chapter 1 Aid. Such Federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

## MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

### Local Bond Law (N.J.S.A. 40A:2-1 et seq.)

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

The authorized bonded indebtedness of the Borough is limited by statute, subject to certain exceptions noted below, to an amount equal to 3.5% of its average equalized valuation basis. The average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within each respective constituent municipality as annually determined by the New Jersey Board of Taxation are set forth in APPENDIX A.

Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit.

A municipality may exceed its debt limit with the approval of the Local Finance Board, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, a municipality may apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the municipality or substantially reduce the ability of the municipality to meet its obligations or to provide essential public improvements and services, or makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the municipality to fund certain notes, to provide for self-liquidating purposes, and, in each fiscal year, in an amount not exceeding 2/3 of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of utility and assessment obligations).

A municipality may sell "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as it may be amended and supplemented, creating such capital expenditure. A local unit's bond anticipation notes may be issued for periods not exceeding one (1) year. Generally, bond anticipation notes may not be outstanding for longer than ten (10) years. An additional period may be available following the tenth anniversary date equal to the period from the notes' maturity to the end of the tenth fiscal year in which the notes mature plus four (4) months in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum amount required for the first year's principal payment for a bond issue.

## **Local Budget Law (N.J.S.A. 40A:4-1 et seq.)**

The foundation of the State local finance system is the annual cash basis budget. Every local unit must adopt an annual operating budget in the form required by the Division of Local Government Services, New Jersey Department of Community Affairs (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it has been certified by the Director of the Division (the "Director"), or in the case of a local unit's examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the Chief Financial Officer and governing body of the local unit. The Local Budget Law, N.J.S.A. 40A:4-1 et seq. (the "Local Budget Law") requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit, may review the adequacy of such appropriations.

Tax anticipation notes are limited in amount by law and must be paid off in full within 120 days of the close of the fiscal year in which they were issued.

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

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

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

No budget or amendment thereof shall be adopted unless the Director shall have previously certified his approval of such anticipated revenues, except that categorical grants-in-aid contracts may be included for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with a municipality's calendar fiscal year. However, grant revenue is generally not realized until received in cash.

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. The maximum amount of delinquent taxes that may be anticipated is limited by a statutory formula, which allows the local unit to anticipate collection at the same rate realized for the collection of delinquent taxes in the previous year. Also the local unit is required to make an appropriation for a "reserve for uncollected taxes" in accordance with a statutory formula to provide for a tax collection in an amount that does not exceed the percentage of taxes levied and payable in the preceding fiscal year that was received in cash by December 31 of that year. The budget also must provide for any cash deficits of the prior year.

Emergency appropriations (those made after the adoption of the budget and the determination of the tax rate) may be authorized by the governing body. However, with minor exceptions, such appropriations must be included in full in the following year's budget. When such appropriations exceed three percent (3%) of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated quasi-capital projects ("special emergencies") such as (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost, or floods, which may be amortized over three (3) years, and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map

preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this section (ii) may be amortized over five (5) years. N.J.S.A. 40A:4-53, -54, -55, -55.1. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project as described above.

Budget transfers provide a degree of flexibility and afford a control mechanism. Pursuant to N.J.S.A. 40A:4-58, transfers between appropriation accounts are prohibited until the last two (2) months of the year. Appropriation reserves may be transferred during the first three (3) months of the year, to the previous year's budget. N.J.S.A. 40A:4-59. Both types of transfers require a 2/3 vote of the full membership of the governing body. Although sub-accounts within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval. Certain types of appropriations are excluded from the provisions permitting transfers. Generally, transfers cannot be made from the down payment account, interest or debt redemption charges or the capital improvement fund or for contingent expenses.

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

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

#### **Fiscal Year Adjustment Law (1991 N.J. Laws c. 75)**

Chapter 75 of the Laws of New Jersey of 1991, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year. Municipalities that change fiscal years must adopt a six (6) month transition budget for January 1 through June 30. Since expenditures would be expected to exceed revenues primarily because State aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the act authorizes the issuance of Fiscal Year Adjustment Bonds to fund the one time deficit for the six (6) month transition budget. The law provides that the deficit in the six (6) month transition budget may be funded initially with bond anticipation notes based on the estimated deficit in the six (6) month transition budget. Notes issued in anticipation of Fiscal Year Adjustment Bonds, including renewals, can only be issued for up to one (1) year unless the Local Finance Board permits the municipality to renew them for a longer period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue Fiscal Year Adjustment Bonds to finance the deficit on a permanent basis. The purpose of the act is to assist municipalities that are heavily dependent on State aid and that have had to issue tax anticipation notes to fund operating cash flow deficits each year. While the law does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue Fiscal Year Adjustment Bonds as well.

## **State Supervision**

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two (2) successive years; which has a deficit greater than four percent (4%) of its tax levy for two (2) successive years; which has failed to make payments due and owing to the State, county, school district or special district for two (2) consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds twenty-five percent (25%) of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law, or the Local Fiscal Affairs Law, N.J.S.A. 40A:5-1 *et seq.*, which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

## **Appropriations “Cap”**

The New Jersey “Cap Law” (the “Cap Law”) (N.J.S.A. 40A:4-45.1 *et seq.*) places limits on municipal tax levies and expenditures. The Cap Law provides that a local unit shall limit any increase in its budget to two and one-half percent (2.5%) or the Cost-Of-Living Adjustment (as defined in the Cap Law), whichever is less, of the previous year’s final appropriations, subject to certain exceptions. The Cost-Of-Living Adjustment is defined as the rate of annual percentage increase, rounded to the nearest half percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services produced by the United States Department of Commerce for the year preceding the current year as announced by the Director. However, in each year in which the Cost-Of-Living Adjustment is equal to or less than two and one-half percent (2.5%), a local unit may, by ordinance, approved by a majority vote of the full membership of the governing body, provide that the final appropriations of the local unit for such year be increased by a percentage rate that is greater than the Cost-Of-Living Adjustment, but not more than three and one-half percent (3.5%) over the previous year’s final appropriations. In addition, N.J.S.A. 40A:4-45.15a restored “CAP” banking to the Local Budget Law. Municipalities are permitted to appropriate available “CAP Bank” in either of the next two (2) succeeding years’ final appropriations. Along with the permitted increases for total general appropriations there are certain items that are allowed to increase outside the “CAP”.

Additionally, P.L. 2010, c.44, effective July 13, 2010, imposes a two percent (2%) cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments. The exclusions from the limit include increases required to be raised for capital expenditures, including debt service, increases in pension contributions in excess of 2%, certain increases in health care over 2%, and extraordinary costs incurred by a local unit directly related to a declared emergency. The governing body of a local unit may request approval, through a public question submitted to the legal voters residing in its territory, to increase the amount to be raised by taxation, and voters may approve increases above 2% not otherwise permitted under the law by an affirmative vote of 50%.

The Division has advised that counties and municipalities must comply with both the budget “CAP” and the tax levy limitation. Neither the tax levy limitation nor the “CAP” law, however, limits the obligation of the county or municipality to levy *ad valorem* taxes upon all taxable property within its boundaries to pay debt service on its bonds and notes.

## **Tax Assessment and Collection Procedure**

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income (where appropriate). Current assessments are the result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. However, a divergence of the assessment ratio to true value is typically due to changes in market value over time.

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

Generally, tax bills are mailed annually in June of the current fiscal year. The taxes are payable in four quarterly installments on February 1, May 1, August 1 and November 1. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged for the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either one-quarter or one-half of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) per annum on the first \$1,500.00 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500.00. Pursuant to 1991 N.J. Laws c. 75, the governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000.00 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed six percent (6%) of the amount of the delinquency. These penalties and interest are the highest permitted under State Statutes. Delinquent taxes open for one (1) year or more are annually included in a tax sale in accordance with State Statutes.

### **Tax Appeals**

State Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. The taxpayer has a right to petition the county Board of Taxation on or before April 1 of the current year for review. The county Board of Taxation has the authority after a hearing to decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer feels his petition was unsatisfactorily reviewed by the county Board of Taxation, appeal may be made to the Tax Court of the State of New Jersey (the "State Tax Court") for further hearing. Some State Tax Court appeals may take several years prior to settlement and any losses in tax collections from prior years are charged directly to operations.

### **Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 et seq.)**

This law regulates the nonbudgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies or commissions.

An independent examination of each local unit's accounts must be performed annually by a licensed registered municipal accountant. The audit, conforming to the Division's "Requirements of Audit," includes recommendations for improvement of the local unit's financial procedures. The audit report must be filed with the Director. A synopsis of the report, together with all recommendations made, must be published in a local newspaper within thirty (30) days of the local unit's receipt of the audit report.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Board as of and for the fiscal year ended June 30, 2014 together with the notes to the financial statements have been provided by Samuel Klein and Company, Freehold, New Jersey (the "Auditor"), and are presented in APPENDIX B to this Official Statement (the "Financial Statements"). See "APPENDIX B - Financial Statements for the Year Ending June 30, 2014."

## **FINANCIAL ADVISOR**

Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Financial Advisor to the Board with respect to the issuance of the Bonds (the "Financial Advisor"). The Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement and the Appendices hereto. The Financial Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **LITIGATION**

To the knowledge of the Board Attorney, Kenney, Gross, Kovats & Parton, Red Bank, New Jersey, (the "Board Attorney"), without independent inquiry or investigation and based upon the representation of the Board's Business Administrator/Board Secretary, there is no litigation of any nature now pending or threatened against the Board, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Board or the School District or the title of any of the present officers. To the knowledge of the Board Attorney, without independent inquiry or investigation and based upon the representation of the Board's Business Administrator/Board Secretary, no litigation is presently pending or threatened that, in the opinion of the Board Attorney, would have a materially adverse impact on the financial condition of the Board if adversely decided. A certificate to such effect will be executed by the Board Attorney and delivered to the Underwriter (as hereinafter defined) of the Bonds at the closing.

## **TAX EXEMPTION**

### **Federal Income Tax Treatment**

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance of the Bonds in order for the interest thereon to be and remain excluded from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause such interest to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. The Board has covenanted to comply with the provisions of the Code applicable to the Bonds, and has covenanted not to take any action or fail to take any action that would cause interest on the Bonds to lose the exclusion from gross income under Section 103 of the Code.

In the opinion of Wilentz, Goldman & Spitzer, P.A., Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the Board with the requirements of the Code described above, interest on the Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item under Section 57 of the Code for purposes of computing the Federal alternative minimum tax imposed on individuals and corporations.

### **Additional Federal Income Tax Consequences Relating to Bonds**

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional Federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Bonds should also consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

## **State Taxation**

Bond Counsel is also of the opinion that interest on the Bonds, and any gain on the sale of the Bonds, are not includable in gross income under the existing New Jersey Gross Income Tax Act, 1976 N.J. Laws c. 47, as amended. Except as provided above, no opinion is expressed with respect to other State and local tax consequences of owning the Bonds. See "APPENDIX C – Form of Approving Legal Opinion" for the complete text of the proposed form of Bond Counsel's approving legal opinion.

## **Prospective Tax Law Changes**

Federal, state or local legislation, administrative pronouncements or court decisions may affect the Federal and State tax-exempt status of interest on the Bonds and the State tax-exempt status of interest on the Bonds, gain from the sale or other disposition of the Bonds, the market value of the Bonds or the marketability of the Bonds. The effect of any legislation, administrative pronouncements or court decisions cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters.

## **Other Tax Consequences**

Except as described above, Bond Counsel expresses no opinion with respect to any Federal, State, local or foreign tax consequences of ownership of the Bonds. Bond Counsel renders its opinion under existing statutes, regulations, rulings and court decisions as of the date of issuance of the Bonds and assumes no obligation to update its opinion after such date of issuance to reflect any future action, fact, circumstance, change in law or interpretation, or otherwise. Bond Counsel expresses no opinion as to the effect, if any, on the tax status of the interest on the Bonds paid or to be paid as a result of any action hereafter taken or not taken in reliance upon an opinion of other counsel.

See APPENDIX C for the complete text of the proposed form of Bond Counsel's legal opinion with respect to the Bonds.

**PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO ALL TAX CONSEQUENCES (INCLUDING BUT NOT LIMITED TO THOSE LISTED ABOVE) OF HOLDING THE BONDS.**

## **BANK-QUALIFIED BONDS**

The Bonds will be designated as "qualified tax-exempt obligations" under Section 265 of the Code by the Issuer for an exemption from the denial of deduction for interest paid by financial institutions to purchase or carry tax-exempt obligations. The Board will furnish to the Underwriter (as herein after defined) at the time of delivery of any payment for the Bonds, a certificate executed by the Business Administrator/Board Secretary of the Board designating the Bonds "qualified tax-exempt obligations" within the meaning of section 265(b)(3)(B)(ii) of the Code, and in such certificate the Board will represent that it reasonably expects that, collectively, neither it nor its subordinate entities, if any, will issue more than \$10,000,000 of tax-exempt obligations in the current calendar year.

The Code denies the interest deduction for certain indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations. The denial to such institutions of one hundred percent (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 are eligible to be designated and which are designated by the issuer as qualified under Section 265 of the Code, eighty percent (80%) of such interest may be deducted as a business expense by such institutions.

## **RISK TO HOLDERS OF BONDS**

It is understood that the rights of the holders of the Bonds, and the enforceability thereof, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors'

rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

### **Municipal Bankruptcy**

**THE BOARD HAS NOT AUTHORIZED THE FILING OF A BANKRUPTCY PETITION. THIS REFERENCE TO THE BANKRUPTCY CODE OR THE STATE STATUTE SHOULD NOT CREATE ANY IMPLICATION THAT THE BOARD EXPECTS TO UTILIZE THE BENEFITS OF ITS PROVISIONS, OR THAT IF UTILIZED, 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, OR THAT THE BANKRUPTCY CODE COULD NOT BE AMENDED AFTER THE DATE HEREOF.**

The undertakings of the Board should be considered with reference to 11 U.S.C. §101 *et seq.*, as amended and supplemented (the "Bankruptcy Code"), and other bankruptcy laws affecting creditors' rights and municipalities in general. The Bankruptcy Code permits the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of 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 certain debts owed, and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of at least one (1) impaired class. The Bankruptcy Code specifically does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a political subdivision must follow in order to take advantage of the provisions of the Bankruptcy Code.

The Bankruptcy Code provides that special revenue acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by such debtor before the commencement of such bankruptcy case. However, special revenues acquired by the debtor after commencement of the case shall continue to be available to pay debt service secured by those revenues. Furthermore, the Bankruptcy Code provides that a transfer of property of a debtor to or for the benefit of any holder of a bond or note, on account of such bond or note, may be avoided pursuant to certain preferential transfer provisions set forth in such act.

Reference should also be made to N.J.S.A. 52:27-40 *et seq.* which provides that a political subdivision, including the Board, has the power to file a petition in bankruptcy with any United States Court or court in bankruptcy under the provisions of the Bankruptcy Code, for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts; provided, however, the approval of the Local Finance Board, as successor to the Municipal Finance Commission, must be obtained.

### **APPROVAL OF LEGAL PROCEEDINGS**

All legal matters incident to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of Bond Counsel to the Board, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as APPENDIX C. Certain legal matters will be passed on for the Board by its Board Attorney.

### **PREPARATION OF OFFICIAL STATEMENT**

The Board hereby states that the descriptions and statements herein, including the Financial Statements, are true and correct in all material respects and it will confirm same to the Underwriter by a certificate signed by the Board President and Business Administrator/Board Secretary. See "CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT" herein.

Bond Counsel has participated in the preparation and review of this Official Statement but has not participated in the collection of financial, statistical or demographic information contained in this Official



Statement nor verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto.

The Auditor has not participated in the preparation of the information contained in this Official Statement and has not verified the accuracy, completeness, or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto, but takes responsibility for the Financial Statements to the extent specified in the Independent Auditors' Report appearing in APPENDIX B hereto.

The Board Attorney has not participated in the preparation of the information contained in this Official Statement, nor has he verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto, but has reviewed the section under the caption entitled "LITIGATION" and expresses no opinion or assurance other than that which is specifically set forth therein with respect thereto.

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

### **RATING**

Moody's Investors Service, Inc. ("Moody's" or the "Rating Agency") has assigned its rating of "A1" to the Bonds based upon the creditworthiness of the School District. The Bonds are additionally secured by the New Jersey School Bond Reserve Act.

The ratings reflect only the view of the Rating Agency and an explanation of the significance of such ratings may only be obtained from the Rating Agency at the following address: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The Board forwarded to the Rating Agency certain information and materials concerning the Bonds and the School District. There can be no assurance that the ratings will be maintained for any given period of time or that the ratings may not be raised, lowered or withdrawn entirely if, in the Rating Agency's judgment, circumstances so warrant. Any downward change in, or withdrawal of, such ratings may have an adverse effect on the marketability or market price of the Bonds.

### **UNDERWRITING**

The Bonds are being purchased from the Board by Robert W. Baird & Co. Incorporated (the "Underwriter") at a price of \$2,453,000.00. The purchase price of the Bonds reflects the par amount of Bonds equal to \$2,453,000.00, minus an Underwriter's discount of \$32,488.96 plus an original issue premium of \$32,488.96. The Underwriter is obligated to purchase all of the Bonds if any Bonds are so purchased.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at yields higher than the public offering yields set forth on the cover page, and such public offering yields may be changed, from time to time, by the Underwriter without prior notice. The Underwriter may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

### **SECONDARY MARKET DISCLOSURE**

The Board has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Board by no later than each January 31 after the end of each fiscal year, commencing with the fiscal year ending June 30, 2014 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Board with the Municipal Securities Rulemaking Board (the "MSRB") or any other

entity designated by the MSRB. The notices of material events will be filed by the Board with the MSRB through its Electronic Municipal Market Access ("EMMA") system and with any other entity designated by the MSRB, as applicable. The nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

The Board previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements certain operating data and annual financial information for fiscal year ended June 30, 2012 and 2014. Additionally, the Board acknowledges that it previously failed to file material event notices and late filing notices in connection with (i) its timely filings of annual financial information and (ii) certain rating changes. Such notices of material events and late filings have been filed with EMMA as of the date of this Official Statement. The Board has appointed Phoenix Advisors, LLC to serve as continuing disclosure agent.

#### **ADDITIONAL INFORMATION**

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to the Business Administrator/Board Secretary, Kenneth J. Kokoszka, (732) 613-4000, ext. 227, or to Lisa A. Gorab, Esq., Wilentz, Goldman & Spitzer, P.A., Bond Counsel to the Board, (732) 855-6459.

#### **CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT**

At the time of the original delivery of the Bonds, the Board will deliver a certificate of one or more of its authorized officials to the effect that he/she has examined this Official Statement (including the Appendices) and the financial and other data concerning the School District contained herein and that, to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of the Official Statement and the date of delivery of the Bonds, there has been no material adverse change in the affairs (financial or otherwise), financial condition or results or operations of the Board except as set forth in or contemplated by the Official Statement.

#### **MISCELLANEOUS**

This Official Statement is not to be construed as a contract or agreement among the Board, the Underwriter and the holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Board since the date hereof.

The Board has authorized the preparation of a final Official Statement containing pertinent information relative to the Bonds, and said Official Statement is deemed to be the final Official Statement as required by Rule 15c2-12, promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended and supplemented. By awarding the Bonds to the Underwriter, the Board agrees that, within the earlier of seven (7) business days following the date of such award or to accompany the purchasers' confirmations requesting payment for the Bonds, it shall provide without cost to the Underwriter, for distribution purposes, copies of such final Official Statement. The underwriter agrees that (i) it shall accept such designation, and (ii) it shall assure the distribution of the final Official Statement.

**THE BOARD OF EDUCATION OF THE BOROUGH OF  
SOUTH RIVER IN THE COUNTY OF MIDDLESEX, NEW  
JERSEY**

***/s/ Kenneth J. Kokoszka***

**KENNETH J. KOKOSZKA,**

**Business Administrator/Board Secretary**

**DATED: April 22, 2015**

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**APPENDIX A**

**Certain Economic, Financial and Demographic Information  
Concerning the Borough of South River School District  
in the County of Middlesex, State of New Jersey**

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**APPENDIX A**

**CERTAIN ECONOMIC, FINANCIAL AND DEMOGRAPHIC INFORMATION  
CONCERNING  
THE BOROUGH OF SOUTH RIVER SCHOOL DISTRICT  
IN THE COUNTY OF MIDDLESEX,  
STATE OF NEW JERSEY**

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## **GENERAL INFORMATION ON THE BOROUGH OF SOUTH RIVER**

The Borough of South River (the “Borough”) is located in the southeast section of Middlesex County just outside the City of New Brunswick and approximately 35 miles south of New York City. The population, according to the 2010 census, is 16,008. The Borough has a land area of approximately 2.87 square miles. It is essentially a residential community, approximately ninety-five percent developed. The median value of homes and the median family income are above the state and national levels. The residents of the Borough represent the professions, management and the skilled trades.

### **History of the Borough**

The Borough finds its origin in the settlement of Hartshorne Willett, grandson of Sir Thomas Willett, Baronet of England, in 1720. Hartshorne Willett owned considerable holdings in this vicinity and until 1784 this locality was known as Willetstown.

Other origins of common local names are shown throughout the history of the Borough. For instance, a great admirer of George Washington, Abraham Barkelew, renamed the settlement Washington, and a post office was established under this name. During these early pioneering days, Washington consisted of only a few houses, and not until 1823 did the number of houses exceed 10.

During this time, Vincent Barkelew kept a store on the south side of Main Street near the dock and Samuel Whitehead, engaging in peach culture, made a small fortune selling these fruits in New York. This volume of trade prompted the improvement of the transportation route between Washington and New York through the construction of the Washington Canal.

After the construction of the Washington Canal in 1823, in which Samuel Gordon played an active part, the shipping business flourished with the additional products of wood and grain being shipped as goods destined for New York.

Further commercial activity focused on the Borough with the advent of the Camden and Amboy Railroad, which bypassed Washington and caused the South Amboy area to become the focal point of transportation to New York. The large and fine quality clay deposits stimulated the making of pottery around 1830 and later brought in the brick making industries. With this local economic growth came an increase in population and status. In 1870, the legislature elevated the Village of Washington to a town, directed by a Board of Commissioners to be elected annually.

The present name “South River” came into existence with the incorporation of the Borough from the Town of Washington in 1898. It is of interest to note that the name “South River” actually was prompted by the adoption of this name by the post office, authorized by the Postal Authorities because of continuous deliveries of mail intended for other cities by the name of Washington. By this time, the population increased to approximately 2,800 people and could boast even a three-room brick school.

The growth of the Borough during the early decades of the 1900's is similar to that of many other old cities of the Raritan Bay area such as South Amboy, Perth Amboy and Carteret.

Local development took place mainly along the area adjacent to the Causeway, Main Street, Jackson and Whitehead Avenues and Prospect Street. These streets were the main routes traveled by the industrial and commercial traffic created in connection with the area industrialization taking place, as well as by the brick, clay and garment manufacturing of a later period.

Today, the Borough is almost completely developed and is part of a metropolitan area fraught with business competition, transportation difficulties, population shifts and undulating economic cycles.

### **Form of Government**

The Borough of South River operates under the Borough form of government. The governing body consists of a Mayor and six Council members. All action is passed by a majority or, when required, a 2/3 vote of Council. The Mayor votes only in the event of a tie. The Mayor has veto power over all ordinances passed by the Borough Council. This veto can be overridden by a two-thirds (2/3) vote of the Council.

### **Transportation**

Transportation is available to New York City and to nearby communities by Transport of New Jersey and Suburban Transit Company. Four major highways, Routes 18, 287, 1 and 9 provide access to the Garden State Parkway and the New Jersey Turnpike, allowing quick and convenient movement throughout the metropolitan area.

### **Utilities Serving the Borough**

The Borough operates three (3) separate utilities (funds) and a Sewer department, which are as follows:

#### *Electric Utility:*

The Borough purchases power on the open market through December 31, 2014 from nationally recognized vendors such as Nextera, PSE & GER, Exelon, Constellation, DTE and PPL and distributes power to its customers through an overhead distribution system. The Electric Utility is funded by user charges. The Electric Utility Operating Fund was self-liquidating for 2014.

#### *Water Utility:*

The Borough derives approximately forty-five percent (45%, approximately 780 mgd, of its supply from ground water sources. Three deep wells and a shallow infiltration system serve as the source and the water is treated for purposes of disinfection and the chemical sequestering of iron. The remaining fifty-five percent (55%, approximately 950 mgd) is derived by purchasing treated water from East Brunswick Township through two (2) interconnections. The Water Utility is funded by user charges. The Water Utility Operating Fund was self-liquidating for 2014.

#### *Parking Utility:*

The Borough dissolved the South River Parking Authority and assumed control of the operation on November 1, 2011. The Authority previously controlled parking in the downtown area of the Borough. The Parking Utility Operating Fund was self-liquidating for 2014.

#### *Sewer Department:*

The Borough operates a gravity mains collection system only; treatment of sewerage is performed by the Middlesex County Utilities Authority. Sewerage is transmitted to the Authority by two pumping stations and force mains. The Sewer activities are accounted for in the Current Fund of the Borough and revenue is provided primarily through real estate taxes.

## **Police Protection**

The Borough's police department provides twenty-four hour police protection to its residents. The department's thirty one (31) man sworn force is supplemented by special police officers providing maximum manpower coverage throughout the Borough at all times.

## **Fire Protection**

The Borough's volunteer fire department provides twenty-four hour fire protection for the Borough residents. The department has one hundred (100) members, of which 47 qualify for the LOSAP (service) benefits. The department has four (4) fire engines, one (1) ladder truck and one (1) brush truck as part of the South River Fire Department providing continual protection for all citizens of the Borough.

## **Emergency Medical Services**

The first aid squad consists of forty five (45) volunteer members who are on twenty-four hour call. The squad has its own building to house and service its five (5) vehicles, which together with two (2) boats and extracting equipment, allows the first aid squad to respond to any possible emergency within the Borough. The Borough also provides, in exchange for additional coverage, a not-for-profit emergency medical services corporation with a limited amount of vehicle repairs, building upkeep and certain supplies.

## **Municipal Debt Incurring Capacity as of December 31, 2014**

3½ % of Average Equalized Valuation Basis	\$ 46,127,047.82
Net Debt Issued and Outstanding and Authorized But Not Issued	<u>22,992,874.60</u>
Additional Borrowing Power	<u>\$ 23,134,173.22</u>

## **Overlapping Debt – County of Middlesex, New Jersey as of December 31, 2014**

Bonds and Notes of the County Issued and Authorized But Not Issued (Net)	\$ 578,120,091.00
Percentage of Such Debt Chargeable to South River Borough	1.3759%

Source: The foregoing financial information has been compiled by the firm of Samuel Klein and Company as Auditor for the Borough of South River.

**Statement of Indebtedness as of December 31, 2014**

	<u>Gross Debt</u>	<u>Statutory Deductions</u>	<u>Net Statutory Debt</u>
Local District School Debt:			
School District Bonds	\$ 11,204,000.00	\$ 11,204,000.00	\$ None
Bonds and Notes Authorized but not Issued (1)	496,172.81	496,172.81	None
Municipal Debt:			
Issued and Outstanding:			
General Capital Bonds, Notes and Loans	18,418,927.32	None	18,418,927.32
Electric Utility Capital Bonds, Notes and Loans	4,960,000.00	4,960,000.00	None
Water Utility Capital Bonds, Notes and Loans	4,857,451.97	4,857,451.97	None
Parking Utility Capital Bonds, Notes and Loans	175,000.00	175,000.00	None
Authorized But Not Issued:			
General Capital	4,573,947.28	None	4,573,947.28
Electric Utility Capital	900,000.00	900,000.00	None
Water Utility Capital	2,041,000.00	2,041,000.00	None
Parking Utility Capital	<u>15,000.00</u>	<u>15,000.00</u>	<u>None</u>
Gross Debt, Giving Effect to New Authorizations	<u>\$ 47,641,499.38</u>		
Total Statutory Deductions		<u>\$ 24,648,624.78</u>	
Net Statutory Debt			<u>\$ 22,992,874.60</u>
Average of Equalized Valuation Basis of Real Property with Improvements (2012, 2013 and 2014)			<u>\$ 1,317,915,652.00</u>
Net Debt Expressed as a Percentage of Average Equalized Valuation Basis			<u>1.745%</u>
Gross Debt Expressed as a Percentage of Average Equalized Valuation Basis			<u>3.61%</u>
Net Debt Expressed as a Percentage of 2014 Net Valuation on Which County Taxes are Apportioned Basis of \$1,319,732,478			<u>1.75%</u>
Per Capita Gross Debt Based on 2010 Population Basis of 16,008			<u>\$2,976.11</u>
Per Capita Net Debt Based on 2010 Population Basis of 16,008			<u>\$1,436.34</u>

Source: The foregoing financial information has been compiled by the firm of Samuel Klein and Company as Auditor for the Borough of South River.

Note 1: The remaining authorization from a referendum held on December 14, 2010 for various improvements to district schools. This will be reduced once the final payment of a Regular Operating District (ROD) Grant is received.

## Historical Data of Borough Debt

<u>Year</u>	<u>Equalized Valuation Ratio to True Value</u>	<u>True Value of Real Property</u>	<u>Gross Debt Issued and Authorized But Not Issued</u>	<u>Percentage of Gross Debt to Estimated True Value</u>	<u>Per Capita Gross Debt (1)</u>	<u>Net Debt</u>	<u>Per Capita Net Debt (1)</u>
2014	32.02	\$ 1,292,763,585	\$ 47,641,499	3.685	\$ 2,976.11	\$ 22,992,875	\$ 1,436.34
2013	31.51	1,311,808,315	48,571,619	3.703	3,034.21	22,504,400	1,405.83
2012	31.19	1,349,715,056	58,122,351	4.306	3,630.83	24,209,777	1,512.36
2011	29.31	1,441,461,958	58,782,617	4.078	3,672.08	20,446,103	1,277.25
2010	27.22	1,563,534,824	63,018,156	4.030	3,936.67	21,495,775	1,342.82

Source: Annual Audit Reports of the Borough of South River for 2010-2013, Annual Debt Statement (unaudited) of the Borough of South River for 2014 and the State of New Jersey, Division of Taxation.

Note 1: Calculated on census of 2010 population of 16,008.

## Ten Largest Taxpayers as of December 31, 2014

<u>Taxpayer</u>	<u>Description</u>	<u>Assessed Valuation - Year 2014</u>	<u>Percent</u>
LIT Industrial, LP	Warehousing	\$ 7,266,200	1.77%
LIT Northend LLC	Warehousing	4,942,500	1.19%
Lighthouse South River LG LLC	Apartments	2,350,000	0.57%
Emmess Apts. LTD	Apartments	1,571,400	0.38%
East Coast Village Green Apartments	Apartments	1,200,000	0.29%
425 Whitehead, LLC	Warehousing	980,000	0.24%
Zifovski, Zlatan & Lube	Various	801,700	0.19%
Felmore Associates	Apartments	700,000	0.17%
Sherwood Court	Apartments	633,100	0.15%
Patrick and Barbara DiNicola	Industrial	622,500	0.15%
		<u>\$ 21,067,400</u>	<u>5.10%</u>

Source: Borough of South River Tax Assessor's Office.

**Largest Employers in the Borough as of December 31, 2014**

<u>Employer</u>	<u>Business</u>	<u>Estimated Number of Employees</u>	
		<u>FT</u>	<u>PT</u>
Borough of South River	Government	103	174
South River Board of Education	Education	233	70
U.S. Postal Service	Government	22	1
WAWA	Convenience Store & Gas	18	21
Rite-Aid	Pharmacy	10	10

Source: Borough of South River, Business Administrator's Office.

**Tax Collection History**

<u>Year</u>	<u>Tax Levy</u>	<u>Cash Collections during Year of Levy</u>	
		<u>Amount</u>	<u>Percentage</u>
2014	\$ 29,524,806.74	\$ 28,976,314.33	98.14 %
2013	28,580,533.00	27,893,367.80	97.60
2012	28,288,692.00	27,553,240.00	97.40
2011	28,199,096.33	27,522,627.54	97.60
2010	27,258,681.92	26,541,537.70	97.37

Source: Annual Audit Reports of the Borough of South River for 2010-2013. Annual Financial Statement (unaudited) of the Borough of South River for 2014.

**Tax Title Liens and Property Acquired for Taxes**

<u>Year</u>	<u>Tax Title Liens</u>	<u>Property Acquired for Taxes</u>
2014	\$ 300,547.14	\$ 47,800.00
2013	297,573.52	47,800.00
2012	274,332.41	47,800.00
2011	149,613.83	47,800.00
2010	132,592.22	47,800.00

Source: Annual Audit Reports of the Borough of South River for 2010-2013. Annual Financial Statement (unaudited) of the Borough of South River for 2014.

### Electric Utility Collection History

<u>Year</u>		<u>Levy</u>		<u>Cash Collections (*)</u>
2014	\$	13,776,649.24	\$	13,667,419.79
2013		12,895,789.63		13,124,979.95
2012		13,487,589.35		13,317,858.26
2011		14,744,412.76		14,953,578.47
2010		15,465,767.80		15,054,935.42

Source: Annual Audit Reports of the Borough of South River for 2010-2013.  
Annual Financial Statement (unaudited) of the Borough of South River for 2014.

\* Cash Collections include amounts that were levied in prior years.

### Water Utility Collection History

<u>Year</u>		<u>Levy (**)</u>		<u>Cash Collections (*)</u>
2014	\$	3,237,084.44	\$	3,309,077.21
2013		3,305,669.31		3,446,430.81
2012		3,386,632.26		3,259,039.32
2011		3,477,710.35		3,558,123.15
2010		3,490,170.18		3,428,587.05

Source: Annual Audit Reports of the Borough of South River for 2010-2013.  
Annual Financial Statement (unaudited) of the Borough of South River for 2014.

\* Cash Collections include amounts that were levied in prior years.

\*\* Rate increases effective for 2010.

**Real Property Classification and Assessed Valuations**

	<u>2010</u>		<u>2011</u>		<u>2012</u>		<u>2013</u>		<u>2014</u>	
	<u>Assessed Valuation</u>	<u>Percentage</u>	<u>Assessed Valuation</u>	<u>Percentage</u>	<u>Assessed Valuation</u>	<u>Percentage</u>	<u>Assessed Valuation</u>	<u>Percentage</u>	<u>Assessed Valuation</u>	<u>Percentage</u>
Residential	\$ 368,742,000	86.71%	\$ 367,827,300	87.06%	\$ 366,234,400	87.03%	\$ 360,459,700	87.20%	\$ 360,673,400	87.13%
Industrial	19,287,800	4.54%	17,614,100	4.17%	17,585,400	4.18%	17,289,900	4.18%	17,247,100	4.16%
Commercial	25,338,600	5.96%	25,293,500	5.99%	25,329,600	6.02%	24,176,900	5.84%	24,320,900	5.88%
Apartments	8,906,300	2.09%	8,749,400	2.07%	8,633,700	2.05%	8,392,700	2.03%	8,774,700	2.12%
Vacant Land	<u>3,001,300</u>	<u>0.71%</u>	<u>3,008,200</u>	<u>0.71%</u>	<u>3,024,600</u>	<u>0.72%</u>	<u>3,031,600</u>	<u>0.74%</u>	<u>2,926,800</u>	<u>0.71%</u>
Totals	<u>\$ 425,276,000</u>	<u>100.00%</u>	<u>\$ 422,492,500</u>	<u>100.00%</u>	<u>\$ 420,807,700</u>	<u>100.00%</u>	<u>\$ 413,350,800</u>	<u>100.00%</u>	<u>\$ 413,942,900</u>	<u>100.00%</u>
Exempt Properties	<u>\$ 50,809,400</u>		<u>\$ 50,860,900</u>		<u>\$ 50,654,200</u>		<u>\$ 50,529,600</u>		<u>\$ 50,607,900</u>	
Ratio of Assessed Value to True Value used by the County of Middlesex for County Taxes Apportioned	26.38%		27.22%		29.31%		31.19%		31.51%	
Ratio of Assessed Value to True Value - State of New Jersey	27.22%		29.31%		31.19%		31.51%		32.02%	

Sources: Borough of South River, Tax Assessor's Office.  
 County of Middlesex Abstract of Ratables.  
 State of New Jersey, Division of Taxation, Certificate of the Table of Equalized Valuations.



**Assessed Valuations and Tax Rates - Real and Personal Property**

<u>Year</u>	<u>Assessed Valuation Real Property</u>	<u>State Average Ratio Assessed to True Value</u>	<u>Equalized Valuation Real Property</u>	<u>Assessed Valuation Personal Property</u>	<u>Total Equalized Valuation</u>
2014	\$ 413,942,900	32.02 %	\$ 1,292,763,585	\$ 198,325	\$ 1,292,961,910
2013	413,350,800	31.51	1,311,808,315	287,694	1,312,096,009
2012	420,807,700	31.19	1,349,175,056	293,382	1,349,468,438
2011	422,492,500	29.31	1,441,461,958	272,585	1,441,734,543
2010	425,594,179	27.22	1,563,534,824	318,179	1,563,853,003

Source: State of New Jersey, Department of the Treasury, Division of Taxation, Certificate of the Table of Equalized Valuations and the County of Middlesex Abstract of Ratables.

**Tabulation of Residential Units Based on Number of Units Assessed to Adjusted True Value**

<u>Year</u>	<u>Number of Units</u>	<u>Assessed Valuation</u>	<u>Ratio to True Value</u>	<u>Estimated True Value</u>	<u>Estimated True Value</u>
2014	4,428	\$ 360,673,400	31.51%	\$ 1,144,631,545	\$ 258,499
2013	4,422	360,459,700	31.19%	1,155,689,965	261,350
2012	4,426	366,234,400	29.31%	1,249,520,300	282,314
2011	4,425	367,827,300	27.22%	1,351,312,638	305,381
2010	4,426	368,742,000	26.38%	1,397,808,946	315,818

Source: Borough of South River Tax Collector's Office and the County of Middlesex Abstract of Ratables.

## Net Valuations Taxable

<u>Year</u>	<u>Real and Personal Property Net Valuation Taxable</u>	<u>Net Valuation on Which County Taxes Are Apportioned</u>
2014	\$ 414,141,225	\$ 1,319,732,478
2013	413,638,494	1,331,956,265
2012	421,101,082	1,442,951,849
2011	422,765,085	1,559,875,073
2010	425,594,179	1,620,353,673

Source: County of Middlesex Abstract of Ratables.

## Five Year Comparison of General Tax Rates Per \$100 of Assessed Valuation

<u>Year</u>	<u>Borough</u>		<u>Local School</u>	<u>County</u>		<u>Total</u>
	<u>Regular</u>	<u>Library</u>		<u>Regular</u>	<u>Open Space</u>	
2014	\$ 1.889	0.105	\$ 3.857	\$ 1.171	\$ 0.096	\$ 7.118
2013	1.854	0.108	3.717	1.134	0.097	6.910
2012	1.864	0.114	3.517	1.118	0.103	6.716
2011	1.863	0.123	3.439	1.130	0.111	6.666
2010	1.987	N/A	3.281	1.057	0.076	6.401

Source: Annual Audit Reports of the Borough of South River for 2010-2013.  
Tax Collector's Office for 2014.  
Municipal Library is taxed separately commencing in 2011.

## Comparative Schedule of Fund Balances

	<u>Year</u>	<u>Balance December 31</u>	<u>Utilized in Budget of Succeeding Year</u>	<u>Transferred to Current Fund as Revenue</u>
Current Fund	2014	\$ 1,720,251.14	\$ 1,501,790.00	N/A
	2013	1,775,994.33	1,339,848.00	N/A
	2012	2,058,322.31	1,482,773.56	N/A
	2011	1,670,191.58	1,126,612.24	N/A
	2010	1,543,642.96	1,126,612.23	N/A
Water Utility Operating Fund	2014	\$ 1,117,764.76	\$ 650,973.00	None
	2013	1,051,082.89	549,678.00	None
	2012	982,941.09	489,886.00	None
	2011	974,116.82	416,855.00	None
	2010	652,007.86	340,257.00	None
Electric Utility Operating Fund	2014	\$ 3,039,700.46	\$ 3,000,000.00	None
	2013	3,749,647.57	3,556,371.00	None
	2012	4,753,138.35	3,556,371.00	None
	2011	4,142,373.53	3,556,371.00	None
	2010	3,841,052.47	None	\$ 2,913,371.00
Parking Utility Operating Fund	2014	\$ 76,425.91	\$ 23,500.00	None
	2013	73,353.86	12,500.00	None
	2012	70,003.34	12,500.00	None
	2011	66,493.52	28,500.00	None

Source: Annual Audit Reports of the Borough of South River for 2010-2013.  
Annual Financial Statement (unaudited) of the Borough of South River for 2014.  
Annual Municipal Budget as Adopted for 2015.

## Employment and Unemployment Comparisons

	<u>Unemployment Rate</u>	<u>Total Labor Force</u>	<u>Total Employed</u>	<u>Total Unemployed</u>
South River Borough	8.25%	8,427	7,732	695
Middlesex County	6.00%	432,112	406,174	25,938
State of New Jersey	6.65%	4,518,714	4,218,435	300,279

Source: New Jersey Department of Labor, Division of Labor, Market and Demographic Research – 2014 Annual Average.

## Population Data

<u>Year</u>	<u>Borough</u>	<u>County</u>	<u>State</u>
2010	16,008	809,858	8,791,894
2000	15,322	750,162	8,414,350
1990	13,692	671,780	7,748,634
1980	14,361	595,893	7,365,011

Source: New Jersey Department of Labor and Division of Labor, Market and Demographic Research.

## Per Capita Income

	<u>2009</u>	<u>1999</u>	<u>1989</u>
Borough	\$ 28,178	\$ 23,684	\$ 16,186
County	40,976	26,535	18,714
State	34,858	27,006	18,714

Source: New Jersey Department of Labor and Division of Labor, Market and Demographic Research.

**Population Comparison of the Borough of South River in Relation to Surrounding Communities, County and the State of New Jersey and Percentage Changes**

	2010		2000		1990		1980	
South River	16,008	4.48%	15,322	11.90%	13,692	(4.66%)	14,361	(6.9%)
New Brunswick	55,181	13.60%	48,573	16.45%	41,711	0.65%	41,442	(1.1%)
East Brunswick	47,512	1.62%	46,756	7.37%	43,548	15.48%	37,711	10.5%
Sayreville	42,704	5.76%	40,377	15.41%	34,986	16.74%	29,969	(7.8%)
Milltown	6,893	(1.53%)	7,000	0.46%	6,968	(2.35%)	7,136	10.3%
Middlesex County	809,858	7.96%	750,162	11.67%	671,780	12.74%	595,893	2.1%
State of New Jersey	8,791,894	4.49%	8,414,350	8.59%	7,748,634	5.21%	7,365,011	2.7%

Source: New Jersey Department of Labor and Division of Labor, Market and Demographic Research.

**Middlesex-Monmouth-Ocean Counties - Non-Agricultural Employment by Major Category (In Thousands)**

	2014
Manufacturing	43.20
Retail Trade	109.00
Wholesale Trade	46.00
Natural Resources, Mining and Construction	35.50
Transportation, Warehousing and Utilities	35.80
Information	17.70
Financial Activities	41.00
Professional and Business Services	142.40
Education and Health Services	137.80
Leisure and Hospitality	79.70
Other Services	37.70
Government	119.90
	<u>845.70</u>

Source: New Jersey Department of Labor and Division of Labor, Market and Demographic Research – 2014 Annual Average.

**GENERAL INFORMATION ON THE  
BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**

The Borough of South River School District (the “District”) is a Type II district located in the County of Middlesex, State of New Jersey. As a Type II district, the District functions independently through a Board of Education (the “Board”). The Board is comprised of nine members elected to staggered three-year terms. The Board is reorganized annually at the first meeting held following the annual school election.

All board meetings are open to the public and the Board holds meetings on the third Monday and Thursday of every month, with some exceptions, at which formal action may be taken.

The general mandatory powers and duties of the Board are:

1. Adopt an official seal;
2. Enforce the rules of the State Board of Education;
3. Make, amend and repeal rules, not inconsistent with Title 18A of the New Jersey Statutes or with the rules of the State Board of Education, for its own government and the transactions of its business and for the government and management of the public schools and public school property and the district for the employment, regulation of conduct and discharge of its employees, subject, where applicable, to the provisions of Title II, Civil Service of the Revised Statutes; and
4. Perform all acts and do all things, consistent with law and the rules of the State Board of Education, necessary for the lawful and proper conduct, equipment and maintenance of the public schools of the District.

Each member of the Board is a resident of the District.

Pursuant to law, the Board adopts proposals for the issuance of debt and the annual budgets and legally registered voters of the District are required to approve it.

**Education**

The District provides a full range of educational services appropriate to grade levels pre-kindergarten through grade 12. These include regular, vocational as well as special education for disabled youngsters.

**School Facilities**

The Board operates four (4) schools which are housed in three (3) buildings and possess the following corresponding pupil capacities:

<u>Type and Name of School</u>	<u>Grades</u>	<u>Year of Construction</u>	<u>Total Number of Classrooms</u>	<u>Pupil Capacity</u>	<u>Enrollment as of December 31, 2014</u>
Primary School	K-2	2005	33	440	502
Elementary School	3-5	1997	37	540	622
Middle School	6-8	1997	30	559	547
High School	9-12	1961	36	625	603

## Pupil Enrollment

The following table presents historical pupil enrollments for the school years 2009-2010 through 2014-2015 and projected enrollments for 2015-2016 through 2017-2018. The current capacity of the existing school buildings is 2,164 full-time pupils.

<u>School Year</u>	<u>Average Daily Enrollment</u>
2017 - 2018	2,323 <sup>(3)</sup>
2016 - 2017	2,300 <sup>(3)</sup>
2015 - 2016	2,278 <sup>(1)</sup>
2014 - 2015	2,272 <sup>(2)</sup>
2013 - 2014	2,323 <sup>(2)</sup>
2012 - 2013	2,329 <sup>(2)</sup>
2011 - 2012	2,319 <sup>(2)</sup>
2010 - 2011	2,336 <sup>(2)</sup>
2009 - 2010	2,343 <sup>(2)</sup>

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Source: (1) Application for State School Aid Count  
(2) Based internal reports  
(3) Based on estimates

## Employees and Employee Relations

The District currently employs two hundred thirty three (233) people made up of the following: Teachers, Aides and Nurses – one hundred ninety seven (197); Clerical – twenty (20); Administration – eleven (11) and Maintenance and Custodial – five (5).

The administrative staff, with the exception of the Superintendent, Assistant Superintendent, Business Administrator and Supervisor of Buildings and Grounds is represented by the South River Association of Administrators and Supervisors. This group is currently in the final year of a three-year contract. As of the date of this Official Statement, there is no agreement beyond the current contract.

The Teachers, Nurses, Field, Maintenance and Office Personnel are represented by the South River Education Association. This group is currently in the third year of a three-year contract. As of the date of this Official Statement, there is no agreement beyond the current contract.

## Debt Limit of the School District

The debt limitations of the School District are established by statute (N.J.S.A. 18A:24-19). The School District is permitted to incur debt up to 4% of the average equalized value of its constituent municipality before requiring approval by State regulatory authorities. The following is the School District available borrowing power as of April 22, 2015:

Average Equalized Valuation of Real Property for the Borough of South River for 2012, 2013 and 2014		\$ <u>1,317,915,652.00</u>
Permitted Debt Limitation (4%)		\$ 52,716,626.08
Less:		
School District Bonds Outstanding	\$ 13,657,000.00	
Bonds and Notes Authorized but not Issued	<u>3,265,283.81</u>	
Total Debt		<u>16,922,283.81</u>
Remaining Limitation of Indebtedness		\$ <u>35,794,342.27</u>

### NOTE:

(a) The remaining authorization from a referendum held on December 14, 2010 for various improvements to district schools. This will be reduced once the final payment of a Regular Operating District (ROD) Grant is received.		\$ 496,172.81
(b) Includes debt authorized by school district referendum on February 10, 2015 of \$5,222,111, reduced by \$2,453,000 of Serial Bonds Issued and the balance is expected to be funded by Regular Operating District (ROD) Grant funded by the New Jersey Educational Facilities Constructions and Financing Act, P.L.2000 c72 of \$2,768,983 and other funds of \$128.		<u>2,769,111.00</u>
		\$ <u>3,265,283.81</u>



Schedule of School District Bond Maturities Including the Bonds

Year	School District Bonds, Series 1995 (*)			School District Bonds, Series 2011 (**)		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 1,300,000	\$ 94,200	\$ 1,394,200	\$ 275,000	\$ 211,275	\$ 486,275
2016	1,234,000	30,850	1,264,850	300,000	205,775	505,775
2017				550,000	199,025	749,025
2018				550,000	185,275	735,275
2019				550,000	170,150	720,150
2020				550,000	153,650	703,650
2021				550,000	137,150	687,150
2022				550,000	120,650	670,650
2023				550,000	102,775	652,775
2024				550,000	83,525	633,525
2025				550,000	61,525	611,525
2026				550,000	39,525	589,525
2027				380,000	16,150	396,150
	<u>\$ 2,534,000</u>	<u>\$ 125,050</u>	<u>\$ 2,659,050</u>	<u>\$ 6,455,000</u>	<u>\$ 1,686,450</u>	<u>\$ 8,141,450</u>

(\*) New K-8 Elementary School

(\*\*) Improvements to High School

Year	School District Refunding Bonds 2012 (***)			School District Bonds, Series 2015 (****)		
	Principal	Interest	Total	Principal	Interest	Total
2015	\$ 340,000	126,150	\$ 466,150			
2016	350,000	115,950	465,950		\$ 53,611	53,611
2017	370,000	105,450	475,450	\$ 225,000	50,130	275,130
2018	385,000	94,350	479,350	225,000	46,755	271,755
2019	385,000	82,800	467,800	225,000	43,380	268,380
2020	405,000	67,400	472,400	225,000	38,880	263,880
2021	410,000	51,200	461,200	225,000	34,380	259,380
2022	425,000	34,800	459,800	225,000	29,880	254,880
2023	445,000	17,800	462,800	225,000	25,380	250,380
2024				428,000	20,880	448,880
2025				450,000	11,250	461,250
	<u>\$ 3,515,000</u>	<u>\$ 695,900</u>	<u>\$ 4,210,900</u>	<u>\$ 2,453,000</u>	<u>\$ 354,526</u>	<u>\$ 2,807,526</u>

(\*\*\*) Refunding of Series 2003

(\*\*\*\*) Roof replacement and security upgrades  
at Borough schools

Schedule of School District Bond Maturities Including the Bonds (Continued)

<b>TOTAL DEBT SERVICE</b>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,915,000	\$ 431,625	\$ 2,346,625
2016	2,109,000	406,186	2,515,186
2017	1,145,000	354,605	1,499,605
2018	1,160,000	326,380	1,486,380
2019	1,160,000	296,330	1,456,330
2020	1,180,000	259,930	1,439,930
2021	1,185,000	222,730	1,407,730
2022	1,200,000	185,330	1,385,330
2023	1,423,000	145,955	1,568,955
2024	1,000,000	104,405	1,104,405
2025	550,000	72,775	622,775
2026	550,000	39,525	589,525
2027	380,000	16,150	396,150
	<u>\$ 14,957,000</u>	<u>\$ 2,861,926</u>	<u>\$ 17,818,926</u>

**Summary of Revenues and Expenditures – General Fund  
For the Fiscal Years Ended June 30, 2010-2014**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Fund Balance, July 1	\$ <u>1,153,047.51</u>	\$ <u>1,642,492.04</u>	\$ <u>1,327,068.53</u>	\$ <u>825,339.92</u>	\$ <u>1,615,225.62</u>
Revenues:					
State Sources	\$ 15,435,862.30	\$ 15,295,331.49	\$ 14,071,868.37	\$ 13,192,743.14	\$ 11,808,365.03
Federal Sources	58,283.29	64,392.29	456,841.00	48,090.84	1,903,233.43
School District Taxes	13,394,657.00	12,885,289.00	12,632,636.00	12,384,937.00	11,908,593.00
Tuition	60,266.00	118,228.93	93,655.30	35,340.00	34,640.34
Miscellaneous	<u>163,964.29</u>	<u>165,919.17</u>	<u>344,012.30</u>	<u>343,230.85</u>	<u>381,499.99</u>
Total Revenues	\$ <u>29,113,032.88</u>	\$ <u>28,529,160.88</u>	\$ <u>27,599,012.97</u>	\$ <u>26,004,341.83</u>	\$ <u>26,036,331.79</u>
Expenditures	\$ <u>29,338,758.78</u>	\$ <u>29,021,766.38</u>	\$ <u>27,289,237.94</u>	\$ <u>25,556,532.55</u>	\$ <u>26,826,217.49</u>
Adjustments	<u>227,886.29</u>	<u>3,160.97</u>	<u>5,648.48</u>	\$ <u>53,919.33</u>	
Excess/(Deficit) of Revenues Over Expenditures and Adjustments	\$ <u>2,160.39</u>	\$ <u>(489,444.53)</u>	\$ <u>315,423.51</u>	\$ <u>501,728.61</u>	\$ <u>(789,885.70)</u>
Fund Balance, June 30	\$ <u><u>1,155,207.90</u></u>	\$ <u><u>1,153,047.51</u></u>	\$ <u><u>1,642,492.04</u></u>	\$ <u><u>1,327,068.53</u></u>	\$ <u><u>825,339.92</u></u>

Source: Annual Audits of the South River Board of Education.

**Governmental Fund Budget – Revenues and Expenditures  
For the Fiscal Years Ended June 30, 2016 and 2015**

	School Year	
	2015-2016 <u>(As Approved)</u>	2014-2015 <u>(As Approved)</u>
Revenues:		
General Fund:		
Budgeted Fund Balance	\$ 1,450,000.00	\$ 1,270,148.00
Local Tax Levy	14,474,933.00	14,015,039.00
Tuition	35,000.00	58,000.00
Federal Sources	51,237.00	45,000.00
State Sources	12,905,120.00	12,905,120.00
Miscellaneous	<u>40,000.00</u>	<u>30,000.00</u>
Total General Fund	<u>\$ 28,956,290.00</u>	<u>\$ 28,323,307.00</u>
Special Revenue Fund:		
Federal	\$ 1,284,500.00	\$ 1,009,800.00
State	<u>67,640.00</u>	<u>90,500.00</u>
Total Special Revenue Fund	<u>\$ 1,352,140.00</u>	<u>\$ 1,100,300.00</u>
Debt Service Fund:		
Budgeted Fund Balance	\$ 38,743.00	\$ 6,639.00
Local Tax Levy	1,941,922.00	1,956,510.00
State Aid	<u>347,898.00</u>	<u>383,476.00</u>
Total Debt Service	<u>\$ 2,328,563.00</u>	<u>\$ 2,346,625.00</u>
Total Revenues	<u><u>\$ 32,636,993.00</u></u>	<u><u>\$ 31,770,232.00</u></u>

**Governmental Fund Budget – Revenues and Expenditures  
For the Fiscal Years Ended June 30, 2016 and 2015 (Continued)**

	School Year	
	2015-2016 <u>(As Approved)</u>	2014-2015 <u>(As Approved)</u>
Expenditures:		
General Fund:		
Current Expenses:		
Instruction:		
Regular	\$ 7,893,317.00	\$ 7,971,973.00
Special	3,138,648.00	2,987,893.00
Other	450,712.00	342,758.00
School - Sponsored/Other Instructional	<u>624,587.00</u>	<u>660,072.00</u>
Total Instruction	<u>\$ 12,107,264.00</u>	<u>\$ 11,962,696.00</u>
Undistributed:		
Instruction	\$ 1,730,083.00	\$ 1,605,003.00
Attendance and Social Work	48,881.00	47,396.00
Health Services	212,035.00	273,272.00
Speech, OT, PT and Related Services	256,031.00	254,805.00
Guidance	591,528.00	642,459.00
Child Study Teams	1,049,105.00	990,647.00
Other Student Extra Service	382,309.00	377,748.00
Improvement of Instructional Services	212,226.00	201,153.00
Edu. Media Services/School Library	177,026.00	193,285.00
Instructional Staff Training Services	38,490.00	37,165.00
Support Service - General Administration	535,224.00	543,000.00
Support Service - School Administration	1,287,575.00	1,277,799.00
Central Services	392,300.00	391,660.00
Administrative Info Technology	138,045.00	127,115.00
Required Maintenance - School Facility	3,208,318.00	3,015,207.00
Student Transportation Services	1,418,581.00	1,504,068.00
Employee Benefits	<u>4,853,741.00</u>	<u>4,593,432.00</u>
Total Undistributed	<u>\$ 16,531,498.00</u>	<u>\$ 16,075,214.00</u>
Total General Fund	<u>\$ 28,638,762.00</u>	<u>\$ 28,037,910.00</u>

**Governmental Fund Budget – Revenues and Expenditures  
For the Fiscal Years Ended June 30, 2016 and 2015 (Continued)**

	School Year	
	2015-2016 <u>(As Approved)</u>	2014-2015 <u>(As Approved)</u>
Expenditures (Continued)		
Capital Outlay:		
Facilities Acquisition and Construction Services	\$ <u>107,452.00</u>	\$ <u>141,452.00</u>
Total Capital Outlay	\$ <u>107,452.00</u>	\$ <u>141,452.00</u>
Transfer to Charter School	\$ <u>210,076.00</u>	\$ <u>143,945.00</u>
Total General Fund Expenditures	\$ <u>28,956,290.00</u>	\$ <u>28,323,307.00</u>
Special Revenue Fund:		
Federal	\$ 1,284,500.00	\$ 1,009,800.00
State	<u>67,640.00</u>	<u>90,500.00</u>
Total Special Revenue Expenditures	\$ <u>1,352,140.00</u>	\$ <u>1,100,300.00</u>
Debt Service Fund:		
Interest on Bonds	\$ 1,884,000.00	\$ 1,915,000.00
Principal on Bonds	<u>444,563.00</u>	<u>431,625.00</u>
Total Debt Service	\$ <u>2,328,563.00</u>	\$ <u>2,346,625.00</u>
Total Expenditures	\$ <u><u>32,636,993.00</u></u>	\$ <u><u>31,770,232.00</u></u>

Note 1: 2014-2015 As Revised as of March 3, 2014

Note 2: 2015-2016 As Adopted on April 27, 2015

**APPENDIX B**

**Financial Statements for the Year Ending June 30, 2014**

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**INDEPENDENT AUDITOR'S REPORT**

Honorable President and Members  
of the Board of Education  
South River Borough Board of Education  
County of Middlesex, New Jersey

Report on the Financial Statement

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 Board of Education of the South River Borough School District, County of Middlesex, State of New Jersey, as of and for the year ended June 30, 2014 and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Office of School 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 of material misstatement.

**INDEPENDENT AUDITOR'S REPORT**  
**(CONTINUED)**

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 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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities each major fund and the aggregate remaining fund information of the Board of Education of the South River Borough School District, as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South River Borough School District's basic financial statements. The accompanying supplementary information, which consists of the combining and individual fund financial statements, noncurrent (long-term) debt schedules and schedules of expenditures of federal awards and state financial assistance, as required by the US. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively, and the other information such as the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

**INDEPENDENT AUDITOR'S REPORT**  
**(CONTINUED)**

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

The other information identified above has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2014, on our consideration of the Board of Education of the South River Borough School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the South River Borough School District internal control over financial reporting compliance.



Gerard Stankiewicz  
Certified Public Accountant  
Licensed Public School Accountant #912



SAMUEL KLEIN AND COMPANY

Freehold, New Jersey  
December 4, 2014

# **South River Board of Education**

15 Montgomery Street, South River, NJ 08882

December 4, 2014

Honorable President and Members  
of the Board of Education  
South River School District  
South River, NJ 08882

Dear Board Members:

## **Management's Discussion and Analysis**

The discussion and analysis of South River School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

## **Financial Highlights**

Key financial highlights for 2014 are as follows:

In total, net position totaled \$26,459,649 which represents a \$959,992 or 3.76% increase from 2013, which is attributed to a higher level of revenues and a decrease in expenditures.

General revenues accounted for \$31,100,119 or 91.68% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, accounted for \$2,822,809 or 8.32% of total revenues of \$33,922,928.

Total position of governmental activities increased by \$947,696 as cash and cash equivalents decreased by \$994,786, receivables decreased by \$1,939,368 and liabilities decreased by \$2,541,207.

The District had \$32,088,748 in expenses; only \$1,936,324 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes and state aid) of \$31,100,119 were adequate to provide for these programs.

Among major funds, the General Fund had \$29,113,033 in revenues and \$29,338,759 in expenditures. The General Fund's fund balance increased \$2,160 over 2013, which was caused by an increase in operating revenues. The General Fund's fund balance is \$1,155,208 inclusive of the Capital Reserve Fund balance of \$20,469.

### **Using this Comprehensive Annual Financial Report (CAFR)**

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the District, presenting both an aggregate view of the District's finances and longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other non-major funds presented in total in one column. In the case of the South River School District, the General Fund is by far the most significant.

### **Reporting the District as a Whole**

#### **Statement of Net Position and the Statement of Activities**

This document contains all funds used by the District to provide programs and activities, viewing the District as a whole and reports the culmination of all financial transactions. The report answers the question "How We Did Financially During Fiscal Year 2014". The Statement of Net Position and the Statement of Activities provide the summary. The statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and changes in those assets. This change in net position is important because they report on whether the District's financial position has improved or diminished.

In the Statement of Net Position and the Statement of Activities, the District is divided into two kinds of activities:

**Governmental activities** — All of the District's programs and services are reported here including, instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.

**Business-Type Activities** — This service is provided on a charge for goods or services basis to recover all the expense of the goods or services provided. The Food Service Enterprise Fund is reported as a business activity.

### **Reporting the District's Most Significant Funds**

#### **Fund Financial Statement**

The Analysis of the District's major funds begins on page 20. Fund financial reports provide detailed information about the District's major funds. The District's major governmental funds are the General Fund, Special Revenue Fund and Capital Projects Fund.

## Governmental Funds

The District's activities are reported in governmental funds, which focus on how money flows into and out of the funds and balances left at year-end available for spending in the future years. These funds are reported using a modified accrual accounting method, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

## Enterprise Fund

The Enterprise Fund uses the same basis of accounting as business-type activities.

## The District as a Whole

The Comparative Statement of Net Position provides the financial perspective of the District as a whole.

**Table 1 – Comparative Statement of Net Position**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current and Other Assets	\$ 2,834,499	\$ 6,069,692
Capital Assets, Net	<u>38,676,871</u>	<u>38,709,152</u>
Total Assets, Net	<u>\$ 41,511,370</u>	<u>\$ 44,778,844</u>
<b>Deferred Outflows of Resources</b>		
Loss on Defeasance of Bonds	<u>\$ 102,078</u>	<u>\$ 113,420</u>
<b>Liabilities</b>		
Noncurrent Liabilities	\$ 13,436,957	\$ 17,635,224
Other Liabilities	<u>1,716,842</u>	<u>1,757,383</u>
Total Liabilities	<u>\$ 15,153,799</u>	<u>\$ 19,392,607</u>
<b>Net Position</b>		
Invested in Capital Assets	\$ 25,789,993	\$ 24,100,748
Restricted		867,976
Unrestricted	<u>669,656</u>	<u>530,933</u>
Total Net Position	<u>\$ 26,459,649</u>	<u>\$ 25,499,657</u>

The District's combined net position was \$26,459,649 on June 30, 2014. This is an increase of 4.23% from the previous year.

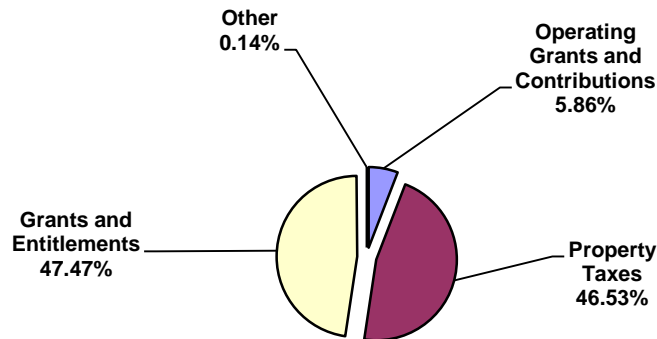
**Table 2 – Comparative Statement of Changes in Net Position**

	2013-2014	2012-2013	Change	
			Amount	Percent
Revenues:				
Program Revenues:				
Charges for Services	\$ 381,611	\$ 348,677	\$ 32,934	9.45%
Operating Grants and Contributions	2,441,198	2,321,941	119,257	5.14%
General Revenues:				
Property Taxes	15,373,187	14,811,257	561,930	3.79%
Grants and Entitlements	15,685,599	17,615,269	(1,929,670)	-10.95%
Other	41,333	695,520	(654,187)	-94.06%
<b>Total Revenues</b>	<b>\$ 33,922,928</b>	<b>\$ 35,792,664</b>	<b>\$ (1,869,736)</b>	<b>-5.22%</b>
Program Expense:				
Instruction	\$ 17,297,747	\$ 16,954,516	\$ 343,231	2.02%
Support Services:				
Pupils and Instructional Staff	3,844,588	4,137,274	(292,686)	-7.07%
Tuition	1,459,294	1,456,134	3,160	0.22%
General Administration	1,429,557	1,257,402	172,155	13.69%
School Administration	1,707,109	1,729,541	(22,432)	-1.30%
Operation and Maintenance of Facilities	3,788,275	3,619,811	168,464	4.65%
Pupil Transportation	1,887,978	1,955,258	(67,280)	-3.44%
Transfer to Charter Schools	160,833	41,437	119,396	288.14%
Debt Service	513,367	577,918	(64,551)	-11.17%
Food Service	874,188	859,761	14,427	1.68%
<b>Total Expense</b>	<b>\$ 32,962,936</b>	<b>\$ 32,589,052</b>	<b>\$ 373,884</b>	<b>1.15%</b>
<b>Increase/(Decrease) in Net Position</b>	<b>\$ 959,992</b>	<b>\$ 3,203,612</b>	<b>\$ (2,243,620)</b>	<b>-70.03%</b>
Beginning Net Position	<u>25,499,656</u>	<u>22,296,044</u>		
Ending Net Position	<u><u>\$ 26,459,648</u></u>	<u><u>\$ 25,499,656</u></u>		

## Governmental Activities

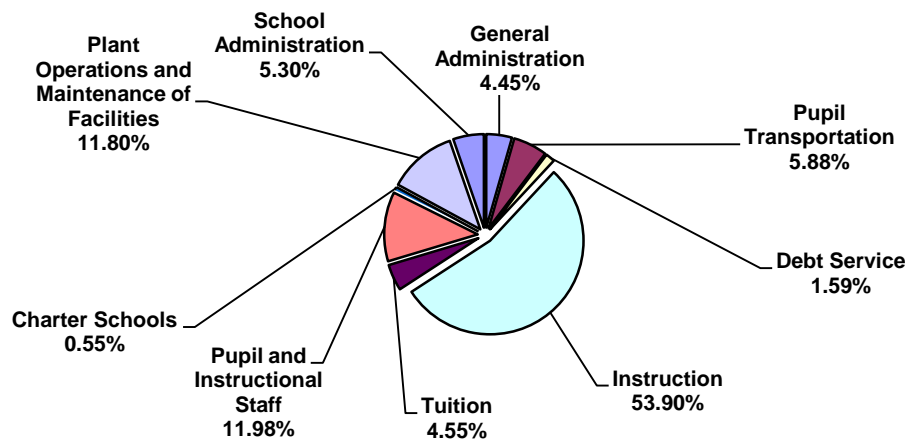
### Revenue for Fiscal Year 2014

The total revenues of the governmental activities for the year ended June 30, 2014 were \$33,036,443. Property taxes as approved by the voters of the Borough of South River made up \$15,373,187 or 46.53% of revenues for governmental activities for the fiscal year 2014. Federal, state and local grants accounted for \$15,685,599, another 47.47%.



### Expenses for Fiscal Year 2014

The total cost of all programs and services was \$32,088,748. Instruction comprises 53.93% of the District's expenses.





## Business-Type Activities

Revenues for the District's business-type activities (food service program) were comprised of charges for services and federal and state reimbursements.

Food service expenses exceeded revenues by \$12,297 charges for services represent \$381,611 of revenue. This represents the amount paid by patrons for daily food service and catering.

Federal and state reimbursements for meals including payments for free and reduced lunches and donated commodities was \$504,874.

## Governmental Activities

The Comparative Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

**Table 3 – Comparative Statement of Activities**

	Total Cost of Services			Net Cost of Services		
	2013-2014	2012-2013	% Change	2013-2014	2012-2013	% Change
Instruction	\$ 17,297,747	\$ 16,954,516	2.02%	\$ 16,127,442	\$ 15,946,738	1.13%
Support Services:						
Pupils and Instructional Staff	3,844,588	4,137,271	-7.07%	3,479,922	3,728,587	-6.67%
Tuition	1,459,294	1,456,134	0.22%	1,459,294	1,456,134	0.22%
General Administration	1,429,557	1,257,402	13.69%	1,429,557	1,257,402	13.69%
School Administration	1,707,109	1,729,541	-1.30%	1,707,109	1,729,541	-1.30%
Operations & Maintenance of Facilities	3,788,275	3,619,811	4.65%	3,788,275	3,619,811	4.65%
Pupil Transportation	1,887,978	1,955,258	-3.44%	1,877,978	1,955,528	-3.97%
Debt Service	513,367	566,578	-9.39%	112,013	147,344	-23.98%
Transfer to Charter School	160,833	41,437	NM	160,833	41,437	NM
Total Expenses	\$ <u>32,088,748</u>	\$ <u>31,717,949</u>		\$ <u>30,142,423</u>	\$ <u>29,882,523</u>	

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and student, including extracurricular activities.

Extracurricular activities includes expenses related to student activities provided by the District which are designed to provide opportunities for students to participate in school and public events for the purpose of motivation, enjoyment, skill improvement, school spirit and leadership.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to students, including curriculum and staff development.

General administration, school administration and business include expenses associated with administrative and financial supervision of the District.

Operation and maintenance of facilities activities involve keeping the school grounds, buildings and equipment in an effective working condition.

Pupil transportation includes activities involved with the conveyance of students to and from school, to school curricular and athletic activities and field trips as provided by state law.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the District.

## The District's Funds

Information about the District's major funds starts on page 21. These funds are accounted for using the modified accrual basis of accounting. All governmental funds, except for capital projects, had total revenues of \$33,027,886 and expenditures of \$33,272,154.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management. The following schedules present a comparative summary of the revenues of the governmental funds exclusive of the capital projects fund for the fiscal year ended June 30, 2014, and the amount of increases and decreases in relation to prior year revenues.

### Comparative Summary of Revenues

Revenue	2013-2014		2012-2013		Increase/ (Decrease) from 2012-2013 to 2013-2014
	Amount	Percent of Total	Amount	Percent of Total	
Local Sources	\$ 15,597,417	47.22%	\$ 15,107,062	46.76%	\$ 490,355
State Sources	15,920,661	48.20%	15,796,792	48.90%	123,869
Federal Sources	<u>1,509,808</u>	<u>4.58%</u>	<u>1,402,591</u>	<u>4.34%</u>	<u>107,217</u>
	<u>\$ 33,027,886</u>	<u>100.00%</u>	<u>\$ 32,306,445</u>	<u>100.00%</u>	<u>\$ 721,441</u>

The increase in Local Sources is attributed to an increase in taxes.

The increase in State Sources is attributed to an increase in general fund state aid.

The decrease in Federal Sources is caused by the fact that more funding was provided in 2014.

The following schedule presents a comparative summary of governmental fund expenditures exclusive of the capital projects fund for the fiscal year ended June 30, 2014, and the amount of increases and decreases in relation to prior year expenditures.

### Comparative Summary of Expenditures

Expenditures	2013-2014		2012-2013		Increase/ (Decrease) from 2012-2013 to 2013-2014
	Amount	Percent of Total	Amount	Percent of Total	
Instruction	\$ 13,034,832	39.18%	\$ 12,382,650	37.62%	\$ 652,182
Undistributed					
Expenditures	17,461,448	52.48%	17,915,198	54.43%	(453,750)
Capital Outlay	377,449	1.13%	156,002	0.47%	221,447
Debt Service	<u>2,398,425</u>	<u>7.21%</u>	<u>2,464,863</u>	<u>7.49%</u>	<u>(66,438)</u>
	<u>\$ 33,272,154</u>	<u>100.00%</u>	<u>\$ 32,918,713</u>	<u>100.00%</u>	<u>\$ 353,441</u>

The increase in Current – Instruction is attributed to the increased costs of salaries for teachers and the increased costs of other instructional programs and supplies.

The increase in Undistributed Expenditures relates to increases in special education tuition and health benefits and other employee benefits.

The increase in capital outlay is primarily due to a budgeted increase from the prior year.

**General Fund Budgeting Highlights**

The District’s budget is prepared according to New Jersey law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of the fiscal year 2014, the District amended its general fund budget as needed. The District uses program based budgeting and the budgeting systems are designed to tightly control total program budgets but provide flexibility for program management. Transfers from one program to another must be approved by the Business Administrator, Superintendent and Board of Education. Transfers were necessitated during the year were not significant in consideration of specific line items; however, a provision for unemployment was made for pending reduction of staff and retirement sick pay.

While the District final budget for the general fund anticipated that revenues and expenditures would roughly equal, the actual results for the year shows a surplus increase of \$492,606 caused primarily by an increase in expenses.

At the end of the fiscal year 2014, the District had \$38,360,893 invested in land, buildings, furniture and equipment and vehicles. Table 4 shows fiscal 2014 balances compared to 2013.

**Table 4 - Capital Assets at June 30  
(Net of Accumulated Depreciation)**

	<u>2014</u>	<u>2013</u>
Buildings	\$ 37,011,376	\$ 36,398,867
Site Improvements	1,000,013	1,927,244
Machinery and Equipment	<u>349,504</u>	<u>315,168</u>
Totals	<u>\$ 38,360,893</u>	<u>\$ 38,641,279</u>

Overall capital assets increased from fiscal year 2013 to fiscal year 2014. Increases in capital assets, net (primarily buildings and improvements, machinery and equipment) were attributable to acquisition of new assets in excess of depreciation.

## **For the Future**

The District is sufficiently funded to meet the educational and capital requirements. Over the past few years, the District has repeated the practice of designating fund balance to offset tax increases in spite of reduction of state aid. In the past, this has been a viable option to soften the burden of reduced state aid revenue.

The primary concern the District faces is the Borough of South River's inability to increase the tax base. The town is primarily residential with very few commercial ratables; thus the burden of taxes levied by the District falls squarely on the homeowners.

The Borough's tax base remains relatively flat and in light of the fact the town is at full build (which means there is no space available for future development which would increase the ratable base), the probability of significant tax increase on the average homeowner next year is very likely. Additionally, the cost of three major bond issues \$18.9 million in 1996, \$6.1 million in 2003 and \$7.05 million in 2012, cost the District nearly \$2.3 million per year for debt service.

In closing, the District's Board of Education practices long term financial planning. The District is proud of its system for budgeting and internal financial controls. Moreover, the Administration is determined to address the educational needs of the students while delivering a responsible budget to the taxpayers.

## **Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, you may contact Kenneth J. Kokoszka, School Business Administrator/Board Secretary at the South River Board of Education, 15 Montgomery Street, South River, NJ 08882.

Respectfully submitted,

//signed//

**Michael J. Pfister**  
**Superintendent of Schools**

//signed//

**Kenneth J. Kokoszka**  
**Board Secretary/School Business Administrator**

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**STATEMENT OF NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2014**

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 1,677,421.82	\$ 133,993.78	\$ 1,811,415.60
Receivables - Net	899,583.67	99,604.09	999,187.76
Interfund Receivable	759.80		759.80
Inventory		2,666.79	2,666.79
Restricted Assets:			
Capital Reserve Account	20,468.79		20,468.79
Capital Assets, Net	<u>38,360,893.39</u>	<u>315,978.07</u>	<u>38,676,871.46</u>
Total Assets	<u>\$ 40,959,127.47</u>	<u>\$ 552,242.73</u>	<u>\$ 41,511,370.20</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Deferred Loss on Defeasance of Debt	<u>\$ 102,077.59</u>	<u>                    </u>	<u>\$ 102,077.59</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 1,582,646.38	\$ 76,987.80	\$ 1,659,634.18
Intergovernmental Accounts Payable	18,498.00		18,498.00
Unearned Revenue	32.94		32.94
Accrued Interest on Noncurrent Debt	38,677.08		38,677.08
Noncurrent Liabilities:			
Due Within One Year	2,014,709.33	57,392.44	2,072,101.77
Due Beyond One Year	<u>11,187,425.33</u>	<u>177,429.86</u>	<u>11,364,855.19</u>
Total Liabilities	<u>\$ 14,841,989.06</u>	<u>\$ 311,810.10</u>	<u>\$ 15,153,799.16</u>
<u>NET POSITION</u>			
Invested in Capital Assets	\$ 25,708,837.31	\$ 81,155.77	\$ 25,789,993.08
Restricted for:			
Other Purposes	146,521.94		146,521.94
Unrestricted	<u>363,856.75</u>	<u>159,276.86</u>	<u>523,133.61</u>
Total Net Position	<u>\$ 26,219,216.00</u>	<u>\$ 240,432.63</u>	<u>\$ 26,459,648.63</u>

**BOARD OF EDUCATION  
BOROUGH OF SOUTH RIVER SCHOOL DISTRICT  
COUNTY OF MIDDLESEX  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Instruction:						
Regular	\$ 12,241,777.02		\$ 1,170,304.55	\$ (11,071,472.47)		\$ (11,071,472.47)
Special Education	3,769,556.09			(3,769,556.09)		(3,769,556.09)
Other Special Instruction	464,961.00			(464,961.00)		(464,961.00)
Other Instruction	821,452.89			(821,452.89)		(821,452.89)
Support Services:						
Tuition	1,459,293.68			(1,459,293.68)		(1,459,293.68)
Student and Instruction Related Services	3,844,587.88		364,665.59	(3,479,922.29)		(3,479,922.29)
General Administrative Services	1,429,556.86			(1,429,556.86)		(1,429,556.86)
School Administrative Services	1,707,108.51			(1,707,108.51)		(1,707,108.51)
Plant Operations and Maintenance	3,788,275.39			(3,788,275.39)		(3,788,275.39)
Pupil Transportation	1,887,978.34			(1,887,978.34)		(1,887,978.34)
Transfer to Charter Schools	160,833.00			(160,833.00)		(160,833.00)
Interest on Noncurrent Debt	513,366.96		401,354.00	(112,012.96)		(112,012.96)
<b>Total Governmental Activities</b>	<b>\$ 32,088,747.62</b>		<b>\$ 1,936,324.14</b>	<b>\$ (30,152,423.48)</b>		<b>\$ (30,152,423.48)</b>
Business-Type Activities:						
Food Service	\$ 874,188.10	\$ 381,610.65	\$ 504,874.27		\$ 12,296.82	\$ 12,296.82
<b>Total Primary Government</b>	<b>\$ 32,962,935.72</b>	<b>\$ 381,610.65</b>	<b>\$ 2,441,198.41</b>	<b>\$ (30,152,423.48)</b>	<b>\$ 12,296.82</b>	<b>\$ (30,140,126.66)</b>
<u>General Revenues</u>						
Taxes:						
General Purposes				\$ 13,394,657.00		\$ 13,394,657.00
Debt Service				1,978,530.00		1,978,530.00
Federal and State Aid Not Restricted				15,494,145.59		15,494,145.59
Federal and State Aid Restricted				191,453.32		191,453.32
Tuition Received				60,266.00		60,266.00
Miscellaneous Income				164,350.58		164,350.58
Adjustment				(183,283.44)		(183,283.44)
				<b>\$ 31,100,119.05</b>		<b>\$ 31,100,119.05</b>
<b>Change in Net Position</b>				<b>\$ 947,695.57</b>	<b>\$ 12,296.82</b>	<b>\$ 959,992.39</b>
<b>Net Position - Beginning</b>				<b>\$ 25,271,520.43</b>	<b>\$ 228,135.81</b>	<b>\$ 25,499,656.24</b>
<b>Net Position - Ending</b>				<b>\$ 26,219,216.00</b>	<b>\$ 240,432.63</b>	<b>\$ 26,459,648.63</b>

**BOARD OF EDUCATION  
BOROUGH OF SOUTH RIVER SCHOOL DISTRICT  
COUNTY OF MIDDLESEX  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>					
Cash and Cash Equivalents	\$ 1,927,582.63	\$ 99,907.14	\$	\$ 7,639.26	\$ 2,035,129.03
Intergovernmental Accounts Receivable	373,745.80	327,111.35	496,172.81		1,197,029.96
Accounts Receivable	7,273.20				7,273.20
Interfunds Receivable	162,058.07	.	463.49		162,521.56
Restricted Cash and Cash Equivalents	20,468.79				20,468.79
<b>Total Assets</b>	<b>\$ <u>2,491,128.49</u></b>	<b>\$ <u>427,018.49</u></b>	<b>\$ <u>496,636.30</u></b>	<b>\$ <u>7,639.26</u></b>	<b>\$ <u>3,422,422.54</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>					
Liabilities:					
Cash Overdraft			\$ 357,707.21		\$ 357,707.21
Accounts Payable	\$ 1,335,920.59	\$ 246,725.79			1,582,646.38
Interfunds Payable		161,761.76			161,761.76
Intergovernmental Accounts Payable		18,498.00			18,498.00
Deferred Revenue		32.94			32.94
<b>Total Liabilities</b>	<b>\$ <u>1,335,920.59</u></b>	<b>\$ <u>427,018.49</u></b>	<b><u>357,707.21</u></b>		<b>\$ <u>2,120,646.29</u></b>
Fund Balances:					
Restricted-Capital Reserve Account	\$ 20,468.79				\$ 20,468.79
Excess Surplus - Designated for Subsequent Year's Expenditures	126,053.15				126,053.15
Assigned - Designated for Subsequent Year's Expenditures	1,008,685.96		\$ 138,929.09	\$ 6,639.26	1,154,254.31
Unassigned				1,000.00	1,000.00
<b>Total Fund Balances</b>	<b>\$ <u>1,155,207.90</u></b>		<b>\$ <u>138,929.09</u></b>	<b>\$ <u>7,639.26</u></b>	<b>\$ <u>1,301,776.25</u></b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ <u>2,491,128.49</u></b>	<b>\$ <u>427,018.49</u></b>	<b>\$ <u>496,636.30</u></b>	<b>\$ <u>7,639.26</u></b>	<b>\$ <u>3,422,422.54</u></b>
Total Fund Balance above					\$ 1,301,776.25
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of capital assets is \$54,082,785.26 and the accumulated depreciation is \$15,721,891.87. (see Note 7).					38,360,893.39
Noncurrent liabilities, including bonds, loans and leases payable are not payable in the current period and therefore are not reported as liabilities in the funds (see Note 8).					
Total Noncurrent Liabilities			\$ 13,202,134.66		
Total Unamortized Loss on Defeasance			<u>(102,077.59)</u>		(13,100,057.07)
Certain liabilities are not due and payable in the current period, and therefore, are not reported in funds:					
Accrued Interest Payable					
(Accrued interest is a current liability that will be paid from the debt service fund. Therefore, the liability reduces the restricted for debt service net asset balance.)					(38,677.08)
Construction Grants are reported in governmental funds as revenues, however, in the Statement of Activities grant awards are not recognized as revenue until expended.					<u>(304,719.49)</u>
Net position of governmental activities (A-1)					<b>\$ <u>26,219,216.00</u></b>

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Government Funds</u>
<b>Revenues</b>					
Local sources:					
Local tax levy	\$ 13,394,657.00			\$ 1,978,530.00	\$ 15,373,187.00
Tuition	60,266.00				60,266.00
Interest on investments			\$ 386.29		386.29
Miscellaneous	<u>163,964.29</u>				<u>163,964.29</u>
Total - Local Sources	<b>\$ 13,618,887.29</b>		<b>\$ 386.29</b>	<b>\$ 1,978,530.00</b>	<b>\$ 15,597,803.58</b>
State Sources	15,435,862.30	\$ 83,445.00		401,354.00	15,920,661.30
Federal Sources	<u>58,283.29</u>	<u>1,451,525.14</u>			<u>1,509,808.43</u>
Total Revenues	<b>\$ 29,113,032.88</b>	<b>\$ 1,534,970.14</b>	<b>\$ 386.29</b>	<b>\$ 2,379,884.00</b>	<b>\$ 33,028,273.31</b>
<b>Expenditures</b>					
Current:					
Regular Instruction	\$ 8,204,638.83	\$ 1,170,304.55			\$ 9,374,943.38
Special Education Instruction	2,728,684.51				2,728,684.51
Other Special Instruction	336,579.27				336,579.27
Other Instruction	594,624.41				594,624.41
Support Services and Undistributed Costs:					
Tuition	1,459,293.68				1,459,293.68
Student and Instruction Related Services	2,689,733.75	288,701.81			2,978,435.56
Other Administrative Services	1,046,271.25				1,046,271.25
School Administrative Services	1,249,407.14				1,249,407.14
Plant Operations and Maintenance	2,772,582.00				2,772,582.00
Pupil Transportation	1,381,783.06				1,381,783.06
Employee Benefits	6,336,878.49	75,963.78			6,412,842.27
Transfer to Charter Schools	160,833.00				160,833.00
Debt Service:					
Principal				1,890,000.00	1,890,000.00
Interest				508,425.00	508,425.00
Capital Outlay	<u>377,449.39</u>		<u>\$ 378,967.21</u>		<u>756,416.60</u>
Total Expenditures	<b>\$ 29,338,758.78</b>	<b>\$ 1,534,970.14</b>	<b>\$ 378,967.21</b>	<b>\$ 2,398,425.00</b>	<b>\$ 33,651,121.13</b>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	<b>\$ (225,725.90)</b>		<b>\$ (378,580.92)</b>	<b>(18,541.00)</b>	<b>\$ (622,847.82)</b>
Other Financing Sources/(Uses):					
Capital Lease Non-budgeted	\$ 227,500.00				227,500.00
Transfers In/(Out)	<u>386.29</u>		<u>\$ (386.29)</u>		
Total Other Financing Sources/(Uses)	<u>227,886.29</u>		<u>\$ (386.29)</u>		<u>\$ 227,500.00</u>
Net Change in Fund Balances	<b>\$ 2,160.39</b>		<b>\$ (378,967.21)</b>	<b>\$ (18,541.00)</b>	<b>\$ (395,347.82)</b>
Fund Balance July 1	1,153,047.51		517,896.30	26,180.26	1,697,124.07
Fund Balance June 30	<b>\$ 1,155,207.90</b>		<b>\$ 138,929.09</b>	<b>\$ 7,639.26</b>	<b>\$ 1,301,776.25</b>



**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balances - Governmental Funds \$ (395,347.82)

Amounts Reported for Governmental Activities in the Statement of Activities (A-2) are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciated expense. This is the amount by which capital outlays exceeded depreciation in the period.

Capital outlays	\$ 756,416.60	
Depreciation expense	(853,512.84)	
Capital Assets, Other	(183,283.44)	
Adjustment to prior year net position	<u>(281,832.83)</u>	(562,212.51)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities. 1,890,000.00

In the statement of activities, interest on noncurrent debt in the statement of activities is accrued, regardless of when due. In the government funds, interest is reported when due; when the accrued interest is decreased, the difference is a reduction in the reconciliation. 6,400.00

Repayment of lease principal is an expenditure in the governmental funds, but the payment reduces noncurrent debt in the statement of net position and is not reported in the statement of activities. 10,302.05

Lease proceeds, which are not included in revenue in the statement of activities but used to offset capital expenditures (227,500.00)

In the statement of activities, certain operating expenses, e.g. compensated absences (sick pay) 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 reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation. 34,600.53

Construction Grants are reported in governmental funds as revenues, however, in the Statement of Activities grant awards are not recognized as revenue until expended. 191,453.32

Change in Net Position of Governmental Activities \$ 947,695.57

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**PROPRIETARY FUND**  
**STATEMENT OF NET POSITION**  
JUNE 30, 2014

		<u>Business-Type Activities - Enterprise Fund</u>
<u>ASSETS</u>		<u>Food Service Total Enterprise</u>
Current Assets:		
Cash and Cash equivalents	\$	133,993.78
Accounts receivable:		
State sources		2,854.80
Federal sources		96,669.72
Other sources		79.57
Inventories		<u>2,666.79</u>
Total Current Assets	\$	<u>236,264.66</u>
Noncurrent Assets:		
Furniture, machinery and equipment	\$	635,620.35
Less: accumulated depreciation		<u>319,642.28</u>
Total Noncurrent Assets	\$	<u>315,978.07</u>
Total Assets	\$	<u><u>552,242.73</u></u>
 <u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$	76,987.80
Current portion of Capital Lease		<u>57,392.44</u>
Total current liabilities	\$	<u>134,380.24</u>
Noncurrent liabilities:		
Capital Lease Payable	\$	<u>177,429.86</u>
Total noncurrent liabilities	\$	<u>177,429.86</u>
Total liabilities	\$	<u><u>311,810.10</u></u>
 <u>NET POSITION</u>		
Invested in Capital Assets	\$	81,155.77
Unrestricted		<u>159,276.86</u>
Total Net Position	\$	<u><u>240,432.63</u></u>

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**PROPRIETARY FUND**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGE IN FUND NET POSITION**  
FOR THE FISCAL YEAR ENDED 2014

	Business-Type Activities - Enterprise Fund
	<u>Food Service Total Enterprise</u>
Operating Revenues:	
Local Sources:	
Daily sales - reimbursable programs:	
School lunch, breakfast and milk program	\$ 379,559.84
Daily sales - non-reimbursable programs	<u>2,050.81</u>
Total operating revenues	<u>\$ 381,610.65</u>
Operating Expenses:	
Cost of sales	\$ 328,434.87
Salaries	250,664.61
Employee Benefits	39,657.49
Insurance	64,382.77
General supplies	50,375.99
Management fee and Administrative Fee	59,550.00
Cleaning, repairs and other expenses	63,604.15
Interest Payment	371.72
Depreciation	<u>17,146.50</u>
Total operating expenses	<u>\$ 874,188.10</u>
Operating income/(loss)	<u>\$ (492,577.45)</u>
Nonoperating revenues:	
State sources:	
State school lunch program	\$ 10,993.80
Federal sources:	
National school lunch program	404,865.86
School breakfast program	34,355.14
Food distribution system	<u>54,659.47</u>
Total nonoperating revenues	<u>\$ 504,874.27</u>
Income/(loss) before contributions and transfers	<u>\$ 12,296.82</u>
Change in net position	<u>\$ 12,296.82</u>
Total net position - beginning	<u>228,135.81</u>
Total net position - ending	<u><u>\$ 240,432.63</u></u>

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED 2014**

	<u>Business-Type Activities</u> <u>Enterprise Funds</u>
	<u>Food Service</u> <u>Total Enterprise</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from Customers	\$ 381,915.63
Payment for Management Fee	(59,550.00)
Payments to Employees	(250,664.61)
Payments for Employee Benefit	(39,657.49)
Payments to Suppliers	<u>(444,325.41)</u>
Net Cash Provided by/(Used for) Operating Activities	\$ <u>(412,281.88)</u>
<u>Cash Flows from Noncapital Financing Activities</u>	
State Sources	\$ 10,837.80
Federal Sources	<u>430,594.97</u>
Net Cash Provided by/(Used for) Noncapital Financing Activities	\$ <u>441,432.77</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Capital Lease Proceeds	\$ 295,389.00
Principal Payment on Lease	(60,566.70)
Acquisition of Fixed Assets	<u>(265,251.54)</u>
Net Cash Provided by/(Used for) Investing Activities	\$ <u>(30,429.24)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	\$ (1,278.35)
Balances - Beginning of Year	<u>135,272.13</u>
Balances - End of Year	\$ <u><u>133,993.78</u></u>
<u>Reconciliation of Operating Income/(Loss) to Net Cash</u> <u>Provided/(Used) by Operating Activities</u>	
Operating Gain/(Loss)	\$ <u>(492,577.45)</u>
Adjustments to Reconcile Operating Loss to Cash Provided/ (Used) by Operating Activities:	
Depreciation	\$ 17,146.50
Federal Commodities	54,659.47
Change in Assets and Liabilities:	
Decrease Other Sources Receivable	304.98
Decrease in Inventory	1,118.22
Increase in Accounts Payable	<u>7,066.40</u>
Total Adjustments	\$ <u>80,295.57</u>
Net Cash Provided/(Used) by Operating Activities	\$ <u><u>(412,281.88)</u></u>

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
JUNE 30, 2014

	Trust		Agency Fund	
	Unemployment Compensation	Private Purpose Scholarship Fund	Student Activity	Payroll
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 92,828.68	\$ 23,886.98	\$ 95,789.53	\$ 277,682.29
Investments		22,282.50		
Accounts Receivable- Other	9,450.46			
Total Assets	\$ 102,279.14	\$ 46,169.48	\$ 95,789.53	\$ 277,682.29
<u>LIABILITIES</u>				
Payable to Student Groups			\$ 95,789.53	
Payroll Deductions and Withholdings				\$ 276,922.49
Interfund Payable - General Fund				759.80
Total Liabilities			\$ 95,789.53	\$ 277,682.29
<u>NET POSITION</u>				
Held in Trust for Unemployment Claims and Other Purposes	\$ 102,279.14			
Reserved for Scholarships		\$ 46,169.48		
Total Net Position	\$ 102,279.14	\$ 46,169.48		

**BOARD OF EDUCATION**  
**BOROUGH OF SOUTH RIVER SCHOOL DISTRICT**  
**COUNTY OF MIDDLESEX**  
**COMBINING STATEMENT OF CHANGE IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>Trust</u>	<u>Agency</u>
	Unemployment Compensation Trust Fund	Private Purpose Scholarship Fund
<u>Additions</u>		
Contributions:		
Plan Members	\$ 595.54	
Board	25,000.00	
Total Contributions	<u>\$ 25,595.54</u>	
Investment Earnings:		
Interest	\$ 54.54	1,571.82
Net Investment Earnings	<u>\$ 54.54</u>	<u>\$ 1,571.82</u>
Total Additions	<u>\$ 25,650.08</u>	<u>\$ 1,571.82</u>
<u>Deductions</u>		
Unemployment Claims	\$ 29,859.54	
Scholarships Awarded		\$ 3,200.00
Other		577.82
Total Deductions	<u>\$ 29,859.54</u>	<u>\$ 3,777.82</u>
Change in Net Position - Increase	\$ (4,209.46)	\$ (2,206.00)
Total Net Position - Beginning of the Year	<u>106,488.70</u>	<u>48,375.48</u>
Total Net Position - End of the Year	<u><u>\$ 102,279.24</u></u>	<u><u>\$ 46,169.48</u></u>

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2014**

**1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The South River Borough School District (the "District") is a Type II district located in the County of Middlesex, State of New Jersey. As a Type II district, the District functions independently through a Board of Education (the "Board"). The Board is comprised of nine (9) members elected to three-year staggered terms. The purpose of the District is to educate students in grades K-12. The District had an approximate enrollment at June 30, 2014 of 2,323 students.

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (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 District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

**A. Basis of Presentation**

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

**1. Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Basis of Presentation (Continued)**

**1. Government-Wide Financial Statements (Continued)**

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

**2. Fund Financial Statements**

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance.

Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

**B. Fund Accounting**

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

**1. Governmental Funds**

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

**General Fund** – The General Fund is the general operating fund of the 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 noninstructional equipment that are classified in the Capital Outlay subfund.



**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Fund Accounting (Continued)**

**1. Governmental Funds (Continued)**

**General Fund (Continued)**

As required by the New Jersey State Department of Education, the District includes budgeted Capital Outlay in this fund. Accounting principles generally accepted in the United States of America (GAAP) 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, district taxes and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to Current Expense by board resolution.

**Special Revenue Fund** – The Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Government, (other than major capital projects, Debt Service or the Enterprise Funds) and local appropriations that are legally restricted to expenditures for specified purposes.

**Capital Projects Fund** – The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs. This fund is not applicable in this fiscal year.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Fund Accounting (Continued)**

**2. Proprietary Fund Type**

The focus of Proprietary Fund measurement is upon determination of net income, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the District:

**Enterprise Fund** – The Enterprise Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the District is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges; or, where the District has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District's Enterprise Fund is comprised of the Food Service Fund.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on the statement of net position. Their reported fund equity (net position) is segregated into contributed capital and unreserved retained earnings, if applicable. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Depreciation of all exhaustive capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives of the equipment used in the operations of the Enterprise Funds are approximately 10 years.

**3. Fiduciary Funds**

**Trust and Agency Funds** – The Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

**Private Purpose Scholarship Funds**

**Expendable Trust Fund** - An Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent. The Expendable Trust Fund includes the Unemployment Compensation Insurance Fund and five (5) scholarship funds.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Fund Accounting (Continued)**

**3. Fiduciary Funds (Continued)**

**Private Purpose Scholarship Funds (Continued)**

**Nonexpendable Trust Fund** - A Nonexpendable Trust Fund is used to account for assets held under the terms of a formal trust agreement, whereby the District is under obligation to maintain the trust principal. The District presently has two (2) scholarship fund assets that can be deemed as nonexpendable Trust Fund types.

**Agency Funds** – Agency Funds are used to account for the assets that the District holds on behalf of others as their agent. Agency Funds are custodial in nature and do not involve measurement of results of operations. Agency Funds include payroll and student activities funds.

**4. Noncurrent Debt**

Noncurrent liabilities expected to be financed from governmental funds are accounted for in the General Noncurrent Debt, not in the governmental funds. This includes the outstanding principal balance on capital leases.

**C. Measurement Focus**

**1. Government-Wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the Statement on Net Position.

**2. Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the statement of net position. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus (Continued)**

**2. Fund Financial Statements (Continued)**

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Fund equity (i.e., net position) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Fiduciary funds are reported using the economic resources measurement focus.

**D. Basis of Accounting**

The modified accrual basis of accounting is used for measuring financial position and operating results of all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

Ad Valorem (Property) Taxes are susceptible to accrual and under New Jersey State Statute a municipality is required to remit to its school district the entire balance of taxes in the amount voted upon or certified, prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available. The District is entitled to receive moneys under the established payment schedule and the unpaid amount is considered to be an "accounts receivable".

In its accounting and financial reporting, the District follows the pronouncements of the Governmental Accounting Standards Board (GASB) and the pronouncements of the Financial Accounting Standards Board (FASB) and its predecessor organizations issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements. The District's proprietary funds have elected not to apply the standards issued by FASB after November 30, 1989.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types and nonexpendable trust funds. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Budgets/Budgetary Control**

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue, and debt service funds. The budgets are submitted to the county office for approval and are voted upon at the annual school election on the third Tuesday in April. Budgets are prepared using the modified accrual basis of accounting, except for the special revenue fund as described later. 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. 6:20-2A.2(m)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year subject to the limitation of N.J.A.C. 6A:23A-2.3. The Board of Education did not make any material supplemental budgetary appropriations during the fiscal year.

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 accounting principles generally accepted in the United States of America (GAAP) with the exception of the legally mandated revenue recognition of the last state aid payment for budgetary purposes only and the special revenue fund as noted below. 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 grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting 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.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Budgets/Budgetary Control (Continued)**

The following presents a reconciliation of the general fund revenue and special revenue fund revenue from the budgetary basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General, Special Revenue and Debt Service Funds to the GAAP basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types.

	<u>General Fund</u>	<u>Special Revenue Fund</u>
Sources/inflows of resources:		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules.	\$ 29,161,545.88	\$ 1,534,970.14
Difference - budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		
June 30, 2013	None	None
June 30, 2014	None	None
State aid payment recognized for GAAP statements in the current year, previously recognized for budgetary purposes.	1,216,278.00	
State aid payment recognized for budgetary purposes, not recognized for GAAP statements.	<u>(1,264,791.00)</u>	
Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 29,113,032.88</u>	<u>\$ 1,534,970.14</u>
Uses/outflows of resources:		
Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule.	\$ 29,338,758.78	\$ 1,534,970.14
Differences - budget to GAAP:		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year supplies are received for financial reporting purposes.		
June 30, 2013	None	None
June 30, 2014	<u>None</u>	<u>None</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds.	<u>\$ 29,338,758.78</u>	<u>\$ 1,534,970.14</u>

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Encumbrances**

Under encumbrance accounting purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds, other than the special revenue fund, are reported as reservations of fund balances 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 special revenue fund, for which the District has received advances, are reflected in the balance sheet as deferred 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.

**G. Assets, Liabilities and Equity**

**1. Cash, Cash Equivalents and Investments**

Cash and cash equivalents 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. Cash equivalents are defined as short-term, highly liquid securities that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with original maturities of three (3) months or less meet this definition. 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. New Jersey statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

Additionally, the District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

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 Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value 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 full amount of their deposits to the Governmental Units.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**2. Inventories and Prepaid Expenses**

Inventories and prepaid expenses, which benefit future periods, other than those recorded in the enterprise fund are recorded as an expenditure during the year of purchase.

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. Prepaid expenses in the Enterprise Fund represent payments made to vendors for services that will benefit periods beyond June 30, 2014.

**3. Allowance for Uncollectible Accounts**

No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

**4. Tuition Receivable**

Tuition charges were established by the Board of Education based on estimated costs. The charges are subject to adjustment when the final costs have been determined.

**5. Tuition Payable**

Tuition charges for the fiscal years 2012-2013 and 2013-2014 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

**6. Short-Term Interfund Receivables/Payables**

Short-term interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District and that are due within one year.

**7. Capital Assets**

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,000.00. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.



**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**7. Capital Assets (Continued)**

All reported capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Lives</u>
School Buildings	50 years
Building Improvements	20 years
Electrical/Plumbing	30 years
Vehicles	8 years
Office and Computer Equipment	5-10 years
Instructional Equipment	10 years
Grounds Equipment	15 years
Food Service Equipment	7-20 years

**8. Deferred Outflows/Inflows of Resources**

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

**9. Compensated Absences**

Compensated absences are those absences for which employees will be paid, such as vacation, sick leave and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the 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 District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

The entire sick leave and vacation leave liabilities are reported on the government-wide financial statements.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**9. Compensated Absences (Continued)**

For governmental fund financial statements, the current portion of unpaid compensated absences is in the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

In proprietary and similar trust funds, compensated absences are recorded as an expense and liability of the fund that will pay for them.

**10. Accrued Liabilities and Noncurrent Obligations**

All payables, accrued liabilities and noncurrent obligations are reported in the government-wide financial statements.

In general, 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 governmental funds. However, the noncurrent portion of capital leases, compensated absences and loans payable 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.

**11. Deferred Loss on Refunding of Debt**

Deferred loss on refunding arising from the issuance of the refunding bonds is recorded as a deferred outflow of resources. It is amortized in a systematic and rational manner over the duration of the related debt as a component of interest expense. The amortization expense for the year ended June 30, 2014 amounted to \$11,342.00. As of June 30, 2014, the District has an unamortized balance of \$102,078.00 recorded as a deferred outflow of resources. This amount had previously been recorded as a reduction of bonds payable.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**12. Net Position**

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* became effective for financial statements for periods beginning after December 15, 2011 and established standards for reporting deferred outflows of resources, deferred inflows of resources and net position. The adoption of this statement resulted in a change in the presentation of the statement of net position to what is now referred to as the statement of net position and the term "net assets" is changed to "net position" throughout the financial statements. Net Position represents the difference between assets, deferred outflows, deferred inflows and liabilities in the government-wide financial statements. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any noncurrent debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**13. Unearned (Deferred) Revenue**

Unearned revenue in the special revenue fund represents federal and state grants that have been received but not yet earned.

**14. Fund Equity**

Contributed capital represents the amount of fund capital contributed to the proprietary funds from other funds. Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**15. Fund Balance Reserves**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54") established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under GASB 54, fund balances in the governmental funds financial statements are reported under the modified accrual basis of accounting and classified into the following five (5) categories, as defined below:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Assets included in this fund balance category include prepaid assets, inventories, noncurrent receivables and corpus of any permanent funds.
- b. Restricted – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.
- c. Committed – includes amounts that can be used only for the specific purposes imposed by a formal action of the government's highest level of decision-making authority. The District's highest level of decision-making authority is the Board of Education (the "Board") and formal action is taken by resolution of the Board at publicly held meetings. Once committed, amounts cannot be used for other purposes unless the Board revised or changes the specified use by taking the same action (resolution) taken to originally commit these funds.
- d. Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Interest is expressed by either the Board or Business Administrator, to whom the Board has delegated the authority to assign amounts to be used for specific purposes, including the encumbering of funds.
- e. Unassigned – includes all spendable amounts not contained in the other classifications in 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 position unassigned fund balance amount. In the 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 both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. For the unrestricted fund balance, the District first spends committed funds, then assigned funds, and finally, unassigned funds.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**16. Proprietary Funds Revenues and Expenses**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School District enterprise fund, (the Food Service) are charges to customers for sales of food service.

Operating expenses for enterprise funds include the cost of sales and services, administrative expense and depreciation on Capital Assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**17. On-Behalf Payments**

Revenues and expenditures of the general fund include payments made by the State of New Jersey social security and post-retirement medical pension contributions for the certified teachers and other members of the New Jersey Teachers Pension and Annuity Fund. The amounts are not required to be included in the District's annual budget.

**18. Non-Monetary Transactions**

Commodities received under the Federal Food Distribution Program are received by the district and are recorded as nonoperating revenue when received in the food service enterprise fund at market value. The use of the commodities is included in cost of sales.

**19. Allocation of Expenses**

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Employee benefits, including the employer's share of social security, workers compensation, and medical and dental benefits, were allocated based on salaries of that program. Depreciation expense, where practicable, is specifically identified by function and is included in the direct expense column of the Statement of Activities. Depreciation expense that could not be attributed to a specific function is reported separately on the Statement of Activities. No expenses were allocated as "Indirect Expenses".

**20. Extraordinary and Special Items**

Extraordinary items are transactions or events that are unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Assets, Liabilities and Equity (Continued)**

**21. Reclassification**

In connection with the adoption of GASB 65, the unamortized deferred issuance costs were reclassified from a reduction of bonds payable to deferred outflow of resources. The reclassification has no impact on overall net position.

**22. GASB to be Implemented in the 2015 Fiscal Year**

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB No. 68”). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The requirements of this Statement are effective for financial statements for periods ending on or after June 30, 2015. The District has not completed the process of evaluating the impact that will result from adopting GASB No. 68.

**23. Subsequent Events**

Management has reviewed and evaluated all events and transactions from June 30, 2014 through December 4, 2014, the date that the financial statements are issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents includes petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less. Cash equivalents are defined as short-term, highly liquid securities that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with original maturities of three (3) months or less meet this definition.

Investments are stated at fair value, which is in excess of cost value. The District classifies securities that have original maturity date of more than three months from the date of purchase as investments. The District is in compliance with GASB Statement No. 3 as amended by GASB Statement No. 40.

**Deposits**

New Jersey statutes require that school districts deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. School districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**Deposits (Continued)**

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

**Investments**

New Jersey statutes permit the District to purchase the following types of securities:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the school district or local unit of which the school district is a part.
- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments, New Jersey State Department of Treasury.
- Local government investment pools.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

**New Jersey Cash Management Fund** – All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment’s existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the “Other-than-State” participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis. As of June 30, 2014, the District had \$87,174.62 on deposit with the New Jersey Cash Management Fund.

**Allocation of Cash and Cash Equivalents:**

Unrestricted		\$ 2,497,597.98
Restricted		<u>53,108.39</u>
		<u>\$ 2,550,706.37</u>

As of June 30, 2014, cash, cash equivalents and investment of all funds of the District consisted of the following:

		<u>Cash and Cash Equivalents</u>
Cash and Cash Equivalents:		
Checking Accounts, interest bearing		\$ 2,463,531.75
New Jersey Cash Management Fund (NJCMF)		<u>87,174.62</u>
		<u>\$ 2,550,706.37</u>
Reconciliation:		
Governmental Funds		\$ 1,904,242.61
Proprietary Funds		133,993.78
Fiduciary Funds		<u>512,469.98</u>
		<u>\$ 2,550,706.37</u>
Investment - Fiduciary - Restricted		
U.S. Treasury Note (Face Value \$16,000.00)		<u>\$ 22,282.50</u>

**Risk Analysis** – All of the balances were covered by either federal depository insurance or Government Unit Deposit Protection Act (“GUDPA”) and are considered to have minimal custodial risk. Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have concentration of credit risk.



**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**4. CAPITAL RESERVE ACCOUNT**

A Capital Reserve Account was established by Board Resolution and Budget Appropriation in a prior year for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The combined Capital Reserve Account balance at June 30, 2014 is \$20,468.79 and is reflected in the General Fund.

The activity of the capital reserve for the July 1, 2013 to June 30, 2014 fiscal year is as follows:

Board Contributions:		
Prior to June 30, 2013	\$ 243,773.26	
During fiscal year ended June 30, 2014	<u>NONE</u>	\$ 243,773.26
Interest Earnings:		
Prior to June 30, 2013	\$ 1,787.89	
During fiscal year ended June 30, 2014	<u>26.64</u>	1,814.53
Withdrawals:		
Prior to June 30, 2013	\$ 234,766.00	
During fiscal year ended June 30, 2014	<u>(9,647.00)</u>	<u>225,119.00</u>
Balance at June 30, 2014		<u><u>\$ 20,468.79</u></u>

Funds placed in the capital reserve account are restricted to capital projects in the District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the department, a 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 year end. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by 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. 6:23A-5.1(d) 7*, the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**5. INTERGOVERNMENTAL ACCOUNTS RECEIVABLE**

Intergovernmental Accounts Receivable at June 30, 2014 consisted of Federal sources, State sources and State aid. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

	<u>Governmental Fund</u>	<u>Business Type</u>
General Fund:		
State Aid:		
Extraordinary Aid	\$ 304,053.00	
Non-Public Transportation - Cost Reimbursement	22,374.00	
TPAF FICA Reimbursement	47,318.80	
	<u>\$ 373,745.80</u>	
Special Revenue Fund:		
Federal:		
Adult Basic Education	\$ 22,684.40	
Title I	176,071.73	
Title II Part A	10,714.86	
Title III - Part A	3,430.21	
IDEA Part B	107,604.32	
IDEA Pre-School	2,874.83	
Perkins Grant	3,731.00	
	<u>327,111.35</u>	
Capital Projects Fund:		
NJSDA ROD Grant	\$ <u>496,172.21</u>	
	<u>\$ 1,197,029.36</u>	
Proprietary Fund:		
Enterprise Fund		
State Sources:		
Lunch		\$ <u>2,854.80</u>
Federal Sources:		
Breakfast		\$ 8,611.78
Lunch		88,057.94
		<u>\$ 96,669.72</u>

**6. INVENTORY**

The value of Federal donated commodities as reflected on Schedule A of \$54,659.57 (required by the Single Audit Law of 1984) is the difference between market value and cost of the commodities at the date of the purchase and has been included as an item of nonoperating revenue in the financial statements. For the year ended June 30, 2014, the federal donated commodities food inventory of \$54,659.47 was included in the year end food and supplies amount of \$2,666.79.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**7. CAPITAL ASSETS, NET**

The following schedule is a summarization of the changes in capital assets by source for the fiscal year ended June 30, 2014:

	Beginning Balance	Additions	Transfers (Retirements)	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Construction in progress	\$ 13,627,730.63		\$ 13,627,730.63	
Total capital assets not being depreciated	<u>\$ 13,627,730.63</u>		<u>\$ 13,627,730.63</u>	
Capital assets being depreciated:				
Site and Site Improvements	\$ 2,197,222.38			\$ 2,197,222.38
Building and Building Improvements	34,548,705.51	\$ 14,130,925.91		48,679,631.42
Machinery and Equipment	3,003,173.98	69,937.88		3,073,111.86
Vehicles	132,819.60			132,819.60
Totals at historical cost	<u>\$ 39,881,921.47</u>	<u>\$ 14,200,863.79</u>		<u>\$ 54,082,785.26</u>
Less accumulated depreciation for:				
Site and Site Improvements	\$ (1,087,347.93)	\$ (109,861.79)		\$ (1,197,209.72)
Building and Building Improvements	(10,980,871.93)	(687,383.52)		(11,668,255.45)
Machinery and Equipment	(2,711,374.56)	(43,579.84)		(2,754,954.40)
Vehicles	(88,784.61)	(12,687.69)		(101,472.30)
Total accumulated depreciation	<u>\$ (14,868,379.03)</u>	<u>\$ (853,512.84)</u>		<u>\$ (15,721,891.87)</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>\$ 25,013,542.44</u>	<u>\$ 13,347,350.95</u>		<u>\$ 38,360,893.39</u>
Governmental activities capital assets, net	<u>\$ 38,641,273.07</u>	<u>\$ 13,347,350.95</u>	<u>\$ 13,627,730.63</u>	<u>\$ 38,360,893.39</u>
<u>Business-Type Activities:</u>				
Furniture, machinery and equipment	\$ 370,368.81	\$ 69,119.22	\$ 6,887.93	\$ 446,375.96
Building improvements		189,244.39		189,244.39
Totals at historical cost	<u>\$ 370,368.81</u>	<u>\$ 258,363.61</u>	<u>\$ 6,887.93</u>	<u>\$ 635,620.35</u>
Less accumulated depreciation for:				
Furniture, machinery and equipment	\$ (302,495.78)	\$ (14,923.43)	\$ (330.63)	\$ (317,749.84)
Building improvements		(1,892.44)		(1,892.44)
Total accumulated depreciation	<u>\$ (302,495.78)</u>	<u>\$ (16,815.87)</u>	<u>\$ (330.63)</u>	<u>\$ (319,642.28)</u>
Business type activities capital assets, net	<u>\$ 67,873.03</u>	<u>\$ 241,547.74</u>	<u>\$ 6,557.30</u>	<u>\$ 315,978.07</u>
Detail of Additions:				
Capital lease		\$ 227,500.00		
General fund		149,949.39		
Capital projects		378,967.21		
Prior year CIIP		13,627,730.63		
Adjustment		(183,283.44)		
		<u>\$ 14,200,863.79</u>		

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**7. CAPITAL ASSETS, NET (CONTINUED)**

Depreciation expense was charged to functions as follows:

Regular Instruction	\$ 356,565.79
Special Education Instruction	103,593.29
Other Special Instruction	12,778.08
Other	22,574.65
Support Services and Undistributed Cost:	
Student and Instruction Related Services	113,091.64
School Administrative Services	39,721.22
General and Business Administrative Services	47,433.18
Plant Operations and Maintenance	105,259.84
Pupil Transportation	52,495.15
	<hr/>
	\$ <u>853,512.84</u>

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**8. NONCURRENT DEBT**

During the fiscal year ended June 30, 2014 the following changes occurred in liabilities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Amounts Due Within One year</u>	<u>Noncurrent Portion</u>
Governmental Activities						
Bonds Payable:						
General Obligation Debt	\$ 14,394,000	-	\$ 1,890,000	\$ 12,504,000	\$ 1,915,000	\$ 10,589,000
Other Liabilities:						
Obligations under						
Capital Leases	\$ 32,436	\$ 228,000	\$ 10,302	\$ 250,134	\$ 54,909	\$ 195,225
Compensated Absences			-			
Payable	413,401	75,941	41,340	448,002	44,801	403,201
Total Governmental	\$ 14,839,837	\$ 303,941	\$ 1,941,642	\$ 13,202,136	\$ 2,014,710	\$ 11,187,426
Business Type Activities						
Food Service Obligation						
under Capital Lease	\$ 295,389		\$ 60,567	\$ 234,822	\$ 57,392	\$ 177,430
	\$ 295,389	-	\$ 60,567	\$ 234,822	\$ 57,392	\$ 177,430
<b>Total</b>	<b>\$ 15,135,226</b>	<b>\$ 303,941</b>	<b>\$ 2,002,209</b>	<b>\$ 13,436,958</b>	<b>\$ 2,072,102</b>	<b>\$ 11,364,856</b>

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**8. NONCURRENT DEBT (CONTINUED)**

**A. Bonds Payable**

Bonds are authorized in accordance with State law by the voters of the municipality(ies) through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the District are general obligation bonds. As of June 30, 2014, the District had the following serial bonds outstanding.

General Serial Bonds:

\$18,959,000 General Obligation Bonds, Series 1995 -  
 Construction a new elementary school for the kindergarten through eighth grade students (K-8). Annual remaining maturities of \$1,234,000 to \$1,300,000 through December 1, 2015 at an interest rate of 5.0%. The bonds are not subject to redemption prior to maturity. \$ 2,534,000.00

\$7,005,000 General Obligation Bonds, Series 2011 -  
 District's share of improvements to the high school (9-12). Annual maturities of \$275,000 to \$550,000 through June 1, 2027 at interest rates ranging from 2.0% to 4.25%. The bonds maturing prior to June 1, 2021 are not subject to redemption prior to maturity. The bonds maturing on or after June 1, 2021 are subject to redemption prior to maturity at the option of the Board, in whole at any time or in part on any interest payment date on or after June 1, 2020. 6,455,000.00

\$3,845,000 of Refunding School Bonds, Series 2012 -  
 Refinance \$3,953,000 of the General Obligation Bonds 2003. Annual maturities of \$340,000 to \$445,000 through June 1, 2023 at interest rates ranging from 3.0% to 4.0%. The bonds are not subject to redemption prior to maturity. 3,515,000.00

**\$ 12,504,000.00**

The Bonds are general obligations of the Board and are secured by a pledge of the full faith and credit of the Board for the payment of the principal thereof and the interest thereon and, unless paid from other sources, the Bonds are payable from ad valorem taxes to be levied on all taxable real property in the school district, without limitation as to rate or amount. The Bonds are additionally secured by the provisions of the New Jersey School Bond Reserve Act.

The District, in conjunction with the issuance of the Bonds, has agreed to undertake and provide certain information to Bondholders on a continuing basis. The Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) "Continuing Disclosure" requirements, which the District has adopted, requires that various financial information about the District and the Municipality be provided annually to various information repositories. This requirement has been complied with for the year ended June 30, 2013.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**8. NONCURRENT DEBT (CONTINUED)**

**A. Bonds Payable (Continued)**

Principal and interest due on serial bonds outstanding is as follows:

<u>School District Bonds, Series 1995 (*)</u>			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,300,000	\$ 94,200	\$ 1,394,200
2016	<u>1,234,000</u>	<u>30,850</u>	<u>1,264,850</u>
	<u>\$ 2,534,000</u>	<u>\$ 125,050</u>	<u>\$ 2,659,050</u>

(\*) New K-8 Elementary School

<u>Year</u>	<u>School District Bonds, Series 2011 (**)</u>			<u>School District Refunding Bonds 2012 (***)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Next five (5) year						
2015	\$ 275,000	211,275	\$ 486,275	\$ 340,000	126,150	\$ 466,150
2016	300,000	205,775	505,775	350,000	115,950	465,950
2017	550,000	199,025	749,025	370,000	105,450	475,450
2018	550,000	185,275	735,275	385,000	94,350	479,350
2019	<u>550,000</u>	<u>170,150</u>	<u>720,150</u>	<u>385,000</u>	<u>82,800</u>	<u>467,800</u>
	<u>2,225,000</u>	<u>971,500</u>	<u>3,196,500</u>	<u>1,830,000</u>	<u>524,700</u>	<u>2,354,700</u>
Thereafter						
2020	550,000	153,650	703,650	405,000	67,400	472,400
2021	550,000	137,150	687,150	410,000	51,200	461,200
2022	550,000	120,650	670,650	425,000	34,800	459,800
2023	550,000	102,775	652,775	445,000	17,800	462,800
2024	<u>550,000</u>	<u>83,525</u>	<u>633,525</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>2,750,000</u>	<u>597,750</u>	<u>3,347,750</u>	<u>1,685,000</u>	<u>171,200</u>	<u>1,856,200</u>
2025	550,000	61,525	611,525	<u>                    </u>	<u>                    </u>	<u>                    </u>
2026	550,000	39,525	589,525	<u>                    </u>	<u>                    </u>	<u>                    </u>
2027	<u>380,000</u>	<u>16,150</u>	<u>396,150</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>1,480,000</u>	<u>117,200</u>	<u>1,597,200</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	<u>\$ 6,455,000</u>	<u>\$ 1,686,450</u>	<u>\$ 8,141,450</u>	<u>\$ 3,515,000</u>	<u>\$ 695,900</u>	<u>\$ 4,210,900</u>

(\*\*) Improvements to High School

(\*\*\*) Refunding of Series 2003

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**8. NONCURRENT DEBT (CONTINUED)**

**A. Bonds Payable (Continued)**

Principal and interest due on serial bonds outstanding is as follows: (Continued)

<u>Year</u>	<u>TOTAL DEBT SERVICE</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Next five (5) years			
2015	\$ 1,915,000	\$ 431,625	\$ 2,346,625
2016	1,884,000	352,575	2,236,575
2017	920,000	304,475	1,224,475
2018	935,000	279,625	1,214,625
2019	935,000	252,950	1,187,950
	<u>6,589,000</u>	<u>1,621,250</u>	<u>8,210,250</u>
Thereafter			
2020	955,000	221,050	1,176,050
2021	960,000	188,350	1,148,350
2022	975,000	155,450	1,130,450
2023	995,000	120,575	1,115,575
2024	550,000	83,525	633,525
	<u>4,435,000</u>	<u>768,950</u>	<u>5,203,950</u>
2025	550,000	61,525	611,525
2026	550,000	39,525	589,525
2027	380,000	16,150	396,150
	<u>1,480,000</u>	<u>117,200</u>	<u>1,597,200</u>
	\$ <u><u>12,504,000</u></u>	\$ <u><u>2,507,400</u></u>	\$ <u><u>15,011,400</u></u>

**B. Bonds and Notes Authorized But Not Issued**

As of June 30, 2014 there were bonds and notes authorized but not issued of \$496,172.81 which will be reduced accordingly as the NJSDA (Capital Projects Fund) reimbursement funds are received. The authorization was approved as part of the referendum approved by the voters on December 14, 2010 for improvements to the high school. The amount is equivalent to the balance due to the District for the project grant and is calculated as follows:



**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**8. NONCURRENT DEBT (CONTINUED)**

**B. Bonds and Notes Authorized But Not Issued (Continued)**

Grant Awarded		\$ 7,186,565.00
Less: Cash Receipts prior to June 30, 2013	\$ 4,775,008.38	
Cash Receipt for the period ended June 30, 2014	1,915,383.81	6,690,392.19
Balance		\$ 496,172.81

Subsequent Event – Subsequent to yearend the District authorized a referendum on January 27, 2015 of the voters of the District to approve expenditures of \$5,222,111.00 for improvement of the District's schools. It is anticipated that a portion of the related debt service will be offset by state aid which will reduce the burden on the tax payer.

**C. Capital Lease Obligations Payable**

The District is leasing equipment totaling \$576,284.95 under three (3) capital leases. The capital leases are for terms of five years. The following is a schedule of future minimum lease payments under the capital leases at June 30, 2014:

	<u>Payment</u>	<u>Interest</u>	<u>Total</u>
Governmental Funds:			
General Fund			
2010 Lease			
2014	\$ 10,803.76	\$ 1,077.91	\$ 11,881.67
2015	11,329.91	551.76	11,881.67
	\$ 22,133.67	\$ 1,629.67	\$ 23,763.34
2014 Lease			
2015	\$ 44,105.47	\$ 4,064.26	\$ 48,169.73
2016	44,688.61	3,481.12	48,169.73
2017	45,534.57	2,635.16	48,169.73
2018	46,396.53	1,773.20	48,169.73
2019	47,274.82	894.91	48,169.73
	\$ 228,000.00	\$ 12,848.65	\$ 240,848.65
General Fund Total	\$ 250,133.67	\$ 14,478.32	\$ 264,611.99
Business-Type Activities:			
Enterprise Fund - 2013 Lease			
2014	\$ 57,392.44	\$ 3,545.98	\$ 60,938.42
2015	58,259.10	2,679.32	60,938.42
2016	59,138.86	1,799.56	60,938.42
2017	60,031.90	906.52	60,938.42
	\$ 234,822.30	\$ 8,931.38	\$ 243,753.68

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**8. NONCURRENT DEBT (CONTINUED)**

**D. Defeasance**

2012 Refunding Bonds

On June 1, 2012 the Board issued \$3,845,000.00 (refer to Note 8A) in general obligation (Refunding) bonds to advance refund \$3,953,000.00 of outstanding 2003 Series Bonds callable on or after June 1, 2014. The net proceeds which included a premium of \$328,995.90 were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 2012 Series Bonds, which were included in the refunding.

As a result of the accounting requirement in accordance with GASB #23, Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities, the recording of the transaction related to the new vs. old and related costs resulted in an accounting loss of \$136,103.46 which in conjunction with the premium will be amortized over the remaining life of the Series 2012 Refunding Bond Issue using the "straight line method".

The transaction was done at an economic savings to the District in accordance with the State of New Jersey Local Finance Board requirements and their present value savings criteria. The present value savings at the time refunding was \$143,874.63, or 3.63%.

As a result, the related portion of the 2003 Series Bonds are considered defeased and the liability for these bonds has been removed from the District's records.

Unamortized Loss on Defeasance

	<u>Beginning Balance</u>	<u>Amortization</u>	<u>Ending Balance</u>
2012 Series Refunding Bonds	\$ <u>113,420</u>	\$ <u>11,342</u>	\$ <u>102,078</u>

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**9. PENSION PLANS**

**Description of Plans:** All required employees of the District are covered by either the Public Employees' Retirement System or the Teachers' Pension and Annuity Fund that have been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

**Teachers' Pension and Annuity Fund (TPAF):** The Teachers' Pension and Annuity Fund was established in January 1955 under the provisions of N.J.S.A.18A:66 to provide coverage including post-retirement health care to substantially all full time public school employees in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for health care coverage. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 61 and 62, respectively, with an annual benefit generally determined to be 1/55<sup>th</sup> of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively, with an annual benefit generally determined to be 1/60<sup>th</sup> of the average annual during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

**Public Employees' Retirement System (PERS):** The Public Employees' Retirement System was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school board or public agency provided the employee is not a member of another State-administered retirement system. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 61 and 62, respectively with an annual benefit generally determined to be 1/55<sup>th</sup> of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be 1/60<sup>th</sup> of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**9. PENSION PLANS (CONTINUED)**

**Funding Policy:** The contribution policy is set by New Jersey Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for TPAF and PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased in over the next seven years that will bring the total pension contribution rate to 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate in both the TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the District is a non-contributing employer of the TPAF.

During the year ended June 30, 2014 for TPAF, which is a cost sharing plan with special funding situations, the annual pension costs equals annual required contribution. For PERS, which is a cost sharing multi-employer pension plan, the annual pension costs differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

**Three-Year Trend Information for PERS**

Year Funding	Three-Year Trend Information for PERS			Percentage of APC Contributed	Employee Contribution
	Annual Pension Cost		Net Cost to District		
	Normal	Accrued			
June 30, 2014	\$ 57,421	\$ 155,066	\$ 212,487	100%	\$ 107,662
June 30, 2013	50,222	120,082	180,440	100%	106,745
June 30, 2012	64,652	129,305	206,314	100%	104,284

**Three-Year Trend Information for TPAF (Paid on-behalf of the District)**

Year Funding <u>June 30</u>	Pension Paid on-behalf of District				Employee Contribution	TPAF FICA
	Cost (APC)	APC Contributed	Total On-Behalf of			
2014	\$ None	100%	\$ 512,321	\$ 811,549	\$ 947,413	
2013	None	100%	797,924	803,208	889,049	
2012	None	100%	209,314	751,833	907,871	

During the fiscal year ended June 30, 2014, the State of New Jersey contributed \$512,321 to the TPAF for normal pension. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$947,413 during the year ended June 30, 2013 for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. This amount has been included in the basic financial statements, and the individual fund statements and schedules as a revenue and expenditure in accordance with GASB 24.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**9. PENSION PLANS (CONTINUED)**

**Funding Policy (Continued):**

Legislation enacted during 1993 provided early retirement incentives for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in the 1994 fiscal year. The early retirement incentives included: (a) an additional five years of service credit for employees at least age 50 with a minimum of 25 years of service; (b) free health benefits for employees at least 60 years old with at least 20 years of service; and (c) an additional \$500 per month for two years for employees at least age 60 with 10 but less than 20 years of service. The Board assumed the increased cost for the early retirement as it affected their district.

**10. POST-RETIREMENT BENEFITS**

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required TPAF and 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 post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired State employees and retired educational employees. As of June 30, 2013, there were 100,134 retirees eligible for post-retirement medical benefits and the state contributed \$1.07 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a prefunding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$173.80 million toward Chapter 126 benefits for 17,356 eligible retired members in fiscal year 2013.

The State will set the contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to SHBP Fund for PERS retirees' post-retirement benefits on behalf of the District was not determined or made available by the State of New Jersey.

Three-Year Trend Information for TPAF Medical (Paid on-behalf of the District)

<u>Year Ending</u>	<u>Post-Retirement Medical</u>
June 30, 2014	\$ 840,014
June 30, 2013	902,251
June 30, 2012	814,544

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**11. COMPENSATED ABSENCES**

The 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.

District employees are granted vacation and sick leave in varying amounts under the District's personnel policies. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and begin vesting with the employee after fifteen years of service.

The liability for vested compensated absences of the governmental fund types is reflected in the statement of net position in the current and long-term liabilities. The current portion of the compensated absence balance of the governmental funds is shown separately from the long-term liability balance of compensated absences.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 2014, there is no accrual for compensated absences in the proprietary fund types.

**12. DEFERRED COMPENSATION**

The District offers its employees a choice of various deferred compensation plans created in accordance with Internal Revenue Code Section 403(b). The plans, which are administered by the entities listed below, permits 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:

- AXA Equitable
- Met Life

**13. RISK MANAGEMENT**

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

**Property and Liability Insurance:** The District maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**13. RISK MANAGEMENT (CONTINUED)**

**New Jersey Unemployment Compensation Insurance:** The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the 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 District is billed quarterly for amounts due to the State. The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's expendable trust fund for the current and prior two years:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Interest</u> <u>Earnings</u>	<u>Board</u> <u>Contributions</u>	<u>Employee</u> <u>Contributions</u>	<u>Amount</u> <u>Reimbursed</u>	<u>Ending</u> <u>Balance</u>
2014	\$ 54.54	\$ 25,000.00	\$ 595.54	\$ 29,859.54	\$ 102,279.24
2013	66.47	25,018.02	27,512.70	65,590.10	106,488.70
2012	61.34	50,000.00	25,352.78	81,576.26	119,481.61

**Health Benefits:** The Board of Education has procured medical insurance coverage for its employees under a monthly per employee premium (traditional plan).

**Other Coverage:** The Board has contracted with a commercial insurance company to provide coverage for various losses. The coverages are subject to various deductibles and coverage limits based on the type of policy coverage included. The coverages and its limits are detailed in the statistical section.

The Board also maintains surety bond coverage on key financial employees.

**14. INTERFUND RECEIVABLES AND PAYABLES**

The following interfund balances remained on the balance sheet at June 30, 2014:

	<u>Receivable</u>	<u>Payable</u>
Governmental Funds:		
General	\$ 162,058.07	
Trust & Agency		
Capital Projects	463.49	
Special Revenue		\$ 161,761.76
Other Fund:		
Trust and Agency		759.80

**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**15. FUND BALANCE APPROPRIATED**

**General Fund** - Of the \$1,155,207.90 General Fund fund balance at June 30, 2014, \$20,468.79 is restricted for the Capital Reserve Account; \$126,053.15 is restricted - assigned excess surplus (from 2012-2013) – designated for subsequent years expenditures and has been appropriated and included as anticipated revenue for the year ended June 30, 2015, \$1,008,685.96 is assigned-designated for subsequent year’s expenditures and included as anticipated revenue for the year ended June 30, 2015.

**Capital Projects Fund** – Of the \$138,929.09 Capital Projects Fund balance at June 30, 2014 is assigned designated for subsequent year’s expenses.

**Debt Service Fund** – Of the \$7,639.26 Debt Service Fund balance at June 30, 2014, \$6,639.26 is assigned – designated for subsequent year’s expenditures, \$1,000.00 is unassigned.

**16. CALCULATION OF EXCESS SURPLUS – BUDGETARY BASIS**

In accordance with N.J.S.A. 18A:7F-7 as amended, the designation for Reserved Fund Balance - Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve General Fund 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. There was excess fund balance as a result of the year ended June 30, 2014 of \$126,053.15 and as a result of the year ended June 30, 2013 of \$266,724.90.

**17. RECONCILIATION OF FUND BALANCES – GENERAL FUND**

The Surpluses are presented on a GAAP basis and a reconciliation to the budget basis as follows:	<u>Assigned - Designated for Subsequent Year Expenditures</u>	<u>Reserve for Excess Surplus</u>	<u>Unassigned</u>
Balance on a Budget Basis on the General Fund Budgetary Basis Comparison	\$ 1,144,094.85	\$ 266,724.90	\$ 862,657.21
Less:			
Allocation of State Aid Payment of \$1,264,791.00 not recognized on GAAP basis	<u>135,408.89</u>	<u>266,724.90</u>	<u>862,657.21</u>
Balances on a GAAP Basis on the Goernmental Fund Balance Sheet	<u>\$ 1,008,685.96</u>	<u>\$ None</u>	<u>\$ None</u>



**SOUTH RIVER BOROUGH SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

**18. CONTINGENT LIABILITIES**

- A. Grant Programs** – The school district participates in state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The school district is potentially liable for expenditures which may be disallowed pursuant to the terms of those grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.
- B. Pending Litigation** - As of the date of this report, in the opinion of the Board Attorney and management, there was no litigation pending of which, in the event of an adverse or unfavorable outcome, would materially impair the financial position of the District.

**19. ECONOMIC DEPENDENCY**

The District receives a substantial amount of its support from federal and state governments. A significant reduction in the level of support, if this were to occur, could have an effect on the District's programs and activities.

**20. PRIOR PERIOD RESTATEMENT – DISTRICT-WIDE FINANCIAL STATEMENTS**

GASB Statement No. 65 related to *Items Previously Reported as Assets and Liabilities* allows for the adjustment of the previously amortizable debt issue costs, premium on sale of bonds and loss on defeasance (refinancing). For the year ended June 30, 2013 the financial statements reflected a write-off of the loss on defeasance of bonds which should have not been made. The statement of net position as of June 30, 2012 has been restated to provide for the cumulative impact of the adjustment; there is no impact on the governmental funds fund balance.

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**APPENDIX C**

**Form of Bond Counsel's Approving Legal Opinion**

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6 Admitted MA  
7 Admitted MD  
8 Admitted VA  
9 Admitted CA  
10 Admitted FL  
11 Admitted PR  
12 Admitted VI

\_\_\_\_\_, 2015

The Board of Education of the  
Borough of South River  
South River, New Jersey

Ladies and Gentlemen:

We have served as bond counsel in connection with the authorization, sale and issuance of \$2,453,000 aggregate principal amount of School Bonds, Series 2015 (the "Bonds") of The Board of Education of the Borough of South River in the County of Middlesex, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board).

The Bonds are issued pursuant to: (i) Title 18A, Chapter 24 of the New Jersey Statutes, as amended and supplemented (the "Education Law"); (ii) a proposal adopted by the Board on November 24, 2014 (the "Proposal") and approved by the affirmative vote of a majority of the legal voters present and voting at a special School District election held on February 10, 2015 and (iii) a resolution adopted by the Board on March 26, 2015 (the "Resolution").

The Bonds are issued in fully registered book-entry only form, without coupons, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearing house for securities transactions. Purchases of the Bonds will be made in book-entry only form in principal amounts of \$1,000 each or any integral multiple thereof with a minimum purchase of \$5,000 required, through book entries made on the books and records of DTC and its participants. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board directly to Cede & Co., as nominee for DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners of the Bonds is the responsibility of DTC participants.

The Bonds are dated their date of delivery and shall bear interest from such date, which interest shall be payable commencing December 1, 2015 and semi-annually thereafter on the first day of June and December in each year, and shall mature on June 1 of the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2017	\$225,000	1.50%	2022	\$225,000	2.00%
2018	225,000	1.50	2023	225,000	2.00
2019	225,000	2.00	2024	428,000	2.25
2020	225,000	2.00	2025	450,000	2.50
2021	225,000	2.00			

The Bonds of this issue are not subject to optional redemption prior to their stated maturities.

We have examined such matters of law, certified copies of the proceedings, including the bond referendum proceedings, and other documents and proofs relative to the issuance and sale of the Bonds as we have deemed necessary or appropriate for the purposes of the opinion rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

We are of the opinion that: (i) such proceedings and proofs show lawful authority for the sale and issuance of the Bonds pursuant to the Education Law, the Proposal and the Resolution; (ii) the Bonds are valid and legally binding obligations of the Board; and (iii) all the taxable real property within the School District is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest thereon to be and remain excludable from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of the issuance of the Bonds. The Board has covenanted to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

In our opinion, under existing law, and assuming continuing compliance by the Board with the aforementioned covenant, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is not includable for Federal income tax purposes in the

gross income of the owners of the Bonds pursuant to Section 103 of the Code. The Bonds are not “specified private activity bonds” within the meaning of Section 57 of the Code and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the Federal alternative minimum tax imposed by Section 55 of the Code. However, the interest on the Bonds owned by corporations will be included in such corporations’ “adjusted current earnings” (as defined in Section 56(g) of the Code) in calculating such corporations’ alternative minimum taxable income for purposes of determining the Federal alternative minimum tax.

The Bonds maturing on June 1 of the years 2017 through 2022, inclusive, 2024 and 2025 (the "Premium Bonds"), have been sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a Premium Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a Premium Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such Premium Bonds and not as interest.

We are also of the opinion that, under existing laws of the State of New Jersey, 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, 1976 N.J. Laws c. 47, as amended and supplemented.

We are further of the opinion that the Bonds constitute “qualified tax-exempt obligations” within the meaning of section 265(b)(3)(B) of the Code and, therefore, will be treated as if they were acquired on August 7, 1986 for purposes of the limitations on deductibility by financial institutions of interest expense allocable to tax-exempt interest.

Except as stated in the preceding four (4) paragraphs, we express no opinion as to any Federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

This opinion is qualified to the extent that the enforceability of the rights or remedies with respect to the Bonds may be limited by bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors’ rights or remedies heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have examined one of the executed Bonds and, in our opinion, its form and execution are regular and proper.

Very truly yours,

WILENTZ, GOLDMAN & SPITZER, P.A.



**APPENDIX D**

**Form of Continuing Disclosure Certificate**

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## CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated as of May 6, 2015 (the “Disclosure Certificate”) is executed and delivered by The Board of Education of the Borough of South River in the County of Middlesex, New Jersey (the “Board” when referring to the governing body and the “School District” when referring to the territorial boundaries governed by the Board) in connection with the issuance of its \$2,453,000 aggregate principal amount of School Bonds, Series 2015 dated their date of delivery (the “Bonds”). The Bonds are being by virtue of a proposal adopted by the Board on November 24, 2014 and approved by the affirmative vote of a majority of the legal voters present and voting at a special School District election held on February 10, 2015 and pursuant to a resolution entitled, “RESOLUTION DETERMINING THE FORM AND OTHER DETAILS OF \$2,453,000 AGGREGATE PRINCIPAL AMOUNT OF SCHOOL BONDS, SERIES 2015 OF THE BOARD OF EDUCATION OF THE BOROUGH OF SOUTH RIVER IN THE COUNTY OF MIDDLESEX, NEW JERSEY, PROVIDING FOR THEIR SALE AND DETERMINING OTHER MATTERS IN CONNECTION THEREWITH”, duly adopted by the Board on March 26, 2015 (the “Bond Resolution”). The Board covenants and agrees as follows:

**SECTION 1.** Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Board for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter(s) in complying with the Rule (as defined below). The Board acknowledges it is an “Obligated Person” under the Rule (as defined below).

**SECTION 2.** Definitions. In addition to the definitions set forth in the Bond Resolution which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“*Annual Report*” shall mean any Annual Report provided by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, as applicable (including persons holding Bonds, as applicable through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds, as applicable, for Federal income tax purposes.

“*Continuing Disclosure Information*” shall mean, collectively, (i) each Annual Report, (ii) any notice required to be filed by the Board with the EMMA (as defined herein) pursuant to Section 3 of this Disclosure Agreement, and (iii) any notice of a Listed Event required to be filed by the Authority with EMMA pursuant to Section 5 of this Disclosure Agreement.

*“Disclosure Representative”* shall mean the Business Administrator/Board Secretary of the Board or his designee, or such other person as the Board shall designate in writing from time to time for the purposes of this Disclosure Certificate.

*“Dissemination Agent”* shall mean, initially, the Board or any Dissemination Agent subsequently designated in writing by the Board which has filed with the Board a written acceptance of such designation.

*“EMMA”* shall mean the Electronic Municipal Market Access system, a website created by the MSRB (as defined herein) and approved by the SEC (as defined herein) to provide a central location where investors can obtain municipal bond information including disclosure documents. The Board or the Dissemination Agent shall submit disclosure documents to EMMA as a PDF file to [www.emma.msrb.org](http://www.emma.msrb.org).

*“Listed Events”* shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

*“MSRB”* shall mean the Municipal Securities Rulemaking Board.

*“Rule”* shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as the same may be amended from time to time.

*“SEC”* shall mean the United States Securities and Exchange Commission.

*“SEC Release No. 34-59062”* shall mean Release No. 34-59062 of the SEC dated December 5, 2008.

*“State”* shall mean the State of New Jersey.

*“Underwriters”* shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the purchase of the Bonds.

**SECTION 3. Provision of Annual Reports.** (a) The Board shall provide or cause to be provided to the Dissemination Agent not later than December 31 of each year, commencing December 31, 2015 (for the fiscal year ending June 30, 2015), an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Board may be submitted separately from the balance of the Annual Report; and provided, further, that if the audited financial statements of the Board are not available by December 31, the Board shall include unaudited financial statements with its Annual Report and when such audited financial statements become available to the Board, the same shall be submitted to the Dissemination Agent no later than thirty (30) days after the receipt of the same by the Board.

(b) Not later than January 31 of each year (commencing January 31, 2016) the Dissemination Agent shall provide to EMMA a copy of the Annual Report received by the Dissemination Agent pursuant to subsection (a) hereof.

(c) If the Board does not provide or is unable to provide an Annual Report by the applicable date required in subsection (a) above, such that the Dissemination Agent cannot file the Annual Report with EMMA in accordance with subsection (b) above, the Dissemination Agent shall send a notice of such event to EMMA in substantially the form attached hereto as Exhibit A, with copies to the Board (if the Dissemination Agent is not the Board).

(d) Each year the Dissemination Agent shall file a report with the Board (if the Dissemination Agent is not the Board), certifying that the Annual Report has been provided to EMMA pursuant to this Disclosure Certificate, stating the date it was provided.

(e) If the fiscal year of the Board changes, the Board shall give written notice of such change to the Dissemination Agent and the Dissemination Agent shall, within five (5) business days after the receipt thereof from the Board, forward a notice of such change to EMMA in the manner provided in Section 5(e) hereof.

**SECTION 4. Content of Annual Reports.** The Board's Annual Report shall contain or incorporate by reference the following:

- (1) The audited financial statements of the Board.

The audited financial statements are to be prepared in accordance with generally accepted accounting principles (GAAP).

- (2) The general financial information and operating data of the Board consistent with the information set forth in the Official Statement dated April 22, 2015, prepared in connection with the sale of the Bonds (the "Official Statement") in Appendix A.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Board is an "Obligated Person" (as defined by the Rule), which have been filed with EMMA or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Board shall clearly identify each such other document so incorporated by reference.

**SECTION 5. Reporting of Significant Events.** (a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;

- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances of the Bonds;
- (10) Release, substitution or sale of property securing repayment of the Bonds, if material
- (11) Ratings changes rating to the Bonds.
- (12) Bankruptcy, insolvency, receivership or similar event of the Board;
- (13) The consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, 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 for the Bonds or the change of name of a trustee for the Bonds, if material.

The Board shall, in a timely manner not in excess of ten (10) business days after the occurrence of any Listed Event, file a notice of the occurrence of such Listed Event with the MSRB in accordance with the provisions of Section 5 of this Disclosure Certificate. In determining the materiality of any of the Listed Events specified in this subsection (a) of this section 5, the Board may, but shall not be required to, rely conclusively on an opinion of counsel.

(b) Whenever the Board has or obtains knowledge of the occurrence of any of the Listed Events, the Board shall, as soon as possible, determine if such event would constitute information material to the Beneficial Owners of the Bonds.

(c) If the Board determines that the occurrence of a Listed Event would be material to the Beneficial Owners of the Bonds, the Board shall promptly notify the Dissemination Agent in writing (if the Board is not the Dissemination Agent) and the Board shall instruct the Dissemination Agent to report such Listed Event and the Dissemination Agent shall report the occurrence of such Listed Event pursuant to subsection (e) hereof.

(d) If the Board determines that the occurrence of a Listed Event would not be material to the Beneficial Owners of the Bonds, the Board shall promptly notify the Dissemination Agent in writing (if the Dissemination Agent is not the Board) and the Dissemination Agent (if the Dissemination Agent is not the Board) shall be instructed by the Board not to report the occurrence.

(e) If the Dissemination Agent has been instructed in writing by the Board to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA, with a copy to the Board (if the Dissemination Agent is not the Board). Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) hereof need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Beneficial Owner of the affected Bonds pursuant to the Bond Resolution.

**SECTION 6.** Termination of Reporting Obligation. The Board's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or when the Board is no longer an "Obligated Person" (as defined in the Rule). The Board shall file a notice of the termination of its reporting obligations pursuant to the provisions hereof with the Dissemination Agent, which notice shall be filed with EMMA in accordance with the provisions of Section 5(e) hereof.

**SECTION 7.** Compliance with the Rule. The Board had previously failed to comply with its previous undertakings, to provide secondary market disclosure pursuant to the Rule. As of the date hereof, however, the Board is in compliance.

**SECTION 8.** Dissemination Agent; Compensation. The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Board. The Board shall compensate the Dissemination Agent (which shall be appointed) for the performance of its obligations hereunder in accordance with an agreed upon fee structure.

**SECTION 9.** Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Board may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver

(supported by an opinion of counsel expert in Federal securities laws acceptable to the Board to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof) is (a) made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person, or type of business conducted; (b) the undertaking, as amended or waived, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver does not materially impair the interests of holders, as determined either by parties unaffiliated with the Board or “Obligated Person,” or by approving vote of the Beneficial Owners of the Bonds, as applicable pursuant to the terms of the Bond Resolution at the time of the amendment. The Board shall give notice of such amendment or waiver to this Disclosure Certificate to the Dissemination Agent, which notice shall be filed in accordance with the provisions of Section 5 hereof. Notwithstanding the above, the addition of or change in the Dissemination Agent shall not be construed to be an amendment under the provisions hereof.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Board shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Board. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice of such change shall be given in the same manner as a Listed Event under Section 5 hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the Board from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Board chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Board shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 11. Default.** In the event of a failure of the Board to comply with any provision of this Disclosure Certificate, the Holders of at least 25% aggregate principal amount of Outstanding Bonds or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Board to comply with its obligations



under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default on the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Board to comply with this Disclosure Certificate shall be an action to compel performance.

**SECTION 12. Duties, Immunities and Liabilities of the Dissemination Agent.**

The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and, to the extent permitted by law, the Board agrees to indemnify and hold the Dissemination Agent (if the Dissemination Agent is not the Board) and its respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. To the extent permitted by law, the Board further releases the Dissemination Agent from any liability for the disclosure of any information required by the Rule and this Disclosure Certificate. The obligations of the Board under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**SECTION 13. Beneficiaries.**

This Disclosure Certificate shall inure solely to the benefit of the Board, the Dissemination Agent, the Underwriters, and the Beneficial Owners of the Bonds, including Bondholders, and shall create no rights in any other person or entity.

**SECTION 14. Notices.**

All notices and submissions required hereunder shall be given to the following, or their successors, by facsimile transmission (with written confirmation of receipt), followed by hard copy sent by certified or registered mail, personal delivery or recognized overnight delivery:

- (a) If to the Board of Education:

The Board of Education of the  
Borough of South River  
15 Montgomery Street  
South River, New Jersey 08882  
Attention: Business Administrator/Board Secretary

- (b) Copies of all notices to the Dissemination Agent from time to time with respect to the Bonds, initially:

The Board of Education of the  
Borough of South River  
15 Montgomery Street  
South River, New Jersey 08882  
Attention: Business Administrator/Board Secretary

Each party shall give notice from time to time to the other parties, in the manner specified herein, of any change of the identity or address of anyone listed herein.

**SECTION 15.** Counterparts. This Disclosure Certificate may be executed in any number of counterparts which shall be executed by authorized signatories of the Board and the Dissemination Agent, as applicable, and all of which together shall be regarded for all purposes as one original and shall constitute and be but one and the same.

**SECTION 16.** Severability. If any one or more of the covenants or agreements in this Disclosure Certificate to be performed on the part of the Board and the Dissemination Agent should be contrary to law, then such covenant or covenants, agreement or agreements, shall be deemed severable from the remaining covenants and agreements and shall in no way affect the validity of the other provisions of this Disclosure Certificate.

**SECTION 17.** Governing Law. This Disclosure Certificate shall be construed in accordance with and governed by the Laws of the United States of America and the State of New Jersey as applicable.

**THE BOARD OF EDUCATION OF THE  
BOROUGH OF SOUTH RIVER**

By: \_\_\_\_\_  
**KENNETH J. KOKOSZKA,**  
**Business Administrator/**  
**Board Secretary**

**EXHIBIT A**

**NOTICE TO EMMA OF FAILURE  
TO FILE ANNUAL REPORT**

Name of Issuer:           The Board of Education of the  
                                  Borough of South River  
                                  in the County of Middlesex, New Jersey

Name of Issue:           \$2,453,000 School Bonds, Series 2015  
                                  Dated: May 6, 2015  
                                  (CUSIP Number: 839686DB5)

Date of Issuance:        May 6, 2015

NOTICE IS HEREBY GIVEN that the above designated Board has not provided an Annual Report with respect to the above-named Bonds as required by the Bond Resolution and a Continuing Disclosure Certificate for the Bonds dated as of May 6, 2015 executed by the Board.

DATED: \_\_\_\_\_

\_\_\_\_\_  
**DISSEMINATION AGENT**  
(on behalf of the Board)

cc: The Board

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