

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 8, 2019

NEW ISSUE – Book-Entry Only

**Rating: S&P: “A+”
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. 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.

\$7,184,000

SCHOOL BONDS, SERIES 2019

**THE BOARD OF EDUCATION OF THE UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
IN THE COUNTY OF MONMOUTH, NEW JERSEY
(New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended)**

**CALLABLE
BANK-QUALIFIED**

Dated: Date of Delivery

Due: January 15, as shown on inside cover

The \$7,184,000 aggregate principal amount of School Bonds, Series 2019 (the “Bonds”), of The Board of Education of the Upper Freehold Regional School District, in the County of Monmouth, 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 records of DTC and its participants. 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 fifteenth day of January and July in each year, commencing July 15, 2019, until maturity or prior redemption. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each immediately preceding July 1 and January 1 (the “Record Dates” for the payment of interest on the Bonds).

The Bonds are subject to redemption prior to their stated maturities as set forth herein. See “DESCRIPTION OF THE BONDS – Redemption” herein.

The Bonds are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of 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 Fogarty & Hara, Fair Lawn, New Jersey, General Counsel to the Board. Phoenix Advisors, LLC, Bordentown, New Jersey, served as Municipal Advisor in connection with the Bonds. Delivery of the Bonds in definitive form to DTC in Jersey City, New Jersey, is anticipated to occur on or about January 31, 2019.

ELECTRONIC SUBMISSIONS FOR THE BONDS, IN ACCORDANCE WITH THE FULL NOTICE OF SALE, MUST BE MADE VIA PARITY PRIOR TO 11:00 A.M. EASTERN STANDARD TIME ON JANUARY 15, 2019. FOR MORE DETAILS ON HOW TO BID ELECTRONICALLY, VIEW THE FULL NOTICE OF SALE POSTED AT WWW.MUNIHUB.COM.

This is a Preliminary Official Statement, complete with the exception of the specific information permitted to be omitted by Rule 15c2-12 of the Securities and Exchange Commission. The Board has authorized distribution of this Preliminary Official Statement to prospective purchasers and others. In accordance with Rule 15c2-12, this Preliminary Official Statement is deemed final. Upon the sale of the Bonds described herein, the Board will deliver a final Official Statement within the earlier of seven (7) business days following such sale or to accompany the purchaser's confirmations requesting payment for the Bonds.

\$7,184,000
THE BOARD OF EDUCATION OF THE
UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
IN THE COUNTY OF MONMOUTH, NEW JERSEY
SCHOOL BONDS, SERIES 2019

(New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended)
CALLABLE
BANK-QUALIFIED

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
YIELDS AND CUSIP NUMBERS

| <u>Maturity</u> <u>(January 15)</u> | <u>Principal</u> <u>Amounts</u> | <u>Interest</u> <u>Rates</u> | <u>Yields</u> | <u>CUSIP</u> <u>Numbers*</u> |
|--|------------------------------------|---------------------------------|---------------|---------------------------------|
| 2021 | \$354,000 | | | 915799__ |
| 2022 | 265,000 | | | 915799__ |
| 2023 | 275,000 | | | 915799__ |
| 2024 | 290,000 | | | 915799__ |
| 2025 | 300,000 | | | 915799__ |
| 2026 | 315,000 | | | 915799__ |
| 2027 | 325,000 | | | 915799__ |
| 2028 | 335,000 | | | 915799__ |
| 2029 | 350,000 | | | 915799__ |
| 2030 | 365,000 | | | 915799__ |
| 2031 | 380,000 | | | 915799__ |
| 2032 | 395,000 | | | 915799__ |
| 2033 | 410,000 | | | 915799__ |
| 2034 | 425,000 | | | 915799__ |
| 2035 | 445,000 | | | 915799__ |
| 2036 | 460,000 | | | 915799__ |
| 2037 | 480,000 | | | 915799__ |
| 2038 | 500,000 | | | 915799__ |
| 2039 | 515,000 | | | 915799__ |

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

**THE BOARD OF EDUCATION OF THE
UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
IN THE COUNTY OF MONMOUTH, NEW JERSEY**

BOARD MEMBERS

President – Patricia Hogan
Vice President – Michele Anthony

Billy Hanson (Millstone Representative)
Howard Krieger
Tia McLaughlin
Lara Michaud
Patrick Nolan
Kurt Wayton
Brett Williams
Michael Zuppa

SUPERINTENDENT

Mark Guterl

BUSINESS ADMINISTRATOR/BOARD SECRETARY

Margaret Hom

BOARD ATTORNEY

Fogarty & Hara
Fair Lawn, New Jersey

BOARD AUDITOR

Holman Frenia Allison, P.C.
Toms River, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

BOND COUNSEL

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

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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.

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OFFICIAL STATEMENT

OF

THE BOARD OF EDUCATION OF THE UPPER FREEHOLD REGIONAL SCHOOL DISTRICT IN THE COUNTY OF MONMOUTH, NEW JERSEY

\$7,184,000

SCHOOL BONDS, SERIES 2019

(NEW JERSEY SCHOOL BOND RESERVE ACT, 1980 N.J. Laws c. 72, as amended)

**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 Upper Freehold Regional School District, in the County of Monmouth, 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 \$7,184,000 aggregate principal amount of School Bonds, Series 2019 (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 January 15 in each of the years and in the amounts set forth on the inside cover page hereof. The Bonds shall bear interest from their date of delivery which interest shall be payable semi-annually on the fifteenth day of January and July (each an "Interest Payment Date"), commencing on July 15, 2019, in each of the years and at the interest rates set forth on the inside cover page hereof until maturity or prior redemption by check mailed by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each July 1 and January 1 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 maturing prior to January 15, 2027 are not subject to redemption prior to their stated maturities. The Bonds of this issue maturing on or after January 15, 2027 are redeemable at the option of the Board in whole or in part on any date on or after January 15, 2026 upon notice as required herein at one hundred percent (100%) of the principal amount being redeemed (the "Redemption Price"), plus accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption ("Notice of Redemption") shall be given by mailing such notice at least thirty (30) days but not more than sixty (60) days before the date fixed for redemption by first class mail in a sealed envelope with postage prepaid to the registered owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the Board or a duly appointed Bond Registrar. So long as DTC (or any successor thereto) acts as Securities Depository for the Bonds, Notice of Redemption shall be sent to such Securities Depository and shall not be sent to the beneficial owners of the Bonds. Any failure of the Securities Depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any Notice of Redemption shall not affect the validity of the redemption proceedings. If the Board determines to redeem a portion of the Bonds prior to maturity, such Bonds shall be selected by the Board; the Bonds to be redeemed having the same maturity shall be selected by the Securities Depository in accordance with its regulations.

If Notice of Redemption has been given as provided herein, the Bonds or the portion thereof called for redemption shall be due and payable on the date fixed for redemption at the Redemption Price, together with accrued interest to the date fixed for redemption. Interest shall cease to accrue on the Bonds after the date fixed for redemption.

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 Treasurer of the State of New Jersey (the "State") 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 the 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.

Authorization and Purpose

The Bonds have been authorized and are issued pursuant to (i) 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 September 5, 2018, and approved by the affirmative vote of a majority of the legal voters present and voting at the annual School District election held on November 6, 2018 and (iii) a resolution duly adopted by the Board on January 2, 2019 (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 State has awarded the School District aid for the Project in the amount of 40% of the eligible costs of such Project. As such, the State has agreed to pay 40% of the annual debt service on the eligible costs financed by the Bonds each year.

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.

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.

The 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 its 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 its paying agent together with the duly executed assignment in form satisfactory to the Board

or its paying agent; and (iii) for every exchange or registration of transfer of Bonds, the Board or its 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 ten (10) member board with nine (9) members from the Borough of Allentown (the "Borough") and the Township of Upper Freehold (the "Township" and together with the Borough, the "Constituent Municipalities") elected for staggered three (3) year terms and one (1) member appointed annually from Millstone Township. 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 to the Superintendent of Schools.

The School District is a Type II, regional school district and 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 Constituent Municipalities and also serves, on a tuition basis, students in grades nine (9) through twelve (12) from Millstone Township. The School District consists of Newell Elementary School, Stone Bridge Middle School and Allentown High School. See "APPENDIX A – Economic and Demographic Information Relating to the School District and the Constituent Municipalities."

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.

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, and 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 without a board of school estimate.

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.

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 unless the Board has moved its annual election to November, as described below. 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 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 are no longer 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 Tax Levy Cap Law (as hereinafter defined).

The Board conducts its annual 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, which followed QEA, also limited the annual increase in a school district's net budget by a spending growth limitation. The CEIFA limited the amount school districts can increase their annual current expense 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%). Budgets could also increase because of certain adjustments for enrollment increases, certain capital outlay expenditures, pupil transportation costs, and special education costs that exceeded \$40,000 per pupil. Waivers were available from the Commissioner based on increasing enrollments and other fairly narrow grounds and increases higher than the cap could be approved by a vote of 60% at the annual school election.

P.L. 2007, c. 62, effective April 3, 2007 (Assembly Bill A1), provided additional limitations on school district spending by limiting the amount a school district could raise for school district purposes through the property tax levy by 4% over the prior budget year's tax levy. P.L. 2007, c. 62 provided for adjustments to the cap for increases in enrollment, reductions in State aid and increased health care costs and for certain other extraordinary cost increases that required approval by the Commissioner. The bill granted discretion to the Commissioner to grant other waivers from the cap for increases in special education costs, capital outlay, and tuition charges. The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

P.L. 2007, c. 62 was deemed to supersede the prior limitations on the amount school districts could increase their annual current expense and capital outlay budgets created by CEIFA (as amended by P.L. 2004, c.73, effective July 1, 2004). However, Chapter 62 was in effect only through fiscal year 2012. Without an extension of Chapter 62 by the legislature, the Spending Growth Limitations on the general fund and capital outlay budget would be in effect.

Debt service was not limited either by the Spending Growth Limitations or the 4% cap on the tax levy increase imposed by Chapter 62.

The previous legislation was amended by P.L. 2010, c. 44, approved July 13, 2010 and became applicable to the next local budget year following enactment. This law limits the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election (the "Tax Levy Cap Law"). Additionally, also becoming effective in the 2011-2012 fiscal year, a school district that has not been granted approval to exceed the tax levy CAP by a separate proposal can bank the unused tax levy for use in any of the next three succeeding budget years. A school district can request a use of "banked CAP" only after it has fully exhausted all eligible statute spending authority in the budget year. The process for obtaining waivers from the Commissioner for additional increases over

the tax levy cap or Spending Growth Limitations was eliminated under Chapter 44. Notwithstanding the foregoing, under P.L. 2018, c. 67, approved July 24, 2018, which increases State school aid to underfunded school districts and decreases state school aid to over funded school districts, during the 2018-2019 through 2024-2025 fiscal years, SDA Districts, which are certain urban districts formerly referred to as Abbott Districts referred to herein under "SUMMARY OF STATE AID TO SCHOOL DISTRICTS", are permitted increases in the tax levy over the 2% limit to raise a general fund tax levy to an amount that does not exceed its local share of the adequacy budget.

The restrictions are solely on the tax levy for the general fund and are not applicable to the debt service fund. There are no restrictions on a local school district's ability to raise funds for debt service, and nothing would limit the obligation of a school district to levy *ad valorem* taxes upon all taxable real property within the school district to pay debt service on its bonds or notes with one exception. School districts are subject to GAAP accounting, and under GAAP interest on obligations maturing within one year must be treated as operating expenses. Accordingly, under the Department of Education's Chart of Accounts, interest on notes is raised in the General Fund of a school district and therefore is counted within its 2% tax levy cap on spending.

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 Kindergarten (K) through grade 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 does not currently exceed its 4% debt limit. See "APPENDIX A – Economic and Demographic Information Relating to the School District and the Constituent Municipalities."

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 (previously called "Abbott Districts", now referred to as "SDA 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.

Since that time there has been much litigation and many cases affecting the State's responsibilities to fund public education and many legislative attempts to distribute State aid in accordance with the court cases and the constitutional requirement. The cases addressed not only current operating fund aid but also addressed the requirement to provide facilities aid as well. The legislation has included QEA, CEIFA and the Educational Facilities Construction and Financing Act, P.L. 2000, c. 72, approved July 18, 2000, as amended (the "EFCFA"). For many years aid has simply been determined in the State Budget, which itself is an act of the legislature, based upon amounts provided in prior years. The school funding formula, provided in the School Funding Reform Act of 2008, P.L. 2007, c. 260, approved January 1, 2008 (A500), attempts to remove the special status given to certain school districts known as Abbott Districts after the school funding cases and instead has funding follow students

with certain needs and provides aid in a way that takes into account the ability of the local school district to raise local funds to support the budget in amounts deemed adequate to provide for a thorough and efficient education as required by the State constitution. This legislation was challenged in the Court, and the Court held that the State's then current plan for school aid was a "constitutionally adequate scheme." However, the State continued to underfund certain school districts and to overfund other school districts in its budgets based on the statutory scheme. In its budget process for FY 2019 and with the enactment of P.L. 2018, c. 67, approved July 24, 2018, the State is moving the school districts toward the intent of the statutory scheme by increasing funding for underfunded school districts and decreasing funding for overfunded school districts over the next seven years and providing cap relief for overfunded school districts to enable them to pick up more of the local share.

Notwithstanding over 35 years of litigation, the State provides State aid to school districts of the State in amounts provided in the State Budget each year. These now include equalization aid, special education categorical aid, transportation aid, preschool education aid, instructional supplement aid, supplemental core curriculum standards aid, distance learning network aid, bilingual aid, security aid, adjustment aid and other aid determined in the discretion of the Commissioner.

State law requires that the State will provide aid for the construction of school facilities in an amount equal to the greater of the district aid percentage or 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 aid to which a school district is entitled is established prior to the authorization of the project. Grant funding is provided by the State upfront and debt service aid must be appropriated annually by the State.

The State reduced debt service aid by fifteen percent (15%) for fiscal years 2011 through 2018. As a result of the debt service aid reduction for those fiscal years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, 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 their fiscal years 2011 through 2018 budgets representing 15% of the school district's proportionate share of the principal and interest payments on the outstanding EDA bonds issued to fund such grants.

Pursuant to P.L. 2018, c.67, signed into law by the Governor of the State on July 24, 2018, the School Funding Reform Act has been modified to adjust the distribution of State aid to school districts in the State ("SFRA Modification Law"). In particular, the SFRA Modification Law revises the School Funding Reform Act so that, after calculating the amount of State aid available per pupil, State aid will be distributed to each school district based on student enrollment. The SFRA Modification Law also eliminates the application of the State aid growth limit and adjustment aid, but includes a transition period for school districts that will receive less State aid. Under the SFRA Modification Law, most school districts that will receive reduced State aid resulting from the revised funding formula will be provided a seven-year transition period during which funding will be reduced (with the exception of The Board of Education of the City of Jersey City, where the transition period will be five years). For those school districts where State aid will increase under the SFRA Modification Law, the transition period to increase funding will be one year.

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 Every Student Succeeds Act of 2015, enacted December 10, 2015, 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 Constituent Municipalities are general full faith and credit obligations.

The authorized bonded indebtedness of the Constituent Municipalities 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 the Constituent Municipalities 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 local unit, the 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 rates 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, 2017 together with the notes to the financial statements have been provided by Holman Frenia Allison, P.C., Toms River, New Jersey (the "Auditor"), and are presented in APPENDIX B to this Official Statement (the "Audited Financial Statements"). Also included in APPENDIX B is certain unaudited financial information of the Board as of and for the year ended June 30, 2018 (together with the Audited Financial Statements, the "Financial Statements"). See "APPENDIX B – Financial Statements of The Board of Education of the Upper Freehold Regional School District in the County of Monmouth, New Jersey."

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor to the Board with respect to the issuance of the Bonds (the "Municipal Advisor"). The Municipal 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 Municipal 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, Fogarty & Hara, Fair Lawn, New Jersey (the "Board Attorney"), 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, 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.

Premium Bonds

[The Bonds [maturing on January 15 of the years 20__ through 20__, inclusive (collectively, 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.]

Discount Bonds

[Bond Counsel is also of the opinion that the difference between the stated principal amount of the Bonds maturing on January 15 in the years 20__ through 20__, inclusive (collectively, the "Discount Bonds") and their respective initial public offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which prices a substantial amount of the [Discount] Bonds of the same maturity and interest rate were sold, constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. In the case of any holder of the [Discount] Bonds, the amount of such original issue discount which is treated as having accrued with respect to the [Discount] Bonds is added to the cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, redemption or payment at maturity). Holders of the [Discount] Bonds should consult their tax advisors for an explanation of the original issue discount rules.]

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 Board 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 as "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 upon 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 Municipal Advisor has participated in the review of this Official Statement but has not participated in the preparation of this Official Statement or in the collection of financial, statistical or demographic information contained in this Official Statement nor verified the accuracy, completeness or fairness thereof, and, accordingly, takes no responsibility and expresses no opinion with respect thereto.

The Auditor has participated in the preparation of the information contained in APPENDIX A hereto and also 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

S&P Global Ratings, acting through Standard & Poor's Financial Services LLC (the "Rating Agency"), has assigned an underlying rating of "A+" 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 views of the Rating Agency and an explanation of the significance of such ratings may only be obtained from the Rating Agency. 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 will not be raised, lowered or withdrawn entirely if, in the Rating Agency's judgment, circumstances so warrant. Any downward change in or withdrawal of such 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 _____ (the "Underwriter"), at a price of \$ _____. The purchase price of the Bonds reflects the par amount of Bonds equal to \$7,184,000.00,

minus an Underwriter's discount of \$_____ less/plus a[n] [net] original issue discount/premium of \$_____. 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 the Bonds to certain dealers (including dealers depositing the 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, 2017 (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 "SEC Rule").

Within the five (5) years immediately preceding the date of this Official Statement, the Board previously failed to file an event notice in connection with a bond insurer rating change in 2014. A notice of the event has since been filed with EMMA. The Board appointed Phoenix Advisors, LLC in April of 2015 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, Margaret Hom, (609) 259-7292, ext. 3211, 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 this 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 this 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 (financial or otherwise) of the Board since the date hereof.

The Board has authorized the preparation of this final Official Statement containing pertinent information relative to the Bonds, and this 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 this 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 UPPER FREEHOLD
REGIONAL SCHOOL DISTRICT IN THE COUNTY OF
MONMOUTH, NEW JERSEY**

**MARGARET HOM,
Business Administrator/Board Secretary**

DATED: _____, 2019

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APPENDIX A

**Economic and Demographic Information Relating to the
School District and the Constituent Municipalities**

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INFORMATION REGARDING THE SCHOOL DISTRICT¹

Type

The School District is a Type II school district that is coterminous with the borders of the Borough of Allentown and the Township of Upper Freehold (the “Board”). The School District provides a full range of educational services appropriate to Pre-Kindergarten (Pre-K) through grade twelve (12).

The Board is composed of ten (10) members elected by the legally qualified voters in the School District to terms of three (3) years on a staggered basis. The President and Vice President are chosen for one (1) year terms from among the members of the Board.

The Board is the policy making body of the School District and has the general responsibility for providing an education program, the power to establish policies and supervise the public schools in the School District, the responsibility to develop the annual School District budget and present it to the legally registered voters in the School District. The Board's fiscal year ends each June 30.;

The Board appoints a Superintendent and Business Administrator/Board Secretary who are responsible for budgeting, planning and the operational functions of the School District. The administrative structure of the Board gives final responsibility for both the educational process and the business operation to the Superintendent.

Description of Facilities

The Board presently operates the following school facilities:

| <u>Facility</u> | <u>Grade Level</u> | <u>Student Enrollment (As of 6/30/18)</u> |
|----------------------------|------------------------|---|
| Newell Elementary School | Pre-K-4 | 509 |
| Stone Bridge Middle School | 5-8 | 519 |
| Allentown High School | 9-12 | 1,224 |

Source: Business Administrator/Board Secretary

¹ Source: The Board, unless otherwise indicated

Staff

The Superintendent is the chief executive officer of the Board and is in charge of carrying out Board policies. The Business Administrator/Board Secretary is the chief financial officer of the Board and must submit monthly financial reports to the Board and annual reports to the New Jersey Department of Education.

| | | | | | |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| Teaching Professionals | 230 | 230 | 226 | 203 | 200 |
| Support Staff | <u>128</u> | <u>128</u> | <u>129</u> | <u>134</u> | <u>137</u> |
| Total Full & Part Time Employees | <u>358</u> | <u>358</u> | <u>355</u> | <u>337</u> | <u>337</u> |

Source: Comprehensive Annual Financial Report of the School District

Pupil Enrollments

The following table presents the historical average daily pupil enrollments for the past five (5) school years.

| Pupil Enrollments | |
|---------------------------|--------------------------|
| <u>School Year</u> | <u>Enrollment</u> |
| 2017-2018 | 2,252 |
| 2016-2017 | 2,297 |
| 2015-2016 | 2,303 |
| 2014-2015 | 2,348 |
| 2013-2014 | 2,255 |

Source: School District and Comprehensive Annual Financial Report of the School District

Pensions

Those employees of the School District who are eligible for pension coverage are enrolled in one of the two (2) State-administered multi-employer pension systems (the "Pension System"). The Pension System was established by an act of the State Legislature. The Board of Trustees for the Pension System is responsible for the organization and administration of the Pension System. The two State-administered pension funds are: (1) the Teacher's Pension and Annuity Fund ("TPAF") and (2) the Public Employee's Retirement System ("PERS"). The Division of Pensions and Benefits, within the State of New Jersey Department of the Treasury (the "Division"), charges the participating school districts annually for their respective contributions. The School District raises its contributions through taxation and the State contributes the employer's share of the annual Social Security and Pension contribution for employees enrolled in the TPAF. The Pension System is a cost sharing multiple employer contributory defined benefit plan. The Pension System's designated purpose is to provide retirement and medical benefits for qualified retirees and other benefits to its members. Membership in the Pension System is mandatory for substantially all full-time employees of the State or any county, municipality, school district or public agency provided the employee is not

required to be a member of another State-administered retirement system or other state or local jurisdiction.

Fiscal 2018-2019 Budget

Prior to the passage of P.L. 2011, c.202 the Board was required to submit its budget for voter approval on an annual basis. Under the Election Law (P.L. 2011, c.202, effective January 17, 2012) if the school has opted to move its annual election to November, it is no longer required to submit the budget to voters for approval if the budget is at or below the two percent (2%) property tax levy cap as provided for under New Cap Law (P.L. 2010, c.44). If the Board proposes to spend above the two percent (2%) property tax levy cap, it is then required to submit its budget to voters at the annual school election in November. The Board has chosen under the Election Law to move its annual school election to November.

The General Fund budget is the sum of all State aid (exclusive of pension aid and social security aid) and the local tax levy (exclusive of debt service). The Board’s General Fund Budget for the 2018-2019 fiscal year is \$38,653,845. The major sources of revenue are \$22,864,655 from the local tax levy and \$6,030,557 from State aid.

Source: Annual User-Friendly Budget of the School District

Budget History

As noted, prior to the Board’s budget for its 2012-2013 fiscal year, the Board must submit its budget for voter approval. The results of the last five (5) budget elections of the Board are as follows:

| <u>Budget Year</u> | <u>Amount Raised in Taxes</u> | <u>Budget Amount</u> | <u>Election Result</u> |
|---------------------------|--------------------------------------|-----------------------------|-------------------------------|
| 2018-2019 | \$22,864,655 | \$38,653,845 | N/A |
| 2017-2018 | 22,004,816 | 37,495,629 | N/A |
| 2016-2017 | 21,573,349 | 36,787,322 | N/A |
| 2015-2016 | 20,937,139 | 35,693,471 | N/A |
| 2014-2015 | 20,045,562 | 34,952,048 | N/A |

Source: Annual User-Friendly Budget of the School District and NJ State DOE Website – School Election Results

Financial Operations

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2014 through June 30, 2018 for the general fund. Beginning with the 1993-1994 fiscal year, school districts in the State of New Jersey have begun to prepare their financial statements in accordance with Generally Accepted Accounting Principles in the United States.

GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEARS ENDED JUNE 30:

| | <u>2018U</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| REVENUES | | | | | |
| Local Sources: | | | | | |
| Local Tax Levy | \$22,004,816 | \$21,573,349 | \$20,937,139 | \$20,045,562 | \$19,274,578 |
| Other Local Revenue | <u>9,195,345</u> | <u>9,092,551</u> | <u>8,700,578</u> | <u>8,644,621</u> | <u>7,742,817</u> |
| Total Revenues-Local Sources | 31,200,161 | 30,665,900 | 29,637,717 | 28,690,183 | 27,017,395 |
| State Sources | 11,002,391 | 10,353,202 | 9,831,660 | 9,241,168 | 8,624,046 |
| Federal Sources | <u>18,517</u> | <u>10,402</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Revenues | \$42,221,069 | \$41,029,504 | \$39,469,377 | \$37,931,351 | \$35,641,441 |
| EXPENDITURES | | | | | |
| General Fund: | | | | | |
| Instruction | \$15,767,233 | \$15,787,347 | \$15,575,090 | \$15,422,067 | \$15,301,171 |
| Undistributed Expenditures | 25,570,122 | 24,344,601 | 23,512,160 | 22,142,492 | 21,216,189 |
| Capital Outlay | <u>594,703</u> | <u>650,597</u> | <u>638,522</u> | <u>525,154</u> | <u>448,474</u> |
| Total Expenditures | \$41,932,058 | \$40,782,545 | \$39,725,772 | \$38,089,713 | \$36,965,834 |
| Excess (Deficiency) of Revenues Over/(Under) Expenditures | 289,012 | 246,959 | (256,395) | (158,362) | (1,324,393) |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of Capital Lease | 0 | 279,000 | 256,000 | 248,792 | 237,630 |
| Transfers In | 0 | 28,841 | 58,909 | 0 | 10,477 |
| Transfers Out | 0 | 0 | 0 | 0 | 0 |
| Other Sources | <u>113,011</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Other Financing Sources (Uses) | 113,011 | 307,841 | 314,909 | 248,792 | 248,107 |
| Net Change in Fund Balance | 402,023 | 554,800 | 58,514 | 90,430 | (1,076,286) |
| Fund Balance, July 1 | <u>2,686,752</u> | <u>2,131,952</u> | <u>2,073,438</u> | <u>1,983,008</u> | <u>3,059,294</u> |
| Fund Balance, June 30 | <u>\$3,088,775</u> | <u>\$2,686,752</u> | <u>\$2,131,952</u> | <u>\$2,073,438</u> | <u>\$1,983,008</u> |

U: Unaudited

Source: Comprehensive Annual Financial Report of the School District - Statement of Revenues, Expenditures Governmental Funds and Changes In Fund Balances on a GAAP basis

Capital Leases

As of June 30, 2018, the Board has capital leases outstanding with payments due through year ending June 30, 2021, totaling \$377,823.95.

Source: Comprehensive Annual Financial Report of the School District

Operating Leases

As of June 30, 2018, the Board has no operating leases outstanding.

Source: Comprehensive Annual Financial Report of the School District

Short Term Debt

As of June 30, 2018, the Board has no short-term debt outstanding.

Source: Comprehensive Annual Financial Report of the School District

Long Term Debt

The following table outlines the outstanding long-term debt of the Board as of June 30, 2018.

| <u>Fiscal Year Ending</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------------|----------------------------|----------------------------|----------------------------|
| 2019 | \$1,925,000 | \$1,812,369 | \$3,737,369 |
| 2020 | 2,010,000 | 1,728,844 | 3,738,844 |
| 2021 | 2,100,000 | 1,641,594 | 3,741,594 |
| 2022 | 2,200,000 | 1,543,006 | 3,743,006 |
| 2023 | 2,315,000 | 1,442,019 | 3,757,019 |
| 2024 | 2,405,000 | 1,359,169 | 3,764,169 |
| 2025 | 2,510,000 | 1,285,919 | 3,795,919 |
| 2026 | 2,600,000 | 1,201,294 | 3,801,294 |
| 2027 | 2,720,000 | 1,094,019 | 3,814,019 |
| 2028 | 2,865,000 | 964,494 | 3,829,494 |
| 2029 | 3,005,000 | 831,294 | 3,836,294 |
| 2030 | 3,150,000 | 694,506 | 3,844,506 |
| 2031 | 3,255,000 | 592,356 | 3,847,356 |
| 2032 | 3,390,000 | 461,856 | 3,851,856 |
| 2033 | 3,535,000 | 346,744 | 3,881,744 |
| 2034 | 2,910,000 | 237,200 | 3,147,200 |
| 2035 | <u>3,020,000</u> | <u>120,800</u> | <u>3,140,800</u> |
| TOTALS | <u>\$45,915,000</u> | <u>\$17,357,481</u> | <u>\$63,272,481</u> |

Source: Comprehensive Annual Financial Report of the School District

Debt Limit of the Board

The debt limitation of the Board is established by statute (N.J.S.A. 18A:24-19). The Board is permitted to incur debt up to 4.0% of the average equalized valuation for the past three years. (See “SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT- Exceptions to School Debt Limitations”). The following is a summation of the Board’s debt limitations as of June 30, 2018:

| | |
|---|-------------------|
| Average Equalized Real Property Valuation (2016, 2017, and 2018) | \$1,462,905,389 |
| School District Debt Analysis | |
| Permitted Debt Limitation (4% of AEVP) | \$58,516,216 |
| Less: Bonds and Notes Authorized and Outstanding | <u>45,915,000</u> |
| Remaining Limitation of Indebtedness | \$12,601,216 |
| Percentage of Net School Debt to Average Equalized Valuation | 3.14% |

Source: Comprehensive Annual Financial Report of the School District

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INFORMATION REGARDING THE BOROUGH²

The following material presents certain economic and demographic information of the Borough of Allentown (the “Borough”), in the County of Monmouth (the “County”), State of New Jersey (the “State”).

General Information

The Borough is a 0.61 square mile suburban community located in southwestern Monmouth County. The Borough is bordered by the Township of Upper Freehold and the County of Mercer. It is located approximately sixty (60) miles from New York City and approximately thirty-five (35) miles from Philadelphia.

The Borough traces its roots to 1706, when Nathan Allen purchased 638 acres on York Road (now Main Street) and built three (3) mills in what was then known as Allen’s Town. The Borough is primarily a residential community.

The Borough strives to maintain its history while attempting to offer the best in unique community living. Over 200 homes are found on the National Historic Register.

Form of Government

The Borough is governed under the Borough form of New Jersey municipal government. The governing body consists of a Mayor and a Borough Council comprising six (6) council members, with all positions elected at-large on a partisan basis as part of the November general election. A Mayor is elected directly by the voters to a four-year term of office. The Borough Council consists of six (6) members elected to serve three-year terms on a staggered basis, with two (2) seats coming up for election each year in a three-year cycle. The form of government used by the Borough, the most common system used in the State, is a "weak mayor/strong council" government in which council members act as the legislative body with the mayor presiding at meetings and voting only in the event of a tie. The Mayor can veto ordinances subject to an override by a two-thirds majority vote of the council. The Mayor makes committee and liaison assignments for council members, and most appointments are made by the mayor with the advice and consent of the council.

Retirement Systems

All full-time permanent or qualified Borough employees who began employment after 1944 must enroll in one of two (2) retirement systems depending upon their employment status. These systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are set by State law. The Division of Pensions, within the New Jersey Department of Treasury (the “Division”), is the administrator of the funds with the benefit and contribution levels set by the State. The Borough is enrolled in the Public Employees' Retirement System (“PERS”) and the Police and Firemen's Retirement System (“PFRS”).

² Source: The Borough, unless otherwise indicated

Pension Information³

Employees who are eligible to participate in a pension plan are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost. The Borough's share of pension costs in 2018, which is based upon the annual billings received from the State, amounted to \$31,766 for PERS and \$92,752 for PFRS.

Employment and Unemployment Comparisons

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

| | <u>Total Labor Force</u> | <u>Employed Labor Force</u> | <u>Total Unemployed</u> | <u>Unemployment Rate</u> |
|-----------------------|-------------------------------------|--|------------------------------------|-------------------------------------|
| <u>Borough</u> | | | | |
| 2017 | 1,018 | 979 | 39 | 3.8% |
| 2016 | 1,022 | 976 | 46 | 4.5% |
| 2015 | 1,023 | 970 | 53 | 5.2% |
| 2014 | 1,003 | 948 | 55 | 5.5% |
| 2013 | 996 | 936 | 60 | 6.0% |
| <u>County</u> | | | | |
| 2017 | 330,689 | 317,076 | 13,613 | 4.1% |
| 2016 | 330,855 | 316,142 | 14,713 | 4.4% |
| 2015 | 329,935 | 312,901 | 17,034 | 5.2% |
| 2014 | 328,722 | 308,800 | 19,922 | 6.1% |
| 2013 | 328,741 | 304,012 | 24,729 | 7.5% |
| <u>State</u> | | | | |
| 2017 | 4,518,838 | 4,309,708 | 209,123 | 4.6% |
| 2016 | 4,530,800 | 4,305,515 | 225,262 | 5.0% |
| 2015 | 4,537,231 | 4,274,685 | 262,531 | 5.8% |
| 2014 | 4,527,177 | 4,221,277 | 305,900 | 6.8% |
| 2013 | 4,548,569 | 4,173,815 | 374,738 | 8.2% |

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

³ Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Income (as of 2016)

| | <u>Borough</u> | <u>County</u> | <u>State</u> |
|-------------------------|----------------|---------------|--------------|
| Median Household Income | \$97,188 | \$87,297 | \$73,702 |
| Median Family Income | 114,241 | 109,677 | 90,757 |
| Per Capita Income | 45,481 | 44,504 | 37,538 |

Source: US Bureau of the Census, 2016 American Community Survey 5-Year Estimates

Population

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

| <u>Year</u> | <u>Borough</u> | | <u>County</u> | | <u>State</u> | |
|---------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| | <u>Population</u> | <u>% Change</u> | <u>Population</u> | <u>% Change</u> | <u>Population</u> | <u>% Change</u> |
| 2017 Estimate | 1,811 | -0.9% | 626,351 | -0.6% | 9,005,644 | 2.4% |
| 2010 | 1,828 | -2.9 | 630,380 | 2.5 | 8,791,894 | 4.5 |
| 2000 | 1,882 | 3.0 | 615,301 | 11.2 | 8,414,350 | 8.9 |
| 1990 | 1,828 | -6.8 | 553,124 | 9.9 | 7,730,188 | 5.0 |
| 1980 | 1,962 | 22.4 | 503,173 | 8.9 | 7,365,001 | 2.7 |

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

Largest Taxpayers

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

| <u>Taxpayers</u> | <u>2018 Assessed Valuation</u> | <u>% of Total Assessed Valuation</u> |
|-----------------------------|--------------------------------|--------------------------------------|
| Towne Mews | \$4,400,000 | 2.29% |
| 11 Church St., LLC | 971,800 | 0.51% |
| First Comm Real Estate | 865,600 | 0.45% |
| Individual Taxpayer 1 | 845,200 | 0.44% |
| 24 Hadley Georgia, LLC | 824,600 | 0.43% |
| Owen Seeland, LLC | 811,000 | 0.42% |
| Peppler Funeral Home | 801,700 | 0.42% |
| First Washington State Bank | 741,000 | 0.39% |
| NJ Bell Telephone | 725,100 | 0.38% |
| VAF Assoc | <u>710,800</u> | <u>0.37%</u> |
| Total | <u>\$11,696,800</u> | <u>6.08%</u> |

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

Comparison of Tax Levies and Collections

| <u>Year</u> | <u>Tax Levy</u> | <u>Current Year Collection</u> | <u>Current Year % of Collection</u> |
|-------------|-----------------|------------------------------------|---|
| 2017 | \$5,861,934 | \$5,785,191 | 98.69% |
| 2016 | 5,847,428 | 5,762,637 | 98.55% |
| 2015 | 5,417,722 | 5,301,438 | 97.85% |
| 2014 | 5,309,068 | 5,191,472 | 97.79% |
| 2013 | 5,235,905 | 5,096,451 | 97.34% |

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

| <u>Year</u> | <u>Amount of Tax Title Liens</u> | <u>Amount of Delinquent Tax</u> | <u>Total Delinquent</u> | <u>% of Tax Levy</u> |
|-------------|--------------------------------------|-------------------------------------|-----------------------------|--------------------------|
| 2017 | \$103,017 | \$57,032 | \$160,049 | 2.73% |
| 2016 | 98,143 | 76,713 | 174,856 | 2.99% |
| 2015 | 103,625 | 90,421 | 194,046 | 3.58% |
| 2014 | 111,358 | 104,105 | 215,463 | 4.06% |
| 2013 | 97,868 | 93,727 | 191,595 | 3.66% |

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2017 | \$16,400 |
| 2016 | 16,400 |
| 2015 | 16,400 |
| 2014 | 16,400 |
| 2013 | 16,400 |

Source: Annual Audit Reports of the Borough

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

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

| <u>Year</u> | <u>Municipal</u> | <u>Regional School</u> | <u>County</u> | <u>Total</u> |
|-------------|------------------|----------------------------|---------------|--------------|
| 2018 | \$0.844 | \$1.893 | \$0.309 | \$3.046 |
| 2017 | 0.845 | 1.890 | 0.358 | 3.093 |
| 2016 | 0.839 | 1.873 | 0.330 | 3.042 |
| 2015 | 0.841 | 1.689 | 0.301 | 2.831 |
| 2014 | 0.811 | 1.690 | 0.306 | 2.807 |

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

Valuation of Property

| <u>Year</u> | <u>Aggregate Assessed Valuation of Real Property</u> | <u>Aggregate True Value of Real Property</u> | <u>Ratio of Assessed to True Value</u> | <u>Assessed Value of Personal Property</u> | <u>Equalized Valuation</u> |
|-------------|--|--|--|--|--------------------------------|
| 2018 | \$192,297,000 | \$195,801,853 | 98.21% | \$0 | \$195,801,853 |
| 2017 | 192,242,800 | 198,874,251 | 96.78 | 0 | 198,874,251 |
| 2016 | 191,811,400 | 204,514,855 | 93.91 | 0 | 204,514,855 |
| 2015 | 191,757,775 | 210,168,539 | 91.24 | 0 | 210,168,539 |
| 2014 | 189,058,850 | 184,826,327 | 102.29 | 0 | 184,826,327 |

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

Classification of Ratables

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

| <u>Year</u> | <u>Vacant Land</u> | <u>Residential</u> | <u>Farm</u> | <u>Commercial</u> | <u>Industrial</u> | <u>Apartments</u> | <u>Total</u> |
|-------------|--------------------|--------------------|-------------|-------------------|-------------------|-------------------|---------------|
| 2018 | \$867,800 | \$172,350,800 | \$700 | \$14,184,800 | \$0 | \$4,892,900 | \$192,297,000 |
| 2017 | 746,200 | 172,304,200 | 700 | 14,298,800 | 0 | 4,892,900 | 192,242,800 |
| 2016 | 860,900 | 171,759,100 | 700 | 14,297,800 | 0 | 4,892,900 | 191,811,400 |
| 2015 | 768,900 | 171,804,250 | 725 | 14,291,600 | 0 | 4,892,300 | 191,757,775 |
| 2014 | 773,400 | 169,499,050 | 600 | 13,993,500 | 0 | 4,792,300 | 189,058,850 |

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

Financial Operations

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

Summary of Current Fund Budget

| <u>Anticipated Revenues</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| Fund Balance | \$171,239 | \$230,000 | \$302,000 | \$380,400 | \$393,324 |
| Miscellaneous Revenues | 385,745 | 415,828 | 445,809 | 442,176 | 464,997 |
| Receipts from Delinquent Taxes | 75,000 | 95,000 | 90,000 | 90,000 | 57,000 |
| Amount to be Raised by Taxes for Support of Municipal Budget | <u>1,447,107</u> | <u>1,523,057</u> | <u>1,523,057</u> | <u>1,537,060</u> | <u>1,537,060</u> |
| Total Revenue: | <u>\$2,079,091</u> | <u>\$2,263,885</u> | <u>\$2,360,866</u> | <u>\$2,449,636</u> | <u>\$2,452,380</u> |
| | | | | | |
| <u>Appropriations</u> | | | | | |
| General Appropriations | \$1,644,533 | \$1,581,648 | \$1,704,185 | \$1,770,445 | \$1,833,474 |
| Operations | 3,618 | 236,723 | 176,584 | 188,658 | 200,507 |
| Deferred Charges and Statutory Expenditures | 18,572 | 19,063 | 21,071 | 26,071 | 17,900 |
| Judgments | 0 | 0 | 0 | 0 | 0 |
| Capital Improvement Fund | 50,000 | 25,000 | 25,000 | 57,000 | 15,000 |
| Municipal Debt Service | 190,355 | 229,459 | 262,026 | 235,461 | 235,500 |
| Reserve for Uncollected Taxes | <u>172,013</u> | <u>171,992</u> | <u>172,000</u> | <u>172,000</u> | <u>150,000</u> |
| Total Appropriations: | <u>\$2,079,091</u> | <u>\$2,263,885</u> | <u>\$2,360,866</u> | <u>\$2,449,636</u> | <u>\$2,452,380</u> |

Source: Annual Adopted Budgets of the Borough

Fund Balance

Current Fund

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

| | <u>Fund Balance - Current Fund</u> | |
|-------------|------------------------------------|--|
| <u>Year</u> | <u>Balance 12/31</u> | <u>Utilized in Budget of Succeeding Year</u> |
| 2017 | \$940,319 | \$393,324 |
| 2016 | 921,325 | 380,400 |
| 2015 | 763,162 | 302,000 |
| 2014 | 613,863 | 230,000 |
| 2013 | 517,636 | 171,239 |

Source: Annual Audit Reports of the Borough

Sewer Utility Operating Fund

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

| <u>Fund Balance - Sewer Utility Operating Fund</u> | | |
|---|---------------------------------|---|
| <u>Year</u> | <u>Balance 12/31</u> | <u>Utilized in Budget of Succeeding Year</u> |
| 2017 | \$826,062 | \$300,000 |
| 2016 | 419,082 | 33,000 |
| 2015 | 226,333 | 34,500 |
| 2014 | 100,650 | 24,126 |
| 2013 | 45,193 | 15,000 |

Source: Annual Audit Reports of the Borough

Water Utility Operating Fund

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

| <u>Fund Balance - Water Utility Operating Fund</u> | | |
|---|---------------------------------|---|
| <u>Year</u> | <u>Balance 12/31</u> | <u>Utilized in Budget of Succeeding Year</u> |
| 2017 | \$300,826 | \$72,000 |
| 2016 | 199,128 | 75,000 |
| 2015 | 178,827 | 75,000 |
| 2014 | 154,491 | 75,000 |
| 2013 | 102,760 | 58,000 |

Source: Annual Audit Reports of the Borough

Borough Indebtedness as of December 31, 2017

| | |
|---|----------------------------|
| General Purpose Debt | |
| Serial Bonds | \$1,204,000 |
| Bond Anticipation Notes | 74,000 |
| Bonds and Notes Authorized but Not Issued | 1,922,183 |
| Other Bonds, Notes and Loans | <u>0</u> |
| Total: | \$3,200,183 |
| Regional School District Debt | |
| Serial Bonds | \$6,558,079 |
| Temporary Notes Issued | 0 |
| Bonds and Notes Authorized but Not Issued | <u>0</u> |
| Total: | \$6,558,079 |
| Self-Liquidating Debt | |
| Serial Bonds | \$1,824,000 |
| Bond Anticipation Notes | 0 |
| Bonds and Notes Authorized but Not Issued | 6,464,488 |
| Other Bonds, Notes and Loans | <u>0</u> |
| Total: | \$8,288,488 |
| TOTAL GROSS DEBT | <u>\$18,046,750</u> |
| Less: Statutory Deductions | |
| General Purpose Debt | \$30,015 |
| Regional School District Debt | 6,558,079 |
| Self-Liquidating Debt | <u>8,288,488</u> |
| Total: | \$14,876,582 |
| TOTAL NET DEBT | <u>\$3,170,168</u> |

Source: Annual Debt Statement of the Borough

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Overlapping Debt (as of December 31, 2017)⁴

| <u>Name of Related Entity</u> | <u>Related Entity Debt Outstanding</u> | <u>Borough Percentage</u> | <u>Borough Share</u> |
|--------------------------------------|---|--------------------------------------|---------------------------------|
| Regional School District | \$46,555,000 | 14.09% | \$6,558,079 |
| County | 993,875,000 | 0.16% | 1,625,044 |
| Net Indirect Debt | | | \$8,183,123 |
| Net Direct Debt | | | <u>3,170,168</u> |
| Total Net Direct and Indirect Debt | | | <u>\$11,353,291</u> |

Debt Limit

| | |
|---|--------------------|
| Average Equalized Valuation Basis (2015, 2016, 2017) | \$204,519,215 |
| Permitted Debt Limitation (3 1/2%) | 7,158,173 |
| Less: Net Debt | <u>3,170,168</u> |
| Remaining Borrowing Power | <u>\$3,988,004</u> |
| Percentage of Net Debt to Average Equalized Valuation | 1.550% |
| Gross Debt Per Capita based on 2010 population of | \$9,872 |
| Net Debt Per Capita based on 2010 population of | \$1,734 |

Source: Annual Debt Statement of the Borough

⁴ Borough percentage of County debt is based on the Borough's share of total equalized valuation in the County.

INFORMATION REGARDING THE TOWNSHIP⁵

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

General Information

Located in central New Jersey (southwestern Monmouth County), the Township consists of 47.45 square miles. There were 3,277 residents as of the 1990 Census, 4,282 as of the 2000 Census and the 2010 Census reflects a population of 6,902. This increase, of over 30%, came in the last five (5) years when a number of developments previously held off by the permit extension act were finally completed.

The Township has been a rural agricultural area since the late 1600's with farming being the primary occupation. The residents and local government have been successful at maintaining the rural and historic character of this community. While the nature of the farming industry may have changed from the former large dairy farms to feed and crop farming with the expanded industry of horse breeding, the Township remains a leader in the Farmland Preservation Program.

Form of Government

The Township of Upper Freehold has one of the oldest forms of government, the Town Committee Form; this is one of the five (5) original forms of government in New Jersey. Upper Freehold has a five (5) member partisan committee meaning there is an election of members every year in November. The membership is staggered so that each year two (2) members are elected to three (3) year terms and on the 3rd year one (1) member is elected to a three (3) year term. One member of the Township Committee is chosen (elected) by the Committee to serve as Mayor for the year.

The Township Committee exercises legislative power in the Township. As the complexity of government and statutory and regulatory laws increased, the Township Committee chose to create the position of a Township Administrator in accordance with N.J.S.A. 40A:9-136, et seq.

The Township Administrator is the Chief Administrative Officer of the Township and is responsible to the Township Committee for the proper and efficient administration of the business and administrative governmental operations.

The Chief Financial Officer administers to the financial affairs of the Township. The Administrator and governing body take an active role in the preparation of the Annual Budget. The Township has several Interlocal Agreements to Share Services with other local municipalities. The Township serves as lead agency of an Interlocal Agreement with the Borough of Allentown for the employment of several paid firefighters to supplement the

⁵ Source: The Township, unless otherwise indicated

volunteer Hope Fire Company #1, Inc. The Township and Borough also share a Municipal Alliance to prevent Drug/Alcohol Abuse. The Township has successfully joined with the School District to share several services: the School uses Township recreation fields, assists with maintenance of athletic areas, jointly bids for road/ice/snow materials, and provides the Municipal Offices with Information Technology (IT) services.

Retirement Systems

All full-time permanent or qualified Township employees who began employment after 1944 must enroll in one of two (2) retirement systems depending upon their employment status. These systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are set by State law. The Division of Pensions, within the New Jersey Department of Treasury (the “Division”), is the administrator of the funds with the benefit and contribution levels set by the State. The Township is enrolled in the Public Employees' Retirement System (“PERS”) and the Police and Firemen's Retirement System (“PFRS”).

Pension Information⁶

Employees who are eligible to participate in a pension plan are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost. The Township’s share of pension costs in 2018, which is based upon the annual billings received from the State, amounted to \$109,699 for PERS and \$48,393 for PFRS.

Volunteer Emergency Services

The Hope Fire Company #1, Inc. and Allentown First Aid Squad, both located in Upper Freehold Township, provide emergency services to the Township. The Fire Company is an independent volunteer company; there is no Fire District. New Egypt Fire Company, in Plumsted is first responder for fire service to a portion of the southwestern section of the Township. Upper Freehold Township also employs six (6) paid firefighters in order to provide twenty-four (24) hour paid driver coverage.

Police

The Township is served by the New Jersey State Police, (formerly the Hightstown Barracks) which now operates out of their new Hamilton headquarters.

Public Works

Township residents contract for their own trash pickup. Recyclables and bulky waste are brought to the Municipal Garage.

⁶ Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Employment and Unemployment Comparisons

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

| | <u>Total Labor Force</u> | <u>Employed Labor Force</u> | <u>Total Unemployed</u> | <u>Unemployment Rate</u> |
|------------------------|-------------------------------------|--|------------------------------------|-------------------------------------|
| <u>Township</u> | | | | |
| 2017 | 3,306 | 3,195 | 111 | 3.4% |
| 2016 | 3,318 | 3,186 | 132 | 4.0% |
| 2015 | 3,304 | 3,141 | 163 | 4.9% |
| 2014 | 3,287 | 3,098 | 189 | 5.7% |
| 2013 | 3,303 | 3,058 | 245 | 7.4% |
| <u>County</u> | | | | |
| 2017 | 330,689 | 317,076 | 13,613 | 4.1% |
| 2016 | 330,855 | 316,142 | 14,713 | 4.4% |
| 2015 | 329,935 | 312,901 | 17,034 | 5.2% |
| 2014 | 328,722 | 308,800 | 19,922 | 6.1% |
| 2013 | 328,741 | 304,012 | 24,729 | 7.5% |
| <u>State</u> | | | | |
| 2017 | 4,518,838 | 4,309,708 | 209,123 | 4.6% |
| 2016 | 4,530,800 | 4,305,515 | 225,262 | 5.0% |
| 2015 | 4,537,231 | 4,274,685 | 262,531 | 5.8% |
| 2014 | 4,527,177 | 4,221,277 | 305,900 | 6.8% |
| 2013 | 4,548,569 | 4,173,815 | 374,738 | 8.2% |

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

Income (as of 2016)

| | <u>Township</u> | <u>County</u> | <u>State</u> |
|-------------------------|------------------------|----------------------|---------------------|
| Median Household Income | \$132,143 | \$87,297 | \$73,702 |
| Median Family Income | 136,686 | 109,677 | 90,757 |
| Per Capita Income | 52,605 | 44,504 | 37,538 |

Source: US Bureau of the Census, 2016 American Community Survey 5-Year Estimates

Population

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

| <u>Year</u> | <u>Township</u> | | <u>County</u> | | <u>State</u> | |
|---------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| | <u>Population</u> | <u>% Change</u> | <u>Population</u> | <u>% Change</u> | <u>Population</u> | <u>% Change</u> |
| 2016 Estimate | 6,874 | -0.41% | 627,532 | -0.45% | 8,944,469 | 1.74% |
| 2010 | 6,902 | 61.19 | 630,380 | 2.45 | 8,791,894 | 4.49 |
| 2000 | 4,282 | 30.67 | 615,301 | 11.24 | 8,414,350 | 8.85 |
| 1990 | 3,277 | 19.16 | 553,124 | 9.93 | 7,730,188 | 4.96 |
| 1980 | 2,750 | 7.80 | 503,173 | 8.95 | 7,365,001 | 2.75 |

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

Largest Taxpayers

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

| <u>Taxpayers</u> | <u>2018</u> | <u>% of Total</u> |
|----------------------------|----------------------------|---------------------------|
| | <u>Assessed Valuation</u> | <u>Assessed Valuation</u> |
| Allentown Caging Equip Co. | \$9,815,000 | 0.79% |
| Tractor Supply | 3,985,200 | 0.32% |
| Ashford Estate, LLC | 3,947,800 | 0.32% |
| Individual Taxpayer 1 | 3,453,900 | 0.28% |
| Cream Ridge Golf Club | 3,167,300 | 0.25% |
| Kube Pak | 3,036,900 | 0.24% |
| Peronic Enterprises, LLC | 2,973,400 | 0.24% |
| MCE Upper Freehold, LLC | 2,548,000 | 0.20% |
| WP Wellington, LLC | 2,400,700 | 0.19% |
| Individual Taxpayer 2 | <u>2,364,000</u> | <u>0.19%</u> |
| Total | <u>\$37,692,200</u> | <u>3.01%</u> |

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

Comparison of Tax Levies and Collections

| <u>Year</u> | <u>Tax Levy</u> | <u>Current Year</u> | <u>Current Year</u> |
|-------------|-----------------|---------------------|------------------------|
| | | <u>Collection</u> | <u>% of Collection</u> |
| 2017 | \$29,795,253 | \$29,243,673 | 98.15% |
| 2016 | 29,049,538 | 28,680,098 | 98.73% |
| 2015 | 29,083,245 | 28,447,292 | 97.81% |
| 2014 | 27,733,624 | 27,321,968 | 98.52% |
| 2013 | 26,901,249 | 26,337,356 | 97.90% |

Source: Annual Audit Reports of the Township

Delinquent Taxes and Tax Title Liens

| <u>Year</u> | <u>Amount of Tax Title Liens</u> | <u>Amount of Delinquent Tax</u> | <u>Total Delinquent</u> | <u>% of Tax Levy</u> |
|-------------|----------------------------------|---------------------------------|-------------------------|----------------------|
| 2017 | \$458,398 | \$426,624 | \$885,022 | 2.97% |
| 2016 | 430,317 | 332,669 | 762,986 | 2.63% |
| 2015 | 406,750 | 617,642 | 1,024,391 | 3.52% |
| 2014 | 412,832 | 408,197 | 821,029 | 2.96% |
| 2013 | 386,774 | 493,020 | 879,795 | 3.27% |

Source: Annual Audit Reports of the Township

Property Acquired by Tax Lien Liquidation

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 2017 | \$11,600 |
| 2016 | 11,600 |
| 2015 | 11,600 |
| 2014 | 11,600 |
| 2013 | 11,600 |

Source: Annual Audit Reports of the Township

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

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

| <u>Year</u> | <u>Municipal</u> | <u>Regional</u> | | <u>Total</u> |
|-------------|------------------|-----------------|---------------|--------------|
| | | <u>School</u> | <u>County</u> | |
| 2018 | \$0.297 | \$1.837 | \$0.299 | \$2.433 |
| 2017 | 0.289 | 1.814 | 0.298 | 2.401 |
| 2016 | 0.285 | 1.778 | 0.309 | 2.372 |
| 2015 | 0.276 | 1.760 | 0.311 | 2.347 |
| 2014 | 0.268 | 1.747 | 0.314 | 2.329 |

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

Valuation of Property

| <u>Year</u> | <u>Aggregate Assessed Valuation of Real Property</u> | <u>Aggregate True Value of Real Property</u> | <u>Ratio of Assessed to True Value</u> | <u>Assessed Value of Personal Property</u> | <u>Equalized Valuation</u> |
|--------------------|---|---|---|---|---------------------------------------|
| 2018 | \$1,250,287,700 | \$1,291,086,018 | 96.84% | \$0 | \$1,291,086,018 |
| 2017 | 1,217,836,000 | 1,254,770,379 | 97.16 | 0 | 1,254,770,379 |
| 2016 | 1,218,546,700 | 1,243,668,810 | 97.98 | 0 | 1,243,668,810 |
| 2015 | 1,225,133,900 | 1,263,545,689 | 96.96 | 0 | 1,263,545,689 |
| 2014 | 1,182,693,200 | 1,227,496,834 | 96.35 | 0 | 1,227,496,834 |

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

Classification of Ratables

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

| <u>Year</u> | <u>Vacant Land</u> | <u>Residential</u> | <u>Farm</u> | <u>Commercial</u> | <u>Industrial</u> | <u>Apartments</u> | <u>Total</u> |
|--------------------|---------------------------|---------------------------|--------------------|--------------------------|--------------------------|--------------------------|---------------------|
| 2018 | \$17,119,800 | \$1,012,660,700 | \$159,371,300 | \$47,747,600 | \$12,953,800 | \$434,500 | \$1,250,287,700 |
| 2017 | 22,096,900 | 979,791,000 | 157,167,100 | 45,588,600 | 12,767,900 | 424,500 | 1,217,836,000 |
| 2016 | 22,589,100 | 978,039,100 | 156,038,900 | 45,403,300 | 12,725,100 | 419,900 | 1,215,215,400 |
| 2015 | 20,997,900 | 974,429,000 | 162,060,200 | 48,937,600 | 13,101,500 | 419,000 | 1,219,945,200 |
| 2014 | 25,128,200 | 934,330,800 | 165,269,300 | 43,995,300 | 13,573,300 | 396,300 | 1,182,693,200 |

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

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Financial Operations

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

Summary of Current Fund Budget

| <u>Anticipated Revenues</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Fund Balance Utilized | \$1,120,000 | \$1,103,267 | \$1,105,000 | \$1,250,000 | \$1,340,000 |
| Miscellaneous Revenues | 1,120,866 | 1,069,689 | 1,161,469 | 1,009,611 | 1,067,345 |
| Receipts from Delinquent Taxes | 385,000 | 385,000 | 450,000 | 450,000 | 385,000 |
| Amount to be Raised by Taxation | <u>2,461,135</u> | <u>2,629,045</u> | <u>2,733,531</u> | <u>2,790,389</u> | <u>2,964,900</u> |
| Total Revenue: | <u>\$5,087,000</u> | <u>\$5,187,000</u> | <u>\$5,450,000</u> | <u>\$5,500,000</u> | <u>\$5,757,245</u> |
| | | | | | |
| <u>Appropriations</u> | | | | | |
| General Appropriations | \$2,399,356 | \$2,424,865 | \$2,418,787 | \$2,344,815 | \$2,393,065 |
| Operations (Excluded from CAPS) | 105,197 | 131,485 | 250,034 | 203,330 | 280,344 |
| Deferred Charges and Statutory Expenditures | 78,000 | 78,000 | 64,000 | 42,000 | 42,000 |
| Judgments | | 0 | 0 | 0 | 0 |
| Capital Improvement Fund | 110,000 | 210,000 | 223,500 | 270,000 | 273,000 |
| Municipal Debt Service | 1,553,032 | 1,519,132 | 1,593,248 | 1,582,680 | 1,768,836 |
| Reserve for Uncollected Taxes | <u>841,416</u> | <u>823,518</u> | <u>900,431</u> | <u>1,057,175</u> | <u>1,000,000</u> |
| Total Appropriations: | <u>\$5,087,000</u> | <u>\$5,187,000</u> | <u>\$5,450,000</u> | <u>\$5,500,000</u> | <u>\$5,757,245</u> |

Source: Annual Adopted Budgets of the Township

Fund Balance

Current Fund

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

| <u>Year</u> | <u>Fund Balance - Current Fund</u> | |
|--------------------|--|--|
| | <u>Balance</u> <u>12/31</u> | <u>Utilized in Budget</u> <u>of Succeeding Year</u> |
| 2017 | \$4,936,359 | \$1,340,000 |
| 2016 | 4,323,374 | 1,250,000 |
| 2015 | 3,826,906 | 1,105,000 |
| 2014 | 3,298,247 | 1,103,267 |
| 2013 | 2,618,063 | 1,120,000 |

Source: Annual Audit Reports of the Township

Township Indebtedness as of December 31, 2017

| | |
|---|----------------------------|
| General Purpose Debt | |
| Serial Bonds | \$13,810,000 |
| Bond Anticipation Notes | 3,911,000 |
| Bonds and Notes Authorized but Not Issued | 2,109,743 |
| Other Bonds, Notes and Loans | <u>0</u> |
| Total: | \$19,830,743 |
| Regional School District Debt | |
| Serial Bonds | \$40,937,671 |
| Temporary Notes Issued | 0 |
| Bonds and Notes Authorized but Not Issued | <u>0</u> |
| Total: | \$40,937,671 |
| Self-Liquidating Debt | |
| Serial Bonds | \$0 |
| Bond Anticipation Notes | 0 |
| Bonds and Notes Authorized but Not Issued | 0 |
| Other Bonds, Notes and Loans | <u>0</u> |
| Total: | \$0 |
| TOTAL GROSS DEBT | <u>\$60,768,414</u> |
| Less: Statutory Deductions | |
| General Purpose Debt | \$3,706,578 |
| Regional School District Debt | 40,937,671 |
| Self-Liquidating Debt | <u>0</u> |
| Total: | \$44,644,249 |
| TOTAL NET DEBT | <u>\$16,124,165</u> |

Source: Annual Debt Statement of the Township

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Overlapping Debt (as of December 31, 2017)⁷

| <u>Name of Related Entity</u> | <u>Related Entity Debt Outstanding</u> | <u>Township Percentage</u> | <u>Township Share</u> |
|--------------------------------------|---|---------------------------------------|----------------------------------|
| Regional School District | \$47,650,000 | 86.00% | \$41,028,050 |
| County | 993,875,000 | 1.03% | <u>10,252,995</u> |
| Net Indirect Debt | | | \$51,281,045 |
| Net Direct Debt | | | <u>16,124,165</u> |
| Total Net Direct and Indirect Debt | | | <u>\$67,405,211</u> |

Debt Limit

| | |
|---|----------------------------|
| Average Equalized Valuation Basis (2015, 2016, 2017) | \$1,253,994,959 |
| Permitted Debt Limitation (3 1/2%) | 43,889,824 |
| Less: Net Debt | <u>16,124,165</u> |
| Remaining Borrowing Power | <u>\$27,765,658</u> |
| Percentage of Net Debt to Average Equalized Valuation | 1.286% |
| Gross Debt Per Capita based on 2010 population of 6,902 | \$8,804 |
| Net Debt Per Capita based on 2010 population of 6,902 | \$2,336 |

Source: Annual Debt Statement of the Township

⁷ Township percentage of County debt is based on the Township's share of total equalized valuation in the County

APPENDIX B

**Financial Statements of The Board of Education of the
Upper Freehold Regional School District
in the County of Monmouth, New Jersey**

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UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
UNAUDITED FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

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UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

| | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
|--|------------------------------------|-------------------------------------|-----------------|
| ASSETS: | | | |
| Cash & Cash Equivalents | \$ 813,642.57 | \$ 401,121.09 | \$ 1,214,763.66 |
| Receivables, Net | 411,883.96 | 13,017.82 | 424,901.78 |
| Inventory | - | 7,780.91 | 7,780.91 |
| Restricted Cash & Cash Equivalents | 2,206,520.86 | - | 2,206,520.86 |
| Capital Assets, Net | | | |
| Non-Depreciable | 5,419,448.00 | - | 5,419,448.00 |
| Depreciable | 55,758,241.00 | 306,451.00 | 56,064,692.00 |
| Total Assets | 64,609,736.39 | 728,370.82 | 65,338,107.21 |
| DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Related to Pensions | 3,844,330.00 | - | 3,844,330.00 |
| Related to Loss on Debt Refunding | 2,431,792.72 | - | 2,431,792.72 |
| Total Deferred Outflow of Resources | 6,276,122.72 | - | 6,276,122.72 |
| LIABILITIES: | | | |
| Accounts Payable | 165,603.57 | 80,238.23 | 245,841.80 |
| Due to Other Governments | 567,071.98 | - | 567,071.98 |
| Unearned Revenue | 90,537.38 | 47,332.00 | 137,869.38 |
| Accrued Interest | 742,209.96 | - | 742,209.96 |
| Other Liabilities | 75,085.29 | - | 75,085.29 |
| Internal Balances | - | - | - |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 2,316,698.52 | - | 2,316,698.52 |
| Due in More Than One Year | 59,697,166.37 | - | 59,697,166.37 |
| Total Liabilities | 63,654,373.07 | 127,570.23 | 63,781,943.30 |
| DEFERRED INFLOWS OF RESOURCES: | | | |
| Related to Pensions | 3,263,381.00 | - | 3,263,381.00 |
| Total Deferred Inflow of Resources | 3,263,381.00 | - | 3,263,381.00 |
| NET POSITION: | | | |
| Net Investment in Capital Assets | 14,736,496.48 | 306,451.00 | 15,042,947.48 |
| Restricted for: | | | |
| Capital Projects | 952,583.86 | - | 952,583.86 |
| Debt Service | 2,973.90 | - | 2,973.90 |
| Emergency Reserve | 206,937.00 | - | 206,937.00 |
| Maintenance Reserve | 847,000.00 | - | 847,000.00 |
| Tuition Reserve | 200,000.00 | - | 200,000.00 |
| Excess Surplus | 483,518.21 | - | 483,518.21 |
| Unrestricted (Deficit) | (13,461,404.41) | 294,349.59 | (13,167,054.82) |
| Total Net Position | \$ 3,968,105.04 | \$ 600,800.59 | \$ 4,568,905.63 |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

| FUNCTIONS/PROGRAMS | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION | | | |
|---|------------------|----------------------|----------------------------------|---|-------------------------|--------------------------|--------------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS & CONTRIBUTIONS | CAPITAL GRANTS & CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| Governmental Activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular Instruction | \$ 21,722,116.85 | \$ - | \$ 7,505,595.75 | \$ - | \$ (14,216,521.11) | \$ - | \$ (14,216,521.11) |
| Special Education Instruction | 7,530,211.81 | - | 2,428,823.01 | - | (5,101,388.81) | - | (5,101,388.81) |
| Other Instruction | 2,651,642.51 | - | 855,270.81 | - | (1,796,371.70) | - | (1,796,371.70) |
| Support Services: | | | | | | | |
| Tuition | 916,499.74 | - | - | - | (916,499.74) | - | (916,499.74) |
| Student & Instruction Related Services | 6,287,867.95 | - | 46,678.10 | - | (6,241,189.85) | - | (6,241,189.85) |
| General Administrative | 689,507.57 | - | - | - | (689,507.57) | - | (689,507.57) |
| School Administrative Services | 1,888,456.56 | - | - | - | (1,888,456.56) | - | (1,888,456.56) |
| Central Services | 604,874.16 | - | - | - | (604,874.16) | - | (604,874.16) |
| Administrative Info. Technology | 180,515.72 | - | - | - | (180,515.72) | - | (180,515.72) |
| Plant Operations & Maintenance | 3,909,552.45 | - | - | - | (3,909,552.45) | - | (3,909,552.45) |
| Pupil Transportation | 2,749,705.69 | - | - | - | (2,749,705.69) | - | (2,749,705.69) |
| Interest & Other Charges | 2,086,587.52 | - | - | - | (2,086,587.52) | - | (2,086,587.52) |
| Total Governmental Activities | 51,217,538.55 | - | 10,836,367.66 | - | (40,381,170.89) | - | (40,381,170.89) |
| Business-Type Activities: | | | | | | | |
| Food Service | 666,208.15 | 569,510.82 | 93,461.33 | - | - | (3,236.00) | (3,236.00) |
| Child Watch Program | 253,908.15 | 233,121.64 | - | - | - | (20,786.51) | (20,786.51) |
| Kindergarten Complement | 160,759.79 | 193,373.26 | - | - | - | 32,613.47 | 32,613.47 |
| AHS Summer Programs | 10,076.04 | 12,180.00 | - | - | - | 2,103.96 | 2,103.96 |
| Total Business-Type Activities | 1,090,952.13 | 1,008,185.72 | 93,461.33 | - | - | 10,694.92 | 10,694.92 |
| Total Primary Government | \$ 52,308,490.68 | \$ 1,008,185.72 | \$ 10,929,828.99 | \$ - | (40,381,170.89) | 10,694.92 | (40,370,475.97) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes, Levied for General Purposes | | | | | 22,004,816.00 | - | 22,004,816.00 |
| Property Taxes, Levied for Debt Service | | | | | 3,717,740.00 | - | 3,717,740.00 |
| Federal & State Aid Restricted | | | | | 27,557.00 | - | 27,557.00 |
| Federal & State Aid Not Restricted | | | | | 5,869,660.03 | - | 5,869,660.03 |
| Tuition Charges | | | | | 8,762,025.77 | - | 8,762,025.77 |
| Transportation Charges | | | | | 66,719.00 | - | 66,719.00 |
| Miscellaneous | | | | | 479,611.13 | 22,458.67 | 502,069.80 |
| Total General Revenues | | | | | 40,928,128.93 | 22,458.67 | 40,950,587.60 |
| Change In Net Position | | | | | 546,958.04 | 33,153.59 | 580,111.63 |
| Net Position - Beginning | | | | | 3,421,147.00 | 567,647.00 | 3,988,794.00 |
| Net Position - Ending | | | | | \$ 3,968,105.04 | \$ 600,800.59 | \$ 4,568,905.63 |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2018

| | MAJOR FUNDS | | | TOTAL GOVERNMENTAL FUNDS |
|---|------------------------|----------------------------|-------------------------|--------------------------------|
| | GENERAL FUND | SPECIAL REVENUE FUND | DEBT SERVICE FUND | |
| ASSETS | | | | |
| Cash & Cash Equivalents | \$ 774,092.35 | \$ 36,576.32 | \$ 2,973.90 | \$ 813,642.57 |
| Receivables, Net: | | | | |
| Due from Other Governments: | | | | |
| Federal | - | 12,853.66 | - | 12,853.66 |
| State | 232,277.30 | - | - | 232,277.30 |
| Other Accounts Receivable | 166,753.00 | - | - | 166,753.00 |
| Restricted Cash & Cash Equivalents | 2,206,520.86 | - | - | 2,206,520.86 |
| Total Assets | <u>\$ 3,379,643.51</u> | <u>\$ 49,429.98</u> | <u>\$ 2,973.90</u> | <u>\$ 3,432,047.39</u> |
| LIABILITIES & FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 157,716.23 | \$ 7,887.34 | \$ - | \$ 165,603.57 |
| Intergovernmental Payable: | | | | |
| State | - | 9,071.98 | - | 9,071.98 |
| Interfund Payable | 3,000.00 | - | - | 3,000.00 |
| Other Current Liabilities | 69,928.01 | 2,157.28 | - | 72,085.29 |
| Unearned Revenue | 60,224.00 | 30,313.38 | - | 90,537.38 |
| Total Liabilities | <u>290,868.24</u> | <u>49,429.98</u> | <u>-</u> | <u>340,298.22</u> |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Capital Reserve | 952,583.86 | - | - | 952,583.86 |
| Maintenance Reserve | 847,000.00 | - | - | 847,000.00 |
| Emergency Reserve | 206,937.00 | - | - | 206,937.00 |
| Tuition Reserve | 200,000.00 | - | - | 200,000.00 |
| Excess Surplus | 285,902.21 | - | - | 285,902.21 |
| Excess Surplus Designated | | | | |
| for Subsequent Year | 197,616.00 | - | - | 197,616.00 |
| Debt Service | - | - | 2,973.90 | 2,973.90 |
| Assigned to: | | | | |
| Designated for | | | | |
| Subsequent Year | 81,759.00 | - | - | 81,759.00 |
| Other Purposes | 91,897.02 | - | - | 91,897.02 |
| Unassigned | 225,080.18 | - | - | 225,080.18 |
| Total Fund Balances | <u>3,088,775.27</u> | <u>-</u> | <u>2,973.90</u> | <u>3,091,749.17</u> |
| Total Liabilities & Fund Balances | <u>\$ 3,379,643.51</u> | <u>\$ 49,429.98</u> | <u>\$ 2,973.90</u> | |
| Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$89,618,195.00 and the accumulated depreciation is \$28,440,506.00. | | | | |
| | | | | 61,177,689.00 |
| Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refunding are applicable to future reporting periods and therefore are not reported in the funds. | | | | |
| | | | | 3,844,330.00 |
| | | | | (3,263,381.00) |
| | | | | 2,431,792.72 |
| Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds. | | | | |
| | | | | (742,209.96) |
| Accrued pension contributions for the June 30, 2018 plan year are not paid with current economic resources and are therefore not reported as a liability in the funds, but are included in accounts payable in the government-wide statement of net position. | | | | |
| | | | | (558,000.00) |
| Long-term liabilities, including net pension liability and bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | | | | |
| | | | | (62,013,864.89) |
| Net Position of Governmental Activities | | | | <u>\$ 3,968,105.04</u> |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2018

| | MAJOR FUNDS | | | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------------|-------------------------------------|----------------------------------|---|
| | GENERAL FUND | SPECIAL REVENUE FUND | DEBT SERVICE FUND | |
| Revenues: | | | | |
| Local Sources: | | | | |
| Local Tax Levy | \$ 22,004,816.00 | \$ - | \$ 3,717,740.00 | \$ 25,722,556.00 |
| Tuition Charges | 8,762,025.77 | - | - | 8,762,025.77 |
| Transportation Charges | 66,719.00 | - | - | 66,719.00 |
| Miscellaneous | 366,600.03 | 48,027.82 | - | 414,627.85 |
| Total Local Sources | <u>31,200,160.80</u> | <u>48,027.82</u> | <u>3,717,740.00</u> | <u>34,965,928.62</u> |
| State Sources | 11,002,391.56 | 15,639.02 | - | 11,018,030.58 |
| Federal Sources | 18,517.03 | 509,830.26 | - | 528,347.29 |
| Total Revenues | <u>42,221,069.39</u> | <u>573,497.10</u> | <u>3,717,740.00</u> | <u>46,512,306.49</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular Instruction | 10,575,933.07 | 499,262.00 | - | 11,075,195.07 |
| Special Education Instruction | 3,839,338.74 | - | - | 3,839,338.74 |
| Other Instruction | 1,351,961.15 | - | - | 1,351,961.15 |
| Support Services: | | | | |
| Tuition | 689,763.73 | - | - | 689,763.73 |
| Attendance & Social Work Services | 85,712.80 | - | - | 85,712.80 |
| Health Services | 288,638.10 | - | - | 288,638.10 |
| Student & Instruction Related Services | 4,311,261.74 | 46,678.10 | - | 4,357,939.84 |
| General Administrative | 518,927.93 | - | - | 518,927.93 |
| School Administrative Services | 1,421,264.82 | - | - | 1,421,264.82 |
| Central Services | 455,232.27 | - | - | 455,232.27 |
| Administrative Information Technology | 135,857.32 | - | - | 135,857.32 |
| Plant Operations & Maintenance | 3,095,144.18 | - | - | 3,095,144.18 |
| Pupil Transportation | 2,069,446.57 | - | - | 2,069,446.57 |
| Unallocated Benefits | 7,182,681.83 | - | - | 7,182,681.83 |
| On Behalf TPAF Pension and Social Security Contributions | 5,151,248.56 | - | - | 5,151,248.56 |
| Capital Outlay | 594,702.72 | 27,557.00 | - | 622,259.72 |
| Debt Service: | | | | |
| Principal | - | - | 1,840,000.00 | 1,840,000.00 |
| Interest & Other Charges | 164,942.00 | - | 1,888,343.76 | 2,053,285.76 |
| Total Expenditures | <u>41,932,057.53</u> | <u>573,497.10</u> | <u>3,728,343.76</u> | <u>46,233,898.39</u> |
| Excess/(Deficiency) of Revenues Over Expenditures | <u>289,011.86</u> | <u>-</u> | <u>(10,603.76)</u> | <u>278,408.10</u> |
| Other Financing Sources (Uses): | | | | |
| Cancellation of Prior Year Accounts Payable | 113,011.10 | - | - | 113,011.10 |
| Total Other Financing Sources (Uses) | <u>113,011.10</u> | <u>-</u> | <u>-</u> | <u>113,011.10</u> |
| Net Changes in Fund Balances | 402,022.96 | - | (10,603.76) | 391,419.20 |
| Fund Balance, July 1 | 2,686,752.31 | - | 13,577.66 | 2,700,329.97 |
| Fund Balance, June 30 | <u>\$ 3,088,775.27</u> | <u>\$ -</u> | <u>\$ 2,973.90</u> | <u>\$ 3,091,749.17</u> |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Total Net Changes in Fund Balances - Governmental Funds (B-2) \$ 391,419.20

Amounts reported for governmental activities in the statement of activities (A-2) are different because:

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

| | | |
|----------------------|-------------------|----------------|
| Depreciation Expense | (2,153,117.00) | |
| Capital Outlays | 617,670.00 | |
| | <u>617,670.00</u> | (1,535,447.00) |

Governmental funds report School District pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned is reported as pension expense. This is the amount by which pension benefits earned exceeded the School District's pension contributions in the current period. (331,058.28)

Repayment of long-term debt principal and obligation of lease purchase agreements are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities. 2,047,603.25

Governmental funds report the effect of premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these transactions is as follows:

| | | |
|--|---------------------|-------------|
| Amortization of Premium on Bonds | 367,501.48 | |
| Amortization of Loss on Bond Refunding | (431,420.28) | |
| | <u>(431,420.28)</u> | (63,918.80) |

In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation (+). 30,617.04

In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+). 7,742.63

Change in Net Position of Governmental Activities \$ 546,958.04

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2018

| | MAJOR FUNDS | | | | |
|----------------------------------|--|----------------|----------------------------|------------------------|---------------|
| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | |
| | FOOD SERVICE | CHILD WATCH | KINDERGARTEN COMPLEMENT | AHS SUMMER PROGRAMS | TOTALS |
| ASSETS | | | | | |
| Current Assets: | | | | | |
| Cash & Cash Equivalents | \$ 62,102.26 | \$ 205,795.27 | \$ 87,400.50 | \$ 45,823.06 | \$ 401,121.09 |
| Accounts Receivable: | | | | | |
| Federal | 2,723.37 | - | - | - | 2,723.37 |
| State | 169.45 | - | - | - | 169.45 |
| Other Receivables | - | - | 10,125.00 | - | 10,125.00 |
| Inventories | 7,780.91 | - | - | - | 7,780.91 |
| Total Current Assets | 72,775.99 | 205,795.27 | 97,525.50 | 45,823.06 | 421,919.82 |
| Noncurrent Assets: | | | | | |
| Capital Assets | 714,115.00 | - | - | - | 714,115.00 |
| Less: Accumulated Depreciation | (407,664.00) | - | - | - | (407,664.00) |
| Total Capital Assets, Net | 306,451.00 | - | - | - | 306,451.00 |
| Total Noncurrent Assets | 306,451.00 | - | - | - | 306,451.00 |
| Total Assets | 379,226.99 | 205,795.27 | 97,525.50 | 45,823.06 | 728,370.82 |
| LIABILITIES | | | | | |
| Current Liabilities: | | | | | |
| Accounts Payable | 79,728.23 | 510.00 | - | - | 80,238.23 |
| Unearned Revenue | - | 22,672.00 | 4,500.00 | 20,160.00 | 47,332.00 |
| Total Current Liabilities | 79,728.23 | 23,182.00 | 4,500.00 | 20,160.00 | 127,570.23 |
| NET POSITION | | | | | |
| Net Investment in Capital Assets | 306,451.00 | - | - | - | 306,451.00 |
| Unrestricted | (6,952.24) | 182,613.27 | 93,025.50 | 25,663.06 | 294,349.59 |
| Total Net Position | \$ 299,498.76 | \$ 182,613.27 | \$ 93,025.50 | \$ 25,663.06 | \$ 600,800.59 |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
YEAR ENDED JUNE 30, 2018

| | MAJOR FUNDS | | | | |
|---|---------------|---------------|--------------|--------------|---------------|
| | BUSINESS-TYPE | | | | |
| | ACTIVITIES - | | | | |
| | ENTERPRISE | | | | |
| | FUNDS | | | | |
| | FOOD | CHILD | KINDERGARTEN | AHS SUMMER | TOTALS |
| | SERVICE | WATCH | COMPLEMENT | PROGRAMS | |
| Operating Revenues: | | | | | |
| Charges for Services: | | | | | |
| Daily Sales - Reimbursable Programs | \$ 103,447.00 | \$ - | \$ - | \$ - | \$ 103,447.00 |
| Daily Sales - Non-Reimbursable Programs | 400,665.00 | - | - | - | 400,665.00 |
| Special Functions | 8,507.00 | 233,121.64 | 193,293.26 | 12,180.00 | 447,101.90 |
| Miscellaneous | 56,891.82 | - | 80.00 | - | 56,971.82 |
| Total Operating Revenues | 569,510.82 | 233,121.64 | 193,373.26 | 12,180.00 | 1,008,185.72 |
| Operating Expenses: | | | | | |
| Cost of Sales - Reimbursable Programs | 64,094.00 | - | - | - | 64,094.00 |
| Cost of Sales - Non-Reimbursable Programs | 152,272.00 | - | - | - | 152,272.00 |
| Salaries & Benefits | 310,130.84 | 221,919.10 | 160,454.60 | 10,076.04 | 702,580.58 |
| Supplies and Materials | 69,819.32 | 4,520.93 | 305.19 | - | 74,645.44 |
| Depreciation | 19,292.00 | - | - | - | 19,292.00 |
| Management and Administrative Fees | 50,500.00 | - | - | - | 50,500.00 |
| Other | 99.99 | 27,468.12 | - | - | 27,568.11 |
| Total Operating Expenses | 666,208.15 | 253,908.15 | 160,759.79 | 10,076.04 | 1,090,952.13 |
| Operating Income/(Loss) | (96,697.33) | (20,786.51) | 32,613.47 | 2,103.96 | (82,766.41) |
| Nonoperating Revenues (Expenses): | | | | | |
| State Sources: | | | | | |
| State School Lunch Program | 2,241.24 | - | - | - | 2,241.24 |
| Federal Sources: | | | | | |
| National School Lunch Program | 38,468.95 | - | - | - | 38,468.95 |
| Food Distribution Program | 22,451.14 | - | - | - | 22,451.14 |
| Contractual Guarantee | 30,300.00 | - | - | - | 30,300.00 |
| Cancellation of Lease Payable | 22,458.67 | - | - | - | 22,458.67 |
| Total Nonoperating Revenues/(Expenses) | 115,920.00 | - | - | - | 115,920.00 |
| Change in Net Position | 19,222.67 | (20,786.51) | 32,613.47 | 2,103.96 | 33,153.59 |
| Total Net Position - Beginning | 280,276.09 | 203,399.78 | 60,412.03 | 23,559.10 | 567,647.00 |
| Total Net Position - Ending | \$ 299,498.76 | \$ 182,613.27 | \$ 93,025.50 | \$ 25,663.06 | \$ 600,800.59 |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018

| | MAJOR FUNDS | | | | |
|---|--|----------------|----------------------------|------------------------|-----------------|
| | BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS | | | | |
| | FOOD SERVICE | CHILD WATCH | KINDERGARTEN COMPLEMENT | AHS SUMMER PROGRAMS | TOTALS |
| Cash Flows From Operating Activities: | | | | | |
| Receipts from Customers | \$ 569,916.60 | \$ 255,793.64 | \$ 195,621.26 | \$ 18,440.00 | \$ 1,039,771.50 |
| Payments to Employees | (310,130.84) | (221,919.10) | (160,454.60) | (10,076.04) | (702,580.58) |
| Payments to Suppliers | (237,206.65) | (31,640.11) | (385.19) | - | (269,231.95) |
| Net Cash Provided by/(Used for) Operating Activities | 22,579.11 | 2,234.43 | 34,781.47 | 8,363.96 | 67,958.97 |
| Cash Flows From Noncapital Financing Activities: | | | | | |
| State Sources | 2,241.24 | - | - | - | 2,241.24 |
| Federal Sources | 38,468.95 | - | - | - | 38,468.95 |
| Net Cash Provided by/(Used for) Noncapital Financing Activities | 40,710.19 | - | - | - | 40,710.19 |
| Cash Flows From Capital & Related Financing Activities: | | | | | |
| Payment of Capital Lease | (23,377.08) | - | - | - | (23,377.08) |
| Net Cash Provided by/(Used for) Capital & Related Financing Activities | (23,377.08) | - | - | - | (23,377.08) |
| Net Increase/(Decrease) in Cash & Cash Equivalents | 39,912.22 | 2,234.43 | 34,781.47 | 8,363.96 | 85,292.08 |
| Balances - Beginning of Year | 22,190.04 | 203,560.84 | 52,619.03 | 37,459.10 | 315,829.01 |
| Balances - End of Year | \$ 62,102.26 | \$ 205,795.27 | \$ 87,400.50 | \$ 45,823.06 | \$ 401,121.09 |
| Reconciliation of Operating Income/(Loss) to Net Cash Provided by/(Used for) Operating Activities: | | | | | |
| Operating Income/(Loss) | \$ (96,697.33) | \$ (20,786.51) | \$ 32,613.47 | \$ 2,103.96 | \$ (82,766.41) |
| Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by/(Used for) Operating Activities: | | | | | |
| Depreciation | 19,292.00 | - | - | - | 19,292.00 |
| Food Distribution Program | 22,451.14 | - | - | - | 22,451.14 |
| Contractual Guarantee | 30,300.00 | - | - | - | 30,300.00 |
| (Increase)/Decrease in Accounts Receivable, Net | 405.78 | - | (752.00) | - | (346.22) |
| (Increase)/Decrease in Inventories | (1,880.66) | - | - | - | (1,880.66) |
| Increase/(Decrease) in Other Current Liabilities | (51.00) | - | - | - | (51.00) |
| Increase/(Decrease) in Unearned Revenue | - | 22,672.00 | 3,000.00 | 6,260.00 | 31,932.00 |
| Increase/(Decrease) in Accounts Payable | 48,759.18 | 348.94 | (80.00) | - | 49,028.12 |
| Total Adjustments | 119,276.44 | 23,020.94 | 2,168.00 | 6,260.00 | 150,725.38 |
| Net Cash Provided/(Used) by Operating Activities | \$ 22,579.11 | \$ 2,234.43 | \$ 34,781.47 | \$ 8,363.96 | \$ 67,958.97 |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

| | UNEMPLOYMENT COMPENSATION TRUST | PRIVATE- PURPOSE SCHOLARSHIP FUND | AGENCY FUNDS |
|--|--|--|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash & Cash Equivalents | \$ 263,182.82 | \$ 48,320.75 | \$ 387,645.07 |
| Interfund Receivable | - | - | 3,000.00 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>263,182.82</u> | <u>48,320.75</u> | <u>\$ 390,645.07</u> |
| LIABILITIES | | | |
| Payable for Student Related Activities | - | - | \$ 177,238.50 |
| Payroll Deductions & Withholdings | - | - | 213,406.57 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>\$ 390,645.07</u> |
| NET POSITION | | | |
| Restricted - Held in Trust for Unemployment Claims & Other Purposes | 263,182.82 | - | |
| Restricted - Scholarships | - | 48,320.75 | |
| | <u> </u> | <u> </u> | |
| Total Net Position | <u>\$ 263,182.82</u> | <u>\$ 48,320.75</u> | |

SCHOOL DISTRICT OF UPPER FREEHOLD REGIONAL

Allentown, New Jersey
County of Monmouth

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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COMPREHENSIVE ANNUAL FINANCIAL REPORT

OF THE

UPPER FREEHOLD REGIONAL BOARD OF EDUCATION

ALLENTOWN, NEW JERSEY

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Prepared by

**Upper Freehold Regional School District
Finance Department**

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INTRODUCTORY SECTION

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UPPER FREEHOLD REGIONAL SCHOOL DISTRICT

27 High Street • Allentown, New Jersey 08501 • central office: 609-259-7292 • fax: 609-259-0881

RICHARD M. FITZPATRICK, ED.D.
Superintendent of Schools

MARK G. GUTERL, MA
*Assistant Superintendent for
Curriculum and Instruction*

MARGARET HOM, M.S.B.A.
*Business Administrator
Board Secretary*

PATRICK LEARY, MA, M.Ed.
Director of Special Services

MICHAEL B. DEAN, MS
*Information and Technology Service
Manager*

November 2, 2017

The Honorable President and Members of
the Board of Education
Upper Freehold Regional School District
County of Monmouth, New Jersey

Dear Board Members:

The Comprehensive Annual Financial Report (CAFR) of the Upper Freehold Regional School District (the "District") for the fiscal year ended June 30, 2017, is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Board of Education (the "Board"). To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the

District. All disclosures necessary to enable the reader to gain an understanding of the District's financial activities have been included.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes this transmittal letter, the District's organizational chart and a list of principal officials. The financial section includes the Independent Auditors' Report, the management's discussion and analysis, the basic financial statements and notes providing an overview of the District's financial position and operating results, and supplementary schedules providing detailed budgetary information. The statistical section includes selected financial and demographic information, financial trends and the fiscal capacity of the District, generally presented on a multi-year basis. The District is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and New Jersey OMB Circular NJOMB 04-04 and/or 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Information related to this single audit, including the auditors' reports on the internal control and compliance with applicable laws, regulations, contracts and grants along with findings and questioned costs, is included in the single audit section of this report.

1) REPORTING ENTITY AND ITS SERVICES: The Upper Freehold Regional School District is an independent reporting entity within the criteria adopted by the Government Accounting Standards Board ("GASB") in codification section 2100. All funds of the District are included in this report. The Upper Freehold Regional School District and all its schools constitute the District's reporting entity.

The District continues to maintain a high quality of education at a reasonable cost. The Upper Freehold Regional School District is a comprehensive educational organization that provides a full range of programs and services appropriate to grades Pre-K through 12. These programs and services include regular, vocational, as well as, special education services for youngsters with a range of disabilities. The District completed the 2016-2017 school year with an enrollment of 2,279 students, compared to 2,296 students as of June 30, 2016. Enrollment is defined as students on roll and students placed out of District.

Changes in the student average daily enrollment of the District over the last five fiscal years were as follows:

| <u>Fiscal Year</u> | <u>Average Daily Enrollment</u> | |
|--------------------|---------------------------------|-----------------------|
| | <u>Student Enrollment</u> | <u>Percent Change</u> |
| 2016-2017 | 2,279 | -0.7% |
| 2015-2016 | 2,296 | -1.5 % |
| 2014-2015 | 2,331 | -0.2% |
| 2013-2014 | 2,336 | -1.6% |
| 2012-2013 | 2,373 | 0.8% |

In an effort to promote communication, the District continues to utilize its website as a source of information on a school and district-wide level. The District uses the Alert Now notices sent to the parent community by Dr. Fitzpatrick and attachments, as well as, using the parent portal to enable parents and teachers to stay connected with information regarding student attendance, homework, grades, curriculum, and special projects. Information about the budget is communicated through the district’s website and in local presentations throughout the district, including presentations to members of the senior citizen community during the budget review process. The District also produces a calendar with information about all aspects of school life - support services, special events, emergency school closing information, Board of Education members, phone contacts for all schools and administration. Information is also shared highlighting points of pride from the prior school year, college acceptances and a day by day listing of all events and activities within the district. This calendar is available on the District web page and school web pages.

Student Learning Standards

Our District is in line with the New Jersey Student Learning Standards (SLS). The District has an active 5-year curriculum review and revision process to ensure alignment with the New Jersey Core Curriculum Content Standards. The Assistant Superintendent facilitates this process for Curriculum and Instruction along with the members of the District’s Curriculum Council. All curricula and courses of study are approved by the Board of Education and annually adopted at the Reorganizational meeting of the Board.

Staff Development

The Upper Freehold Regional School District provides its teaching staff with multiple opportunities for professional development that support the District’s goals for staff development and the improvement of instruction.

The District provides extensive in-service programs for staff throughout the school year and during the summer vacation period. Staff members are permitted and encouraged to attend workshops outside the District in addition to the in-house programs which are provided. A generous college course reimbursement program both for professional staff and support staff is funded within the school budget.

Technology

District-wide technology is used to increase productivity, enhance communication, and to enrich curriculum and instruction. In the 2015-2016 budget year the Technology, with the introduction of a one to one laptop initiative was introduced. All students will have full access to technology in grades 4 to 12 by September 1, 2017. Technology is also used to document the full K-12 curriculum in the form of Curriculum Maps. The District uses a parent alert and notification service which enables the Superintendent to alert all parents via

e-mail and phone messages regarding emergency school closings or critical information that must be communicated in a quick efficient manner.

2) ECONOMIC CONDITION AND OUTLOOK: The Upper Freehold Regional School District is comprised of the Borough of Allentown and Upper Freehold Township. The district is a receiving district for students from Millstone in grades 9 to 12.

The District has shown a minimal decline in enrollment over the past three (3) years. The District has continued to maintain programs and opportunities for its students despite the need to cut \$1.7 million dollars last year to be fully compliant with the 2% CAP restrictions. Despite these economic obstacles the District is committed to its curriculum. The District worked with a demographer to attempt to forecast future growth in the Township. That study showed that our enrollment is stable and we will not see a significant enrollment increase in the near future. Concerns about over-crowding have been eased with the opening of the Stonebridge Middle School in 2010. The Board has agreed to honor the State of New Jersey option of a 2% tax levy cap, as noted above, which eliminates the requirement for a vote of the Upper Freehold and Allentown communities to approve the proposed budget.

3) MAJOR INITIATIVES: The District continues to develop and implement annual board goals, which are drawn from their 2013-2018 Strategic Plan. The following are the major goals and initiatives of the District as we move forward:

- Expand the availability of laptop chromebooks so that all children in Grades 3 – 12 have a personal laptop as of the first day of the 2017-2018 school year.
- Newell Elementary School students participated in the National Hour of Code using their programming skills to create computer generated games.
- Newell Elementary School students participated in Scholastics Summer Reading Challenge and placed 1st in New Jersey and 7th in the world.
- Newell Elementary School continued to implement Tools of the Mind curriculum on all of our PreK classes.
- Newell Elementary School continued their goggle initiative for all staff.
- Newell Elementary School will introduce this school year the use of Foss Labs to implement Next Generation Science Standards.
- Newell Elementary School participated in Read Across America Day with illustrator Michael Dooling.
- The district will enhance and support appropriating funds for certified teachers of students with disabilities to support in class inclusion and resource room learning environments.
- A STEAM (Science, Technology, Engineering, Arts and Math) lab for students in Grades 3 and 4 so they can have real world hands on learning experiences.
- Enhance and support differentiated instruction at all grade levels and with all building administrators.
- Offer critical number of electives and exploratories at the middle school level to expand options for learning and to offer depth to the curriculum.
- Expand the K-12 G&T program offerings and the identification of qualified students interested in challenging themselves academically.
- Recommend enhancements in the Health/PE program that will ensure compliance with state standards and mandates and that promote a lifetime focus on wellness.
- Monitor the continued increase in the percentage of students successfully completing higher-level math courses at the middle and high school levels.
- Higher performance in reading and writing for all students, Pre-K-12.
- Enhance support for students with individualized education plans.
- Focus on the use of data to personalize instruction.

- Training of over 25 staff member in the past two years on Orton Gillingham to address dyslexia and other struggling readers.
- Continue to refine our use of technology using Google Applications for Education.
- Positively impact student achievement in all subjects through the use of curriculum-driven technology, including smart boards, wikis, blogging software simulations and our Chormebook one to one computer initiative.
- Focus on the full range of needs identified in the Upper Freehold Regional School District 2013-2018 Strategic Plan.
- The expansion of co-curricular, extra-curricular, and student activities for all students in grades Pre K-12.
- The NES teachers were trained in enhancing their skills in the following areas:
 - Teaching students with Dyslexia
 - The identification of students with Dyslexia
 - The use of Orton Gillingham instructional strategies for teachers at each grade level
 - The implementation of mindfulness practices in all grade levels Pre-K – 4
- The students grades K-4 were introduced to options in “maker space”.
- Maintain a healthy and safe school environment for faculty, staff and students..
- Develop a staffing plan that aligns staffing needs with student enrollment, new course development, and the expansion of program options in all schools.
- Continue to provide effective communication with parents and community members.
- Identify students and families served by the Upper Freehold Regional School District in need of support.
- Continue to offer service learning projects for all grade levels and school organizations.
- Continue to expand the number of AP Courses offered at Allentown High School.
- Continue to promote participation in the Allentown High School CHOICE Academies by resident and CHOICE students.
- Expand the use of volunteers from the community.
- Promote greater understanding related to our commitment to promoting diversity.
- Continue to facilitate full implementation of our HIB program throughout the district.
- Continue to provide communication about learning goals and curriculum connections with the Millstone School District.
- Introduce I Ready assessments as the basis for making decisions about curriculum, instructional materials, and teaching techniques.
- Support the PTA in their efforts to offer numerous school activities, including educational assemblies, book fairs, family nights, as well as content based activities in the sciences, social studies, and humanities.
- Promote community members and school staff to work together to advance excellence in the instruction of talented youth.
- Fund both Math and Writing Labs at the high school to reinforce writing and math skills.
- Provide training for teachers to infuse information literacy and career awareness into the curriculum.
- Promote Character Education Programs that develop Cooperation, Assertiveness, Respect/Responsibility and traits that build Empathy, and Self-Control at all levels.
- Support the Upper Freehold Regional School District Comprehensive Five-Year Technology Plan.
- Offer special education inclusion services throughout the district.
- Expand TV production electives at AHS taught by highly trained instructors.
- Use curriculum maps for all areas of study.
- Support the Child Watch program to offer an extended program for child care.
- Recognize the AHS Student Council for being the #1 high school in the state contributing to the State Student Council Charity. (over \$10,000 annually)

- Support the Redbird Robotics team for their success in winning the state championship and for moving on to competing at the international level.

4) INTERNAL ACCOUNTING CONTROLS: Management of the District is responsible for establishing and maintaining an internal control system designed to ensure that the assets of the District are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal and state awards, the District also is responsible for ensuring that an adequate internal control system is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control system is also subject to periodic evaluation by the District's management.

As part of the District's single audit described earlier, tests are made to determine the adequacy of the internal control, including that portion related to major federal and state award programs, as well as to determine that the District has complied with applicable laws, regulations, contracts and grants.

5) BUDGETARY CONTROLS: In addition to internal accounting controls, the District maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the voters of the municipality. Annual appropriated budgets are adopted for the general fund, the special revenue fund and the debt service fund. Project length budgets are approved for the capital improvements accounted for in the capital projects fund. The final budget amount as amended for the fiscal year is reflected in the financial section.

An encumbrance accounting system is used to record outstanding purchase commitments on a line item basis. Open encumbrances at year-end are either canceled or are included as reappropriations of fund balance in the subsequent year. Those amounts to be reappropriated are reported as reservations of fund balance at June 30, 2017.

6) ACCOUNTING SYSTEM AND REPORTS: The District's accounting records reflect generally accepted accounting principles, as promulgated by the GASB. The accounting system of the District is organized on the basis of funds. These funds are explained in "Notes to the Basic Financial Statements", Note 1.

7) DEBT ADMINISTRATION: The District retired \$1,755,000 in bond principal. At June 30, 2017, the District had \$47,755,000 of outstanding bonds payable. Detail regarding the District's outstanding bond issues is on Exhibit I-1.

8) CASH MANAGEMENT: The investment policy of the District is guided in large part by state statute as detailed in "Notes to the Basic Financial Statements", Note 2. The District has adopted a cash management plan which 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. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

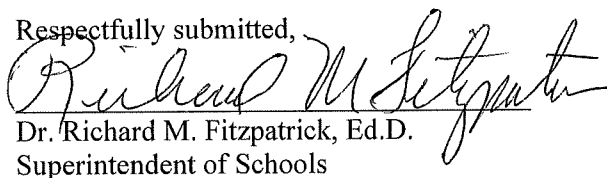
9) RISK MANAGEMENT: The Board carries various forms of insurance, including, but not limited to, general liability, excess liability, automobile liability and comprehensive/collision, hazard and theft insurance on property and contents, and fidelity bonds. A schedule of insurance coverage is found on Exhibit J-20.

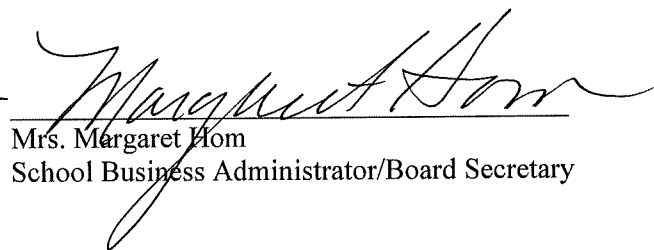
The District is a member of the School Alliance Insurance Fund (the "Fund"). The Fund is a risk-sharing public entity risk pool that is both an insured and self-administered group of school districts established for the purpose of providing low-cost insurance coverage to its members. Additional information on the Fund is included in Note 11 to the Basic Financial Statements.

10) OTHER INFORMATION: Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Holman Frenia Allison, P.C., was selected by the Board of Education at its last organization meeting. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Single Audit Act Amendments of 1996 and the related Federal OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and New Jersey OMB Circular NJOMB 04-04 and/ or 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. The auditors' report on the basic financial statements and specific required supplementary information is included in the financial section of this report. The auditors' reports related specifically to the single audit are included in the single audit section of this report.

11) ACKNOWLEDGMENTS: We would like to express our appreciation to the members of the Upper Freehold Regional School District Board of Education for their concern in providing fiscal accountability to the citizens and taxpayers of the school district and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our business office staff.

Respectfully submitted,


Dr. Richard M. Fitzpatrick, Ed.D.
Superintendent of Schools


Mrs. Margaret Hom
School Business Administrator/Board Secretary

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
ALLENTOWN, NEW JERSEY**

ROSTER OF OFFICIALS

JUNE 30, 2017

| MEMBERS OF THE BOARD OF EDUCATION | TERM EXPIRES |
|--|---------------------|
| Patricia Hogan, President | 2019 |
| Richard Smith, Vice President | 2018 |
| Howard Krieger | 2018 |
| Tia McLaughlin | 2019 |
| Billy Hanson | 2017 |
| Patrick Nolan | 2017 |
| Timothy Stolzenberger | 2017 |
| Kurt Wayton | 2017 |
| Michele Anthony | 2018 |
| Lara Michaud | 2019 |

OTHER OFFICIALS

Richard M. Fitzpatrick, ED.D., Superintendent of Schools

Margaret Hom, MSBA, School Business Administrator/Board Secretary

Stephen R. Fogarty, Esq., Board Attorney

**UPPER FREEHOLD COUNTY REGIONAL SCHOOL DISTRICT
ALLENTOWN, NEW JERSEY**

CONSULTANTS AND ADVISORS

AUDIT FIRM

Rodney R. Haines, CPA, PSA, RMA
Holman Frenia Allison, P. C.
680 Hooper Ave, Bldg B, Suite 201
Toms River, New Jersey 08753

ATTORNEY

Fogarty & Hara
Counsellors at Law
21-00 Route 208 South
Fair Lawn, New Jersey 07410

OFFICIAL DEPOSITORY

TD Bank
1701 Route 70 East
Cherry Hill, NJ 08003

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
Upper Freehold Regional School District
County of Monmouth
Allentown, New Jersey 08501

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, the business-type activities, each major fund and the aggregate remaining fund information of the Upper Freehold Regional School District, County of Monmouth, State of New Jersey, as of June 30, 2017, 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's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Upper Freehold Regional School District's basic financial statements. The introductory section is presented for purposes of additional analysis, as required by the Division of Administration and Finance, Department of Education, State of New Jersey, and is not a required part of the basic financial statements.

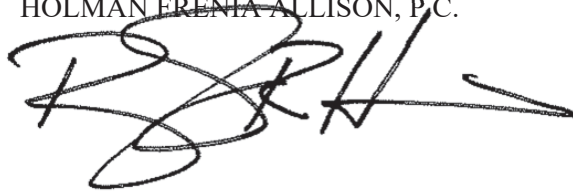
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2017 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

Respectfully Submitted,

HOLMAN ERENIA ALLISON, P.C.

A handwritten signature in black ink, appearing to read 'R. Haines', with a stylized flourish at the end.

Rodney R. Haines
Certified Public Accountant
Public School Accountant, No.2198

Toms River, New Jersey
November 2, 2017

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

Honorable President and Members
of the Board of Education
Upper Freehold Regional School District
County of Monmouth
Allentown, New Jersey 08501

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Upper Freehold Regional School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Upper Freehold Regional School District's basic financial statements, and have issued our report thereon dated November 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Upper Freehold Regional School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Upper Freehold Regional School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Upper Freehold Regional School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey, and federal and state awarding agencies and pass-through entities, in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

HOLMAN FRENIA ALLISON, P.C.

A handwritten signature in black ink, appearing to read 'R. Haines', with a long horizontal stroke extending to the right.

Rodney R. Haines
Certified Public Accountant
Public School Accountant, No. 2198

Toms River, New Jersey
November 2, 2017

REQUIRED SUPPLEMENTARY INFORMATION - PART I

Management's Discussion and Analysis

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UPPER FREEHOLD REGIONAL SCHOOL DISTRICT

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2017

UNAUDITED

This section of Upper Freehold Regional School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the transmittal letter at the front of this report and the District's basic financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 - *Basic Financial Statements- and Management's Discussion and Analysis for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for the 2016-2017 fiscal year include the following:

- ◆ General revenues accounted for \$31,386,134 of all revenues. Specific revenues in the form of charges for services, operating grants & contributions accounted for \$21,428,197 to total revenues of \$ 52,814,331.
- ◆ The school district had \$53,269,447 in expenses; \$21,428,197 of these expenses were offset by program specific charges for services, grants or contributions.
- ◆ Total Net Position of governmental activities was \$3,421,147. Net Position decreased by \$455,116 from July 1, 2016 to June 30, 2017.
- ◆ The General Fund fund balance at June 30, 2017 is \$2,686,752, an increase of \$554,800 when compared with the beginning balance at July 1, 2016 of \$2,131,952.

Using this Comprehensive Annual Financial Report (CAFR)

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

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the Upper Freehold Regional School District.

- ◆ The first two statements are district-wide financial statements that provide both short-term and long-term information about the District’s overall financial status.
- ◆ The remaining statements are fund financial statements that focus on individual parts of the District, reporting the Upper Freehold Regional School District’s operation in more detail than the District-wide statements.
- ◆ The governmental funds statements tell how basic services such as regular and special education were financed in short term as well as what remains for future spending.
- ◆ Proprietary fund statements offer short-term and long-term financial information about the activities that the Upper Freehold Regional School District operates like businesses.
- ◆ Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a 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. In the case of Upper Freehold Regional School District, the General Fund is by far the most significant fund.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-1 summarizes the major features of the Upper Freehold Regional School District financial statements, including the portion of the District activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

| Figure A-1 Major Features of the District-Wide and Fund Financial Statements | | | |
|--|--|--|--|
| | District-wide Statements | Fund Financial Statements | |
| | | Governmental Funds | Proprietary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses: Food service fund; Kindergarten Complement program |
| Required financial statements | Statement of Net Assets | Balance sheet | Statement of Net Position |
| | Statement of Activities | Statement of revenue, expenditures and changes in fund balance | Statement of revenue, expenses and changes in fund Net Position |

| | | | |
|--|--|---|---|
| | | | Statement of cash flows |
| Accounting Basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual account and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets excepted to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, and short-term and long-term |
| Type of inflow/out flow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All revenues and expenses during the year, regardless of when cash is received or paid. |

District Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by 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. The Statement of Net Position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The District-wide statements report the School District’s *Net Assets* and how they have changed. Net Assets – the difference between the District’s assets and liabilities, is one way to measure the District’s financial health or position. Over time, increases or decreases in the District’s Net Assets are an indicator of whether its financial position is improving or deteriorating, respectively. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the School District’s property tax base, current laws in New Jersey restricting revenue growth, facility condition, required educational programs and other factors.

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

- ◆ Governmental activities – All of the School District’s programs and services are reported here including, but not limited to, instruction, support services, operation and maintenance of plant facilities, pupil transportation, extracurricular activities, and administration. Aids from the State of New Jersey and from the Federal government along with local Property taxes finances most of these activities.
- ◆ Business-type activities – The District charges fees to help cover the costs of certain services it provides. The District’s Food Service, Child Watch, and Kindergarten Complement programs are reported here.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or “major” funds – not the District as a whole. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major funds are the General Fund, Special Revenue Fund, Capital Projects Fund and Debt Service Fund. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- ◆ Some funds are required by State law and by bond covenants.
- ◆ The District uses other funds, established in accordance with the State of New Jersey Uniform Chart, to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal funds).

The District has three kinds of funds:

- ◆ Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- ◆ Proprietary funds - Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
- ◆ Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary Net Position and a statement of changes in fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the basic financial statements can be found immediately following the fund financial statements.

Financial Analysis of the Upper Freehold Regional School District

Net Position - Table A-1 provides a summary of the School District's Net Position for 2017. The District's Net Position for governmental activities was \$3,421,147 on June 30, 2017.

| | |
|--------------------------------------|--------------|
| Current and Other Assets | \$ 3,313,720 |
| Capital Assets | 62,713,136 |
| Total Assets | 66,026,856 |
| Deferred Outflow of Resources | 5,327,395 |
| Deferred Charge on Refunding of Debt | 2,863,213 |
| Total Deferred Outflow of Resources | 8,190,608 |
| Long-Term Liabilities | 68,233,057 |
| Other Liabilities | 1,888,656 |
| Total Liabilities | 70,121,713 |
| Deferred Inflows Related to Pensions | 674,604 |
| Total Deferred Inflow of Resources | 674,604 |
| Net Assets | |
| Net Investment in Capital Assets | 11,295,426 |
| Restricted | 2,471,158 |
| Unrestricted | (10,345,437) |
| Total Net Position | \$ 3,421,147 |

Changes in Net Assets - Table A-2 shows the changes in Net Position from fiscal year 2016 to fiscal year 2017.

Table A-2
Upper Freehold Regional School District
Change in Governmental Net Assets
For the year ended June 30, 2017

| Revenues | <u>June 30, 2017</u> |
|---|-----------------------------|
| Program revenues | |
| Charges for services | \$ 8,772,931 |
| Operating grants and contributions | 12,655,266 |
| General revenues | |
| Property taxes | 25,194,058 |
| State and Federal Aid | 5,822,621 |
| Other charges | 369,455 |
| Total revenues | <u>\$ 52,814,331</u> |
| | |
| Expenses | |
| Governmental Activities: | |
| Instruction: | |
| Regular | \$ 10,588,673 |
| Special Education | 4,373,932 |
| Other Special Instruction | 480,675 |
| Other Instruction | 867,691 |
| Support Services: | |
| Tuition | 850,494 |
| Attendance & Social Work Services | 88,776 |
| Health Services | 278,770 |
| Student & Instruction Related Services | 3,482,704 |
| Educational Media Services/School Library | 555,098 |
| Instruction Staff Training | 47,172 |
| School Administrative Services | 1,366,974 |
| Central Services | 440,249 |
| Administrative Information Technology | 111,581 |
| Other Administrative Services | 633,000 |
| Plant Operations and Maintenance | 2,998,292 |
| Pupil Transportation | 2,012,824 |
| Unallocated Benefits & Depreciation | 19,812,922 |
| Interest and Cost on Long-Term Debt | 2,240,071 |
| Unallocated Depreciation | 2,162,437 |
| Unallocated Adjustment to Capital Assets | <u>(122,888)</u> |
| Total Governmental Activities | <u>53,269,447</u> |
| Net Increase (Decrease) in Net Position | <u>\$ (455,116)</u> |

Governmental Activities

The unique nature of property taxes in New Jersey creates legal requirements to annually seek voter approval for the School District operations prior to 2017. Per legislation enacted in 2012, the Board Of Education approved the move of the school election to November. This eliminated the requirement for voter approval on the budget if the proposed tax levy increase does not exceed 2%. The District's total revenues were \$52,814,331. Property taxes made up 47.7% of revenues for governmental activities for the Upper Freehold Regional School District for fiscal year 2017. Federal, state and local grants accounted for another 11.02% of revenue, and Miscellaneous revenue was 0.70%. Instruction not including allocated benefits comprises 48.75% of District expenses.

Total expenses exceeded revenues, decreasing Net Position by \$455,116 from the beginning balance at July 1, 2016.

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

Curriculum and staff development includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

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

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for students to participate in school events, public events or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involve the transactions associated with the payment of interest and other related charges to debt of the School District. Other includes unallocated depreciation and amortization.

Business-Type Activities

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

- Food service expenses exceeded revenues by \$38,477.
- Charges for services, which are amounts paid by patrons for daily food services, represent \$556,205 of total revenue.

- Federal and state reimbursements for meals, including for free and reduced lunches and donated commodities were \$78,535.

The School District's Funds (Source B-2)

All governmental funds (i.e., general fund, special revenue fund, capital projects fund and debt service fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. Total revenues amounted to \$45,346,879 and expenditures were \$45,306,115. Other financing sources were \$461,424. The net change in fund balance for the year was an increase of \$502,188.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from grade Pre-K through grade 12 including pupil transportation activities and capital outlay projects. The following table A-3 presents a summary of General Fund Revenues. The summary reflects the dollar and percent increase (decrease) from the prior year.

| Table A-3 | | | | |
|---|-----------------------------|-----------------------------|-------------------------------------|-----------------------------------|
| Summary of General Fund Revenues | | | | |
| For the Year Ended June 30, 2017 | | | | |
| | Year Ended June 30, 2017 | Year Ended June 30, 2016 | Amount of Increase (Decrease) | Percent Increase (Decrease) |
| REVENUES | | | | |
| Local sources: | | | | |
| Local tax levy | \$ 21,573,349 | \$ 20,937,139 | \$ 636,210 | 3.0% |
| Tuition | 8,690,154 | 8,386,715 | 303,439 | 3.6% |
| Transportation | 82,777 | 62,704 | 20,073 | 32.0% |
| Miscellaneous | 319,620 | 251,159 | 68,461 | 27.3% |
| Total - Local Sources | <u>30,665,900</u> | <u>29,637,717</u> | <u>(1,028,183)</u> | |
| Federal Sources | 10,402 | - | 10,402 | 100.0% |
| State Sources | <u>10,353,202</u> | <u>9,831,660</u> | <u>521,542</u> | 5.3% |
| Total - Govt Sources | <u>10,363,604</u> | <u>9,831,660</u> | <u>531,944</u> | |
| Other Financing Sources: | | | | |
| Capital Lease | 279,000 | 256,000 | 23,000 | 9.0% |
| Cancellation of Prior Years | | | | |
| Accounts Payable | 28,841 | 58,909 | (30,068) | 100.0% |
| Total Other Financing Sources | <u>307,841</u> | <u>314,909</u> | <u>(7,068)</u> | |
| Total Revenues | <u>\$ 41,337,345</u> | <u>\$ 39,784,286</u> | <u>\$ 1,553,059</u> | |

The primary source of funding for the District is received from local tax levy that accounted for 52.19% of total revenues. State aid accounted for 25.05% of total revenues.

The following table A-4 presents a summary of General Fund expenditures. The summary reflects the dollar and percent increases from the prior year.

| | Year Ended June 30, 2017 | Year Ended June 30, 2016 | Amount of Increase/ (Decrease) | Percent Increase/ (Decrease) |
|---|-------------------------------------|-------------------------------------|---|---|
| Current: | | | | |
| Regular Instruction | \$ 10,588,673 | \$ 11,072,993 | \$ (484,320) | -4.37% |
| Special Education Instruction | 3,850,308 | 3,844,742 | 5,566 | 0.14% |
| Other Instruction | 1,348,366 | 657,355 | 691,011 | 105.12% |
| Support Services and Undistributed Costs: | | | | |
| Tuition | 850,494 | 967,648 | (117,154) | -12.11% |
| Attendance | 88,776 | 76,783 | 11,993 | 15.62% |
| Health Services | 278,770 | 277,086 | 1,684 | 0.61% |
| Student & Instruction Related Services | 3,410,822 | 3,496,894 | (86,072) | -2.46% |
| Educational Media Services/School Library | 555,098 | 573,133 | (18,035) | -3.15% |
| Instructional Staff Training | 47,172 | 59,412 | (12,240) | -20.60% |
| School Administrative Services | 1,366,974 | 1,350,947 | 16,027 | 1.19% |
| Central Services | 440,249 | 425,397 | 14,852 | 3.49% |
| Administrative Information Technology | 111,581 | 104,202 | 7,379 | 7.08% |
| Other Administrative Services | 633,000 | 498,276 | 134,724 | 27.04% |
| Plant Operations and Maintenance | 3,266,559 | 3,124,092 | 142,467 | 4.56% |
| Pupil Transportation | 2,012,824 | 1,925,126 | 87,698 | 4.56% |
| Employee Benefits | 11,282,282 | 10,633,164 | 649,118 | 6.10% |
| Capital Outlay | 650,597 | 638,522 | 12,075 | 1.89% |
| Total Expenditures | \$ 40,782,545 | \$ 39,725,772 | \$ 1,056,773 | 2.66% |

Total General Fund expenditures increased \$1,056,773 or 2.66% from the previous year.

The Upper Freehold Regional School District values its fund balances as a vehicle for addressing unbudgeted and emergent needs that occur during school year. The amounts of fund balance designated to support the subsequent year's budgets were \$160,000 for the 2017-2018 school year.

General Fund Budgetary Highlights

The School District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on a basis of modified accrual and encumbrance accounting. The most significant budgeted fund is the General Fund.

The District's final budget for the general fund anticipated that expenditures would exceed revenues by the amount of budgeted fund balance. The results for the year show a decrease in expenditures against appropriations.

Debt Service Fund

The current year obligations for payment of debt service principal and interest amounted to \$3,928,064. \$3,620,709 in funding was provided by from the local tax levy, \$0.00 was from miscellaneous revenue and \$101,160 was received as aid from the state. There was a bond refunding which created proceeds of \$9,915,072 but there was a deposit made with an escrow agent of \$9,761,489. This decreased the fund balance by \$52,612.

Enterprise Funds

The Food Service Fund had Net Position of \$280,276 at June 30, 2017. This reflects a decrease of \$38,477 from the prior year's Net Position.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017, the District had capital assets with a book value of \$62,713,136. This consists of a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-5.) Total depreciation expense for the year was \$ 2,162,437.

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Building & Bldg Improvements | \$ 79,097,459 | \$ 78,926,696 |
| Machinery and Equipment | 4,483,618 | 4,204,618 |
| Land | 5,419,448 | 5,419,448 |
| Total Capital Assets | <u>89,000,525</u> | <u>88,550,762</u> |
| Less: Accumulated Depreciation | <u>(26,287,389)</u> | <u>(24,283,732)</u> |
| Net Capital Assets | <u>\$ 62,713,136</u> | <u>\$ 64,267,030</u> |

Long-Term Obligations

At June 30, 2017, the School District had \$68,233,057 in outstanding debt. Of this amount, \$47,755,000 is for bonds and \$572,119 is for capital leases.

At year-end, the District had \$47,755,000 in general obligation bonds, a decrease of \$1,655,000 from last year – as shown in Table A-6.

The District also has a \$523,364 liability for compensated absences. This liability represents the District's contractual obligation to compensation employees for accumulated unused sick leave entitlements upon retirement.

Table A-6
Upper Freehold Regional School District
Long Term Debt Schedule

| Governmental Activity | balance at June 30, 2017 | balance at June 30, 2016 | increase/ (Decrease) | % Chg |
|----------------------------------|---|---|---------------------------------|------------------|
| General Obligation Bonds Payable | \$ 47,755,000 | \$ 49,410,000 | \$ (1,655,000.00) | -3.3% |
| Capital Lease Payable | 572,119 | 561,386 | \$ 10,733.00 | 1.9% |
| Compensated Absences | 523,364 | 477,580 | \$ 45,784.00 | 9.6% |
| Bond premium | 2,960,971 | 3,098,277 | \$ (137,306.00) | -4.4% |
| Net Pension Liability | 16,421,603 | 13,115,886 | 3,305,717 | 25.2% |
| TOTAL | \$ 68,233,057 | \$ 66,663,129 | \$ 1,569,928 | 2.36% |

For the Future

The Upper Freehold Regional School District is in good financial condition presently. However the district, along with many other public school districts in the state, faces a difficult financial future since the primary sources of funding are property tax revenue and state aid. As a result, the financial well being of the District is tied in large measure to the actions of the state legislature. Significant cuts in state funding and/or restrictions on the growth rate of the local property tax levy could have a substantial impact on the District's programs and services. The growth rate on local property taxes was capped at 2% beginning with the 2011-2012 school year.

In conclusion, the Upper Freehold Regional School District has committed itself to financial excellence for many years. The School District's system for financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management practices to meet the challenges of the future.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Margaret Hom, Secretary to the Board of Education and School Business Administrator at Upper Freehold Regional School District, 27 High Street, Allentown, NJ 08501 or e-mail homp@ufrsd.net.

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BASIC FINANCIAL STATEMENTS

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A. Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District. These Statements include the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These Statements distinguish between the governmental and business-type activities of the District.

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UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2017

| ASSETS | GOVERNMENTAL ACTIVITIES | BUSINESS- TYPE ACTIVITIES | TOTAL |
|--|----------------------------|---------------------------------|---------------------|
| Cash & Cash Equivalents | \$ 2,978,533 | \$ 315,829 | \$ 3,294,362 |
| Receivables, Net (See Note 4) | 335,187 | 12,672 | 347,859 |
| Inventory | - | 5,900 | 5,900 |
| Capital Assets, Net (Note 5) | | | |
| Non-depreciable | 5,419,448 | - | 5,419,448 |
| Depreciable | 57,293,688 | 325,743 | 57,619,431 |
| Total Assets | 66,026,856 | 660,144 | 66,687,000 |
| DEFERRED OUTFLOW OF RESOURCES | | | |
| Deferred Outflows Related to Pensions | 5,327,395 | - | 5,327,395 |
| Deferred Charge on Refunding of Debt | 2,863,213 | - | 2,863,213 |
| Total Deferred Outflow of Resources | 8,190,608 | - | 8,190,608 |
| Total Assets and Deferred Outflow of Resources | 74,217,464 | 660,144 | 74,877,608 |
| LIABILITIES | | | |
| Accounts Payable | 461,067 | 31,210 | 492,277 |
| Due to Other Governments | 502,438 | - | 502,438 |
| Accrued Interest Expense | 772,827 | 51 | 772,878 |
| Intergovernmental Payable | 9,533 | - | 9,533 |
| Unearned Revenue | 142,791 | 15,400 | 158,191 |
| Noncurrent Liabilities (Note 7): | | | |
| Due Within One Year | 2,276,823 | | 2,276,823 |
| Due Beyond One Year | 65,956,234 | 45,836 | 66,002,070 |
| Total Liabilities | 70,121,713 | 92,497 | 70,214,210 |
| DEFERRED INFLOW OF RESOURCES | | | |
| Deferred Inflows Related to Pensions | 674,604 | - | 674,604 |
| Total Deferred Inflow of Resources | 674,604 | - | 674,604 |
| Total Liabilities and Deferred Inflows of Resources | 70,796,317 | 92,497 | 70,888,814 |
| NET POSITION | | | |
| Net Investment in Capital Assets | 5,875,978 | 279,907 | 6,155,885 |
| Restricted For: | | | |
| Other Purposes | 2,471,158 | - | 2,471,158 |
| Unrestricted | (4,925,989) | 287,740 | (4,638,249) |
| Total Net Position | \$ 3,421,147 | \$ 567,647 | \$ 3,988,794 |

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

| FUNCTIONS/PROGRAMS | PROGRAM REVENUES | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | | |
|---|----------------------|----------------------|--|-------------------------|--------------------------|---------------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS & CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS-TYPE ACTIVITIES | TOTAL |
| Governmental Activities: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 10,588,673 | \$ 8,690,154 | \$ - | \$ (1,898,519) | \$ - | \$ (1,898,519) |
| Special Education | 4,373,932 | - | 523,624 | (3,850,308) | - | (3,850,308) |
| Other Special Instruction | 480,675 | - | - | (480,675) | - | (480,675) |
| Other Instruction | 867,691 | - | - | (867,691) | - | (867,691) |
| Support Services & Undistributed Costs: | | | | | | |
| Tuition | 850,494 | - | - | (850,494) | - | (850,494) |
| Attendance & Social Work Services | 88,776 | - | - | (88,776) | - | (88,776) |
| Health Services | 278,770 | - | - | (278,770) | - | (278,770) |
| Student & Instruction Related Services | 3,482,704 | - | 71,882 | (3,410,822) | - | (3,410,822) |
| Educational Media Services/School Library | 555,098 | - | - | (555,098) | - | (555,098) |
| Instructional Staff Training | 47,172 | - | - | (47,172) | - | (47,172) |
| School Administrative Services | 1,366,974 | - | - | (1,366,974) | - | (1,366,974) |
| Central Services | 440,249 | - | - | (440,249) | - | (440,249) |
| Administrative Information Technology | 111,581 | - | - | (111,581) | - | (111,581) |
| Other Administrative Services | 633,000 | - | - | (633,000) | - | (633,000) |
| Plant Operations & Maintenance | 2,998,292 | - | - | (2,998,292) | - | (2,998,292) |
| Pupil Transportation | 2,012,824 | 82,777 | - | (1,930,047) | - | (1,930,047) |
| Unallocated Benefits | 19,812,922 | - | 11,958,600 | (7,854,322) | - | (7,854,322) |
| Interest and cost on Long-Term Debt | 2,240,071 | - | 101,160 | (2,138,911) | - | (2,138,911) |
| Unallocated Depreciation | 2,162,437 | - | - | (2,162,437) | - | (2,162,437) |
| Unallocated Adjustment to Capital Assets | (122,888) | - | - | 122,888 | - | 122,888 |
| Total Governmental Activities | 53,269,447 | 8,772,931 | 12,655,266 | (31,841,250) | - | (31,841,250) |
| Business-Type Activities: | | | | | | |
| Food Service | 676,715 | 556,205 | 78,535 | - | (41,975) | (41,975) |
| Child Watch Program | 224,952 | 239,533 | - | - | 14,581 | 14,581 |
| Kindergarten Complement | 157,548 | 158,630 | - | - | 1,082 | 1,082 |
| AHS Summer Programs | 11,545 | 20,580 | - | - | 9,035 | 9,035 |
| Total Business-Type Activities | 1,070,760 | 974,948 | 78,535 | - | (17,277) | (17,277) |
| Total Primary Government | \$ 54,340,207 | \$ 9,747,879 | \$ 12,733,801 | (31,841,250) | (17,277) | (31,858,527) |

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES CHARGES FOR SERVICES | OPERATING GRANTS & CONTRIBUTIONS | GOVERNMENTAL ACTIVITIES | BUSINESS- TYPE ACTIVITIES | TOTAL |
|--|----------|--|--|--|---------------------------------|--------------|
| | | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS | | |
| General Revenues: | | | | | | |
| Taxes: | | | | | | |
| Property Taxes, Levied for General Purposes, Net | | | | 21,573,349 | - | 21,573,349 |
| Taxes Levied for Debt Service | | | | 3,620,709 | - | 3,620,709 |
| Federal & State Aid Not Restricted | | | | 5,822,621 | - | 5,822,621 |
| Adjustment to Capital Assets | | | | - | - | - |
| Miscellaneous Income | | | | 369,455 | 3,498 | 372,953 |
| | | | | 31,386,134 | 3,498 | 31,389,632 |
| Total General Revenues, Special Items, Extraordinary Items & Transfers | | | | (455,116) | (13,779) | (468,895) |
| Change In Net Position | | | | 3,876,263 | 581,426 | 4,457,689 |
| Net Position - Beginning | | | | \$ 3,421,147 | \$ 567,647 | \$ 3,988,794 |
| Net Position - Ending | | | | \$ 3,421,147 | \$ 567,647 | \$ 3,988,794 |

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B. Fund Financial Statements

The Individual Fund statements and schedules present more detailed information for the individual fund in a format that segregates information by fund type.

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Governmental Funds

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**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2017**

| ASSETS & OTHER DEBITS | GENERAL FUND | SPECIAL REVENUE FUND | DEBT SERVICE FUND | TOTAL GOVERNMENTAL FUNDS |
|--|---------------------|----------------------------|-------------------------|--------------------------------|
| Cash & Cash Equivalents | \$ 2,932,170 | \$ 32,786 | \$ 13,577 | \$ 2,978,533 |
| Accounts Receivable: | | | | |
| Federal Aid | - | 37,185 | - | 37,185 |
| State Aid | 243,006 | - | - | 243,006 |
| Interfund | 8,000 | - | - | 8,000 |
| Other | 41,830 | 5,166 | - | 46,996 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Assets | <u>\$ 3,225,006</u> | <u>\$ 75,137</u> | <u>\$ 13,577</u> | <u>\$ 3,313,720</u> |
| | | | | |
| LIABILITIES & FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ 445,773 | \$ 15,294 | \$ - | \$ 461,067 |
| Intergovernmental Payable: | | | | |
| State | - | 9,533 | - | 9,533 |
| Unearned Revenue | 92,481 | 50,310 | - | 142,791 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Liabilities | 538,254 | 75,137 | - | 613,391 |
| | | | | |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Capital Reserve Account | 888,360 | - | - | 888,360 |
| Maintenance Reserve Account | 390,000 | - | - | 390,000 |
| Emergency Reserve Account | 300,000 | - | - | 300,000 |
| Tuition Reserve Account | 200,000 | - | - | 200,000 |
| Excess Surplus | 197,616 | - | - | 197,616 |
| Excess Surplus - Designated for Subsequent Year's Expenditures | 160,000 | - | - | 160,000 |
| Debt Service Fund | - | - | 13,577 | 13,577 |
| Committed to: | | | | |
| Other Purposes | 321,605 | - | - | 321,605 |
| Assigned to: | | | | |
| Designated for Subsequent Year's Expenditures | 47,862 | - | - | 47,862 |
| Unassigned Fund Balance | 181,309 | - | - | 181,309 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Fund Balances | 2,686,752 | - | 13,577 | 2,700,329 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total Liabilities & Fund Balances | <u>\$ 3,225,006</u> | <u>\$ 75,137</u> | <u>\$ 13,577</u> | |

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

| | |
|---|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$89,000,525 and the accumulated depreciation is \$26,287,389. | 62,713,136 |
| Deferred outflows and inflows of resources related to pensions and deferred charges or credits on debt refundings are applicable to future reporting periods and, therefore, are not reported in the funds. | 4,652,791 |
| Deferred charges on refunding of debt is not recorded in the fund financials but is recorded on the district-wide financials. | 2,863,213 |
| Accrued interest payable is not recorded in the fund financial Statements due to the fact that the payables are not due in the period. | (772,827) |
| Accrued pension contributions for the June 30, 2017 plan year are not paid with current economic resources and are therefore not reported as a liability in the funds, but are included in accounts payable in the government-wide statement of net position. | (502,438) |
| Long-term liabilities, including net pension liability, bonds payable, compensated absences payable, bond premium and capital leases are not due and payable in the current period and therefore are not reported as liabilities in the funds (See Illustrative Note 7) | <u>(68,233,057)</u> |
| Net Position of Governmental Activities | <u>\$ 3,421,147</u> |

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | GENERAL FUND | SPECIAL REVENUE FUND | DEBT SERVICE FUND | TOTAL GOVERNMENTAL FUNDS |
|---|---------------------|----------------------------|-------------------------|--------------------------------|
| Revenues: | | | | |
| Local Sources: | | | | |
| Local Tax Levy | \$ 21,573,349 | \$ - | \$ 3,620,709 | \$ 25,194,058 |
| Tuition | 8,690,154 | - | - | 8,690,154 |
| Transportation | 82,777 | - | - | 82,777 |
| Miscellaneous | 319,620 | 20,994 | - | 340,614 |
| Total Local Sources | 30,665,900 | 20,994 | 3,620,709 | 34,307,603 |
| State Sources | 10,353,202 | 26,651 | 101,160 | 10,481,013 |
| Federal Sources | 10,402 | 547,861 | - | 558,263 |
| Total Revenues | 41,029,504 | 595,506 | 3,721,869 | 45,346,879 |
| Expenditures: | | | | |
| Current Expense: | | | | |
| Regular Instruction | 10,588,673 | - | - | 10,588,673 |
| Special Education Instruction | 3,850,308 | 523,624 | - | 4,373,932 |
| Other Special Instruction | 480,675 | - | - | 480,675 |
| Other Instruction | 867,691 | - | - | 867,691 |
| Support Services: | | | | |
| Tuition | 850,494 | - | - | 850,494 |
| Attendance | 88,776 | - | - | 88,776 |
| Health Services | 278,770 | - | - | 278,770 |
| Student & Instruction Related Services | 3,410,822 | 71,882 | - | 3,482,704 |
| Educational Media Services/School | | | | |
| Library | 555,098 | - | - | 555,098 |
| Instructional Staff Training | 47,172 | - | - | 47,172 |
| School Administrative Services | 1,366,974 | - | - | 1,366,974 |
| Central Services | 440,249 | - | - | 440,249 |
| Administrative Information Technology | 111,581 | - | - | 111,581 |
| Other Administrative Services | 633,000 | - | - | 633,000 |
| Plant Operations & Maintenance | 3,266,559 | - | - | 3,266,559 |
| Pupil Transportation | 2,012,824 | - | - | 2,012,824 |
| Employee Benefits | 11,282,282 | - | - | 11,282,282 |
| Capital Outlay | 650,597 | - | - | 650,597 |
| Debt Service: | | | | |
| Principal | - | - | 1,755,000 | 1,755,000 |
| Interest & Other Charges | - | - | 2,173,064 | 2,173,064 |
| Total Expenditures | 40,782,545 | 595,506 | 3,928,064 | 45,306,115 |
| Excess/(Deficiency) of Revenues | | | | |
| Over/(Under) Expenditures | 246,959 | - | (206,195) | 40,764 |
| Other Financing Sources: | | | | |
| Refunding Bond Proceeds | - | - | 9,915,072 | 9,915,072 |
| Deposit with Escrow Agent | - | - | (9,761,489) | (9,761,489) |
| Capital Lease Proceeds (Nonbudgeted) | 279,000 | - | - | 279,000 |
| Cancellation of prior year accounts payable | 28,841 | - | - | 28,841 |
| Total Other Financing Sources | 307,841 | - | 153,583 | 461,424 |
| Excess/(Deficiency) of Revenues and | | | | |
| Other Financing Sources Over/(Under) | | | | |
| Expenditures and Other Financing Uses | 554,800 | - | (52,612) | 502,188 |
| Fund Balances July 1, | 2,131,952 | - | 66,189 | 2,198,141 |
| Fund Balances June 30, | \$ 2,686,752 | \$ - | \$ 13,577 | \$ 2,700,329 |

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

Total Net Change in Fund Balances - Governmental Funds (From B-2) \$ 502,188

Amounts reported for governmental activities in the statement of activities (A-2) are different because:

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

| | | |
|--|----------------|-------------|
| Depreciation Expense | (\$2,162,437) | |
| Adjustments due to revaluation of capital assets | 122,888 | |
| Capital Outlays | <u>485,655</u> | (1,553,894) |

Governmental funds report School District pension contributions as expenditures. However in the statement of activities, the cost of pension benefits earned is reported as pension expense. This is the amount by which pension benefits earned exceeded the School District's pension contributions in the current period.

| | | |
|--|--------------------|-------------|
| Pension Expense - PERS Contribution - 2017 | 492,577 | |
| Unfunded TPAF Pension Expense | 7,438,611 | |
| State Share of Unfunded TPAF Pension Expense | (7,438,611) | |
| Pension Expense | <u>(1,538,822)</u> | (1,046,245) |

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

1,755,000

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.

268,267

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

| | | |
|---------------------|-----------------|-------------|
| 2017 Bond Refunding | | |
| Bond Proceeds | (9,660,000) | |
| Premiums | <u>(90,072)</u> | (9,750,072) |

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

| | | |
|----------------------------------|------------------|-----------|
| Loss on Refunding Bonds Refunded | 201,489 | |
| | <u>9,560,000</u> | 9,761,489 |

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

| | | |
|--|----------------|-----------|
| Amortization of Loss on Early Retirement of Debt | (343,379) | |
| Amortization of Bond Premiums | <u>227,378</u> | (116,001) |

Interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due.

| | | |
|--------------|------------------|--------|
| Prior Year | 821,763 | |
| Current Year | <u>(772,827)</u> | 48,936 |

In the statement of activities, certain operating expenses, e.g. compensated expenses (vacation & sick time) 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 paid. When the paid amount exceeds the earned amount the difference is an addition to the reconciliation; when the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation.

| | | |
|--------------|------------------|----------|
| Prior Year | 477,580 | |
| Current Year | <u>(523,364)</u> | (45,784) |

Change in Net Position of Governmental Activities \$ (455,116)

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Proprietary Funds

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**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| ASSETS | BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS | | | | TOTAL BUSINESS-TYPE ACTIVITIES |
|------------------------------|---|----------------|----------------------------|------------------------|--------------------------------------|
| | FOOD SERVICE FUND | CHILD WATCH | KINDERGARTEN COMPLEMENT | AHS SUMMER PROGRAMS | |
| Current Assets: | | | | | |
| Cash & Cash Equivalents | \$ 22,190 | \$ 203,561 | \$ 52,619 | \$ 37,459 | \$ 315,829 |
| Cash with Fiscal Agent | | | | | |
| Accounts Receivable: | | | | | |
| State | 142 | - | - | - | 142 |
| Federal | 3,057 | - | - | - | 3,057 |
| Miscellaneous | 100 | - | 9,373 | - | 9,473 |
| Inventories | 5,900 | - | - | - | 5,900 |
| Total Current Assets | 31,389 | 203,561 | 61,992 | 37,459 | 334,401 |
| Capital Assets: | | | | | |
| Equipment | 714,115 | - | - | - | 714,115 |
| Accumulated Depreciation | (388,372) | - | - | - | (388,372) |
| Total Capital Assets | 325,743 | - | - | - | 325,743 |
| Total Assets | 357,132 | 203,561 | 61,992 | 37,459 | 660,144 |
| Current Liabilities: | | | | | |
| Accounts Payable | 30,969 | 161 | 80 | - | 31,210 |
| Unearned Revenue | - | - | 1,500 | 13,900 | 15,400 |
| Capital Lease Payable | 45,836 | - | - | - | 45,836 |
| Accrued interest payable | 51 | - | - | - | 51 |
| Total Current Liabilities | 76,856 | 161 | 1,580 | 13,900 | 92,497 |
| NET POSITION | | | | | |
| Investment in Capital Assets | 279,907 | - | - | - | 279,907 |
| Unreserved | 369 | 203,400 | 60,412 | 23,559 | 287,740 |
| Total Net Position | \$ 280,276 | \$ 203,400 | \$ 60,412 | \$ 23,559 | \$ 567,647 |

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS

| | FOOD SERVICE FUND | CHILD WATCH | KINDERGARTEN COMPLEMENT | AHS SUMMER PROGRAMS | TOTAL BUSINESS-TYPE ACTIVITIES |
|---|-------------------------|----------------|----------------------------|------------------------|--------------------------------------|
| Operating Revenue: | | | | | |
| Daily Sales - Reimbursable Programs: | | | | | |
| School Lunch Program | \$ 105,145 | \$ - | \$ - | \$ - | \$ 105,145 |
| Total - Daily Sales - Reimbursable Programs | 105,145 | - | - | - | 105,145 |
| Daily Sales Nonreimbursable Programs | 451,060 | - | - | - | 451,060 |
| Fees | - | 239,533 | 158,630 | 20,575 | 418,738 |
| Miscellaneous Income | 3,498 | - | - | 5 | 3,503 |
| Total Operating Revenue | 559,703 | 239,533 | 158,630 | 20,580 | 978,446 |
| Operating Expenses: | | | | | |
| Cost of Sales- Reimbursable Programs | 141,054 | - | - | - | 141,054 |
| Cost of Sales- Non-Reimbursable Programs | 144,455 | - | - | - | 144,455 |
| Salaries | 281,408 | 214,130 | 115,094 | 10,725 | 621,357 |
| Employee Benefits | - | - | 42,250 | 820 | 43,070 |
| Purchased Prof./Tech. Services | 53,620 | - | - | - | 53,620 |
| Purchased Property Services | - | - | - | - | - |
| Supplies and Materials | 15,651 | 5,833 | 204 | - | 21,688 |
| Depreciation | 39,370 | - | - | - | 39,370 |
| Miscellaneous | 1,157 | 4,989 | - | - | 6,146 |
| Bad Debt Expense | - | - | - | - | - |
| Total Operating Expenses | 676,715 | 224,952 | 157,548 | 11,545 | 1,070,760 |
| Operating (Loss)/Gain | (117,012) | 14,581 | 1,082 | 9,035 | (92,314) |
| Nonoperating Revenues: | | | | | |
| State Sources: | | | | | |
| State School Lunch Program | 2,032 | - | - | - | 2,032 |
| Federal Sources: | | | | | |
| National School Lunch Program | 42,768 | - | - | - | 42,768 |
| Food Distribution Program | 33,735 | - | - | - | 33,735 |
| Total Nonoperating Revenues | 78,535 | - | - | - | 78,535 |
| Change in Net Position | (38,477) | 14,581 | 1,082 | 9,035 | (13,779) |
| Net Position - July 1 (Unadjusted) | 318,753 | 188,819 | 59,330 | 14,524 | 566,902 |
| Prior Period Change in Net Position | - | - | - | - | - |
| Net Position - July 1 | 318,753 | 188,819 | 59,330 | 14,524 | 566,902 |
| Net Position - June 30 | \$ 280,276 | \$ 203,400 | \$ 60,412 | \$ 23,559 | \$ 553,123 |

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| | <u>BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS</u> | | | | TOTAL |
|---|--|----------------|----------------------------|------------------------|-----------------------------|
| | FOOD SERVICE FUND | CHILD WATCH | KINDERGARTEN COMPLEMENT | AHS SUMMER PROGRAMS | BUSINESS-TYPE ACTIVITIES |
| Cash Flows From Operating Activities: | | | | | |
| Receipts from Customers | \$ 559,703 | \$ 239,533 | \$ 168,847 | \$ 20,580 | \$ 988,663 |
| Payments to Employees | (281,408) | (181,317) | (115,094) | (10,725) | (588,544) |
| Payments to Suppliers | (287,248) | (43,474) | (54,804) | (6,803) | (392,329) |
| Net Cash Provided/(Used) by Operating Activities | (8,953) | 14,742 | (1,051) | 3,052 | 7,790 |
| Cash Flows From Capital & Related Financing Activities: | | | | | |
| (In)/Decrease In Capital Assets | - | - | - | - | - |
| Payment of Capital Lease | (23,445) | - | - | - | (23,445) |
| Net Cash Provided/(Used) by Capital & Related Financing Activities | (23,445) | - | - | - | (23,445) |
| Cash Flows From Noncapital Financing Activities: | | | | | |
| Cash Received From State & Federal Reimbursements | 44,117 | - | - | - | 44,117 |
| Net Cash Provided by Noncapital Financing Activities | 44,117 | - | - | - | 44,117 |
| Net Increase/(Decrease) in Cash & Cash Equivalents | 11,719 | 14,742 | (1,051) | 3,052 | 28,462 |
| Cash and Cash Equivalents, July 1 | 9,788 | 188,819 | 53,670 | 34,407 | 252,277 |
| Cash & Cash Equivalents, June 30 | \$ 21,507 | \$ 203,561 | \$ 52,619 | \$ 37,459 | \$ 280,739 |

RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH PROVIDED/(USED) BY OPERATING ACTIVITIES:

| | | | | | |
|---|-------------------|------------------|-------------------|-----------------|-----------------|
| Cash Provided/(Used) by Operating Activities: | | | | | |
| Operating Income/(Loss) | \$ (117,012) | \$ 14,581 | \$ 1,082 | \$ 9,035 | \$ (92,314) |
| Adjustments to Reconcile Operating to Cash Provided/(Used) by Operating Activities: | | | | | |
| Depreciation Expense | 39,370 | - | - | - | 39,370 |
| Food Distribution Program | 33,735 | - | - | - | 33,735 |
| Change in Assets & Liabilities: | | | | | |
| Decrease/(Increase) in Accounts Receivable | (683) | - | 10,217 | - | 9,534 |
| (Increase)/Decrease in Inventory | 12,737 | - | - | - | 12,737 |
| Increase/(Decrease) in Accounts Payable | 22,900 | 161 | (410) | (183) | 22,468 |
| Increase/(Decrease) in Unearned Revenue | - | - | (11,940) | (5,800) | (17,740) |
| Total Adjustments | 108,059 | 161 | (2,133) | (5,983) | 100,104 |
| Net Cash Provided/(Used) by Operating Activities | \$ (8,953) | \$ 14,742 | \$ (1,051) | \$ 3,052 | \$ 7,790 |

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Fiduciary Fund

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**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| ASSETS | PRIVATE PURPOSE | | AGENCY | | JUNE 30, TOTALS |
|--------------------------------------|---------------------------------------|----------------------|-----------------|---------------------|--------------------|
| | UNEMPLOYMENT COMPENSATION TRUST | SCHOLARSHIP TRUST | PAYROLL FUND | STUDENT ACTIVITY | |
| Cash & Cash Equivalents | \$ 241,054 | \$ 53,983 | \$ 193,061 | \$ 181,094 | \$ 669,192 |
| Total Assets | 241,054 | 53,983 | 193,061 | 181,094 | 669,192 |
| LIABILITIES | | | | | |
| Payroll Deductions & Withholdings | - | - | 185,061 | - | 185,061 |
| Interfund Payable | - | - | 8,000 | - | 8,000 |
| Due to Student Groups | - | - | - | 181,094 | 181,094 |
| Total Liabilities | - | - | 193,061 | 181,094 | 374,155 |
| NET POSITION | | | | | |
| Reserved: | | | | | |
| Unemployment Claims | 241,054 | - | - | - | 241,054 |
| Scholarship Awards | - | 53,983 | - | - | 53,983 |
| Total Net Position | \$ 241,054 | \$ 53,983 | \$ - | \$ - | \$ 295,037 |

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
FIDUCIARY FUND
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

| ADDITIONS: | PRIVATE PURPOSE | | TOTALS |
|----------------------------------|---------------------------------------|----------------------|------------|
| | UNEMPLOYMENT COMPENSATION TRUST | SCHOLARSHIP TRUST | |
| Contributions: | | | |
| Deductions From Employees' | | | |
| Salaries | \$ 51,388 | \$ - | \$ 51,388 |
| Donor Contributions | - | 18,530 | 18,530 |
| Total Contributions | 51,388 | 18,530 | 69,918 |
| Investment Earnings: | | | |
| Interest on Investments | - | - | - |
| Total Investment Earnings | - | - | - |
| Total Additions | 51,388 | 18,530 | 69,918 |
| DEDUCTIONS: | | | |
| Unemployment Claims | 29,767 | - | 29,767 |
| Scholarships Awarded | - | 17,255 | 17,255 |
| Total Deductions | 29,767 | 17,255 | 47,022 |
| Change in Net Position | 21,621 | 1,275 | 22,896 |
| Net Position - Beginning of Year | 219,433 | 52,708 | 272,141 |
| Net Position - End of Year | \$ 241,054 | \$ 53,983 | \$ 295,037 |

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

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2017

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UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

Reporting Entity

The Upper Freehold Regional School District is a Type II School District located in the County of Monmouth, State of New Jersey. As a Type II School District, the School District functions independently through a Board of Education. The operations of the District include three schools which comprise the Upper Freehold Regional School District. The School District has an approximate enrollment at June 30, 2017 of 2,279 students.

The primary criterion for including activities within the School 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 School District holds the corporate powers of the organization;
- ◆ the School District appoints a voting majority of the organization's board
- ◆ the School District is able to impose its will on the organization;
- ◆ the organization has the potential to impose a financial benefit/burden on the School District
- ◆ there is a fiscal dependency by the organization on the School District.

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

Component Units

GASB Statement No.14, *The Financial Reporting Entity*, provides guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity but also for legally separate organizations that meet the criteria established by GASB Statement No. 14, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB 61, *The Financial Reporting Entity: Omnis – an Amendment of GASB Statements No. 14 and No. 34*. The School District had no component units as of for the year ended June 30, 2017.

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

Basis of Accounting, Measurement Focus and Financial Statement Presentation

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

A. Government-Wide Financial Statements

The School District's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of Governmental and Business-Type Activities for the School District accompanied by a total column. Fiduciary activities of the School District are not included in these statements.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the School District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities, are included in the Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows. The types of transactions reported as program revenues for the School District are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes.

Certain eliminations have been made to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

B. Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. The School District has presented all major funds that met those qualifications.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. (The School District's deferred outflows of resources and deferred inflows of resources are noncurrent.) The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the School District, are property tax and intergovernmental revenues. Expenditures are recorded in the accounting period in which the related

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 1: Summary of Significant Accounting Policies (continued)

B. Governmental Fund Financial Statements (continued)

fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific purposes or projects are recognized in the period in which the expenditures are recorded. All other revenue items are considered to be measurable and available only when cash is received by the School District. Transfers between governmental funds are recorded when the related liability is incurred. These transfers do not represent revenues (expenditures) to the School District and are, therefore, reported as other financing sources (uses) in the governmental fund financial statements.

Since the fund level statements are presented using a different measurement focus and basis of accounting than the government-wide statements, a reconciliation is presented on the page following each fund level statement that summarizes the adjustments necessary to convert the fund level statements into the government-wide presentations.

The School District funds outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed. In order to calculate the amounts to report as restricted, committed, assigned and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the School District's policy to consider restricted fund balance to have been depleted before any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The School District reports the following major governmental funds:

General Fund - The general fund is the general operating fund of the School District and 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 which are classified in the capital outlay sub-fund.

As required by the New Jersey Department of Education the School District includes budgeted capital outlay in this fund. Generally accepted accounting principles 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, interest earnings and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment.

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

B. Governmental Fund Financial Statements (continued)

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 proprietary funds, and local appropriations that are restricted or committed to expenditures for specified purposes.

Debt Service Fund - The debt service fund is used to account for the accumulation of financial resources that are restricted, committed, or assigned to an expenditure for the payment of general long-term debt principal, interest and related costs of governmental funds.

C. Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, and a Statement of Cash Flows for each major proprietary fund and for the non-major funds aggregated. A column representing internal service funds would also be presented in these statements. However, internal service funds balances and activities would be combined with the governmental activities in the Government-Wide financial statements.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities (whether current or noncurrent), and deferred inflows of resources are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

The School District reports the following major proprietary funds:

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

related to the bengal cubs early learning center operations to the School District.

D. Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position. The School District’s fiduciary funds include Agency and Private-Purpose Trust Funds and, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Agency funds are accounted for on a spending or “economic resources” measurement focus and the accrual basis of accounting as are the proprietary funds explained above.

The School District reports the following fiduciary funds:

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 1: Summary of Significant Accounting Policies (continued)

D. Fiduciary Fund Financial Statements (continued)

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

Unemployment Trust Fund – Revenues consist of employee payroll withholdings, interest income, and contributions through the annual budget process of the School District. Expenditures consist of unemployment reimbursement claims.

Agency Funds - Agency funds (payroll and student activity funds) are assets held by a governmental entity either as trustee or as an agent for other parties and cannot be used to finance the governmental entities own operating programs. The district currently maintains Payroll funds, Scholarship Funds and Student Activity Funds as Agency Funds.

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. In accordance with P.L.2011 c.202, which became effective January 17, 2012, the School District eliminated the April annual voter referendum on budgets which met the statutory tax levy cap limitations and the board of education members are elected at the November general election. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23-2-2(f)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23-2-11.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles with the exception of the legally mandated revenue recognition of the one or more June state aid 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.

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 1: Summary of Significant Accounting Policies (continued)

Budgets/Budgetary Control (continued)

Exhibit C-3 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounts as presented in the general fund budgetary comparison schedules and the special revenue fund budgetary comparison schedule to the GAAP basis of accounting as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds. Note that the School District does not report encumbrances outstanding at fiscal year-end as expenditures in the general fund since the general fund budget follows modified accrual basis with the exception of the revenue recognition policy for the last state aid payments.

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 assigned 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 School District has received advances are reflected in the balance sheet as a reduction of the accounts receivables or as unearned revenue at fiscal year-end.

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

Cash, Cash Equivalents and Investments

Cash and Cash equivalents 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. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are considered cash equivalents and stated at cost.

Investments are stated at fair value in accordance with Governmental Accounting Standards Board (GASB). New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

N.J.S.A.17:9-41 et. Seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from loss of funds on deposit with a failed banking institution in New Jersey. 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.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 1: Summary of Significant Accounting Policies (continued)

Cash, Cash Equivalents and Investments (continued)

For purposes of the statement of cash flows, the School District considers all highly liquid investments (including restricted assets) with a maturity when purchased of twelve months or less and all local government investment pools to be cash equivalents

Tuition Receivable

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

Tuition Receivable

Tuition rates for June 30, 2017 were established by the School District based on rates established by the receiving district. The charges are subject to adjustment when the actual costs are determined.

Inventories

Inventories are valued at cost, using the first-in/first-out (FIFO) method. The costs of inventories are recorded as expenditures when consumed rather than when purchased.

Interfund Receivables/Payables

Interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the School District and that are due within one year. As previously mentioned, these amounts are eliminated in the governmental and business-type columns of the Statement of Net Position, except for the net residual amounts due between governmental and business-type activities, which are presented as Internal Balances in the Statement of Net Position.

Capital Assets

Capital assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Purchased or constructed assets are recorded at actual cost or estimated historical cost if actual cost is unavailable. Donated capital assets are recorded at estimated fair market value at the date of donation. All reported capital assets except land and construction in progress are depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The School District does not possess any infrastructure. The School District has established a threshold of \$2,000 for capitalization of depreciable assets.

Capital assets of the School District are depreciated or amortized using the straight-line method over the following estimated useful lives:

| <u>Description</u> | <u>Governmental Activities Estimated Lives</u> | <u>Business-Type Activities Estimated Lives</u> |
|----------------------------|--|---|
| Land Improvements | 10-20 Years | N/A |
| Buildings and Improvements | 10-50 Years | N/A |
| Furniture and Equipment | 5-20 Years | 5-12 Years |
| Vehicles | 5-10 Years | 4-6 Years |

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

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 School District and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the School District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

The entire compensated absences liability is reported on the government-wide financial statements and proprietary fund financial statements. Compensated absences liability is not recorded in the governmental funds. Instead expenditures are recognized in the governmental funds as payments come due each period, for example, as a result of resignations or retirements.

Unearned Revenue

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

Accrued Liabilities and Long-Term Obligations

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

Accounting Estimates

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

Interfund Activity

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

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

Interfund Activity (continued)

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

Deferred Outflows and Deferred Inflows of Resources

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

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

Deferred Loss on Refunding Debt

Deferred loss on refunding debt arising from the issuance of the refunding bonds is recorded as deferred outflows of resources. It is amortized in a systematic and rational manner over the shorter of the duration of the related debt or the new debt issues as a component of interest expense.

Bond Premiums, Discounts and Issuance Costs

In the government-wide financial statements and in the proprietary fund financial statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed when bonds are issued.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Pensions

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

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

Fund Balance

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, fund balances in the governmental funds financial statements are classified into the following five categories, as defined below:

- Non-spendable – This classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted – This classification includes amounts for which constraints have been placed on the use of the resources either externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- Committed – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Education. These amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned – This classification includes amounts that are constrained by the School District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Education or through the Board of Education delegating this responsibility to the business administrator through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned – This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the School District's policy to consider restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, it is the School District's policy to consider amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Net Position

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

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

Net Position (continued)

- Net Investment in Capital Assets – This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for acquisition, construction, or improvement of those assets.
- Restricted – This component of net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- Unrestricted – This component of net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

The following GASB Statements became effective for the fiscal year ended June 30, 2017:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The adoption of this Statement had no impact on the School District's financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. The adoption of this Statement had no impact on the School District's financial statements.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adoption of this Statement had no impact on the School District's financial statements.

Impact of Recently Issued Accounting Principles (continued)

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. The adoption of this Statement had no impact on the School District's financial statements.

Recently Issued Accounting Pronouncements

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

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 1: Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended June 30, 2018. Management has not yet determined the potential impact on the School District's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended June 30, 2018. Management does not expect this Statement to have a material impact on the School District's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended June 30, 2018. Management does not expect this Statement to have a material impact on the School District's financial statements.

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

Statement No. 83, *Certain Asset Retirement Obligations*. An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset. Statement No. 83 establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management does not expect this Statement to have a material impact on the School District's financial statements.

Statement No. 84, *Fiduciary Activities*. The Statement intends to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. To that end, Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. Statement No. 84 is effective for reporting periods beginning after December 15, 2018. Management does not expect this Statement to have a material impact on the School District's financial statements.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 1: Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

Statement No. 85, *Omnibus 2017*. This Statement provides guidance that addresses several different accounting and financial reporting issues identified during the implementation and application of other GASB pronouncements. The guidance in Statement No. 85 is effective for periods beginning after June

15, 2017. Management does not expect this Statement to have a material impact on the School District's financial statements.

Statement No. 86, *Accounting for Certain Debt Extinguishment*. Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with only existing resources, that is, resources other than the proceeds of refunding debt, are placed in an irrevocable trust for the sole purpose of extinguishing debt. Statement No. 86 is effective for reporting periods beginning after June 15, 2017. Management does not expect this Statement to have a material impact on the School District's financial statements.

Statement No. 87, *Leases*. Statement No. 87 establishes a single approach to accounting for and reporting leases by state and local governments. The GASB based the new standard on the principle that leases are financing of the right to use an underlying asset. Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Management does not expect this Statement to have a material impact on the School District's financial statements.

Note 2: Deposits and Investments

Deposits

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits may not be recovered. Although the Board does not have a formal policy regarding custodial credit risk, NJSA 17:9-41 et seq. requires that the governmental units shall deposit public funds in public depositories protected from loss under the provisions of GUDPA. Under the Act, the first \$250,000.00 of governmental deposits in each insured depository is protected by FDIC. Public fund owned by the Board in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, student activity fund or other funds that may pass to the Board relative to the happening of a future condition. Such funds are shown as Uninsured and Uncollateralized in the schedule below. As of June 30, 2017, the School District's bank balance of \$4,786,907 was exposed to custodial credit risk as follows:

| | | |
|--------------------------------|----|-----------|
| Insured under FDIC and GUDPA | \$ | 4,178,239 |
| Uninsured and Uncollateralized | | 608,668 |
| | | 4,786,907 |

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 3: Reserve Accounts

Capital Reserve

A Capital Reserve Account was established by the Upper Freehold Regional School District for the accumulation of funds for use as capital outlay expenditures in subsequent years. The Capital Reserve Account is maintained in the general fund and its activity is included in the general fund annual budget.

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

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

| | | |
|---------------------------------|----|-----------|
| Beginning Balance, July 1, 2016 | \$ | 543,360 |
| Increased by: | | |
| Deposits approved by Board | | 550,000 |
| | | 1,093,360 |
| Decreased by: | | |
| Budget Withdrawals | | (205,000) |
| | | (205,000) |
| Ending Balance, June 30, 2017 | \$ | 888,360 |

The June 30, 2017 LRFP balance of local support costs of uncompleted capital projects at June 30, 2017 is 9,489,125. The withdrawals from the capital reserve were for use in a DOE approved facilities project, consistent with the School District's Long Rang Facilities Plan.

Maintenance Reserve

The School District established a maintenance reserve account by inclusion of \$150,000 on June 25, 2011 for the accumulation of funds for use as required maintenance of a facility in subsequent fiscal years. The maintenance reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 3: Reserve Accounts (continued)

Maintenance Reserve (continued)

| | | |
|---------------------------------|----|-----------|
| Beginning Balance, July 1, 2016 | \$ | 250,000 |
| Increased by: | | |
| Deposits approved by Board | | 340,000 |
| | | 590,000 |
| Decreased by: | | |
| Budget Withdrawals | | (200,000) |
| | | (200,000) |
| Ending Balance, June 30, 2017 | \$ | 390,000 |

Emergency Reserve

An emergency reserve account was established by inclusion of \$65,000 during June 2008 for the accumulation of funds for use as maintenance expenditures in subsequent fiscal years. The maintenance reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

The emergency reserve account is used to accumulate funds in accordance with N.J.S.A. 18A:7F-41c (1) to finance unanticipated general fund expenditures required for a thorough and efficient education. Unanticipated means reasonably unforeseeable and shall not include additional costs caused by poor planning. The maximum balance permitted at any time in this reserve is the greater of \$250,000 or 1 percent of the general fund budget not to exceed \$1 million. Deposits may be made to the emergency reserve account by board resolution at year end of any unanticipated revenue or unexpended line item appropriation or both. The department has defined year end for the purpose of depositing surplus into reserve accounts as an amount approved by the district board of education between June 1 and June 30. Withdrawals from the reserve require the approval of the Commissioner unless the withdrawal is necessary to meet an increase in total health care costs in excess of 4 percent.

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

| | | |
|---------------------------------|----|---------|
| Beginning Balance, July 1, 2016 | \$ | 300,000 |
| Ending Balance, June 30, 2017 | \$ | 300,000 |

Tuition Reserve Account

A tuition reserve is restricted to be used to accumulate funds in accordance with *N.J.A.C. 6A:23A-14.4(a)(3)* for anticipated tuition adjustments. According to *N.J.A.C. 6A:23A-14.4(a)(3)* permits the district to establish a tuition reserve in the general fund at June 30 by board resolution for up to 10 percent of the estimated tuition cost in the contract year for an anticipated tuition adjustment in the second year following the contract year. The code also requires that the district transfer to the general fund, by board

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 3: Reserve Accounts (continued)

Tuition Reserve Account (continued)

resolution, any interest earned on the investments in a tuition reserve account on no less than an annual basis.

The District deposited \$100,000 into a tuition reserve account during June 2016 pursuant to a Board resolution for use in the 2017/2018 School budget to finance unanticipated tuition expenditures. The District then added \$100,000 in 2017 for use in the 2018/2019 School budget. The tuition reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

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

| | |
|---------------------------------|------------|
| Beginning Balance, July 1, 2016 | \$ 100,000 |
| Increased by: | |
| Deposits approved by Board | 100,000 |
| Ending Balance, June 30, 2017 | \$ 200,000 |

Note 4: Accounts Receivable

Accounts receivable at June 30, 2017 consisted of accounts and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of state and federal programs, the current fiscal year guarantee of federal funds and the budgetary control of New Jersey governmental entities. Accounts receivable in the School District's governmental and business-type activities as of June 30, 2017, consisted of the following:

| <u>Description</u> | Governmental Funds | | | | Proprietary Funds | | Total <u>Business-Type Activities</u> |
|--------------------|-------------------------|-------------------------------------|----------------------------------|--|------------------------------|------------------------|--|
| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Activities</u> | <u>Food Service Fund</u> | <u>Other Funds</u> | |
| Federal Awards | \$ - | \$ 37,185 | \$ - | \$ 37,185 | \$ 3,057 | \$ - | \$ 3,057 |
| State Awards | 243,006 | - | - | 243,006 | 142 | - | 142 |
| Other | 49,830 | 5,166 | - | 54,996 | 100 | 9,373 | 9,473 |
| Total | \$ 292,836 | \$ 42,351 | \$ - | \$ 335,187 | \$ 3,299 | \$ 9,373 | \$ 12,672 |

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 5: Capital Assets

Capital assets activity for the year ended June 30, 2017 was as follows:

| Governmental Activities: | June 30, 2016 | Additions | Deletions | Adjustment | June 30, 2017 |
|--|--------------------------|-----------------------|------------------|-------------------|--------------------------|
| Sites (Land) | \$ 5,419,448 | \$ - | \$ - | \$ - | \$ 5,419,448 |
| Buildings & Building Improvements | 78,926,696 | 206,655 | - | (35,892) | 79,097,459 |
| Machinery & Equipment | <u>4,204,618</u> | <u>279,000</u> | <u>-</u> | <u>-</u> | <u>4,483,618</u> |
| Subtotal | 88,550,762 | 485,655 | - | (35,892) | 89,000,525 |
| Accumulated Depreciation - Building & Improvements | (21,562,691) | (1,993,787) | - | 158,780 | (23,397,698) |
| Accumulated Depreciation - Machinery & Equipment | <u>(2,721,041)</u> | <u>(168,650)</u> | <u>-</u> | <u>-</u> | <u>(2,889,691)</u> |
| Total | <u>\$ 64,267,030</u> | <u>\$ (1,676,782)</u> | <u>\$ -</u> | <u>\$ 122,888</u> | <u>\$ 62,713,136</u> |
| Business Type Activities: | | | | | |
| Machinery & Equipment | \$ 714,115 | \$ - | \$ - | \$ - | \$ 714,115 |
| Accumulated Depreciation | <u>(349,002)</u> | <u>(39,370)</u> | <u>-</u> | <u>-</u> | <u>(388,372)</u> |
| Total | <u>\$ 365,113</u> | <u>\$ (39,370)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 325,743</u> |

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 5: Capital Assets (continued)

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

| | |
|---|--------------|
| Governmental Activities: | |
| Unallocated | \$ 2,162,437 |
| Total Depreciation Expense - Governmental Activities | \$ 2,162,437 |
| Business-Type Activities: | |
| Food Service Fund | \$ 39,370 |
| Total Depreciation Expense - Business-Type Activities | \$ 39,370 |

Note 6: Interfund Receivables, Payables and Transfers

Individual fund receivables/payables balances at June 30, 2017 are as follows:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|---------------------|----------------------------------|-------------------------------|
| General Fund | \$ 8,000 | \$ - |
| Payroll Agency Fund | - | 8,000 |
| | \$ 8,000 | \$ 8,000 |

The interfund receivables and payables above predominately resulted from payment made by certain funds on behalf of other funds. All interfund balances are expected to be repaid within one year.

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 7: Long-Term Obligations

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

| | Balance <u>July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | Balance <u>June 30, 2017</u> | Balance Due Within <u>One Year</u> |
|---------------------------|--------------------------------|----------------------|----------------------|---------------------------------|--|
| Governmental Activities: | | | | | |
| General Obligation Bonds | \$ 49,410,000 | \$ 9,660,000 | \$ 11,315,000 | \$ 47,755,000 | \$ 1,840,000 |
| Capital Leases | 561,386 | 279,000 | 268,267 | 572,119 | 207,603 |
| Unamortized Bond Premiums | | - | | - | |
| Compensated Absences | 477,580 | 45,784 | - | 523,364 | - |
| Net Pension Liability | 13,115,886 | 3,305,717 | - | 16,421,603 | - |
| Bond Premium | 3,098,277 | 90,072 | 227,378 | 2,960,971 | 163,963 |
| | <u>\$ 66,663,129</u> | <u>\$ 13,380,573</u> | <u>\$ 11,810,645</u> | <u>\$ 68,233,057</u> | <u>\$ 2,211,566</u> |

For governmental activities, the bonds payable are liquidated from the School District's debt service fund. Compensated absences and net pension liability are liquidated by the general fund.

Bonds Payable

The voters of the municipality through referendums authorize bonds in accordance with State Law. All bonds are retired in serial installments within the statutory period of usefulness.

On May 4, 2010, the District issued \$9,175,000 refunding bonds with interest rates ranging from 3.00% to 5.00% to advance refund \$9,348,000 school bonds with interest rates ranging from 4.00% to 4.75%. The refunding bonds mature on July 15, 2010 through 2023. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds were called on July 15, 2011. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's financial statements.

On July 23, 2014, the District issued \$9,595,000 refunding bonds with interest rates ranging from 2.00% to 5.00% to advance refund \$9,458,000 school bonds with interest rates ranging from 4.375% to 4.50%. The refunding bonds mature on July 15, 2015 through 2032. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds were called on July 15, 2016. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's financial statements.

On April 22, 2015, the District issued \$23,025,000 refunding bonds with interest rates ranging from 4.00% to 4.50% to advance refund \$23,090,000 school bonds with interest rates ranging from 4.00% to 4.50%. The refunding bonds mature on July 15, 2010 through 2023. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds were called on February 15, 2017. The advance refunding met the requirements of an in-substance debt defeasance and the school bonds were removed from the District's financial statements.

On December 15, 2016, the District issued \$9,660,000 refunding bonds with interest rates ranging from 3.00% to 4.00% to advance refund \$9,560,000 school bonds with interest rates ranging from 4.00% to

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 7: Long-Term Obligations (continued)

Bonds Payable (continued)

4.375%. The refunding bonds mature on February 15, 2015 through 2035. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school bonds were called on February 15, 2018. The advance refunding met the requirements of an insubstance debt defeasance and the school bonds were removed from the District's financial statements. The net present value of savings on these refunding bonds was \$562,386 or 5.88% over the life of the bonds.

| Year Ended | | <u>Principal</u> | | <u>Interest</u> | | <u>Total</u> |
|----------------|----|------------------|----|-----------------|----|--------------|
| <u>June 30</u> | | | | | | |
| 2018 | \$ | 1,840,000 | \$ | 1,888,254 | \$ | 3,728,254 |
| 2019 | | 1,925,000 | | 1,812,369 | | 3,737,369 |
| 2020 | | 2,010,000 | | 1,728,844 | | 3,738,844 |
| 2021 | | 2,100,000 | | 1,641,594 | | 3,741,594 |
| 2022 | | 2,200,000 | | 1,543,006 | | 3,743,006 |
| 2023-2027 | | 12,550,000 | | 6,382,419 | | 18,932,419 |
| 2028-2032 | | 15,665,000 | | 3,544,506 | | 19,209,506 |
| 2033-2037 | | 9,465,000 | | 704,744 | | 10,169,744 |
| | \$ | 47,755,000 | \$ | 19,245,736 | \$ | 67,000,736 |

Obligations Under Capital Leases

The District is leasing equipment and vehicles totaling \$629,152 under capital leases. The following is a schedule of the future minimum lease payments under these capital leases and the present value of the net minimum lease payments at June 30, 2017:

| Fiscal Year Ending | |
|------------------------------------|-------------------|
| <u>June 30,</u> | |
| 2018 | \$ 251,028 |
| 2019 | 170,020 |
| 2020 | 117,578 |
| 2021 | 90,526 |
| Total Minimum Lease Payments | <u>629,152</u> |
| Less: Amount Representing Interest | (25,641) |
| Present Value of Lease Payments | <u>\$ 603,511</u> |

Bonds Authorized but not Issued

As of June 30, 2017, the School District had no bonds authorized but not issued.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans

A. Public Employees' Retirement System (PERS)

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

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

The following represents the membership tiers for PERS:

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

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

Contributions - The contribution policy for PERS is set by *N.J.S.A. 15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2016, the State's pension contribution was less than the actuarial determined amount.

The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

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

Pension Liability, Pension Expense and Deferred Outflows/Inflows of Resources - At June 30, 2017, the School District reported a liability of \$16,421,603 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, to the measurement date of June 30, 2016. The School District's proportion of the net pension liability was based on the School District's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The School District's proportion measured as of June 30, 2016, was .055446%, which was a decrease of .00298% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the School District recognized full accrual pension expense of \$1,538,804 in the government-wide financial statements. This pension expense was based on the pension plans June 30, 2016 measurement date. At June 30, 2017 the School District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources | |
|---|---|--|--|
| | <u>PERS</u> | <u>PERS</u> | |
| Differences between Expected and Actual Experience | \$ 305,392 | \$ - | |
| Changes of Assumptions | 3,401,679 | - | |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | 626,171 | - | |
| Changes in Proportion and Differences between District Contributions and Proportionate Share of Contributions | 491,705 | 674,604 | |
| School District contributions subsequent to measurement date | 502,438 | - | |
| | \$ 5,327,385 | \$ 674,604 | |

\$502,438 as deferred outflows of resources resulting from school district contributions subsequent to the measurement date is due April 1, 2018 and will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

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

| Year Ending June 30, | PERS |
|---------------------------------|--------------|
| 2017 | \$ 953,942 |
| 2018 | 953,945 |
| 2019 | 1,105,967 |
| 2020 | 911,667 |
| 2021 | 224,822 |
| | \$ 4,150,343 |

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

| | <u>Deferred Outflow of Resources</u> | <u>Deferred Inflow of Resources</u> |
|--|---|--|
| Differences between Expected and Actual Experience | | |
| Year of Pension Plan Deferral: | | |
| June 30, 2014 | - | - |
| June 30, 2015 | 5.72 | - |
| June 30, 2016 | 5.57 | - |
| Changes of Assumptions | | |
| Year of Pension Plan Deferral: | | |
| June 30, 2014 | 6.44 | - |
| June 30, 2015 | 5.72 | - |
| June 30, 2016 | 5.57 | - |
| Net Difference between Projected and Actual Earnings on Pension Plan Investments | | |
| Year of Pension Plan Deferral: | | |
| June 30, 2014 | 5.00 | - |
| June 30, 2015 | 5.00 | - |
| June 30, 2016 | 5.00 | - |

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

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

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

| | |
|---------------------------|----------------------------|
| Inflation Rate | 3.08% |
| Salary Increases: | |
| Through 2026 | 1.65% - 4.15% Based on Age |
| Thereafter | 2.65% - 5.15% Based on Age |
| Investment Rate of Return | 7.65% |

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

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

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

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

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

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the School District's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the School District's proportionate share of the net pension liability as of June 30, 2016, calculated using the discount rate of 3.98% as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

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

| | PERS | | |
|--|---|---|---|
| | 1% Decrease <u>(2.98%)</u> | Current Discount Rate <u>(3.98%)</u> | 1% Increase <u>(4.98%)</u> |
| District's Proportionate Share of the Net Pension Liability | \$ 20,122,758 | \$ 16,421,603 | \$ 13,365,979 |

Additional Information - The following is a summary of the collective balances of the local group at June 30, 2017 and 2016:

Collective Balances at June 30, 2017 and June 30, 2016

| | <u>6/30/2017</u> | <u>6/30/2016</u> |
|--|------------------|------------------|
| Actuarial valuation date (including roll forward) | June 30, 2016 | June 30, 2015 |
| Deferred Outflows of Resources | \$ 4,824,947 | \$ 2,345,314 |
| Deferred Inflows of Resources | \$ 674,604 | \$ 454,443 |
| Net Pension Liability | \$ 16,421,603 | \$ 13,115,886 |
| School District's portion of the Plan's total net pension Liability | 0.05446% | 0.05843% |

B. Teachers' Pension and Annuity Fund (TPAF)

Plan Description - The State of New Jersey, Teachers' Pension and Annuity Fund (TPAF) is a cost sharing multiple-employer defined benefit pension plan with a special-funding situation, by which the State of New Jersey (the State) is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. TPAF is administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about TPAF, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

B. Teachers' Pension and Annuity Fund (TPAF) (continued)

The following represents the membership tiers for TPAF:

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Contributions - The contribution policy for TPAF is set by *N.J.S.A 18A:66* and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.2% in State fiscal year 2017. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2016, the State's pension contribution was less than the actuarial determined amount.

As mentioned previously, the employer contributions for local participating employers are legally required to be funded by the State in accordance with *N.J.S.A 18:66-33*. Therefore, the School District is considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the School District does not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers.

Pension Liability and Pension Expense - The State's proportionate share of the TPAF net pension liability, attributable to the School District as of June 30, 2016 was \$123,152,076. The School District's proportionate share was \$0.

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The State's proportionate share of the net pension liability associated with the District was based on projection of the State's long-term contributions to the pension plan associated with the District relative to the projected contributions by the State associated with all participating school districts, actuarially determined. At June 30, 2016, the State proportionate share of the TPAF net pension liability attributable to the School District was .15654% which an increase of .00237% from its proportion measured as of June 30, 2015.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

B. Teachers' Pension and Annuity Fund (TPAF) (continued)

For the fiscal year ended June 30, 2017, the School District recognized \$9,253,165 in on-behalf pension expense and revenue in the government-wide financial statements, for the State of New Jersey on-behalf TPAF pension contributions. This pension expense and revenue was based on the pension plans June 30, 2016 measurement date.

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

| | |
|---------------------------|----------------------------|
| Inflation Rate | 2.50% |
| Salary Increases: | |
| 2012-2021 | Varies based on experience |
| Thereafter | Varies based on experience |
| Investment Rate of Return | 7.65% |

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

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

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

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

B. Teachers' Pension and Annuity Fund (TPAF) (continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| Cash | 5.00% | 0.39% |
| U.S. Government Bonds | 1.50% | 1.28% |
| U.S. Credit Bonds | 13.00% | 2.76% |
| U.S. Mortgages | 2.00% | 2.38% |
| U.S. Inflation-Indexed Bonds | 1.50% | 1.41% |
| U.S. High Yield Bonds | 2.00% | 4.70% |
| U.S. Equity Market | 26.00% | 5.14% |
| Foreign Developed Equity | 13.25% | 5.91% |
| Emerging Market Equities | 6.50% | 8.16% |
| Private Real Estate Property | 5.25% | 3.64% |
| Timber | 1.00% | 3.86% |
| Farmland | 1.00% | 4.39% |
| Private Equity | 9.00% | 8.97% |
| Commodities | 0.50% | 2.87% |
| Hedge Funds - MultiStrategy | 5.00% | 3.70% |
| Hedge Funds - Equity Hedge | 3.75% | 4.72% |
| Hedge Funds - Distressed | 3.75% | 3.49% |

Discount Rate - The discount rate used to measure the total pension liability was 3.22% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State contributed 30% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2029. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2029, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the School District's proportionate share of the Net Pension Liability to Changes in the Discount Rate – As previously mentioned, TPAF has a special funding situation where the State pays 100% of the School District's annual required contribution. The following represents the State's proportionate share of the net pension liability, attributable to the School District calculated using the discount rate of 3.22% as well as what the State's proportionate share of the net pension liability, attributable to the School District's would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

B. Teachers' Pension and Annuity Fund (TPAF) (continued)

| | TPAF | | |
|---|----------------------------------|--|----------------------------------|
| | 1% Decrease <u>(2.22%)</u> | Current Discount Rate <u>(3.22%)</u> | 1% Increase <u>(4.22%)</u> |
| District's Proportionate Share of the Net Pension Liability | \$ - | \$ - | \$ - |
| State of New Jersey's Proportionate Share of Net Pension Liability associated with the District | <u>147,071,100.00</u> | <u>123,152,076.00</u> | <u>103,619,106.00</u> |
| | <u>\$ 147,071,100.00</u> | <u>\$ 123,152,076.00</u> | <u>\$ 103,619,106.00</u> |

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

C. Defined Contribution Retirement Plan (DCRP)

Plan Description - The Defined Contribution Retirement Program (DCRP) was established July 1, 2007, under the provisions of N.J.S.A. 43:15C-1 et seq. The DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage

Individuals eligible for membership in the DCRP include:

- State or local officials who are elected or appointed on or after July 1, 2007;
- Employees enrolled in the Public Employees' Retirement System (PERS) or Teachers' Pension and Annuity Fund (TPAF) on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits;
- Employees enrolled in the Police and Firemen's Retirement System (PFRS) or State Police Retirement System (SPRS) after May 21, 2010, who earn salary in excess of established "maximum compensation" limits;
- Employees otherwise eligible to enroll in the PERS or TPAF on or after November 2, 2008, who do not earn the minimum annual salary for PERS or TPAF Tier 3 enrollment but who earn salary of at least \$5,000 annually. The minimum salary in 2017 is \$8,300 and is subject to adjustment in future years.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 8: Pension Plans (continued)

C. Defined Contribution Retirement Plan (DCRP) (continued)

- Employees otherwise eligible to enroll in the PERS or TPAF after May 21, 2010, who do not work the minimum number of hours per week required for PERS or TPAF Tier 4 or Tier 5 enrollment but who earn salary of at least \$5,000 annually. The minimum number is 35 hours per week for State employees, or 32 hours per week for local government or local education employees

Contributions - The contribution policy is set by N.J.S.A. 43:15C-3 and requires active members and contribution employers. When enrolled in the DCRP, members are required to contribute 5.5% of their base salary to a tax-deferred investment account established with Prudential Financial, which jointly administers the DCRP investments with the Division of Pension and Benefits. Member contributions are matched by a 3% contribution from the School District.

For the year ended June 30, 2017, employee contributions totaled \$0, and the School District recognized an expense for payments made to the Defined Contribution Retirement program in the amount of \$0.

Note 9: State Post-Retirement Medical Benefits

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

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

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, and Article 17.25 et. seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at: <http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>

Note 10: On-Behalf Payments for Fringe Benefits and Salaries

As previously mentioned, the School District receives on-behalf payments from the State of New Jersey for normal costs and post-retirement medical costs related to the Teachers' Pension and Annuity Fund (TPAF) pension plan. The School District is not legally responsible for these contributions. The on-behalf

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 10: On-Behalf Payments for Fringe Benefits and Salaries (continued)

payments are recorded as revenues and expenditures in the government-wide and general fund financial statements. For the fiscal year ended June 30, 2017, the on-behalf payments for normal costs, post-retirement medical costs, and long-term disability were \$1,814,554, \$1,511,936 and \$4,841, respectively.

Note 11: Risk Management

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

New Jersey Unemployment Compensation Insurance – The School District has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan the School District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The School District is billed quarterly for amounts due to the State. The following is a summary of School District contributions, reimbursements to the State for benefits paid and the ending balance of the School District’s trust fund for the current and previous two years:

| <u>Fiscal Year</u> | <u>School District Contributions</u> | <u>Employee Contributions</u> | <u>Interest Earnings</u> | <u>Amount Reimbursed</u> | <u>Ending Balance</u> |
|--------------------|--------------------------------------|-------------------------------|--------------------------|--------------------------|-----------------------|
| 2016-2017 | \$ - | \$ 51,388 | \$ - | \$ 29,767 | \$ 241,054 |
| 2015-2016 | | 51,483 | - | 99,431 | 219,433 |
| 2014-2015 | - | 51,523 | - | 51,458 | 267,381 |

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

Note 12: Contingencies

State and Federal Grantor Agencies - The School District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the School District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In the opinion of the School District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

Litigation – The School District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the School Districts’ attorney that resolution of these matters will not have a material adverse effect on the financial condition of the School District.

**UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)**

Note 12: Contingencies (continued)

Economic Dependency – The School 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 School District’s programs and activities.

Note 13: Deferred Compensation

The School District offers its employees a choice of the following deferred compensation plans created in accordance with Internal Revenue Code Section 403(b) and 457. 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:

Lincoln Investment Planning
Variable Annuity Life Insurance Company
Syracusa
Equitable Life
Metropolitan Life
Oppenheimer
Legend

Note 14. Compensated Absences

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

School District employees are granted varying amount of vacation and sick leave in accordance with the School District's personnel policies. Upon termination, employees are paid for accrued vacation. The School District policy permits employees to accumulate unused sick leave and carry forward the full amount to subsequent years. Upon retirement employees shall be paid by the School District for the unused sick leave in accordance with School Districts’ agreements with the various employee unions.

The liability for vested compensated absences of the governmental fund types is recorded in the Statement of Net Position. At June 30, 2017, the liability for compensated absences reported on the government-wide and on the proprietary fund Statement of Net Position was \$523,364 and \$0, respectively.

Note 15: Tax Abatements

As defined by the Governmental Accounting Standards Board (GASB) Statement No. 77, a tax abatement is an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. School districts are not authorized by New Jersey statute to enter into tax abatement agreements. However, the county or municipality in which the school district is situated may have entered into tax abatement agreements, and that potential must be disclosed in these financial statements. If the county or municipality entered into tax abatement agreements, those agreements will not directly affect the school

UPPER FREEHOLD REGIONAL SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017 (continued)

Note 15: Tax Abatements(continued)

district's local tax revenue because N.J.S.A. 54:4-75 and N.J.S.A. 54:4-76 require that amounts so forgiven must effectively be recouped from other taxpayers and remitted to the school district.

For a local school district board of education or board of school estimate that has elected to raise their minimum tax levy using the required local share provisions at N.J.S.A. 18A:7F-5(b), the loss of revenue resulting from the municipality or county having entered into a tax abatement agreement is indeterminate due to the complex nature of the calculation of required local share performed by the New Jersey Department of Education based upon district property value and wealth.

Note 16: Calculation of Excess Surplus

The designation for Restricted Fund Balance – Excess Surplus is a required calculation pursuant to N.J.S.A.18A:7F-7. 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. The excess fund balance at June 30, 2017 was \$197,616.

Note 17: Fund Balances

General Fund – Of the \$2,686,752 General Fund fund balance at June 30, 2017, \$888,360 has been restricted for the Capital Reserve Account; \$390,000 has been restricted for the Maintenance Reserve Account; \$300,000 has been restricted for the Emergency Reserve Account; \$200,000 has been restricted for the Tuition Reserve Account; \$197,616 has been restricted for current year excess surplus; \$160,000 is restricted for prior year excess surplus – designated for subsequent year's expenditures; \$321,605 has been committed to other purposes; \$47,862 has been assigned for subsequent year's expenditures; and \$181,309 has been unassigned.

Debt Service Fund – Of the \$13,577 Debt Service Fund fund balance at June 30, 2017, \$13,577 is restricted for future debt service payments.

Note 18: Deficit in Net Position

Unrestricted Net Position – The School District governmental activities had a deficit in unrestricted net position in the amount of \$10,345,437 at June 30, 2017. The primary causes of this deficit is the School District not recognizing the receivable for the last two state aid payments and the recording of the net pension liability for the Public Employee's Retirement System (PERS) as of June 30, 2017. This deficit in unrestricted net position for governmental activities does not indicate that the School District is facing financial difficulties.

APPENDIX C

Form of Bond Counsel's Approving Legal Opinion

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90 Woodbridge Center Drive
Suite 900 Box 10
Woodbridge, NJ 07095-0958
732.636.8000

_____, 2019

The Board of Education of the
Upper Freehold Regional School District
Allentown, New Jersey

Ladies and Gentlemen:

We have served as bond counsel in connection with the authorization, sale and issuance of \$7,184,000 aggregate principal amount of School Bonds, Series 2019 (the “Bonds”) of The Board of Education of the Upper Freehold Regional School District in the County of Monmouth, 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 September 5, 2018 (the “Proposal”) and approved by the affirmative vote of a majority of the legal voters present and voting at the annual School District election held on November 6, 2018 and (iii) a resolution adopted by the Board on January 2, 2019 (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 July 15, 2019 and semi-annually thereafter on the fifteenth day of January and July in each year until maturity or prior redemption, and shall mature on January 15 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> |
|-------------|-------------------------|----------------------|-------------|-------------------------|----------------------|
| 2021 | \$354,000 | | 2031 | \$380,000 | |
| 2022 | 265,000 | | 2032 | 395,000 | |
| 2023 | 275,000 | | 2033 | 410,000 | |
| 2024 | 290,000 | | 2034 | 425,000 | |
| 2025 | 300,000 | | 2035 | 445,000 | |
| 2026 | 315,000 | | 2036 | 460,000 | |
| 2027 | 325,000 | | 2037 | 480,000 | |
| 2028 | 335,000 | | 2038 | 500,000 | |
| 2029 | 350,000 | | 2039 | 515,000 | |
| 2030 | 365,000 | | | | |

The Bonds of this issue are 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 on individuals.

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.

[The Bonds maturing on January 15 in the years 20__ through 20__, inclusive (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 the difference between the stated principal amount of the Bonds maturing on January 15 in the years 20__ through 20__, inclusive (the “[Discount] Bonds”) and their respective initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers), at which price a substantial amount of the [Discount] Bonds of the same maturity and interest rate were sold, constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the [Discount] Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each [Discount] Bond and the basis of each [Discount] Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.]

Except as stated in the preceding _____ (____) 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 _____, 2019 (the "Disclosure Certificate") is executed and delivered by The Board of Education of the Upper Freehold Regional School District in the County of Monmouth, 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 \$7,184,000 aggregate principal amount of School Bonds, Series 2019 dated their date of delivery (the "Bonds"). The Bonds are being by virtue of a proposal adopted by the Board on September 5, 2018 and approved by the affirmative vote of a majority of the legal voters present and voting at the annual School District election held on November 6, 2018 and pursuant to a resolution entitled, "RESOLUTION DETERMINING THE FORM AND OTHER DETAILS OF \$7,184,000 AGGREGATE PRINCIPAL AMOUNT OF SCHOOL BONDS, SERIES 2019 OF THE BOARD OF EDUCATION OF THE UPPER FREEHOLD REGIONAL SCHOOL DISTRICT IN THE COUNTY OF MONMOUTH, NEW JERSEY, PROVIDING FOR THEIR SALE AND DETERMINING OTHER MATTERS IN CONNECTION THEREWITH", duly adopted by the Board on January 2, 2019 (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/her 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.

“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, 2019 (for the fiscal year ending June 30, 2019), 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, 2020) 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, in a timely manner, 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 (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available).

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 January 15, 2019, prepared in connection with the sale of the Bonds (the "Official Statement") in Appendix A consisting of (1) Board indebtedness; (2) property valuation information; and (3) tax rate, levy and collection data.

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. 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 8. 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 9. 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 10. 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 11. 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 12. 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 13. 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
Upper Freehold Regional School District
27 High Street
Allentown, New Jersey 08501
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
Upper Freehold Regional School District
27 High Street
Allentown, New Jersey 08501
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 14. 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 15. 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 16. 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
UPPER FREEHOLD REGIONAL
SCHOOL DISTRICT**

By: _____
**MARGARET HOM,
Business Administrator/
Board Secretary**

EXHIBIT A

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

Name of Issuer: The Board of Education of the
Upper Freehold Regional School District
in the County of Monmouth, New Jersey

Name of Issue: \$7,184,000 School Bonds, Series 2019
Dated: _____, 2019
(CUSIP Number: 915799____)

Date of Issuance: _____, 2019

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 _____, 2019 executed by the Board.

DATED: _____

DISSEMINATION AGENT
(on behalf of the Board)

cc: The Board

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