

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 20, 2019

NEW ISSUE

**RATING: Standard & Poor's: "AA"
(See "RATING" herein)**

In the opinion of McManimon, Scotland & Baumann, LLC, Bond Counsel, assuming compliance by the City (as defined herein) with certain tax covenants described herein, under existing law, interest on the Bonds (as defined herein) is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax. Based upon existing law, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.

**CITY OF CAPE MAY,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

\$15,165,000*
GENERAL OBLIGATION BONDS, SERIES 2019
Consisting of:
\$10,155,000* General Improvement Bonds
\$4,250,000* Water/Sewer Utility Bonds
\$760,000* Beach Utility Bonds
(Book-Entry-Only) (Callable)

Dated: Date of Delivery

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

The \$15,165,000* General Obligation Bonds, Series 2019, consisting of: \$10,155,000* General Improvement Bonds (the "General Improvement Bonds"), \$4,250,000* Water/Sewer Utility Bonds (the "Water/Sewer Utility Bonds") and \$760,000* Beach Utility Bonds (the "Beach Utility Bonds" and, together with the General Improvement Bonds and the Water/Sewer Utility Bonds, the "Bonds"), of the City of Cape May, in the County of Cape May, New Jersey (the "City"), will be issued in the form of one certificate for the aggregate principal amount of the Bonds of each series maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. See "THE BONDS – Book-Entry-Only System" herein.

Proceeds of the General Improvement Bonds will be used to: (i) currently refund \$10,155,000 of the City's \$10,155,000 Bond Anticipation Note, dated and issued on July 13, 2018 and maturing on July 12, 2019; and (ii) provide funds for the costs incurred in connection with the authorization, sale and issuance of the General Improvement Bonds. Proceeds of the Water/Sewer Utility Bonds will be used to: (i) currently refund \$3,635,000 of the City's \$3,635,000 Water/Sewer Utility Bond Anticipation Note, dated and issued on July 13, 2018 and maturing on July 12, 2019; (ii) permanently finance various water/sewer utility capital improvements in and by the City in the amount of \$615,000; and (iii) provide funds for the costs incurred in connection with the authorization, sale and issuance of the Water/Sewer Utility Bonds. Proceeds of the Beach Utility Bonds will be used to: (i) currently refund \$715,000 of the City's \$715,000 Beach Utility Bond Anticipation Note, dated and issued on July 13, 2018 and maturing on July 12, 2019; (ii) permanently finance various beach utility capital improvements in and by the City in the amount of \$45,000; and (iii) provide funds for the costs incurred in connection with the authorization, sale and issuance of the Beach Utility Bonds. See "AUTHORIZATION AND PURPOSE OF THE BONDS" herein.

Interest on the Bonds will be payable semiannually on February 1 and August 1 in each year until maturity or earlier redemption, commencing on February 1, 2020. Principal of and interest due on the Bonds will be paid to DTC by the City or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding January 15 and July 15 (the "Record Dates" for the payment of interest on the Bonds). Interest on the Bonds shall be calculated on the basis of a 360-day year consisting of twelve 30-day calendar months.

The Bonds are subject to redemption prior to their stated maturities. See "THE BONDS – Redemption" herein.

The Bonds are valid and legally binding obligations of the City and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the City for the payment of the Bonds and the interest thereon without limitation as to rate or amount.

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement, including the appendices, to obtain information essential to the making of an informed investment decision.

The Bonds will be offered when, as and if issued and delivered to the Underwriter (as defined herein), subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey, and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor in connection with the issuance of the Bonds. Delivery is anticipated to be via DTC in New York, New York, on or about July 11, 2019.

**ELECTRONIC SUBMISSIONS FOR THE BONDS WILL BE RECEIVED VIA MUNIAUCTION AT
WWW.GRANTSTREET.COM FROM 11:30 A.M. TO 11:45 A.M. ON JUNE 27, 2019. FOR MORE DETAILS ON HOW
TO BID ELECTRONICALLY, VIEW THE NOTICE OF SALE POSTED AT THE ADDRESS LISTED ABOVE.**

* Preliminary, subject to change.

**CITY OF CAPE MAY,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

**\$15,165,000*
GENERAL OBLIGATION BONDS, SERIES 2019**

Consisting of:

\$10,155,000* General Improvement Bonds

\$4,250,000* Water/Sewer Utility Bonds

\$760,000* Beach Utility Bonds

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

<u>Year</u>	<u>General Improvement Principal Amount*</u>	<u>Water/Sewer Utility Principal Amount*</u>	<u>Beach Utility Principal Amount*</u>	<u>Combined Principal Amount*</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2020	\$565,000	\$240,000	\$60,000	\$865,000	%	%	
2021	600,000	260,000	70,000	930,000			
2022	650,000	280,000	80,000	1,010,000			
2023	700,000	300,000	90,000	1,090,000			
2024	750,000	320,000	100,000	1,170,000			
2025	800,000	340,000	120,000	1,260,000			
2026	850,000	360,000	120,000	1,330,000			
2027	930,000	380,000	120,000	1,430,000			
2028	980,000	400,000		1,380,000			
2029	1,050,000	440,000		1,490,000			
2030	1,150,000	450,000		1,600,000			
2031	1,130,000	480,000		1,610,000			

* Preliminary, subject to change.

** 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 City 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.

**CITY OF CAPE MAY,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

MAYOR

Clarence F. Lear III

CITY COUNCIL MEMBERS

Patricia Gray Hendricks, Deputy Mayor
Shaine P. Meier
Zack Mullock
Stacy D. Sheehan

CITY MANAGER/CHIEF FINANCIAL OFFICER

Neil Young

CITY CLERK

Patricia Harbora

CITY ATTORNEY

Frank L. Corrado, Esquire
Wildwood, New Jersey

AUDITOR

Ford, Scott & Associates LLC
Ocean City, New Jersey

BOND COUNSEL

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

No broker, dealer, salesperson or other person has been authorized by the City 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 foregoing. The information contained herein has been provided by the City and other sources deemed reliable; however, no representation or warranty is made as to its accuracy or completeness and such information is not to be construed as a representation or warranty by the Underwriter or, as to information from sources other than itself, by the City. The information and the 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 since the date as of which such information is given, if earlier.

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

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended by the City from time to time (collectively, the "Official Statement"), may be treated as a "Final Official Statement" with respect to the Bonds described herein that is deemed final as of the date hereof (or of any such supplement or amendment) by the City.

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. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be used, in whole or in part, for any other purpose.

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. THE OFFERING OF THE BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

Neither McManimon, Scotland & Baumann, LLC nor Phoenix Advisors, LLC have participated in the preparation of the financial or statistical information contained in this Official Statement nor have they verified the accuracy or completeness thereof, and, accordingly, they express no opinion with respect thereto.

TABLE OF CONTENTS

INTRODUCTION	1
THE BONDS	1
General Description	1
Book-Entry-Only System	2
Discontinuation of Book-Entry-Only System	4
Redemption	4
AUTHORIZATION AND PURPOSE OF THE BONDS	4
General Improvement Bonds	5
Water/Sewer Utility Bonds	5
Beach Utility Bonds	6
SECURITY AND SOURCE OF PAYMENT	7
MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES	7
Local Bond Law (N.J.S.A. 40A:2-1 <u>et seq.</u>)	7
Local Budget Law (N.J.S.A. 40A:4-1 <u>et seq.</u>)	8
Tax Assessment and Collection Procedure	10
Tax Appeals	10
Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 <u>et seq.</u>)	11
TAX MATTERS	11
Exclusion of Interest on the Bonds From Gross Income for Federal Tax Purposes	11
Original Issue Discount	12
Original Issue Premium	12
Bank Qualification	12
Additional Federal Income Tax Consequences of Holding the Bonds	13
Changes in Federal Tax Law Regarding the Bonds	13
State Taxation	13
FINANCIAL STATEMENTS	14
LITIGATION	14
SECONDARY MARKET DISCLOSURE	14
MUNICIPAL BANKRUPTCY	16
APPROVAL OF LEGAL PROCEEDINGS	16
UNDERWRITING	16
RATING	17
MUNICIPAL ADVISOR	17
PREPARATION OF OFFICIAL STATEMENT	17
ADDITIONAL INFORMATION	17
MISCELLANEOUS	18
CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE CITY OF CAPE MAY, IN THE COUNTY OF CAPE MAY, NEW JERSEY	Appendix A
FINANCIAL STATEMENTS OF THE CITY OF CAPE MAY, IN THE COUNTY OF CAPE MAY, NEW JERSEY	Appendix B
FORM OF APPROVING LEGAL OPINION OF BOND COUNSEL	Appendix C

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT
Relating to the
CITY OF CAPE MAY,
IN THE COUNTY OF CAPE MAY, NEW JERSEY

\$15,165,000*
GENERAL OBLIGATION BONDS, SERIES 2019
Consisting of:
\$10,155,000* General Improvement Bonds
\$4,250,000* Water/Sewer Utility Bonds
\$760,000* Beach Utility Bonds

INTRODUCTION

This Official Statement, which includes the cover page, the inside front cover page and the appendices attached hereto, has been prepared by the City of Cape May (the “City”), in the County of Cape May (the “County”), New Jersey (the “State”), in connection with the sale and the issuance of \$15,165,000* General Obligation Bonds, Series 2019, consisting of: \$10,155,000* General Improvement Bonds (the “General Improvement Bonds”), \$4,250,000* Water/Sewer Utility Bonds (the “Water/Sewer Utility Bonds”) and \$760,000* Beach Utility Bonds (the “Beach Utility Bonds” and, together with the General Improvement Bonds and the Water/Sewer Utility Bonds, the “Bonds”). This Official Statement has been executed by and on behalf of the City by its City Manager/Chief Financial Officer and may be distributed in connection with the sale of the Bonds described herein.

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 City from its records, except for information expressly attributed to other sources.

THE BONDS

General Description

The Bonds shall be dated their date of delivery, shall mature on February 1 in the years and in the amounts set forth on the inside front cover page hereof, and will bear interest from their dated date. Interest on the Bonds will be payable semiannually on February 1 and August 1 in each year until maturity or earlier redemption, commencing on February 1, 2020, at the rates set forth on the inside front cover page hereof. Principal of and interest due on the Bonds will be paid to DTC (as defined herein) by the City or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding January 15 and July 15 (the “Record Dates” for the payment of interest on the Bonds). Interest on the Bonds shall be calculated on the basis of a 360-day year of twelve 30-day calendar months.

The Bonds are issuable as fully registered book-entry bonds in the form of one certificate for each maturity of the Bonds of each series and in the principal amount of such maturity. The Bonds may be purchased in book-entry-only form in the principal amount of \$5,000, or any integral multiple thereof,

* Preliminary, subject to change.

through book-entries made on the books and records of The Depository Trust Company, New York, New York (“DTC”), and its participants. So long as DTC or its nominee, Cede & Co. (or any successor or assign), is the registered owner for the Bonds, payments of the principal of and interest on the Bonds will be made by the City directly to Cede & Co. (or any successor or assign), as nominee for DTC.

Book-Entry-Only System*

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each year of maturity of the Bonds of each series, in the aggregate principal amount of each 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 and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 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.

* Source: The Depository Trust Company

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.

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 City 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, if any, and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the paying agent, if any, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by 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 shall be the responsibility of such Participant and not of DTC or its nominee, the paying agent, if any, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent, if any, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall 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 City or the paying agent, if any. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only 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 City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

THE INFORMATION CONTAINED IN THIS SUBSECTION "BOOK-ENTRY-ONLY SYSTEM" HAS BEEN PROVIDED BY DTC. THE CITY MAKES NO REPRESENTATIONS AS TO THE COMPLETENESS OR THE ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO BOND HOLDERS; (III) THE PAYMENT BY

DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OF OR INTEREST DUE ON THE BONDS; OR (IV) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY CEDE & CO., AS NOMINEE OF DTC AND THE REGISTERED OWNER OF THE BONDS. THE RULES APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE PROCEDURES OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

Discontinuation of Book-Entry-Only System

If the City, in its sole discretion, determines that DTC is not capable of discharging its duties, or if DTC discontinues providing its services with respect to the Bonds at any time, the City will attempt to locate another qualified securities depository. If the City fails to find such a securities depository, or if the City determines, in its sole discretion, that it is in the best interest of the City or that the interest of the Beneficial Owners might be adversely affected if the book-entry-only system of transfer is continued (the City undertakes no obligation to make an investigation to determine the occurrence of any events that would permit it to make such determination), the City shall notify DTC of the termination of the book-entry-only system.

Redemption

The Bonds maturing prior to February 1, 2027 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after February 1, 2027 are redeemable at the option of the City in whole or in part on any date on or after February 1, 2026 upon notice as required herein at par, plus in each case unpaid accrued interest to the date fixed for redemption.

Notice of redemption shall be given by mailing by first class mail in a sealed envelope with postage prepaid to the registered owners of the Bonds not less than thirty (30) days, nor more than sixty (60) days prior to the date fixed for redemption. Such mailing shall be to the owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the City or a duly appointed bond registrar. 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 City determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the City. The Bonds to be redeemed having the same maturity shall be selected by the securities depository in accordance with its regulations.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, the City shall send redemption notices only to Cede & Co.

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 unpaid accrued interest to the date fixed for redemption. Interest shall cease to accrue on the Bonds after the date fixed for redemption. Payment shall be made upon surrender of the Bonds redeemed.

AUTHORIZATION AND PURPOSE OF THE BONDS

The Bonds have been authorized by and are being issued pursuant to the laws of the State, including the Local Bond Law (constituting Chapter 2 of Title 40A of the New Jersey Statutes, as amended) (the "Local Bond Law"), the bond ordinances adopted by the City Council referred to in the chart that follows and by resolutions duly adopted by the City Council on May 21, 2019 (the "Resolutions").

General Improvement Bonds

Proceeds of the General Improvement Bonds will be used to: (i) currently refund \$10,155,000 of the City's \$10,155,000 Bond Anticipation Note, dated and issued on July 13, 2018 and maturing on July 12, 2019; and (ii) provide funds for the costs incurred in connection with the authorization, sale and issuance of the General Improvement Bonds.

Number of Bond Ordinance	Description of Improvement and Date of Adoption of Ordinance	Amount of Bond Proceeds
#252-2012	Various capital improvements, finally adopted July 17, 2012.	\$1,035,000
#269-2013	Various capital improvements, finally adopted May 21, 2013.	1,350,000
#270-2013	Improvements to the storm water collection system, finally adopted October 1, 2013.	240,000
#279-2014	Various capital improvements, finally adopted June 2, 2014.	1,300,000
#283-2014	Pool improvements at the Cape May City Elementary School, finally adopted September 12, 2014.	945,000
#289-2015	Feasibility study in connection with the Cape May Seawall Project, finally adopted February 17, 2015.	275,000
#292-2015	Various capital improvements, finally adopted May 19, 2015.	1,350,000
#306-2016	Various capital improvements, finally adopted May 17, 2016.	2,460,000
#315-2017	Various capital improvements, finally adopted May 16, 2017.	1,000,000
#343-2018	Preliminary expenses for the construction of a new Public Safety Building, finally adopted March 20, 2018.	<u>200,000</u>
	Total General Improvement Bond Proceeds:	\$10,155,000

Water/Sewer Utility Bonds

Proceeds of the Water/Sewer Utility Bonds will be used to: (i) currently refund \$3,635,000 of the City's \$3,635,000 Water/Sewer Utility Bond Anticipation Note, dated and issued on July 13, 2018 and maturing on July 12, 2019; (ii) permanently finance various water/sewer utility capital improvements in and by the City in the amount of \$615,000; and (iii) provide funds for the costs incurred in connection with the authorization, sale and issuance of the Water/Sewer Utility Bonds.

Number of Bond Ordinance	Description of Improvement and Date of Adoption of Ordinance	Amount of Bond Proceeds
#207-2010	Various improvements to the water and sewer system, finally adopted June 15, 2010.	\$50,000
#250-2012	Various improvements to the water and sewer system, finally adopted June 15, 2012.	150,000
#268-2013	Various improvements to the water and sewer system, finally adopted May 21, 2013.	391,000
#281-2014	Various water and sewer utility improvements, finally adopted June 2, 2014.	594,000
#293-2015	Various water and sewer utility improvements, finally adopted June 19, 2015	550,000
#307-2016	Various water and sewer utility improvements, finally adopted May 17, 2016	1,200,000
#316-2017	Various improvements to the water system, finally adopted May 6, 2017.	700,000
#353-2018	Various improvements to the water/sewer utility, finally adopted June 19, 2018.	<u>615,000</u>
	Total Water/Sewer Utility Bond Proceeds:	\$4,250,000

Beach Utility Bonds

Proceeds of the Beach Utility Bonds will be used to: (i) currently refund \$715,000 of the City's \$715,000 Beach Utility Bond Anticipation Note, dated and issued on July 13, 2018 and maturing on July 12, 2019; (ii) permanently finance various beach utility capital improvements in and by the City in the amount of \$45,000; and (iii) provide funds for the costs incurred in connection with the authorization, sale and issuance of the Beach Utility Bonds.

Number of Bond Ordinance	Description of Improvement and Date of Adoption of Ordinance	Amount of Bond Proceeds
#236-2011	Beach replenishment projects, finally adopted July 5, 2011.	\$48,250
#251-2012	Beach utility improvements, finally adopted May 5, 2012.	47,500
#267-2013	Beach utility improvements, finally adopted May 21, 2013.	25,000
#280-2014	Various beach utility improvements, finally adopted June 2, 2014.	94,250
#294-2015	Various beach utility improvements, finally adopted May 19, 2015.	195,000

Number of Bond Ordinance	Description of Improvement and Date of Adoption of Ordinance	Amount of Bond Proceeds
#314-2017	Various beach utility improvements, finally adopted May 16, 2017.	<u>350,000</u>
Total Beach Utility Bond Proceeds:		\$760,000

SECURITY AND SOURCE OF PAYMENT

The Bonds are valid and legally binding obligations of the City, and the City has pledged its full faith and credit for the payment of the principal of and the interest on the Bonds. The City is required by law to levy *ad valorem* taxes upon all the real property taxable within the City for the payment of the principal of and the interest on the Bonds without limitation as to rate or amount.

**MUNICIPAL FINANCE -
FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES**

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 general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects bonded and that bonds be retired in serial installments. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes subject to a number of exceptions. All bonds and notes issued by the City are general full faith and credit obligations.

The authorized bonded indebtedness of the City for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3.5% of its average equalized valuation basis. The average for the last three years of the equalized value of all taxable real property and improvements and certain Class II railroad property within the boundaries of City, as annually determined by the State Director of Taxation is shown in Appendix A.

Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit, including school bonds that do not exceed the school bond borrowing margin and certain debt that may be deemed self-liquidating.

As shown in Appendix A, the City has not exceeded its statutory debt limit.

The City may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the City 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 City or substantially reduce the ability of the City to meet its obligations or to provide essential public improvements and services, or if it makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the City to fund certain notes, to provide for self-liquidating purposes, and, in each fiscal year, to provide for purposes 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).

The City may sell short-term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the ordinance creating such capital expenditure, as it may be amended and supplemented. A local unit’s bond anticipation notes may be issued for periods not greater than one year. Generally, bond anticipation notes may not be outstanding for longer than ten 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 4 months (May 1) 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 New Jersey local finance system is the annual cash basis budget. Every local unit must adopt a budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the Director of the Division (the “Director”) prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations.

The local unit is authorized to issue Emergency Notes and Special Emergency Notes pursuant to the Local Budget Law.

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.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the 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.

The Local Budget Law (N.J.S.A. 40A:4-26) provides that no miscellaneous revenues from any source may 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 determines that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and certifies that determination to the local unit.

No budget or budget amendment may 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 the municipality’s calendar 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 of a local unit. However, with minor exceptions, such appropriations must be included in full in the following year’s budget.

The exceptions are certain enumerated quasi-capital projects (“special emergencies”) such as ice, snow and flood damage to streets, roads and bridges, which may be amortized over three years, and tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparation, payment of compensated absences and drainage map preparation for flood control purposes, which may be amortized over five years. Of course, emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

Budget transfers provide a degree of flexibility and afford a control mechanism. Transfers between appropriation accounts may be made only during the last two months of the year. Appropriation reserves may also be transferred during the first three (3) months of the year, to the previous year’s budget. Both types of transfers require a 2/3 vote of the full membership of the governing body; however, transfers cannot be made from either the down payment account or the capital improvement fund. Transfers may be made between sub-account line items within the same account at any time during the year, subject to internal review and approval. In a “CAP” budget, no transfers may be made from excluded from “CAP” appropriations to within “CAPS” appropriations nor can transfers be made between excluded from “CAP” appropriations, except that transfers may be made between debt service principal and interest.

A provision of law known as the New Jersey “Cap Law” (N.J.S.A. 40A:4-45.1 *et seq.*) imposes limitations on increases in municipal appropriations subject to various exceptions. The payment of debt service is an exception from this limitation. The Cap formula is somewhat complex, but basically, it permits a municipality to increase its overall appropriations by the lesser of 2.5% or the “Index Rate” if the index rate is greater than 2.5%. The “Index Rate” is the rate of annual percentage increase, rounded to the nearest one-half percent, in the Implicit Price Deflator for State and Local Government purchases of goods and services computed by the U.S. Department of Commerce. Exceptions to the limitations imposed by the Cap Law also exist for other things including capital expenditures; extraordinary expenses approved by the Local Finance Board for implementation of an interlocal services agreement; expenditures mandated as a result of certain emergencies; and certain expenditures for services mandated by law. Counties are also prohibited from increasing their tax levies by more than the lesser of 2.5% or the Index Rate subject to certain exceptions. Municipalities by ordinance approved by a majority of the full membership of the governing body may increase appropriations up to 3.5% over the prior year’s appropriation and counties by resolution approved by a majority of the full membership of the governing body may increase the tax levy up to 3.5% over the prior years’ tax levy in years when the Index Rate is 2.5% or less.

Additionally, legislation constituting P.L. 2010, c. 44, approved July 13, 2010 and applicable to the next local budget year following enactment, limits tax levy increases for those local units to 2% with exceptions only for capital expenditures including debt service, increases in pension contributions and accrued liability for pension contributions in excess of 2%, certain healthcare increases, extraordinary costs directly related to a declared emergency and amounts approved by a simple majority of voters voting at a special election.

Neither the tax levy limitation nor the “Cap Law” limits the obligation of the City to levy *ad valorem* taxes upon all taxable real property within the City to pay debt service on its bonds or notes.

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 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 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.

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 results of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners, but it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

Upon the filing of certified adopted budgets by the City's local school district and the County, the tax rate is struck by the County Board of Taxation based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provision for the assessment of property, 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.

Tax bills are typically mailed annually in June or following the adoption of the State budget, at which time state aid is certified, by the City's Tax Collector. The taxes are due August 1 and November 1 respectively, and are adjusted to reflect the current calendar year's total tax liability. The preliminary taxes due February 1 and May 1 of the succeeding year are based upon one-half of the current year's total tax.

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum on the first \$1,500.00 of the delinquency and 18% per annum on any amount in excess of \$1,500.00. These interest rates and penalties are the highest permitted under State statutes. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

The New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. Prior to February 1 in each year, the City must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board of Taxation on or before April 1 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 New Jersey 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 non-budgetary 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 of Local Government Services' "Requirements of Audit", includes recommendations for improvement of the local unit's financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its submission. The entire annual audit report for the year ended December 31, 2017 for the City is on file with the Clerk and is available for review during business hours.

TAX MATTERS

Exclusion of Interest on the Bonds From Gross Income for Federal Tax Purposes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Bonds in order to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Failure of the City to comply with such requirements may cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. The City will make certain representations in its Arbitrage and Tax Certificate, which will be executed on the date of issuance of the Bonds, as to various tax requirements. The City 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. Bond Counsel (as defined herein) will rely upon the representations made in the Arbitrage and Tax Certificate and will assume continuing compliance by the City with the above covenants in rendering its federal income tax opinions with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes and with respect to the treatment of interest on the Bonds for the purposes of alternative minimum tax.

Assuming the City observes its covenants with respect to compliance with the Code, McManimon, Scotland & Baumann, LLC ("Bond Counsel") is of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, and interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about the effect of future changes in (i) the Code and the applicable regulations under the Code or (ii) the interpretation and enforcement of the Code or those regulations by the IRS.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the owners of the Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures,

the IRS will treat the City as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including, but not limited to, selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Bonds.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If an owner of the Bonds is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Original Issue Discount

Certain maturities of the Bonds may be sold at an initial offering price less than the principal amount payable on such Bonds at maturity (the “Discount Bonds”). The difference between the initial public offering price of the Discount Bonds at which a substantial amount of each of the Discount Bonds was sold and the principal amount payable at maturity of each of the Discount Bonds constitutes the original issue discount. Bond Counsel is of the opinion that the appropriate portion of the original issue discount allocable to the original and each subsequent owner of the Discount Bonds will be treated for federal income tax purposes as interest not includable in gross income under Section 103 of the Code to the same extent as stated interest on the Discount Bonds. Under Section 1288 of the Code, the original issue discount on the Discount Bonds accrues on the basis of economic accrual. The basis of an initial purchaser of a Discount Bond acquired at the initial public offering price of the Discount Bonds will be increased by the amount of such accrued discount. Owners of the Discount Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of the original issue discount properly accruable with respect to the Discount Bonds and the tax accounting treatment of accrued interest.

Original Issue Premium

Certain maturities of the Bonds may be sold at an initial offering price in excess of the amount payable at the maturity date (the “Premium Bonds”). The excess, if any, of the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds such Premium Bonds as inventory, as stock-in-trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is amortizable bond premium, which is not deductible from gross income for federal income tax purposes. Amortizable bond premium, as it amortizes, will reduce the owner’s tax cost of the Premium Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Premium Bonds. Accordingly, an owner of a Premium Bond may have taxable gain from the disposition of the Premium Bond, even though the Premium Bond is sold, or disposed of, for a price equal to the owner’s original cost of acquiring the Premium Bond. Bond premium amortizes over the term of the Premium Bonds under the “constant yield method” described in regulations interpreting Section 1272 of the Code. Owners of the Premium Bonds should consult their own tax advisors with respect to the calculation of the amount of bond premium that will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of the Premium Bonds.

Bank Qualification

The Bonds will not be designated as qualified under Section 265 of the Code by the City for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

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.

Additional Federal Income Tax Consequences of Holding the 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 certain 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 companies, foreign corporations and certain S corporations.

Bond Counsel expresses no opinion regarding any federal tax consequences other than its opinion with regard to the exclusion of interest on the Bonds from gross income pursuant to Section 103 of the Code and interest on the Bonds not constituting an item of tax preference under Section 57 of the Code. Prospective purchasers of the Bonds should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the Bonds.

Changes in Federal Tax Law Regarding the Bonds

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State of New Jersey. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax) or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

State Taxation

Bond Counsel is of the opinion that, based upon existing law, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act.

THE OPINIONS EXPRESSED BY BOND COUNSEL WITH RESPECT TO THE BONDS ARE BASED UPON EXISTING LAWS AND REGULATIONS AS INTERPRETED BY RELEVANT JUDICIAL AND REGULATORY CHANGES AS OF THE DATE OF ISSUANCE OF THE BONDS, AND BOND COUNSEL HAS EXPRESSED NO OPINION WITH RESPECT TO ANY LEGISLATION, REGULATORY CHANGES OR LITIGATION ENACTED, ADOPTED OR DECIDED SUBSEQUENT THERETO. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE POTENTIAL IMPACT OF ANY PENDING OR PROPOSED FEDERAL OR STATE TAX LEGISLATION, REGULATIONS OR LITIGATION.

FINANCIAL STATEMENTS

Appendix B contains certain audited financial data of the City for the fiscal year ending December 31, 2017. The audited financial data was extracted from the report prepared by Ford, Scott and Associates LLC, Ocean City, New Jersey (the “Auditor”), to the extent and for the period set forth in their report appearing in Appendix B to this Official Statement. Appendix B also contains certain unaudited financial data of the City for the fiscal year ending December 31, 2018. The Auditor has not participated in the preparation of this Official Statement, nor has such firm verified the accuracy, completeness or fairness of the information contained herein (except for the financial data appearing in Appendix B hereto) and, accordingly, will express no opinion with respect thereto. See “APPENDIX B – FINANCIAL STATEMENTS OF THE CITY OF CAPE MAY, IN THE COUNTY OF CAPE MAY, NEW JERSEY”.

LITIGATION

To the knowledge of the City Attorney, Frank L. Corrado, Esquire, Wildwood, New Jersey, there is no litigation of any nature now pending or threatened, 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 City or the title of any of the present officers. Moreover, to the knowledge of the City Attorney, no litigation is presently pending or threatened that, in the opinion of the City Attorney, would have a material adverse impact on the financial condition of the City if adversely decided.

SECONDARY MARKET DISCLOSURE

The City, pursuant to the Resolutions, has covenanted for the benefit of the Bondholders and the beneficial owners of the Bonds to provide certain secondary market disclosure information pursuant to Rule 15c2-12 of the Securities and Exchange Commission, as amended and interpreted from time to time (the “Rule”). Specifically, for so long as the Bonds remain outstanding (unless the Bonds have been wholly defeased), the City shall provide:

(a) On or prior to September 30 of each year, beginning September 30, 2020, electronically to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system or such other repository designated by the Securities and Exchange Commission to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the City consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the City and certain financial information and operating data consisting of (i) the City and overlapping indebtedness including a schedule of outstanding debt issued by the City, (ii) property valuation information, and (iii) tax rate, levy and collection data. The audited financial information will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

(b) in a timely manner not in excess of ten business days after the occurrence of the event, to the MSRB, notice of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices 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 holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the City;
- (13) The consummation of a merger, consolidation or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation, any of which affect holders of the Bonds, if material; and
- (16) Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the City, if any such event reflects financial difficulties; and

(c) in a timely manner to the MSRB, notice of failure of the City to provide required annual financial information on or before the date specified in the Resolution.

The term “Financial Obligation” as used in subparagraphs (b)(15) and (b)(16) above means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation or (iii) guarantee of (i) or (ii); *provided, however*, that the term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule.

In the event that the City fails to comply with the above-described undertakings and covenants, the City shall not be liable for any monetary damages, remedy of the beneficial owners of the Bonds being specifically limited in the undertaking to specific performance of the covenants.

The undertaking may be amended by the City from time to time, without the consent of the holders or the beneficial owners of the Bonds, in order to make modifications required in connection with a change in legal requirements or change in law, which in the opinion of nationally recognized bond counsel complies with the Rule.

Within the five years immediately preceding the date of this Official Statement, the City previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements, audited financial information for the fiscal years ending December 31, 2013. Additionally, the City previously failed to file late filing notices in connection with its untimely filings of its audited financial information. Such late filings have since been filed with EMMA. The City appointed Phoenix Advisors, LLC in October of 2014 to serve as continuing disclosure agent.

There can be no assurance that there will be a secondary market for the sale or purchase of the Bonds. Such factors as prevailing market conditions, financial condition or market position of firms who may make the secondary market and the financial condition of the City may affect the future liquidity of the Bonds.

MUNICIPAL BANKRUPTCY

The undertakings of the City should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 901 *et seq.*, as amended by Public Law 94-260, approved April 8, 1976, and as further amended on November 6, 1978 by the Bankruptcy Reform Act of 1978, effective October 1, 1979, as further amended by Public Law 100-597, effective November 3, 1988, and as further amended and other bankruptcy laws affecting creditor's rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter IX and permit the State or any political subdivision, public agency or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under such chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owed for services or material actually provided within three months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount or more than one-half in number of the listed creditors. The 1976 Amendments were incorporated into the Bankruptcy Reform Act of 1978 with only minor changes.

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

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 City, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth in Appendix C attached hereto. Certain legal matters will be passed on for the City by the City Attorney.

UNDERWRITING

The Bonds have been purchased from the City, pursuant to the terms of the City's notice of sale, by _____ (the "Underwriter"), at a purchase price of _____ (the "Purchase Price"). The Purchase Price reflects the par amount of the Bonds in the amount of _____, plus a bid premium in the amount of _____. The Underwriter is obligated to purchase all of the Bonds if any are purchased.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the inside front cover 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 investments trusts) at yields higher than the public

offering yields set forth on the inside front cover of this Official Statement, and such yields may be changed, from time to time, by the Underwriter without prior notice.

RATING

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

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

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor to the City 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.

PREPARATION OF OFFICIAL STATEMENT

The City hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects, and it will confirm same to the Underwriter by a certificate signed by the Mayor and the City Manager/Chief Financial Officer.

All other information has been obtained from sources that the City consider to be reliable, and it makes no warranty, guaranty or other representation with respect to the accuracy and completeness of such information.

Neither Bond Counsel nor the Municipal Advisor has participated in the preparation of the financial or statistical information contained in this Official Statement nor have they verified the accuracy, completeness or fairness thereof and, accordingly, expresses no opinion with respect thereto.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including any information additional to that contained herein, may be directed to Neil Young, City Manager/Chief Financial Officer, City of Cape May, 643 Washington Street, Cape May, New Jersey 08204, (609) 884-9544, or the Municipal Advisor, Phoenix Advisors, LLC at 625 Farnsworth Avenue, Bordentown, New Jersey 08505, (609) 291-0130.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement among the City, 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 City since the date hereof. The information contained in this Official Statement is not guaranteed as to accuracy or completeness.

**CITY OF CAPE MAY, IN THE
COUNTY OF CAPE MAY, NEW JERSEY**

By: _____
Neil Young,
City Manager/Chief Financial Officer

Dated: June __, 2019

APPENDIX A

**CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE CITY OF CAPE
MAY, IN THE COUNTY OF CAPE MAY, NEW JERSEY**

[THIS PAGE INTENTIONALLY LEFT BLANK]

INFORMATION REGARDING THE CITY¹

The following material presents certain economic and demographic information of the City of Cape May (the “City”), in the County of Cape May (the “County”), State of New Jersey (the “State”).

General Information

The City is governed by the Faulkner Act Council-Manager form of government, providing for the election of a five (5) member City Council (the “Council”). The Mayor is a member of Council and directly elected by the voters. The Council is the policy maker for the City. The City Manager, the chief executive and administrative officer of the City, is appointed by the Council. The City Manager is responsible for personnel, enforcement of ordinances, and overall administration. The Council appoints the City Manager, City Clerk, Deputy City Clerk, City Attorney, Municipal Judge, Municipal Prosecutor, Public Defender, Chief Financial Officer, Tax Assessor, Tax Collector, City Auditor and City Engineer. The Council also makes appointments to boards and commissions.

History and Geography

The City is the nation’s oldest seashore resort and is located at the southern tip of the State, where the Atlantic Ocean meets the Delaware Bay. The City is located at the southern terminus (Exit Zero) of the Garden State Parkway, 150 miles south of New York City, 100 miles east of Philadelphia, and 35 miles south of Atlantic City.

Sighted by Henry Hudson in 1609, settled by the Dutch in 1623, colonized by English Pilgrims from Plymouth, the City has a rich history that today is a major source of local prosperity. Named for Dutch explorer and sea captain Cornelius Jacobsen Mey, the City is located on the New Jersey peninsula known as Cape May. It is a surprise to many that the City is actually situated below the Mason-Dixon line extended and is on the same latitude as Washington, D.C.

As the premier Atlantic Ocean resort of the 19th Century, famous visitors included maestro John Philip Sousa, circus impresario P.T. Barnum, Abraham Lincoln, Civil War Generals Robert E. Lee and William Sherman, and Presidents James Buchanan, Franklin Pierce, Ulysses S. Grant and William Harrison.

Following the “Great Fire of 1878” which destroyed half of the town, residents and vacationers rebuilt the City in the Victorian architecture popular in that era. With over 600 Victorian homes and structures in use, the entire City has been declared a National Historic Landmark by the United States Department of the Interior. The City has one the largest collections of authentic Victorian structures in America.

¹ Source: The City, unless otherwise indicated.

Land Use and Natural Resources

The City comprises 2.2 square miles of land, of which 353 acres (non-riparian) is owned by the United States Coast Guard, and another 126 (non-riparian) acres is owned by the City and is designated as reserved open space inventory (ROSI) for recreational parks and environmentally sensitive protected areas. Additionally, the City owns, or maintains through long-term (99 year) leases for public right-of-way approximately two (2) miles of ocean beaches and harbor front property.

A large portion of the vacant land in the City is classified as wetlands and therefore protected from development. Protection of environmentally sensitive areas of the City has strong support from the residents and visitors of the City. The natural wetlands and underdeveloped areas provide safe habitat for the second largest migrating bird fly zone on the east coast. Such protection is seen as a means of protecting the quality of life, keeping traffic congestion under control and extending the useful life of City-owned water and sewer utilities, street network, schools, and other public facilities.

Residential land use consists mostly single-family homes. Due to the favorable climate, geographic location, sound economy, cultural opportunities, peaceful setting, and numerous other quality of life factors, the City has been identified in several nationwide surveys as one of the most ideal residential communities in America.

Non-residential land use, including hotels, motels, restaurants, bed and breakfast inns, retail stores, other commercial, apartments, multi-use and parking areas account for the remainder of land use. Approximately half of the City's beachfront streetscape is lined with a variety of accommodations including, shopping, dining and entertainment businesses. The remainder consists of large, private beachfront homes.

Following two (2) decades of planning, engineering and economic analysis to justify funding, the Federal government, in 1991, completed the \$15 million first of three (3) phases of a \$50 million project to restore and maintain the entire beachfront of the City. This massive public works project has dramatically increased the width and depth of the beaches protecting the area from Atlantic Ocean storms. The U.S. Army Corp of Engineers and the State have entered into a formal agreement calling for biannual maintenance of the restored beach for a 50-year period ending in 2040. In compliance with this agreement, the Corp of Engineers returns every other year to replenish the beachfront sand. During the President Clinton era the scheduled work was delayed one year for failure to adopt the Federal budget timely. Work is scheduled for the Fall/Winter of 2019 for the next round of beach replenishment. The primary purpose is to provide shoreline protection to persons and property. Through several beach replenishment projects spanning over 30 years, the City's beaches have increased in area and height affording the City increased protection. No significant damage to properties, or municipal infrastructure, was sustained during Hurricane Irene (2011) or Superstorm Sandy (2012).

Local Economy

Tourism, commercial fishing and Coast Guard activities are the three (3) primary sources of the year-round strength of the local economy.

The City has maintained a strong economy due largely to the fact that the County has become a popular year-round resort for visitors in addition to the traditionally strong four (4) month summer season. The accommodations and food service industries support a population explosion, which escalates to approximately 40,000 to 50,000 visitors in the summer. As hundreds of the authentic original Victorian era structures have been restored during the past five (5) decades, many have been converted from private residences into restaurants, stores, guesthouses, and bed and breakfast inns. The City is nationally renowned for the quality of the historically preserved structures and the services provided by the business owners. The City is often cited in tourist and travel publications for the many fine eateries, and the Victorian style architecture of the residential homes, guesthouses and bed & breakfast inns. Set-off by the attraction of the finest beaches on the East Coast, the City is the second most visited destination in the State surpassed only by Atlantic City.

The City has a popular outdoor, three (3) block pedestrian mall known as the “Washington Street Mall.” The mall received a major renovation and upgrade, which was completed in the spring of 2008. In 2011, improvements commenced to expand the brick paver pedestrian walkways and Victorian light fixtures to the adjoining side streets incorporating additional retail shops into the Mall. Also, a separate center city, “Victorian Village” shopping area, and two (2) neighborhood commercial districts can be found in the City. Professional offices and banks are located throughout the community.

The Cape May Harbor is the hub of a multi-million-dollar fishing industry that employs several hundred people in the area. Statistics developed by the National Marine Fisheries Service reflect the total value of the State commercial catch in 2017 was \$190.5 million. The State is one of the world’s leading suppliers of ocean quahogs and surf clams. Cape May Harbor is one of six (6) major ports in the State. The fishing industry provides employment not only to the fishermen and dock workers, but to wholesalers, retailers, distributors and the food service industry. It is estimated that for each one (1) dollar of landed value, six (6) dollars are generated in the overall economy.

In recent years, Eco-tourism has increased as the City is a major stopping point for migratory birds and butterflies. The City is home to the World Series of Birding.

Statistical Sources: New Jersey Department of Agriculture

Sustainability

During the past five (5) years, the Council has successfully integrated its long-range planning agenda with the City’s long-term financial and capital planning programs to create a comprehensive and systematic sustainability approach for the City over the next two (2) decades. For the City, sustainability must be defined in the broadest sense of the term: Our strategies will

allow us to sustain economic growth; sustain the City's infrastructure to assist in providing the programs and services that our residents expect and demand; sustain exemplary environmental stewardship; and sustain the affordability of the City for our residents, businesses, and visitors.

As further evidence of the City's commitment and accomplishments concerning sustainability, the City has received the highly regarded Silver Certification in 2012, 2014 and 2017 and the Sustainable Champion Award in 2011, 2012 and 2014, by the statewide Sustainable Jersey program.

Transportation

The City is situated at the southernmost terminus (Exit 0) of the Garden State Parkway. Several interconnecting roads and highways permit tourists and travelers to reach the City by auto and mass transit bus. The Philadelphia International Airport, which is approximately 90 miles away, and the Atlantic City International Airport, which is approximately 40 miles away, are the closest facilities for business and international air travel. The County Airport located in Rio Grande is just six (6) miles away and permits small planes and jets to land and take-off. The Delaware River & Bay Authority ferry system with a port on the western end of the Cape May Canal allows both foot passengers and auto travelers from southern Mid-Atlantic States easy access to the City. The Delaware River & Bay Authority owns and operates five (5) ferries and maintains a daily schedule of crossings between terminals in Lewes, Delaware and the City.

Utilities

The State deregulated control over electric and natural gas utilities during the 1990's. The intention of deregulation was to encourage competition resulting in a reduction in cost, or stabilization of prices. In the past, the City has joined together with many other municipalities and counties in Southern New Jersey to seek bids on the purchase of electricity and natural gas. Bid periods are usually for a two (2) year term and have yielded mixed results. In some instances, the bids have resulted in a low bidder other than the "default provider" Atlantic City Electric. The purchase and delivery of natural gas is contracted for through South Jersey Gas Company, and the purchase of electricity is contracted through Atlantic City Electric and Hess Corporation, based on bids received by the South Jersey Power Co-operative.

Verizon Communications and Comcast provide local telephone service to the City. The City through competitive quotes uses X-TEL to provide long-distance services. Comcast provides cable television and internet services throughout the City. Cable television is territorially franchised by the State.

Water Utility

The City operates a municipal water utility which supplies water not only to City residents, businesses, and visitors, but also to the Borough of Cape May Point, the Borough of West Cape May, a portion of the Township of Lower, and the United States Coast Guard ("USCG") Base. The total service region has a permanent population of approximately 6,700. The neighboring municipalities experience the same seasonal tourism impact as the City; and the

USCG Base is the only basic training facility in the United States. The continued ability to provide a quality water supply for the total service region is the City's primary mission.

The Cape May Water Utility has eight (8) wells, five (5) of which are screened in the Cohansey Aquifer. Wells #1 and #2 are drilled and located in the City and have been shut down for many years due to the saline content of the water. Wells #3, #4 and #5 are drilled and located out of the City along the southern boundary of Lower Township, with varied levels of saltwater intrusion. Each well is located further inland, and north, in succession away from the Atlantic Ocean.

The City has commissioned studies of the salt-water intrusion and water supply problem from professional engineer consultants on two (2) occasions. The first study was completed by Killam Associates (1990), and the second study by Metcalf & Eddy, Inc. (1996). In addition, the New Jersey Department of Environmental Protection (NJDEP) and the United States Department of the Interior Geological Survey (USGS) have completed studies and issued reports on the problem. Other agencies such as the Southern Cape Regional Water Advisory Commission recognize the severity of the problem and have added input regarding alternatives considered. Some of the alternatives under consideration were: (1) continue under current conditions; (2) drill new wells farther north in the Cohansey Aquifer, requiring additional pipelines for transmission; (3) purchase water from the City of Wildwood Water Utility or New Jersey American Water systems requiring a more lengthy pipeline than option (2); (4) drill at least one (1) new well into the 800 Foot Sands Aquifer and construct a desalination plant to purify one (1) million gallons of water per day (mgd) while permitting expansion to two (2) mgd.

Beginning in 1997 the City commenced the development and construction of two (2) new wells located in the 800 Foot Sands Aquifer (Wells #6 and #7), and a two (2) mgd desalination plant. In the fall of 1998, the new desalination plant, the first in the State and the mid-Atlantic region, began producing potable water. Well #3 is dedicated to the desalination facility as a back-up source. Wells #4 and #5 remain available for periods of peak demand. The total combined capacity is 3.4 mgd of potable water. The peak seasonal demand is 2.8 mgd. In addition, locating the two (2) new wells into the 800 Foot Sands Aquifer provides a projected source of water at least through 2025, and reduces the draw on the Cohansey Aquifer thereby extending the life of Wells #3, #4 and #5.

In anticipation of an increased demand from the RO plant, the City completed construction of a new Atlantic City 800 Foot Sands well. In 2019, the City will solicit bids for engineering services to design an expansion of the City's existing two (2) mgd RO plant. The construction of the expansion of the RO plant is planned for 2020. The expansion will increase the potable water production capacity from two (2) mgd to four (4) mgd, further reducing the City's dependence on the deteriorating Cohansey Aquifer.

Capital Improvement Program

The Council has adopted a three (3) year capital improvement program. Projects to be funded with long-term debt include continuation of upgrading the City's streets, improvements to City owned buildings, and other capital improvements. Annually, the City provides for capital

maintenance and reconstruction of various streets including the water and sewer utility infrastructure.

The 2019-2021 Capital Program includes the construction of a new Public Safety Building. Planned cost is expected to come in at approximately \$12.5 million. Also, the City plans to rehabilitate a partially vacant City owned building, currently known as the Franklin Street School. The planned renovation is to turn the old School Building into a County operated library. The plan is for costs to be split between the City, the County and the Cape May County Library Commission. The City's portion is estimated at \$2 million.

The three (3) year capital improvement program also lists road and infrastructure improvements, updates to Public Safety Equipment and improvements to the current existing Seawall and Promenade. These improvements are reviewed on an annual basis and adjusted as needed. The City has been dedicated to its road and infrastructure program and has continually searched for grants to assist with those improvements. Lastly, the City will continue its progress in improving the City's public park to allow residents, students and visitors the ability to have education and recreation in some of the City's dedicated Open Space.

Fire Protection and Emergency Services

Due to the priceless concentration of the late 19th Century (Victorian) frame structures in the City, the City maintains a paid fire department with 17 full-time fire-fighters, consisting of: one (1) chief, one (1) deputy chief, three (3) lieutenants, and 12 fire-fighters. In 2004, the City purchased a 95-foot aerial ladder truck, and in 2007 a fire rescue truck for use in firefighting.

In 1988, the City established a 24-hour Emergency Medical Services (EMS) for the community as part of the paid fire department's duties. The City has 17 certified full-time and six (6) part-time emergency medical technicians on staff. The City provides EMS by contract for the Boroughs of West Cape May and Cape May Point. The City owns four (4) ambulances as part of its emergency fleet. It is the City's goal to purchase a new ambulance every third year replacing the oldest ambulance with a new one. The City purchased two (2) new ambulances for the fleet in 2013 and 2017.

The City's Office of Emergency Management has state-certified plans for handling emergencies, such as coastal flooding, hurricanes or hazardous substance spills. A corps of volunteers, coordinated with the Cape May County Office of Emergency Management, is well trained and equipped.

Law Enforcement

The City has a permanent police force of 23 officers, consisting of: one (1) chief, one (1) captain, one (1) lieutenant, five (5) sergeants, two (2) detectives, and 13 officers. In addition, the Police Department has four (4) full-time communications officers and one (1) clerical staff. During the busiest portion of the tourist season (May-October) the City employs several fully trained (Cape May County Police Academy) seasonal police officers.

In 2002, the City, through Interlocal Service Agreement with the Boroughs of West Cape May and Cape May Point, commenced to provide police services to the stated neighboring municipalities. The City added six (6) police officers, and expanded the number of police vehicles, enabling the City to provide the necessary coverage and service. In 2016, a new 10-year Interlocal Service Agreement was approved by the three (3) municipalities to continue the shared police service. The State encourages such agreements.

In addition to the police department, the City maintains a Code Enforcement Office normally staffed with two (2) full-time employees to enforce the various municipal ordinances and codes including animal control. Also, the City maintains a staff of nine (9) (six (6) full-time and three (3) part-time) in the Construction and Zoning Office providing construction code review and inspection for building, fire prevention, electrical and plumbing codes.

Public Works

The City Department of Public Works is comprised of four (4) divisions: streets and roads, buildings and grounds, traffic maintenance, and recycling-solid waste. All operations are centralized at the City's Public Works complex on Canning House Lane.

There is a continuing street improvement and maintenance program, part of which is the responsibility of the Public Works Department. Independent contractors are also used for major projects under the City's capital improvement program.

Tourism, Civic Affairs and Recreation

The City established a Tourism Utility by ordinance in 2012. The Tourism Utility functions and operates under state statutes for budgeting and accounting purposes as an independent entity, however, under the direction and control of the governing body. The Department of Tourism, Civic Affairs, and Recreation, within the Tourism Utility, was established to manage and operate the new Convention Hall, and to continue to oversee the extensive recreation program and coordinate the many public events, activities, and entertainment programs for both residents and visitors. This will enable the City to separately account and budget for all tourism, recreational and civic activities, and to the extent possible based on revenue generated to contribute towards the payment of debt service obligations of the new Convention Hall.

The City has strong relationships with eight private non-profit organizations to perform functions that would otherwise have to be performed by City government at taxpayer expense. For instance, the Mid-Atlantic Center for the Arts has restored and fully operates the City-owned, but volunteer-restored Physick Estate, which is a museum of Victoriana and a center for the arts. The Cape May Historical Society has restored and maintains the City-owned Colonial House. Volunteers staff the City's Transportation/Welcome Center and information booths.

City Employees

The City currently employs 112 persons on a full-time, year-round basis, and 15 persons on a part-time basis. Of these employees, one (1) is the City Manager, one (1) is the Deputy City Manager, three (3) are statutory officers and 12 are department heads or administrative personnel. In addition to the year-round employees, the City hires approximately 200 seasonal employees as lifeguards, beach taggers, Police Class I or Class II Officers, and laborers for public works operations to manage and provide services based on the increased number of tourists and visitors during the summer season. Of the full-time employee population 95 are covered by union representation.

Accumulated Sick and Vacation Leave

City employees have a standard benefits package similar to most public employees in the State. Employees may accumulate sick leave, provided uniformly at a rate of 15 days per year, but employees may not carry over any personal days from one year to the next, and may not accumulate more than one year of vacation time.

Upon retirement, City employees with 25 years or more of service are entitled to apply for payment of up to 50 percent of unused sick time up to a maximum of \$15,000 per retiree. The total accumulated value of such sick leave for potentially eligible employees is approximately \$1,331,378 as of December 31, 2017. Also, upon retirement with 25 years of service, the City will pay health insurance premiums for the lives of the employees and spouse at the time of retirement.

Pension and Retirement Systems

Substantially all eligible employees participate in the Public Employees' Retirement System, the Police and Firemen's Retirement System or the Defined Contribution Retirement Program, which have been established by State statute and are administered by the New Jersey Division of Pensions and Benefits (the "Division"). Benefits, contributions, means of funding and the manner of administration are established pursuant to State statute. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations and the employees contribute a portion of the cost. Each Plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes the financial statements and required supplementary information. This report may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625 or are available online at www.nj.gov/treasury/pensions/financial-reports.shtml.

The Public Employees' Retirement System ("PERS") is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A, to provide retirement, death, disability and medical benefits to certain qualified members. Membership 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 pension fund or local jurisdiction's pension fund.

The Police and Firemen's Retirement System ("PFRS") is a cost-sharing multiple-employer defined benefit pension plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A. to provide retirement, death, disability and medical benefits to certain qualified members. Membership is mandatory for substantially all full-time county and municipal police and firemen or officer employees with police powers appointed after June 30, 1944.

The Defined Contribution Retirement Program ("DCRP") is a multiple-employer defined contribution pension fund which was established July I, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L 2007, and was expanded under the provisions of Chapter 89, P.L. 2009. The DCRP provides eligible employees and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance coverage and disability coverage.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>City</u>				
2018	1,016	918	98	9.6%
2017	1,021	916	105	10.3%
2016	1,034	919	115	11.1%
2015	1,073	932	141	13.1%
2014	1,076	930	146	13.6%
<u>County</u>				
2018	45,785	41,945	3,840	8.4%
2017	46,097	41,862	4,235	9.2%
2016	46,661	42,076	4,585	9.8%
2015	48,038	42,694	5,344	11.1%
2014	48,551	42,607	5,944	12.2%
<u>State</u>				
2018	4,422,900	4,239,600	183,400	4.1%
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%

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 2017)

	<u>City</u>	<u>County</u>	<u>State</u>
Median Household Income	\$58,958	\$62,332	\$76,475
Median Family Income	98,750	78,624	94,337
Per Capita Income	43,580	36,256	39,069

Source: US Bureau of the Census 2017

Population

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

<u>Year</u>	<u>City</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>
2018 Estimate	3,448	-4.41%	92,560	-4.84%	8,908,520	1.33%
2010	3,607	-10.59	97,265	-4.95	8,791,894	4.49
2000	4,034	-13.58	102,326	7.61	8,414,350	8.85
1990	4,668	-3.81	95,089	15.59	7,730,188	4.96
1980	4,853	10.50	82,266	38.14	7,365,001	2.75

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2018 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Congress Hall LLC	\$28,418,200	1.00%
Oceanfront Properties LLC	25,310,200	0.89%
ADIS Inc.	21,787,600	0.77%
Ocean Club Hotel CM, LLC	13,000,000	0.46%
Cape Coachman Realty, LLC	11,989,500	0.42%
Kejzman Hospitality, LLC	11,473,100	0.40%
Montreal Inn	10,089,700	0.35%
Osprey Landing Development Co. LLC	9,223,900	0.32%
Individual #1	8,812,600	0.31%
Palavest, LLC	8,292,801	0.29%
Total	<u>\$148,397,601</u>	<u>5.22%</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>
2018U	\$26,601,618	\$26,262,620	98.73%
2017	25,053,918	24,706,266	98.61%
2016	23,425,778	23,248,505	99.24%
2015	24,290,570	24,026,179	98.91%
2014	24,180,807	23,873,272	98.73%

U = Unaudited
Source: Annual Audit Reports of the City

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>
2018U	\$196,305	\$247,879	\$444,184	1.67%
2017	8,195	314,118	322,313	1.29%
2016	7,610	174,346	181,956	0.78%
2015	7,059	261,685	268,744	1.11%
2014	6,489	307,620	314,109	1.30%

U = Unaudited
Source: Annual Audit Reports of the City

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2018U	\$83,316
2017	83,316
2016	83,316
2015	83,316
2014	83,316

U = Unaudited
Source: Annual Audit Reports of the City

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

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

<u>Year</u>	<u>Municipal</u>	<u>Local School</u>	<u>Regional School</u>	<u>County</u>	<u>Total</u>
2018	\$0.350	\$0.066	\$0.243	\$0.272	\$0.931
2017	0.340	0.066	0.210	0.268	0.884
2016	0.340	0.065	0.178	0.249	0.832
2015	0.339	0.062	0.215	0.249	0.865
2014	0.329	0.057	0.234	0.245	0.865

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

Valuation of Property

<u>Year</u>	<u>Aggregate Assessed Value 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	\$2,842,778,300	\$2,934,935,267	96.86%	\$628,331	\$2,935,563,598
2017	2,813,625,300	2,828,616,970	99.47	612,446	2,829,229,416
2016	2,812,425,600	2,851,780,166	98.62	625,355	2,852,405,521
2015	2,805,467,000	2,691,611,820	104.23	621,231	2,692,233,051
2014	2,794,646,700	2,719,056,918	102.78	589,060	2,719,645,978

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 City 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	\$66,574,600	\$2,214,046,300	\$0	\$431,678,400	\$0	\$130,479,000	\$2,842,778,300
2017	61,236,100	2,193,506,400	0	427,044,200	0	131,838,600	2,813,625,300
2016	62,194,300	2,187,231,000	0	429,579,600	0	133,420,700	2,812,425,600
2015	64,370,700	2,177,186,500	0	430,297,700	0	133,612,100	2,805,467,000
2014	53,288,200	2,173,873,900	0	431,761,000	0	135,723,600	2,794,646,700

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

Financial Operations

The following table summarizes the City’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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Fund Balance Utilized	\$2,184,000	\$2,184,000	\$2,300,000	\$2,820,000	\$2,930,000
Miscellaneous Revenues	5,317,609	5,433,366	6,130,208	6,418,369	6,592,508
Receipts from Delinquent Taxes	232,000	232,000	177,025	170,000	172,000
Amount to be Raised by Taxation	<u>9,500,985</u>	<u>9,537,143</u>	<u>9,565,980</u>	<u>9,950,474</u>	<u>10,368,122</u>
Total Revenue:	<u>\$17,234,594</u>	<u>\$17,386,509</u>	<u>\$18,173,213</u>	<u>\$19,358,843</u>	<u>\$20,062,630</u>
<u>Appropriations</u>					
General Appropriations	\$12,410,426	\$12,548,098	\$12,816,179	\$13,533,820	\$13,622,131
Operations (Excluded from CAPS)	855,925	851,856	1,379,563	1,292,717	1,170,412
Deferred Charges and Statutory Expenditures	17,500	0	0	0	372,026
Capital Improvement Fund	496,501	372,000	322,000	528,000	907,000
Municipal Debt Service	2,408,400	2,567,195	2,644,700	2,914,386	2,850,000
Reserve for Uncollected Taxes	<u>1,045,841</u>	<u>1,047,360</u>	<u>1,010,771</u>	<u>1,089,920</u>	<u>1,141,061</u>
Total Appropriations:	<u>\$17,234,594</u>	<u>\$17,386,509</u>	<u>\$18,173,213</u>	<u>\$19,358,843</u>	<u>\$20,062,630</u>

Source: Annual Adopted Budgets of the City

Fund Balance

Current Fund

The following table lists the City’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>Balance</u>	<u>Utilized in Budget</u>
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018U	\$5,518,458	\$2,930,000
2017	4,550,428	2,820,000
2016	3,752,157	2,300,000
2015	3,887,606	2,184,000
2014	3,493,811	2,184,000

U = Unaudited
Source: Annual Audit Reports of the City

Water/Sewer Utility Operating Fund

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

Fund Balance		
<u>Water/Sewer Utility Operating Fund</u>		
	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018U	\$820,455	\$600,000
2017	967,660	732,314
2016	1,151,212	675,000
2015	1,270,017	625,000
2014	1,399,567	575,000

U = Unaudited
Source: Annual Audit Reports of the City

Beach Utility Operating Fund

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

Fund Balance		
<u>Beach Utility Operating Fund</u>		
	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018U	\$1,213,274	\$301,834
2017	1,154,801	274,475
2016	998,368	214,125
2015	839,787	214,125
2014	390,814	224,245

U = Unaudited
Source: Annual Audit Reports of the City

City Indebtedness as of December 31, 2018

General Purpose Debt	
Serial Bonds	\$13,024,917
Bond Anticipation Notes	10,155,000
Bonds and Notes Authorized but Not Issued	22,412,511
Other Bonds, Notes and Loans	<u>194,175</u>
Total:	\$45,786,603
Regional School District Debt	
Serial Bonds	\$3,722,427
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$3,722,427
Self-Liquidating Debt	
Serial Bonds	\$5,458,560
Bond Anticipation Notes	3,658,588
Bonds and Notes Authorized but Not Issued	5,224,900
Other Bonds, Notes and Loans	<u>8,464,301</u>
Total:	\$22,806,349
TOTAL GROSS DEBT	<u>\$72,315,379</u>
Less: Statutory Deductions	
General Purpose Debt	\$445,382
Regional School District Debt	3,722,427
Self-Liquidating Debt	<u>22,806,349</u>
Total:	\$26,974,158
TOTAL NET DEBT	<u>\$45,341,221</u>

Source: Annual Debt Statement of the City

Overlapping Debt (as of December 31, 2018)²

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>City Percentage</u>	<u>City Share</u>
Regional School District	\$9,417,000	39.53%	\$3,722,427
County	384,897,073	5.68%	<u>21,881,028</u>
Net Indirect Debt			\$25,603,455
Net Direct Debt			<u>45,341,221</u>
Total Net Direct and Indirect Debt			<u>\$70,944,676</u>

Debt Limit

Average Equalized Valuation Basis (2016, 2017, 2018)	\$2,871,777,468
Permitted Debt Limitation (3 1/2%)	100,512,211
Less: Net Debt	<u>45,341,221</u>
Remaining Borrowing Power	<u>\$55,170,991</u>
Percentage of Net Debt to Average Equalized Valuation	1.579%
Gross Debt Per Capita based on 2010 population of 3,607	\$20,179
Net Debt Per Capita based on 2010 population of 3,607	\$12,678

Source: Annual Debt Statement of the City

² City percentage of County debt is based on the City's share of total equalized valuation in the County.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

**FINANCIAL STATEMENTS OF THE CITY OF CAPE MAY,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

[THIS PAGE INTENTIONALLY LEFT BLANK]



FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1535 HAVEN AVENUE • OCEAN CITY, NJ • 08226

PHONE 609.399.6333 • FAX 609.399.3710

www.ford-scott.com

Independent Auditor's Report

The Honorable Mayor and
Members of City Council
City of Cape May
County of Cape May, New Jersey

Report on the Financial Statements

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the City of Cape May, as of December 31, 2017 and 2016, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Cape May as of December 31, 2017 and 2016, or changes in financial position for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As described in Note 20 of the financial statements, the City participates in a Length of Service Award Program (LOSAP) for its volunteer fire and rescue personnel. The amount reflected in the trust fund statements of \$290,139.95 and \$257,689.40 for 2017 and 2016 respectively were not audited and, therefore, we express no opinion on the LOSAP program.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on Regulatory Basis of Accounting” paragraph, the financial statements referred to above present fairly, in all material respects, the regulatory basis balances sheets and account group as of December 31, 2017 and 2016, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2017 in accordance with the basis of financial reporting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Matters

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2018 on our consideration of the City of Cape May'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 City of Cape May's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello

Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

June 1, 2018

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Regular Fund:		
Cash:		
Treasurer	\$ 9,270,119.94	6,488,359.58
Petty Cash and Change Funds	950.00	950.00
Total Cash	<u>9,271,069.94</u>	<u>6,489,309.58</u>
Receivables and Other Assets with Full Reserves:		
Delinquent Property Taxes Receivable	314,118.19	174,346.09
Tax Title and Other Liens	8,194.99	7,609.78
Property Acquired for Taxes - at Assessed Valuation	83,316.00	83,316.00
Revenue Accounts Receivable	5,325.83	5,637.97
Due from State:		
Chapter 20 P.L. 1971	12,130.31	6,126.80
Interfund Receivable:		
TTL Premium	2.84	2.84
Animal Control	1,201.01	489.89
Utility Operating	645.25	645.25
Federal and State Grant Funds	438,182.36	269,027.60
Total Receivables and Other Assets	<u>863,116.78</u>	<u>547,202.22</u>
Total Regular Fund	<u>10,134,186.72</u>	<u>7,036,511.80</u>
Federal and State Grant Fund:		
Cash	450,286.89	175,826.06
Federal and State Grants Receivable	3,141,568.03	2,699,846.46
Revolving Loan Receivable	600,000.00	600,000.00
Total Federal and State Grant Fund	<u>4,191,854.92</u>	<u>3,475,672.52</u>
Total Current Fund	<u>\$ 14,326,041.64</u>	<u>10,512,184.32</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>2017</u>	<u>2016</u>
Regular Fund:		
Liabilities:		
Appropriation Reserves	\$ 1,386,116.71	1,323,573.18
Reserve for Encumbrances/Accounts Payable	571,543.58	565,424.99
Prepaid Taxes	2,424,055.21	567,646.94
Overpaid Taxes	3,984.34	-
County Added Tax Payable	52,794.30	18,776.96
Local School Tax Payable (Overpaid)	-	(14,842.24)
Regional School Tax (Overpaid)	(0.07)	(0.07)
Due to State:		
Marriage Licenses	525.00	500.00
DCA Training Fees	15,158.00	4,708.00
Interfund Payable:		
Trusts Other	357.75	357.75
Other:		
Payroll Taxes Payable	30,201.13	26,690.83
Tax Title Lien Exchange	1,482.58	1,482.58
Reserve for Section 8	16,394.81	16,394.81
Reserve for Codification of Ordinances	353.16	353.16
Reserve for Purchase of Ambulance	160.71	160.71
Reserve for Payment of Bonds and Coupons	15,080.51	15,080.51
Reserve for Escrow Deposits	133,806.76	136,213.37
Reserve for State Tax Appeal	4,558.48	4,558.48
Reserve for Revaluation	48,455.00	48,455.00
Reserve for Master Plan	27,744.12	27,744.12
	4,732,772.08	2,743,279.08
Reserve for Receivables and Other Assets	850,986.47	541,075.42
Fund Balance	4,550,428.17	3,752,157.30
Total Regular Fund	10,134,186.72	7,036,511.80
Federal and State Grant Fund:		
Unappropriated Reserves	28,256.32	31,707.89
Appropriated Reserves	3,092,624.88	2,574,765.49
Reserve for Encumbrances/Accounts Payable	32,791.36	171.54
Due to Current Fund	438,182.36	269,027.60
Reserve for Revolving Loans Receivable	600,000.00	600,000.00
Total Federal and State Grant Fund	4,191,854.92	3,475,672.52
Total Current Fund	\$ 14,326,041.64	10,512,184.32

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	2017	2016
Revenue and Other Income Realized		
Fund Balance	\$ 2,300,000.00	2,184,000.00
Miscellaneous Revenue Anticipated	7,090,176.25	7,946,496.44
Receipts from Delinquent Taxes	174,346.09	261,684.86
Receipts from Current Taxes	24,706,266.43	23,248,504.65
Non Budget Revenue	117,313.34	158,697.19
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	1,075,560.15	755,157.91
Interfund Returned	-	2,255.97
Prior Year Accounts Payable Cancelled	10,046.57	-
Total Income	35,473,708.83	34,556,797.02
Expenditures		
Budget and Emergency Appropriations:		
Appropriations Within "CAPS"		
Operations:		
Salaries and Wages	6,005,928.00	5,888,099.00
Other Expenses	5,191,821.00	5,085,236.00
Deferred Charges & Statutory Expenditures	1,618,430.00	1,574,763.00
Appropriations Excluded from "CAPS"		
Operations:		
Salaries and Wages	764,772.00	749,776.00
Other Expenses	831,620.97	1,880,639.59
Capital Improvements	322,000.00	372,000.00
Debt Service	2,639,327.91	2,564,705.70
Deferred Charges	-	-
Local District School Tax	1,841,677.70	1,753,077.28
Regional District School Tax	5,449,880.00	5,511,008.43
County Tax	7,487,320.20	6,962,758.25
County Share of Added Tax	52,794.30	18,776.96
Interfund Created	169,865.88	1,243.75
Refund of Prior Year's Revenue	-	3,024.68
Prior Year Accounts Payable	-	143,137.57
Total Expenditures	32,375,437.96	32,508,246.21
Excess/(Deficit) in Revenue	3,098,270.87	2,048,550.81

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	2017	2016
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	-	-
Total Adjustments	-	-
Statutory Excess to Fund Balance	3,098,270.87	2,048,550.81
Fund Balance January 1	3,752,157.30	3,887,606.49
	6,850,428.17	5,936,157.30
Decreased by:		
Utilization as Anticipated Revenue	2,300,000.00	2,184,000.00
Fund Balance December 31	\$ 4,550,428.17	3,752,157.30

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Anticipated		Realized	Excess or (Deficit)
	Budget	N.J.S. 40A:4-87		
Fund Balance Anticipated	\$ 2,300,000.00	-	2,300,000.00	-
Total Fund Balance Anticipated	2,300,000.00	-	2,300,000.00	-
Miscellaneous Revenues:				
Section A: Local Revenues				
Licenses:				
Alcoholic Beverages	55,000.00		55,940.00	940.00
Other	310,000.00		324,190.80	14,190.80
Fees and Permits	175,000.00		201,350.70	26,350.70
Fines and Costs:				
Municipal Court	220,000.00		204,354.77	(15,645.23)
Interest and Costs on Taxes	64,000.00		53,360.35	(10,639.65)
Interest Earned on Investments	3,000.00		6,409.42	3,409.42
Parking Meters	1,015,000.00		1,149,497.83	134,497.83
Hotel Room Tax	1,050,000.00		1,238,778.67	188,778.67
Lease and Rent Contracts	450,000.00		453,606.82	3,606.82
T.V. Cable Receipts	37,000.00		41,763.47	4,763.47
Victorian Towers - In Lieu of Taxes	165,000.00		203,528.23	38,528.23
Emergency Medical Services	310,000.00		335,506.52	25,506.52
Total Section A: Local Revenues	3,854,000.00	-	4,268,287.58	414,287.58
Section B: State Aid Without Offsetting Appropriations				
Energy Receipts Tax	337,632.00		337,632.00	-
Total Section B: State Aid Without Offsetting Appropriations	337,632.00	-	337,632.00	-
Section C: Uniform Construction Code Fees				
Uniform Construction Code Fees	471,000.00		799,849.70	328,849.70
Total Section C: Uniform Construction Code Fees	471,000.00	-	799,849.70	328,849.70
Section D: Interlocal Municipal Service Agreements				
Interlocal Agreement with West Cape May (Police Protection)	476,697.00		476,698.00	1.00
Interlocal Agreement with Cape May Point (Police Protection)	288,075.00		288,075.00	-
Total Section D: Interlocal Municipal Service Agreements	764,772.00	-	764,773.00	1.00

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Anticipated		Excess or (Deficit)
	Budget	N.J.S. 40A:4-87	Realized
Section F: Special Items - Public and Private Programs			
Off-Set with Appropriations			
Bureau of Housing Inspection	15,141.00		15,141.00
Estate of Edward D. Ross - 2016 Educational	15,096.85		15,096.85
2016 Emergency Management-EMAA Grant		9,400.00	9,400.00
Clean Communities		18,943.63	18,943.63
NJDCA-Intensive Level Survey-FY 2017		24,999.00	24,999.00
ANJEC-2017 Open Space Stewardship		1,500.00	1,500.00
NJ Transportation Trust - FY 2017		158,000.00	158,000.00
Cops in Shops		1,800.00	1,800.00
Small Cities Grant - Housing Rehab	175,000.00		175,000.00
Small Cities Grant - ADA Compliance Grant	270,000.00		270,000.00
Body Armor Grant	2,023.77		4,211.02
Recycling Tonnage	25,542.47	2,187.25	25,542.47
Total Section F: Special Items - Public and Private Programs	502,804.09	216,829.88	719,633.97
Section G: Other Special Items			
Water & Sewer Utility Contribution to Street Improvements	50,000.00		50,000.00
Reserve to Pay Debt Service	150,000.00		150,000.00
Total Section G: Other Special Items	200,000.00	-	200,000.00
Total Miscellaneous Revenues:	6,130,208.09	216,829.88	7,090,176.25
Receipts from Delinquent Taxes	177,025.00		174,346.09
Amount to be Raised by Taxes for Support of Municipal Budget	9,565,980.17		10,425,781.10
Local Tax for Municipal Purposes	9,565,980.17	-	10,425,781.10
Total Amount to be Raised by Taxes for Support of Municipal Budget	18,173,213.26	216,829.88	19,990,303.44
Budget Totals			1,600,260.30
Non- Budget Revenues:			117,313.34
Other Non- Budget Revenues:			1,717,573.64
	\$	18,173,213.26	20,107,616.78

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

Analysis of Realized Revenues

Allocation of Current Tax Collections:

Revenue from Collections 24,706,266.43

Less: Reserve for Tax Appeals Pending -

Net Revenue from Collections 24,706,266.43

Allocated to:

School, County and Other Taxes 15,291,256.50

Balance for Support of Municipal Budget Appropriations 9,415,009.93

Increased by:

Appropriation "Reserved for Uncollected Taxes" 1,010,771.17

Amount for Support of Municipal Budget Appropriations 10,425,781.10

Receipts from Delinquent Taxes:

Delinquent Tax Collection 174,346.09

Total Receipts from Delinquent Taxes 174,346.09

Analysis of Non-Budget Revenue:

Miscellaneous Revenue Not Anticipated:

Accident Report	824.40
Clerk's office	5,892.65
Copy Machine	254.98
GIS	17,785.00
Parking Fees	9,600.00
Sale of Municipal Assets	7,801.46
Restitution	70.00
PILOTS	12,751.50
NSF Fees	620.00
Shade Tree	5,937.50
Dog Excess Revenue	711.12
Marriage Ceremony/Fees	12,875.00
JIF	2,400.00
2% Admin Fee	825.00
Cape May Pt - Court	10,146.49
Miscellaneous	28,818.24

Total Miscellaneous Revenue Not Anticipated: 117,313.34

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
OPERATIONS WITHIN "CAPS"						
GENERAL GOVERNMENT:						
General Administration						
Salaries and Wages	220,850.00	220,850.00	148,480.71		72,369.29	-
Other Expenses	107,460.00	107,460.00	62,248.65	1,937.92	43,273.43	-
Mayor and Council						
Salaries and Wages	46,275.00	46,275.00	42,418.29		3,856.71	-
Other Expenses	5,275.00	5,275.00	3,832.55	375.00	1,067.45	-
City Clerk						
Salaries and Wages	165,000.00	165,000.00	135,765.91		29,234.09	-
Other Expenses	17,530.00	17,530.00	13,605.92	51.40	3,872.68	-
Financial Administration						
Salaries and Wages	132,675.00	132,675.00	128,998.00		3,677.00	-
Other Expenses	14,250.00	15,250.00	12,940.44	200.00	2,109.56	-
Audit Services						
Other Expenses	28,000.00	28,000.00	22,500.00		5,500.00	-
Assessment of Taxes						
Salaries and Wages	75,000.00	75,000.00	72,946.39		2,053.61	-
Other Expenses	15,150.00	15,150.00	10,616.07	630.00	3,903.93	-
Collection of Taxes						
Salaries and Wages	74,800.00	74,800.00	59,941.09		14,858.91	-
Other Expenses	9,000.00	9,000.00	8,340.72		659.28	-
Legal Services						
Other Expenses						
Miscellaneous Other Expenses	400,000.00	400,000.00	216,445.04	790.00	182,764.96	-
Engineering & Planning Services						
Other Expenses	25,000.00	29,000.00	20,750.11	1,200.00	7,049.89	-
Economic Development						
Other Expenses	15,000.00	15,000.00	5,000.00		10,000.00	-
Emergency Medical Services - Collection						
Contractual Expenses	18,000.00	18,000.00	14,674.34		3,325.66	-
INSURANCE						
General Liability	319,750.00	253,750.00	150,959.30	29,100.00	73,690.70	-
Workers Compensation	364,000.00	364,000.00	333,602.23		30,397.77	-
Employee Group Health	2,082,240.00	2,082,240.00	1,856,241.95	117,339.14	108,658.91	-
Employee Group Health Waiver						
Salaries and Wages	55,000.00	55,000.00			55,000.00	-

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
LAND USE ADMINISTRATION						
Planning Board						
Salaries and Wages	2,500.00	2,500.00			2,500.00	-
Other Expenses	24,550.00	36,550.00	24,066.37	2,150.00	10,333.63	-
Zoning Board of Adjustment						
Salaries and Wages	2,500.00	2,500.00			2,500.00	-
Other Expenses	16,950.00	16,950.00	9,158.48	1,309.47	6,482.05	-
PUBLIC SAFETY						
Fire						
Salaries and Wages	1,380,400.00	1,395,400.00	1,372,575.39		22,824.61	-
Other Expenses	73,126.00	73,126.00	47,474.62	17,682.10	7,969.28	-
Aid to Volunteer Fire Company						
Other Expenses	37,500.00	37,500.00	37,500.00		-	-
Police						
Salaries and Wages	1,931,478.00	1,931,478.00	1,856,430.32		75,047.68	-
Other Expenses	161,035.00	161,035.00	109,953.36	14,207.88	36,873.76	-
Emergency Management Services						
Salaries and Wages	5,750.00	5,750.00	5,000.06		749.94	-
Other Expenses	6,100.00	6,100.00	853.09	2,643.02	2,603.89	-
Parking and Traffic Maintenance						
Salaries and Wages	98,500.00	98,500.00	88,971.62		9,528.38	-
Other Expenses	54,000.00	54,000.00	29,399.44	13,986.45	10,614.11	-
Public Safety						
Salaries and Wages	2,500.00	2,500.00			2,500.00	-
Other Expenses	1,000.00	1,000.00			1,000.00	-
Municipal Court						
Salaries and Wages	178,000.00	178,000.00	155,027.35		22,972.65	-
Other Expenses	24,105.00	24,105.00	15,238.92	2,521.83	6,344.25	-
Public Defender						
Other Expenses	8,300.00	8,300.00	7,500.00		800.00	-
PUBLIC WORKS FUNCTION						
Road Repairs and Maintenance						
Salaries and Wages	512,000.00	512,000.00	447,566.94		64,433.06	-
Other Expenses	219,375.00	219,375.00	145,433.73	21,949.51	51,991.76	-
Sanitary Landfill Contractual						
Other Expenses	27,000.00	27,000.00	14,308.15	3,109.97	9,581.88	-
Recycling						
Salaries and Wages	38,000.00	38,000.00	30,978.64		7,021.36	-
Other Expenses	251,845.00	251,845.00	202,072.61	17,810.35	31,962.04	-

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Budget After Modifications	Paid or Charged	Expended		Reserved	(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications			Encumbered	Reserved		
Public Buildings and Grounds	581,800.00	581,800.00	466,353.54		115,446.46	-		
Salaries and Wages	363,490.00	385,490.00	358,916.41	22,871.96	3,701.63	-		
Other Expenses								
Shade Tree Commission	500.00	500.00	90.00		410.00	-		
Salaries and Wages	38,800.00	38,800.00	35,517.12	1,080.00	2,202.88	-		
Other Expenses								
Property Maintenance Enforcement	2,500.00	2,500.00			2,500.00	-		
Other Expenses								
HEALTH AND HUMAN SERVICES								
Environmental Commission	1,800.00	1,800.00	990.00		810.00	-		
Salaries and Wages	4,450.00	4,450.00	300.00		4,150.00	-		
Other Expenses								
PARKS AND RECREATION FUNCTIONS								
Civic Affairs	138,000.00	138,000.00	113,707.68		24,292.32	-		
Salaries and Wages	63,400.00	63,400.00	49,362.27	2,420.82	11,616.91	-		
Other Expenses								
Historic Preservation Commission	12,600.00	12,600.00	12,427.20		172.80	-		
Salaries and Wages	19,400.00	19,400.00	8,837.68	680.00	9,882.32	-		
Other Expenses								
Grants Coordinator								
Other Expenses	25,000.00	27,000.00	24,993.00		2,007.00	-		
UNIFORM CONSTRUCTION CODE								
State Uniform Construction Code								
Construction Official	335,000.00	335,000.00	305,070.37		29,929.63	-		
Salaries and Wages	20,240.00	20,240.00	17,014.56	513.65	2,711.79	-		
Other Expenses								
UNCLASSIFIED								
Celebration of Public Events - Anniversary or Holiday	42,000.00	42,000.00	39,557.56	551.00	1,891.44	-		
UTILITY EXPENSES AND BULK PURCHASES								
General Office Operations	129,500.00	129,500.00	117,363.60	8,178.50	3,957.90	-		
Street Lighting	135,000.00	135,000.00	118,431.38	2,791.21	13,777.41	-		
Gas Lighting	34,500.00	34,500.00	25,759.09	279.00	8,461.91	-		
Gas Lighting - Parts	12,000.00	12,000.00	9,017.19		2,982.81	-		
TOTAL OPERATIONS WITHIN "CAPS"	11,206,749.00	11,196,749.00	9,623,525.45	288,360.18	1,284,863.37	-		

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Contingent	1,000.00	1,000.00		1,000.00		-
TOTAL OPERATIONS INCLUDING CONTINGENT WITHIN "CAPS"	11,207,749.00	11,197,749.00	9,623,525.45	288,360.18	1,285,863.37	-
Detail:						
Salaries and Wages	5,990,928.00	6,005,928.00	5,443,739.50	-	562,188.50	-
Other Expenses	5,216,821.00	5,191,821.00	4,179,785.95	288,360.18	723,674.87	-
DEFERRED CHARGES AND STATUTORY EXPENDITURES:						
Deferred Charges:						
None	-	-				-
Statutory Expenditures:						
Contributions to:						
Public Employees' Retirement System	429,025.00	431,025.00	430,793.22		231.78	-
Social Security System (O.A.S.I.)	330,000.00	330,000.00	311,261.11		18,738.89	-
Police and Firemen's Retirement System	762,405.00	770,405.00	770,299.94		105.06	-
Unemployment Compensation Insurance	22,000.00	22,000.00	22,000.00		-	-
Defined Contribution Retirement Program	10,000.00	10,000.00	1,847.39		8,152.61	-
Reserve for Retirement Trust	55,000.00	55,000.00	55,000.00		-	-
TOTAL DEFERRED CHARGES AND STATUTORY EXPENDITURES:	1,608,430.00	1,618,430.00	1,591,201.66	-	27,228.34	-
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES WITHIN "CAPS"	12,816,179.00	12,816,179.00	11,214,727.11	288,360.18	1,313,091.71	-
OPERATIONS - EXCLUDED FROM "CAPS"						
(A) Operations - Excluded from "CAPS"						
Length of Service Award Program - Fire	22,000.00	22,000.00			22,000.00	-
Interlocal Municipal Service Agreements						
Police Protection West Cape May & Cape May Point						
Contractual - West Cape May - Salaries & Wages	476,697.00	476,697.00	476,697.00		-	-
Contractual - Cape May Point - Salaries & Wages	288,075.00	288,075.00	288,075.00		-	-
Rental of Borough Property - West Cape May	38,962.00	38,962.00	38,962.00		-	-
TOTAL OPERATIONS - EXCLUDED FROM "CAPS"	825,734.00	825,734.00	803,734.00	-	22,000.00	-

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
(A) Public and Private Programs Off-Set by Revenues						
Cops in Shops		1,800.00	1,800.00	-	-	-
Matching Funds for Grants	25,000.00	25,000.00		25,000.00		
Bureau of Housing Inspection	15,141.00	15,141.00	15,141.00			
Estate of Edward D. Ross - 2016 Educational	15,096.85	15,096.85	15,096.85			
NJDCA-Intensive Level Survey-FY 2017	24,999.00	24,999.00	24,999.00			
2016 Emergency Management-EMAA Grant	9,400.00	9,400.00	9,400.00			
ANJEC - 2017 Open Space Stewardship	1,500.00	1,500.00	1,500.00			
Clean Communities	18,943.63	18,943.63	18,943.63			
NJ Department of Transportation - Pennsylvania Ave	158,000.00	158,000.00	158,000.00			
Small Cities Grant - Housing Rehab	175,000.00	175,000.00	175,000.00			
Small Cities Grant - Housing Rehab - Match	26,025.00	26,025.00		26,025.00		
Small Cities Grant - ADA Compliance Grant	270,000.00	270,000.00	270,000.00			
Body Armor Grant	2,023.77	2,023.77	4,211.02			
Recycling Tonnage	25,542.47	25,542.47	25,542.47			
Total Public and Private Programs Off-Set by Revenues	553,829.09	770,658.97	719,633.97	-	51,025.00	-
Total Operations - Excluded from "CAPS"	1,379,563.09	1,596,392.97	1,523,367.97	-	73,025.00	-
Detail:						
Salaries and Wages	764,772.00	764,772.00	764,772.00			
Other Expenses	614,791.09	831,620.97	758,595.97		73,025.00	
(C) Capital Improvements						
Capital Improvement Fund	100,000.00	100,000.00	100,000.00			
Reserve for Open Space Acquisitions	222,000.00	222,000.00	222,000.00			
Total Capital Improvements	322,000.00	322,000.00	322,000.00	-	-	-
(D) Debt Service						
Payment of Bond Principal	1,813,000.00	1,813,000.00	1,812,345.73			654.27
Payment of Bond Anticipation Notes and Capital Notes	75,000.00	75,000.00	75,000.00			-
Interest on Bonds	578,000.00	578,000.00	576,177.63			1,822.37
Interest on Notes	132,000.00	132,000.00	131,134.72			865.28
Green Trust Loan Program:						
Loan Repayments for Principal and Interest	20,200.00	20,200.00	20,186.00			14.00
NJEIT Loans & Bonds	26,500.00	26,500.00	24,483.83			2,016.17
Total Debt Service	2,644,700.00	2,644,700.00	2,639,327.91	-	-	5,372.09

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications	Paid or Charged	Encumbered Reserved	
(E) Deferred Charges					
None	-	-	-	-	-
Total Deferred Charges					
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES EXCLUDED FROM "CAPS"	4,346,263.09	4,563,092.97	4,484,695.88	73,025.00	5,372.09
SUBTOTAL GENERAL APPROPRIATIONS	17,162,442.09	17,379,271.97	15,699,422.99	288,360.18	5,372.09
(M) Reserve for Uncollected Taxes	1,010,771.17	1,010,771.17	1,010,771.17		-
TOTAL GENERAL APPROPRIATIONS	\$ 18,173,213.26	18,390,043.14	16,710,194.16	288,360.18	5,372.09
Budget		18,173,213.26			
Appropriations by 40A-4-87		216,829.88			
		<u>18,390,043.14</u>			
Reserve for Uncollected Taxes			1,010,771.17		
Federal and State Grants			719,633.97		
Rental of Borough Property - West Cape May			38,962.00		
Disbursements			14,940,827.02		
			<u>16,710,194.16</u>		
				Cancelled	5,372.09
				Overexpended	-
					<u>5,372.09</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**TRUST FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>Assets</u>		
<u>Animal Control Fund</u>		
Cash and Investments	\$ 3,541.20	2,516.93
	3,541.20	2,516.93
<u>Length of Service Award Program (LOSAP) (unaudited)</u>		
Investments		
Mutual Funds	290,139.95	257,689.43
	290,139.95	257,689.43
<u>Other Funds</u>		
Cash and Investments	3,139,241.00	2,920,484.04
Due from Current	357.75	357.75
	3,139,598.75	2,920,841.79
	\$ 3,433,279.90	3,181,048.15

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**TRUST FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>Liabilities, Reserves and Fund Balance</u>		
<u>Animal Control Fund</u>		
Reserve for Animal Control Expenditures	\$ 2,328.19	2,022.84
Due to Current Fund	1,201.01	489.89
Due to State of New Jersey	12.00	4.20
	3,541.20	2,516.93
<u>Length of Service Award Program (LOSAP) (unaudited)</u>		
Net Assets Available for Benefits	290,139.95	257,689.43
	290,139.95	257,689.43
<u>Other Funds</u>		
Reserve for:		
Due to Current Fund	2.84	2.84
Unemployment Compensation	25,254.44	15,942.38
Retirement Fund	90,147.31	104,376.31
Parking Offense Adjudication Act	15,620.19	16,484.95
Street Openings	132,306.89	116,991.94
Tax Lien Premiums	8,970.26	8,964.87
Parking Escrow	56,730.94	56,696.94
Lifeguard Pension	595,558.54	564,628.51
Police Forfeiture	1,589.75	1,588.80
COAH	876,230.48	744,923.36
Fire Safety	14,264.64	9,758.14
Neighborhood Revitalization	140,743.74	140,659.37
Security Deposits	26,227.91	30,612.18
DARE	528.64	528.36
Small Cities Block Grant	736,856.64	735,833.07
Public Assistance	3,519.44	3,517.33
Performance Bond	387,369.67	333,246.71
Police Off-Duty	21,843.27	29,697.78
Flexible Spending	270.81	1,203.81
Fishermen's Memorial	4,881.69	4,503.89
Dellas Field	680.66	680.25
	3,139,598.75	2,920,841.79
	\$ 3,433,279.90	3,181,048.15

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**GENERAL CAPITAL FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Cash	\$ 2,143,968.09	3,882,318.98
Deferred Charges to Future Taxation -		
Funded	15,195,622.09	17,047,092.18
Unfunded	31,127,872.66	29,574,287.66
State Grant Receivable	348,066.77	348,066.77
NJEIT Loans Receivable	35,670.53	35,670.53
	<u>48,851,200.14</u>	<u>50,887,436.12</u>
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Encumbrances Payable	1,098,113.32	1,094,386.24
Bond Anticipation Notes Payable	8,350,000.00	6,575,000.00
Serial Bonds Payable	14,962,379.72	16,774,725.45
Green Trust Loan Payable	148,547.43	165,507.65
Environmental Infrastructure Trust Loans Payable	84,694.94	106,859.08
Improvement Authorizations:		
Funded	1,038,498.34	1,183,743.29
Unfunded	20,130,158.15	22,100,073.33
Reserve to Pay Bonds or Notes	595,382.19	745,382.19
Reserve for Open Space	2,164,569.00	1,942,569.00
Reserves Other	26,575.60	26,575.60
Capital Improvement Fund	14,301.00	16.00
Fund Balance	237,980.45	172,598.29
	<u>\$ 48,851,200.14</u>	<u>50,887,436.12</u>

There were bonds and notes authorized but not issued at December 31,

2016	22,999,287.66
2017	22,777,872.66

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**GENERAL CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Beginning Balance January 1	\$ 172,598.29	474,745.76
Increased by:		
Premiums on sale of Bonds & Notes	65,382.16	72,852.53
Decreased by:		
Appropriated to Finance Improvement Authorizations	-	375,000.00
Ending Balance December 31	<u>\$ 237,980.45</u>	<u>172,598.29</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>ASSETS</u>		
Operating Fund:		
Cash	\$ 1,675,032.33	1,639,367.65
	1,675,032.33	1,639,367.65
Receivables and Other Assets with Full Reserves:		
Consumer Accounts Receivable	22,255.66	17,984.70
Interfunds:		
Due from Utility Capital	6,275.00	-
	28,530.66	17,984.70
Total Operating Fund	1,703,562.99	1,657,352.35
Capital Fund:		
Cash	922,627.28	1,370,059.91
Loans Receivable	52,126.47	52,126.47
Fixed Capital	18,975,433.85	18,975,433.85
Fixed Capital - Authorized and Uncompleted	25,151,155.99	24,382,155.99
Total Capital Fund	45,101,343.59	44,779,776.22
	\$ 46,804,906.58	46,437,128.57

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Appropriation Reserves	\$ 440,965.26	244,534.24
Reserve for Encumbrances	79,786.43	82,008.57
Overpaid Rents	41,551.14	-
Sales Tax Payable	190.71	190.71
Accrued Interest on Bonds and Notes	149,699.13	159,966.93
Reserve for Sewer Treatment Plant	809.71	809.71
Interfunds:		
Due to Current Fund	645.25	645.25
	713,647.63	488,155.41
Reserve for Receivables	22,255.66	17,984.70
Fund Balance	967,659.70	1,151,212.24
Total Operating Fund	1,703,562.99	1,657,352.35
Capital Fund:		
Encumbrances Payable	1,090,114.45	1,940,818.82
Bond Anticipation Notes Payable	2,650,000.00	1,800,000.00
Serial Bonds Payable	4,712,702.30	5,571,886.24
Loans Payable	7,042,564.38	7,272,322.64
Improvement Authorizations:		
Funded	269,158.29	262,715.79
Unfunded	2,465,810.17	2,592,515.96
Due to Utility Operating	6,275.00	-
Reserve for Amortization	23,953,961.93	22,865,019.73
Deferred Reserve for Amortization	1,789,655.23	1,789,655.23
Reserve for Debt Service	650,817.60	255,307.60
Capital Improvement Fund	130,000.00	110,000.00
Fund Balance	340,284.24	319,534.21
Total Capital Fund	45,101,343.59	44,779,776.22
	\$ 46,804,906.58	46,437,128.57

There were bonds and notes authorized but not issued at December 31,

	2016	4,688,536.00
	2017	4,607,536.00

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**WATER AND SEWER UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Revenue and Other Income Realized		
Fund Balance Utilized	\$ 675,000.00	625,000.00
Water and Sewer Rents	6,192,150.18	6,163,441.64
Reserve to Pay Bonds and Notes	119,490.00	-
Miscellaneous	62,546.56	73,844.06
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	202,732.30	281,352.63
Total Income	<u>7,251,919.04</u>	<u>7,143,638.33</u>
Expenditures		
Operations:		
Salaries and Wages	800,625.00	853,450.00
Other Expenses	4,204,470.00	4,038,520.00
Capital Improvements	70,000.00	70,000.00
Debt Service	1,589,300.17	1,579,163.53
Deferred Charges and Statutory Expenditures	95,802.00	95,900.00
Refund of Prior Year Revenue	274.41	409.20
Total Expenditures	<u>6,760,471.58</u>	<u>6,637,442.73</u>
Excess in Revenue	<u>491,447.46</u>	<u>506,195.60</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	-	-
Total Adjustments	<u>-</u>	<u>-</u>
Excess in Operations	<u>491,447.46</u>	<u>506,195.60</u>
Fund Balance January 1	<u>1,151,212.24</u>	<u>1,270,016.64</u>
	1,642,659.70	1,776,212.24
Decreased by:		
Utilization as Anticipated Revenue	<u>675,000.00</u>	<u>625,000.00</u>
Fund Balance December 31	<u>\$ 967,659.70</u>	<u>1,151,212.24</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**WATER AND SEWER UTILITY CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Beginning Balance January 1	\$ 319,534.21	299,589.79
Increased by:		
Premiums on Sale of Bonds & Notes	20,750.03	19,944.42
Decreased by:		
None	-	-
Ending Balance December 31	<u>\$ 340,284.24</u>	<u>319,534.21</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**WATER AND SEWER UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Anticipated Budget	Realized	Excess or (Deficit)
Surplus Anticipated	\$ 675,000.00	675,000.00	-
Anticipated Revenue:			
Water and Sewer Rents	6,137,950.00	6,192,150.18	54,200.18
Miscellaneous	73,000.00	62,546.56	(10,453.44)
Reserve to Pay Bond and Notes	119,490.00	119,490.00	-
	<u>\$ 7,005,440.00</u>	<u>7,049,186.74</u>	<u>43,746.74</u>

Analysis of Realized Revenue:

Water and Sewer Rents		
Accounts Receivable	6,192,150.18	
Total Water & Sewer Rents		<u>6,192,150.18</u>
Miscellaneous Revenue		
Interest on Investments	1,793.15	
Penalties and Interest	6,120.99	
Sewer Connection Fees	4,531.00	
Meter Installations	31,932.00	
Reconnection Fees	375.00	
Special Reading Charge	9,050.00	
Shut Off Notice Fee	3,550.00	
Disconnection Fees	250.00	
WCM Interlocal	1,317.00	
Miscellaneous	3,627.42	
Total Miscellaneous		<u>62,546.56</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**WATER AND SEWER UTILITY FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Expended			(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications	Paid or Charged	Encumbered	Reserved	
Operations:						
Salaries and Wages	\$ 900,625.00	900,625.00	703,324.20		97,300.80	100,000.00
Other Expenses	4,254,470.00	4,254,470.00	3,795,011.51	79,786.43	329,672.06	50,000.00
	<u>5,155,095.00</u>	<u>5,155,095.00</u>	<u>4,498,335.71</u>	<u>79,786.43</u>	<u>426,972.86</u>	<u>150,000.00</u>
Capital Improvements:						
Capital Improvement Fund	20,000.00	20,000.00	20,000.00		-	
Cape May City Roads	50,000.00	50,000.00	50,000.00		-	
	<u>70,000.00</u>	<u>70,000.00</u>	<u>70,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service:						
Payment of Bond Principal	1,090,000.00	1,090,000.00	1,089,309.75			690.25
Interest on Bonds	558,543.00	558,543.00	463,990.42			94,552.58
Interest on Notes	36,000.00	36,000.00	36,000.00			-
	<u>1,684,543.00</u>	<u>1,684,543.00</u>	<u>1,589,300.17</u>	<u>-</u>	<u>-</u>	<u>95,242.83</u>
Deferred Charges and Statutory Expenditures:						
PERS	15,000.00	15,000.00	14,000.00		1,000.00	
Social Security System (O.A.S.I.)	68,902.00	68,902.00	55,909.60		12,992.40	
Unemployment Compensation Insurance	3,900.00	3,900.00	3,900.00		-	
Retirement Trust	8,000.00	8,000.00	8,000.00		-	
	<u>95,802.00</u>	<u>95,802.00</u>	<u>81,809.60</u>	<u>-</u>	<u>13,992.40</u>	<u>-</u>
	<u>\$ 7,005,440.00</u>	<u>7,005,440.00</u>	<u>6,239,445.48</u>	<u>79,786.43</u>	<u>440,965.26</u>	<u>245,242.83</u>
		Cash Disbursed	\$ 6,315,069.05			
		(59,080.77)				
		(16,542.80)				

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**BEACH UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>ASSETS</u>		
Operating Fund:		
Cash	\$ 1,348,466.01	1,258,566.00
	1,348,466.01	1,258,566.00
Total Operating Fund	1,348,466.01	1,258,566.00
Capital Fund:		
Cash	604,894.74	677,403.22
Fixed Capital - Authorized and Uncompleted	5,096,900.00	4,685,900.00
Total Capital Fund	5,701,794.74	5,363,303.22
	\$ 7,050,260.75	6,621,869.22

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**BEACH UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Appropriation Reserves	\$ 153,289.53	204,599.29
Encumbrances Payable	14,983.57	29,898.56
Accrued Interest on Bonds and Notes	25,391.67	25,700.00
	193,664.77	260,197.85
Fund Balance	1,154,801.24	998,368.15
Total Operating Fund	1,348,466.01	1,258,566.00
Capital Fund:		
Encumbrances Payable	122,228.40	159,480.00
Bond Anticipation Notes Payable	325,000.00	200,000.00
General Serial Bonds Payable	1,630,000.00	1,885,000.00
Reserve for Amortization	1,545,000.00	1,290,000.00
Improvement Authorizations		
Funded	245,026.98	284,084.02
Unfunded	1,191,093.64	1,003,838.29
Capital Improvement Fund	529,000.00	429,000.00
Fund Balance	114,445.72	111,900.91
Total Capital Fund	5,701,794.74	5,363,303.22
	\$ 7,050,260.75	6,621,869.22

There were bonds and notes authorized but not issued at December 31,

2016	1,310,900.00
2017	1,596,900.00

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

BEACH UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,

	<u>2017</u>	<u>2016</u>
Revenue and Other Income Realized		
Fund Balance Utilized	\$ 214,125.00	214,125.00
Beach Fees	2,409,700.00	2,450,289.00
Miscellaneous Revenue	2,844.39	1,472.93
Other Credits to Income:		
Unexpended Balance of Appropriation		
Reserves	200,944.25	119,913.88
Total Income	<u>2,827,613.64</u>	<u>2,785,800.81</u>
Expenditures		
Operations:		
Salaries and Wages	1,464,425.00	1,441,425.00
Other Expenses	533,150.00	527,350.00
Capital Improvements	100,000.00	100,000.00
Debt Service	186,480.55	183,820.14
Deferred Charges and Statutory Expenditures	173,000.00	160,500.00
Refund of Prior Year's Revenue		-
Total Expenditures	<u>2,457,055.55</u>	<u>2,413,095.14</u>
Excess/(Deficit) in Revenue	<u>370,558.09</u>	<u>372,705.67</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by		
Statute Deferred Charges to Budgets of		
Succeeding Year	-	-
Total Adjustments	<u>-</u>	<u>-</u>
Excess in Operations	<u>370,558.09</u>	<u>372,705.67</u>
Fund Balance January 1	<u>998,368.15</u>	<u>839,787.48</u>
	1,368,926.24	1,212,493.15
Decreased by:		
Utilization as Anticipated Revenue	<u>214,125.00</u>	<u>214,125.00</u>
Fund Balance December 31	<u>\$ 1,154,801.24</u>	<u>998,368.15</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**BEACH UTILITY CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
Beginning Balance January 1	\$ 111,900.91	109,685.34
Increased by:		
Premiums on sale of Bonds & Notes	2,544.81	2,215.57
Decreased by:		
None	-	-
Ending Balance December 31	<u>\$ 114,445.72</u>	<u>111,900.91</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**BEACH UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Anticipated Budget	Realized	Excess or (Deficit)
Surplus Anticipated	\$ 214,125.00	214,125.00	-
Anticipated Revenue:			
Beach Fees	2,244,750.00	2,409,700.00	164,950.00
Miscellaneous	700.00	2,844.39	2,144.39
	\$ 2,459,575.00	2,626,669.39	167,094.39
Analysis of Realized Revenue:			
Beach Fees			
Collections	2,409,700.00		
Total Beach Fees		2,409,700.00	
Miscellaneous Revenue			
Miscellaneous	1,483.00		
Interest on Investments	1,361.39		
Total Miscellaneous		2,844.39	

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**BEACH UTILITY FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Operations:						
Salaries and Wages	\$ 1,464,425.00	1,464,425.00	1,408,704.26		55,720.74	
Other Expenses	533,150.00	533,150.00	450,346.27	14,983.57	67,820.16	
	<u>1,997,575.00</u>	<u>1,997,575.00</u>	<u>1,859,050.53</u>	<u>14,983.57</u>	<u>123,540.90</u>	<u>-</u>
Capital Improvements:						
Capital Improvement Fund	100,000.00	100,000.00	100,000.00	-	-	
	<u>100,000.00</u>	<u>100,000.00</u>	<u>100,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service:						
Bond Principal	130,000.00	130,000.00	130,000.00			
Interest on Bonds	53,000.00	53,000.00	51,012.50			1,987.50
Interest on Notes	6,000.00	6,000.00	5,468.05			531.95
	<u>189,000.00</u>	<u>189,000.00</u>	<u>186,480.55</u>	<u>-</u>	<u>-</u>	<u>2,519.45</u>
Deferred Charges and Statutory Expenditures:						
Lifeguard Pension	40,000.00	40,000.00	40,000.00			
Unemployment	20,000.00	20,000.00	20,000.00			
Social Security System	113,000.00	113,000.00	83,251.37		29,748.63	
	<u>173,000.00</u>	<u>173,000.00</u>	<u>143,251.37</u>	<u>-</u>	<u>29,748.63</u>	<u>-</u>
\$	<u><u>2,459,575.00</u></u>	<u><u>2,459,575.00</u></u>	<u><u>2,288,782.45</u></u>	<u><u>14,983.57</u></u>	<u><u>153,289.53</u></u>	<u><u>2,519.45</u></u>

Cash Disbursed	\$ 2,289,090.78
Accrued Interest	(308.33)
	<u><u>2,288,782.45</u></u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**TOURISM UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2017	2016
<u>ASSETS</u>		
Operating Fund:		
Cash	\$ 830,015.24	643,521.64
Change Fund	500.00	1,000.00
	830,515.24	644,521.64
Total Operating Fund	830,515.24	644,521.64
	830,515.24	644,521.64
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Appropriation Reserves	106,561.51	127,235.55
Encumbrances Payable	23,362.84	12,171.38
Sales Tax Payable	630.89	630.89
Due to Security Deposit	33,817.50	25,217.50
	164,372.74	165,255.32
Fund Balance	666,142.50	479,266.32
Total Operating Fund	830,515.24	644,521.64
	\$ 830,515.24	644,521.64

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

TOURISM UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,

	<u>2017</u>	<u>2016</u>
Revenue and Other Income Realized		
Fund Balance Utilized	\$ 100,000.00	75,000.00
Tourism Fees	1,241,252.45	1,236,514.26
Other Credits to Income:		
Miscellaneous Revenue not Anticipated	22,364.80	1,612.32
Unexpended Balance of Appropriation Reserves	112,258.93	43,150.48
Total Income	<u>1,475,876.18</u>	<u>1,356,277.06</u>
Expenditures		
Operations:		
Salaries and Wages	401,000.00	374,000.00
Other Expenses	788,000.00	781,100.00
Total Expenditures	<u>1,189,000.00</u>	<u>1,155,100.00</u>
Excess/(Deficit) in Revenue	<u>286,876.18</u>	<u>201,177.06</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	-	-
Total Adjustments	<u>-</u>	<u>-</u>
Excess in Operations	<u>286,876.18</u>	<u>201,177.06</u>
Fund Balance January 1	<u>479,266.32</u>	<u>353,089.26</u>
Decreased by:	766,142.50	554,266.32
Utilization as Anticipated Revenue	<u>100,000.00</u>	<u>75,000.00</u>
Fund Balance December 31	<u>\$ 666,142.50</u>	<u>479,266.32</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**TOURISM UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Anticipated Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Anticipated Revenue:			
Surplus Anticipated	\$ 100,000.00	100,000.00	-
Tourism Fees & Events	525,000.00	550,071.94	25,071.94
Hotel Room Tax	225,000.00	315,605.99	90,605.99
Lease and Rent Contracts	274,000.00	309,184.52	35,184.52
Mercantile License Fee	65,000.00	66,390.00	1,390.00
Miscellaneous	-	22,364.80	22,364.80
	<u>\$ 1,189,000.00</u>	<u>1,363,617.25</u>	<u>174,617.25</u>

Analysis of Realized Revenue:

Tourism Fees		
Collections		550,071.94
		<u>550,071.94</u>
Miscellaneous		
Miscellaneous		22,040.74
Interest		324.06
		<u>22,364.80</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**TOURISM UTILITY FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Operations:						
Salaries and Wages	\$ 401,000.00	401,000.00	401,000.00	-	-	-
Other Expenses	788,000.00	788,000.00	658,075.65	23,362.84	106,561.51	-
	<u>1,189,000.00</u>	<u>1,189,000.00</u>	<u>1,059,075.65</u>	<u>23,362.84</u>	<u>106,561.51</u>	
	<u>\$ 1,189,000.00</u>	<u>1,189,000.00</u>	<u>1,059,075.65</u>	<u>23,362.84</u>	<u>106,561.51</u>	

Cash Disbursed	\$ 1,062,609.65
Reimbursements	(3,534.00)
	<u>\$ 1,059,075.65</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**GENERAL FIXED ASSET ACCOUNT GROUP
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>2017</u>	<u>2016</u>
<u>General Fixed Assets</u>		
Land, Buildings and Improvements	\$ 26,775,258.12	26,775,258.12
Machinery and Equipment	10,944,732.54	10,111,523.50
	<u>37,719,990.66</u>	<u>36,886,781.62</u>
<u>Investment in General Fixed Assets</u>		
Investment in General Fixed Assets	37,719,990.66	36,886,781.62
	<u>\$ 37,719,990.66</u>	<u>36,886,781.62</u>

The Accompanying Notes to the Financial Statements are an Integral Part of this Statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Cape May is a shore community located at the southern tip of the State of New Jersey in the County of Cape May. The population according to the 2010 census is 3,607.

The City of Cape May is governed by the Faulkner Act Council-Manager form of government, providing for the election of a five-member City Council. The Mayor is a member of the Council and directly elected by the voters. The Council is the policy maker for the municipality. The Manager, as chief executive and administrative officer of the municipality, is appointed by the Council. The City Manager is responsible for personnel, enforcement of ordinances and overall administration.

Except as noted below, the financial statements of the City of Cape May include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the City of Cape May, as required by N.J.S. 40A:5-5.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

B. Description of Funds

The accounting policies of the City of Cape May conform to the accounting principles applicable to municipalities which have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with the respect to public funds. Under this method of accounting, the City of Cape May accounts for its financial transactions through the following separate funds:

Current Fund -- resources and expenditures for governmental operations of a general nature, including Federal and State grant funds.

Trust Funds -- receipts, custodianship and disbursement of funds in accordance with the purpose for which each reserve was created.

General Capital Fund -- receipt and disbursement of funds for the acquisition of general facilities, other than those acquired in the Current Fund.

Water and Sewer Operating and Capital Funds -- account for the operations of the water and sewer utility and acquisition of sewer capital facilities other than those acquired in the Current and General Capital Funds.

Beach Utility Operating and Capital Funds -- account for the operations and acquisition of capital facilities of the municipally owned beach utility.

Tourism Utility Operating -- The Tourism Utility Operating Fund was created January 1, 2012 by adopting City Ordinance 244-2011. The purpose of the fund is to account for and properly budget and pay for the management and operation of Convention Hall as well as for all the activities and events provided through the City's Department of Tourism, Civic Affairs and Recreation.

General Fixed Assets Account Group -- All fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds.

C. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the State of New Jersey differ in certain respects from generally accepted accounting principles applicable to local governmental units. The more significant policies in New Jersey follow.

A modified accrual basis of accounting is followed with minor exceptions.

Revenues -- are recorded as received in cash except for certain amounts, which are due from other governmental units. Receipts from Federal and State grants are realized as revenue when anticipated in the City budget. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the City's Current Fund, in addition the receivables for utility billings are recorded with offsetting reserves in the Utility Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the City which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue when received.

Expenditures -- are recorded on the "budgetary" basis of accounting. Generally expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with the Encumbrance Accounting System. Outstanding encumbrances at December 31 are reported as a cash liability in the financial statements. Appropriation reserves covering unencumbered appropriation balances are automatically created at December 31st of each year and recorded as liabilities, except for amounts which may be canceled by the Governing Body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are recorded as income. Appropriations for principal payments on outstanding general capital bonds and notes are provided on the cash basis; interest on general capital indebtedness is on the cash basis; interest on utility capital indebtedness is on the accrual basis. Compensated absences are treated on a pay as you go basis with no amount charged to operations in the year incurred.

Foreclosed Property -- Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved.

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

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

{This space intentionally left blank}

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

As required by New Jersey Statutes, foreclosed property is reported in the current operating fund of the municipality.

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

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for land which is valued at estimated market value on the date of acquisition. Expenditures for long lived assets with an original cost in excess of \$2,000.00 are capitalized.

No depreciation has been provided for in the financial statements.

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

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

Property and equipment purchased by a Utility Fund are recorded in the capital account at cost and are adjusted for disposition and abandonment. The amounts shown do not purport to represent reproduction costs or current value. Contributions in aid of construction are not capitalized. The balance in the Reserve for Amortization and Deferred Reserve for Amortization accounts in the utility capital fund represents charges to operations for the costs of acquisitions of property, equipment and improvements. The utility does not record depreciation on fixed assets.

Levy of Taxes -- The County Board of Taxation certifies the tax levy of the municipality each year. The tax levy is based on the assessed valuation of taxable property within the municipality. Taxes are payable on the first day of February, May, August, and November. Any taxes that have not been paid by 11th day of the 11th month in the fiscal year levied are subject to being included in the tax sale and the lien enforced by selling the property in accordance with NJSA 54:5 et. seq.

The municipality is responsible for remitting 100% of the City of Cape May School District and the Lower Cape May Regional High School District and the County of Cape May taxes to the respective agency. The loss for delinquent or uncollectible accounts is borne by the municipality and not the school district or county.

Interest on Delinquent Taxes – It is the policy of the City of Cape May to collect interest for the nonpayment of taxes or assessments on or before the date when they would become delinquent. The Tax Collector is authorized to charge eight percent (8%) per annum on the first \$1,500.00 of taxes becoming delinquent after due date and eighteen percent (18%) per annum on any amount of taxes in excess of \$1,500.00 becoming delinquent after due date and if a delinquency is in excess of \$10,000.00 and remains in arrears beyond December 31st, an additional penalty of six percent (6%) shall be charged against the delinquency. There is a ten day grace period.

Levy of Utility Charges – The City operates a water and sewer utility fund. Rates are determined by ordinance and changed as necessary. Water and Sewer charges are based on flat fees and usage based on the type of City. Charges are billed annually and due in quarterly installments on February 1, April 28, August 8 and October 26.

Interest on Delinquent Utility Charges – It is the policy of the City to collect interest for the nonpayment of utility charges on or before the date when they would become delinquent. The Utility Collector is authorized to charge eight percent (8%) per annum on the first \$1,500.00 of charges becoming delinquent after due date and eighteen percent (18%) per annum on any amount of charges in excess of \$1,500.00 becoming delinquent after due date.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles or the statutory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Required Financial Statements

The State of New Jersey requires the following financial statements to be presented for each fund on the regulatory basis of accounting: Balance Sheet, Statement of Operations and Changes in Fund Balance, Statement of Revenue and Statement of Expenditures. These statements differ from those presented under Generally Accepted Accounting Principles, which requires a Statement of Net Position and Statement of Activities in addition to the fund financial statements.

E. Comparative Data

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statement of Operations in order to provide an understanding of changes in the City's financial position. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in the Statement of Revenue-Regulatory Basis and Statement of Expenditures-Regulatory Basis since their inclusion would make the statements unduly complex and difficult to read.

F. Recent Accounting Pronouncements Not Yet Effective

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement, which is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the City's financial reporting.

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, "Certain Asset Retirement Obligations". This statement is effective for fiscal periods beginning after June 15, 2018, will not have any effect on the City's financial reporting.

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84, "Fiduciary Activities". This statement is effective for fiscal periods beginning after December 15, 2018, will not have any effect on the City's financial reporting.

In March 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 85, "Omnibus 2017". This statement is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the City's financial reporting.

In May 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 86, "Certain Debt Extinguishment Issues". This statement is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the City's financial reporting.

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, "Leases". This statement is effective for fiscal periods beginning after December 15, 2019, will not have any effect on the City's financial reporting.

NOTE 2: BUDGETARY INFORMATION

Under New Jersey State Statutes, the annual budget is required to be a balanced cash basis document. To accomplish this, the municipality is required to establish a reserve for uncollected taxes. The 2017 and 2016 statutory budgets included a reserve for uncollected taxes in the amount of \$1,010,771.17 and \$1,047,360.01. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2017 and 2016 statutory budgets was \$2,300,000.00. In addition, the City operates a self-liquidating water and sewer utility, beach utility and tourism utility. Under New Jersey Statutes a separate budget for each utility must be adopted concurrently with the operating budget of the City. The utility budgets must be a balanced cash basis budget with fund balance being used to balance the budget. The amount of fund balance budgeted to balance the water and sewer budget in 2017 and 2016 statutory budgets was \$675,000.00 and \$625,000.00. The amount of fund balance budgeted to balance the beach utility budget in 2017 and 2016 statutory budgets was \$214,125.00. The amount of fund balance budgeted to balance to tourism utility budget in 2017 and 2016 was \$100,000.00 and \$75,000.00.

The Chief Financial Officer has the discretion of approving intra department budgetary transfers throughout the year. Inter department transfers are not permitted prior to November 1. After November 1, these transfers can be made in the form of a resolution and approved by City Council. The following more significant budget transfers were approved in the 2017 and 2016 calendar years:

<u>Budget Category</u>	<u>2017</u>	<u>2016</u>
<u>Current Fund:</u>		
Engineering & Planning Services		
Other Expenses		12,000.00
Insurance		
General Liability	(66,000.00)	(75,000.00)
Employee Group Health		(48,000.00)
Planning Board		
Other Expenses	12,000.00	
Fire		
Salaries and Wages	15,000.00	35,000.00
Public Buildings and Grounds		
Other Expenses	22,000.00	
Reserve for Retirement Trust		35,000.00
Construction Official		
Salaries and Wages		15,000.00
<u>Water/Sewer Utility Fund:</u>	None	None
Operations		
Salaries and Wages		
Retirement Trust		
<u>Tourism Utility Fund:</u>	None	None
Operations		
Salaries and Wages		
Other Expenses		
<u>Beach Utility Fund:</u>	None	
Operations		
Public Buildings		(10,000.00)
Engineering & Planning		10,000.00

NJSA 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2017 and 2016, the following budget insertions were approved:

<u>Budget Category</u>	<u>2017</u>	<u>2016</u>
Clean Communities Program	\$ 18,943.63	22,298.09
Bulletproof Vest		2,397.00
Body Armor	2,187.25	
NJ Transportation Trust		179,000.00
NJDOT - 2016 Bikeway Expansion Project		250,000.00
NJDOT - Pennsylvania Ave	158,000.00	
NJDEP - HPO		24,999.00
NJDEP - Circuit Rider		20,065.00
USHUD - CDBG - Lafayette Street Park		1,177,000.00
ANJEC - 2017 Open Space Stewardship	1,500.00	
Estate of Edward D. Ross		84,000.00
Electric Vehicle Charging Grant Program		10,000.00
NJDCA-Intensive Level Survey-FY 2017	24,999.00	
Emergency Management - EMAA Grant	9,400.00	7,000.00
Cops in Shops	1,800.00	1,800.00

The City may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year. Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. There were no Emergency or Special Emergency appropriations in 2017.

NOTE 3: INVESTMENTS

As of December 31, 2017 and 2016, the City did not have any investments.

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

Credit Risk. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The municipality places no limit on the amount the City can invest in any one issuer.

NOTE 4: CASH

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The municipality's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, all demand deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the municipality in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, bail funds or funds that may pass to the municipality relative to the happening of a future condition. As of December 31, 2017, \$ of the City's bank balance of \$20,112,147.96 was exposed to custodial credit risk. As of December 31, 2017, \$3,197,216.12 of the City's bank balance of \$20,112,147.96 was exposed to custodial credit risk. As of December 31, 2016, \$3,215,195.72 of the City's bank balance of \$19,460,653.57 was exposed to custodial credit risk.

NOTE 5: FIXED ASSETS

The following schedules are a summarization of the changes in general fixed assets for the calendar years ended December 31, 2017 and 2016:

	Balance 12/31/2015	Additions	Retirements/ Adjustments	Balance 12/31/2016
Land, Building and Improvements	\$ 26,308,506.55	466,751.57		26,775,258.12
Equipment and Machinery	9,385,567.57	946,161.75	(220,205.82)	10,111,523.50
	<u>35,694,074.12</u>	<u>1,412,913.32</u>	<u>(220,205.82)</u>	<u>36,886,781.62</u>

	Balance 12/31/2016	Additions	Retirements/ Adjustments	Balance 12/31/2017
Land, Building and Improvements	\$ 26,775,258.12			26,775,258.12
Equipment and Machinery	10,111,523.50	864,911.79	(31,702.75)	10,944,732.54
	<u>36,886,781.62</u>	<u>864,911.79</u>	<u>(31,702.75)</u>	<u>37,719,990.66</u>

{This space intentionally left blank}

NOTE 6: SHORT-TERM OBLIGATIONS

	Balance 12/31/15	Issued	Retired	Balance 12/31/16
Bond Anticipation				
Notes payable:				
General	\$ 3,700,000.00	6,575,000.00	3,700,000.00	6,575,000.00
Water and Sewer Utility	600,000.00	1,800,000.00	600,000.00	1,800,000.00
Beach Utility	200,000.00	200,000.00	200,000.00	200,000.00
	<u>\$ 4,500,000.00</u>	<u>8,575,000.00</u>	<u>4,500,000.00</u>	<u>8,575,000.00</u>

	Balance 12/31/16	Issued	Retired	Balance 12/31/17
Bond Anticipation				
Notes payable:				
General	\$ 6,575,000.00	8,350,000.00	6,575,000.00	8,350,000.00
Water and Sewer Utility	1,800,000.00	2,650,000.00	1,800,000.00	2,650,000.00
Beach Utility	200,000.00	325,000.00	200,000.00	325,000.00
	<u>\$ 8,575,000.00</u>	<u>11,325,000.00</u>	<u>8,575,000.00</u>	<u>11,325,000.00</u>

The note was issued on July 14, 2017 and is due and payable on July 13, 2018 with interest at 2.000%. As of December 31, 2017, the City has authorized but not issued bonds in the amount of \$22,777,872.66, \$4,607,536.00, \$1,596,900.00 in the General Capital Fund, Water and Sewer Utility Capital Fund and Beach Utility Capital Fund respectively.

{This space intentionally left blank}

NOTE 7: LONG TERM DEBT

Long-term debt as of December 31, 2017 and 2016 consisted of the following:

	Balance 12/31/15	Issued	Retired	Balance 12/31/16	Amounts Due Within One Year
Bonds payable:					
General	\$ 18,502,197.57		1,727,472.12	16,774,725.45	1,812,345.73
Water Sewer Utility	6,396,347.61		824,461.37	5,571,886.24	859,183.94
Beach Utility	1,885,000.00		125,000.00	1,760,000.00	130,000.00
Total	26,783,545.18	-	2,676,933.49	24,106,611.69	2,801,529.67
Other liabilities:					
Loans Payable:					
General	311,555.06		39,188.33	272,366.73	39,124.36
Water Sewer Utility	7,498,993.49		226,670.85	7,272,322.64	229,758.26
Compensated Absences Payable	1,334,645.91		16,779.16	1,317,866.75	-
Total long-term liabilities	\$ 35,928,739.64	-	2,959,571.83	32,969,167.81	3,070,412.29
	Balance 12/31/16	Issued	Retired	Balance 12/31/17	Amounts Due Within One Year
Bonds payable:					
General	\$ 16,774,725.45		1,812,345.73	14,962,379.72	1,937,463.01
Water Sewer Utility	5,571,886.24		859,183.94	4,712,702.30	744,142.64
Beach Utility	1,760,000.00		130,000.00	1,630,000.00	140,000.00
Total	24,106,611.69	-	2,801,529.67	21,305,082.02	2,821,605.65
Other liabilities:					
Loans Payable:					
General	272,366.73		39,124.36	233,242.37	39,067.09
Water Sewer Utility	7,272,322.64		229,758.26	7,042,564.38	233,055.16
Compensated Absences Payable	1,317,866.75	13,510.93		1,331,377.68	
Total long-term liabilities	\$ 32,969,167.81	13,510.93	3,070,412.29	29,912,266.45	3,093,727.90

Outstanding bonds whose principal and interest are paid from the Current Fund Budget of the City:

\$2,097,000 General Bonds dated January 23, 1981, due in annual installments through January 23, 2020, bearing interest at 5.00% per annum. The balance remaining as of December 31, 2017 is \$337,379.72.

\$6,340,000 General Bonds dated October 1, 2008, due in annual installments through October 1, 2019, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$1,300,000.00.

\$10,700,000 General Bonds dated July 15, 2013, due in annual installments through July 15, 2027, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$8,590,000.00.

\$6,035,000 General Bonds dated July 15, 2014, due in annual installments through July 15, 2025, bearing interest at 3.00% per annum. The balance remaining as of December 31, 2017 is \$4,735,000.00.

\$324,621.37 Green Trust Loan dated November 9, 2005, due in annual installments through August 9, 2025, bearing interest at 2.00% per annum. The balance remaining as of December 31, 2017 is \$148,547.43.

\$61,250 Environmental Infrastructure Trust Bond dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$19,600.00.

\$63,932.75 Environmental Infrastructure Trust Loan dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at 0.00% per annum. The balance remaining as of December 31, 2017 is \$14,125.16.

\$115,970.26 Environmental Infrastructure Trust Loan dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at 0.00% per annum. The balance remaining as of December 31, 2017 is \$21,569.78.

\$110,250 Environmental Infrastructure Trust Bond dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$29,400.00.

Outstanding bonds whose principal and interest are paid from the Water and Sewer Utility Operating Fund of the City:

\$1,903,000 Water and Sewer Utility Bonds dated January 20, 1981, due in annual installments through January 20, 2020, bearing interest at 5.00% per annum. The balance remaining as of December 31, 2017 is \$306,227.30.

\$142,500 Water and Sewer Utility Bonds dated June 24, 1983, due in annual installments through June 24, 2022, bearing interest at 5.00% per annum. The balance remaining as of December 31, 2017 is \$36,475.00.

\$3,630,000 Water and Sewer Utility Bonds dated November 1, 2008, due in annual installments through November 1, 2020, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$540,000.00.

\$2,335,000 Water and Sewer Utility Bonds dated July 15, 2013, due in annual installments through July 15, 2025, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$1,710,000.00.

\$2,700,000 General Bonds dated July 15, 2014, due in annual installments through July 15, 2025, bearing interest at 3.00% per annum. The balance remaining as of December 31, 2017 is \$2,120,000.00.

\$690,000 New Jersey Environmental Infrastructure Trust Bond, dated October 15, 1998, due in annual installments through October 15, 2018, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$50,000.00.

\$675,000 New Jersey Environmental Infrastructure Trust Loan dated October 15, 1998, due in annual installments through October 15, 2018, bearing interest at 0.00% per annum. The balance remaining as of December 31, 2017 is \$33,283.03.

\$63,750 Environmental Infrastructure Trust Bond dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$20,400.00.

\$66,542.25 Environmental Infrastructure Trust Loan dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at 0.00% per annum. The balance remaining as of December 31, 2017 is \$14,701.70.

\$120,703.74 Environmental Infrastructure Trust Loan dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at 0.00% per annum. The balance remaining as of December 31, 2017 is \$22,450.19.

\$114,750 Environmental Infrastructure Trust Bond dated October 17, 2001, due in annual installments through October 17, 2021, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$30,600.00.

\$1,200,000 Environmental Infrastructure Trust Bond dated October 12, 2007, due in semi annual installments through October 12, 2047, bearing interest at various rates. The balance remaining as of December 31, 2017 is \$1,056,520.50.

\$2,500,000 FmHA Loan dated December 15, 1998, due in annual installments through December 15, 2038, bearing interest at 4.50% per annum. The balance remaining as of December 31, 2017 is \$1,825,063.94.

\$1,250,000 Environmental Infrastructure Trust Bond dated October 27, 2011, due in annual installments through April 27, 2052, bearing interest at 3.75% per annum. The balance remaining as of December 31, 2017 is \$1,158,603.81.

\$1,400,000 Environmental Infrastructure Trust Bond dated October 27, 2011, due in annual installments through April 27, 2052, bearing interest at 3.75% per annum. The balance remaining as of December 31, 2017 is \$1,297,636.26.

\$1,585,000 Environmental Infrastructure Trust Bond dated July 18, 2014, due in semiannual installments through July 18, 2054, bearing interest at 4.50% per annum. The balance remaining as of December 31, 2017 is \$1,533,304.95.

Outstanding bonds whose principal and interest are paid from the Beach Utility Operating Fund of the City:

\$2,700,000 General Bonds dated July 15, 2014, due in annual installments through July 15, 2025, bearing interest at 3.00% per annum. The balance remaining as of December 31, 2017 is \$1,630,000.00.

{This space intentionally left blank}

Schedule of Annual Debt Service for Principal and Interest for Bonded Debt Issued and Outstanding

Year Ending December 31,	General Capital Fund	
	Principal	Interest
2018	1,937,463.01	506,632.41
2019	2,002,836.16	433,224.93
2020	1,417,080.55	364,277.01
2021	1,380,000.00	322,350.00
2022	1,480,000.00	280,950.00
2023-2027	6,745,000.00	665,050.00
	<u>\$ 14,962,379.72</u>	<u>2,572,484.35</u>

Year Ending December 31,	Utility Capital Fund		Beach Utility Capital Fund	
	Principal	Interest	Principal	Interest
2018	744,142.64	156,981.54	140,000.00	48,900.00
2019	699,348.52	127,644.26	150,000.00	44,700.00
2020	723,621.14	102,870.02	160,000.00	40,200.00
2021	487,670.00	80,037.75	170,000.00	35,400.00
2022	527,920.00	65,248.00	180,000.00	30,300.00
2023-2027	1,530,000.00	96,450.00	830,000.00	64,500.00
	<u>\$ 4,712,702.30</u>	<u>629,231.57</u>	<u>1,630,000.00</u>	<u>264,000.00</u>

Schedule of Annual Debt Service for Principal and Interest for Loans Issued and Outstanding

Year Ending December 31,	General Capital Fund		Utility Capital Fund	
	Principal	Interest	Principal	Interest
2018	39,067.09	5,273.63	233,055.16	283,894.50
2019	39,016.69	4,313.38	154,720.38	275,644.35
2020	38,973.27	3,346.14	159,896.19	269,416.63
2021	38,956.98	2,402.38	165,330.11	262,983.48
2022	18,734.63	1,451.37	149,973.12	256,302.88
2023-2027	58,493.71	2,064.29	850,415.42	1,180,964.58
2028-2032			1,046,045.89	985,334.11
2033-2037			1,286,991.51	744,388.49
2038-2042			993,725.78	492,836.29
2043-2047			1,051,628.84	301,659.58
2048-2052			801,608.36	107,682.20
2053-2055			149,173.62	7,445.19
	<u>\$ 233,242.37</u>	<u>18,851.19</u>	<u>7,042,564.38</u>	<u>5,168,552.28</u>

As of December 31, 2017 the carrying value of the above bonds and notes approximates the fair value of the bonds. No interest was charged to capital projects during the year and the total interest charged to the current budget was \$707,312.35 and to the water and sewer utility budget was \$499,990.42.

<u>Summary of Municipal Debt</u>	<u>Year 2017</u>	<u>Year 2016</u>	<u>Year 2015</u>
<u>Issued:</u>			
General - Bonds and Notes	\$ 23,545,622.09	\$ 23,622,092.18	22,513,752.63
Water/Sewer Utility - Bonds and Notes	14,405,266.68	14,644,208.88	14,495,341.10
Beach Utility - Bonds and Notes	1,955,000.00	1,960,000.00	2,085,000.00
Total Issued	<u>39,905,888.77</u>	<u>40,226,301.06</u>	<u>39,094,093.73</u>
<u>Authorized but not issued:</u>			
General - Bonds and Notes	22,777,872.66	22,999,287.66	23,678,441.00
Water/Sewer Utility - Bonds and Notes	4,607,536.00	4,688,536.00	4,688,536.00
Beach Utility - Bonds and Notes	1,596,900.00	1,310,900.00	1,010,900.00
Total Authorized But Not Issued	<u>28,982,308.66</u>	<u>28,998,723.66</u>	<u>29,377,877.00</u>
Total Bonds & Notes Issued and Authorized But Not Issued	<u>\$ 68,888,197.43</u>	<u>69,225,024.72</u>	<u>68,471,970.73</u>

Summary of Statutory Debt Condition - Annual Debt Statement

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 1.639%.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Regional School District Debt	\$ 3,897,026.74	3,897,026.74	-
Water and Sewer Utility Debt	19,012,802.68	19,012,802.68	-
Beach Utility	3,551,900.00	3,551,900.00	-
General Debt	46,323,494.75	595,382.19	45,728,112.56
	<u>\$ 72,785,224.17</u>	<u>27,057,111.61</u>	<u>45,728,112.56</u>

Net Debt \$45,728,112.56 ÷ Equalized Valuation Basis per N.J.S.A. 40A:2-2 as amended, \$2,790,669,652.00 = 1.639%.

Borrowing Power Under N.J.S.A. 40A:2-6 as Amended

3 1/2 % of Equalized Valuation Basis (Municipal)	\$	97,673,438
Net Debt		45,728,113
Remaining Borrowing Power	<u>\$</u>	<u>51,945,325</u>

NOTE 8: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2017 and 2016, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2018 and 2017 were as follows:

		<u>2018</u>	<u>2017</u>
Current Fund	\$	2,820,000.00	2,300,000.00
Water/Sewer Utility		732,314.00	675,000.00
Beach Utility		274,475.00	214,125.00
Tourism Utility		125,000.00	100,000.00

NOTE 9: SCHOOL TAXES

Local District School Taxes have been raised and a liability deferred by statute, resulting in the school tax payable set forth in the Current Fund liabilities as follows:

		<u>12/31/2017</u>	<u>12/31/2016</u>
Balance of Tax	\$	909,852.30	\$ 887,298.76
Deferred		909,852.30	902,141.00
Tax Payable	\$	-	<u>(14,842.24)</u>

Regional District School Taxes have been raised and a liability deferred by statute, resulting in the school tax payable set forth in the Current Fund liabilities as follows:

		<u>12/31/2017</u>	<u>12/31/2016</u>
Balance of Tax	\$	2,950,876.43	\$ 2,499,003.43
Deferred		2,950,876.50	2,499,003.50
Tax Payable	\$	<u>(0.07)</u>	<u>(0.07)</u>

NOTE 10: TAXES COLLECTED IN ADVANCE

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

	<u>Balance 12/31/17</u>	<u>Balance 12/31/16</u>
Prepaid Taxes	<u>\$ 2,424,055.21</u>	<u>567,646.94</u>
Cash Liability for Taxes Collected in Advance	<u>\$ 2,424,055.21</u>	<u>567,646.94</u>

NOTE 11: PENSION FUNDS

Description of Plans

Substantially all of the City's employees participate in the Public Employees' Retirement System (PERS) and Police and Fireman's Retirement System (PFRS) cost sharing multiple-employer defined benefit pension plans which have been established by State Statute and are administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the system terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the systems. This report may be obtained by writing to the Division of Pension and Benefits, PO Box 295, Trenton, New Jersey 08625 or the report can be accessed on the internet at - <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

Public Employees' Retirement System

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. Membership 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.

Defined Contribution Retirement Program (DCRP)

The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA 43:15c-1 et seq). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJSA 43: 15c-1 et seq. Currently there are six individuals enrolled in DCRP.

Police and Fireman's Retirement System

The contribution policy for the Police and Fireman's Retirement System (PFRS) is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10.0% of employees' annual compensation, as defined. Employers are required to contribute to an actuarially determined rate.

Pension Plan for Lifeguards

The City of Cape May has established a pension plan to provide retirement, disability, and survivor pension benefits for the individuals who serve on the City's lifeguard force. It is promulgated pursuant to the requirements of N.J.S.A. 43:13-23, et seq. It shall be effective January 1, 1994 ("Effective Date") and applied to members of the City of Cape May Beach Patrol employed as a lifeguard or lieutenant on or after the Effective Date.

{This space intentionally left blank}

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provided for employee contributions of 7.20% through June 30, 2017 and 7.38% thereafter of employee's annual compensation, as defined. Employers are required to contribute to an actuarially determined rate in PERS. The current PERS rate is 13.37% of covered payroll. The City's contributions to PERS for the years ended December 31, 2017, 2016, and 2015 were \$444,793.22, \$393,179.00 and \$389,100.00.

The contribution policy for the PFRS is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10.0% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The City's contributions to PFRS for the years ended December 31, 2017, 2016, and 2015 were \$768,500.86, \$733,383.00 and \$743,774.00.

The total payroll for the year ended December 31, 2017, 2016 and 2015 was \$8,120,425.96, \$8,113,586.92 and \$7,939,780.39. Payroll covered by PFRS was \$2,940,114.00, \$2,918,891.00 and \$3,025,179.00. Payroll covered by PERS was \$2,942,734.00, \$3,144,692.00 and \$3,155,162.00.

The Lifeguard Pension provides for employee contributions of 4.00% of employees' annual compensation. The City's trust for the Lifeguard Pension at December 31, 2017 was \$595,558.54. Currently there are ten individuals receiving benefits. The benefits paid by the trust for the year ended December 31, 2017, 2016 and 2015 were \$48,146.00, \$39,036.00 and \$23,851.00.

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of ¼ of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2013, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

{This space intentionally left blank}

- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60th from 1/55th, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7th of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

{This space intentionally left blank}

Note 12: PENSION LIABILITIES

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the municipality’s pension liabilities. However, due to the fact that the municipality reports on the regulatory basis of accounting, no financial statement impact will be recognized.

The following represents the municipality’s pension liabilities as June 30, 2017:

Public Employees’ Retirement System

The Municipality has a liability of \$10,690,353.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality’s proportion of the net pension liability was based on a projection of the Municipality’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Municipality’s proportion would be 0.04592391220%, which would be a decrease of 2.70% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Municipality would have recognized pension expense of \$834,759.00. At December 31, 2017, the Municipality would report deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected & actual experience	\$ 251,721	
Changes of assumptions	2,153,738	(2,145,842)
Changes in proportion	501,626	(360,343)
Net difference between projected and actual earnings on pension plan investments	72,794	
Total	<u>\$ 2,979,879</u>	<u>(2,506,185)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

<u>Year ended June 30,</u>		
2018	\$	376,859
2019		547,519
2020		325,224
2021		(434,806)
2022		(341,102)
Total	<u>\$</u>	<u>473,694</u>

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

Inflation rate	2.25%
Salary increases:	
Through 2026	1.65% - 4.15% (based on age)
Thereafter	2.65% - 5.15% (based on age)
Investment rate of return:	7.00%

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 rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 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 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 (7.00% at June 30, 2017) 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 inflations. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

{This space intentionally left blank}

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% 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 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Municipality's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Municipality's proportionate share of the net pension liability calculated using the discount rate of 5.00%, as well as what the Municipality's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.00%) or 1-percentage point higher (6.00%) than the current rate:

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Municipality's proportionate share of the net pension liability	\$ 12,825,843	10,690,353	\$ 8,913,530

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Police and Firemen's Retirement System

The Municipality has a liability of \$13,757,734.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Municipality's proportion would be 0.08911565550%, which would be a decrease of 4.70% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Municipality would have recognized pension expense of \$1,245,040.00. At December 31, 2017, the Municipality would have reported deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 89,252	(80,746)
Changes of assumptions	1,696,482	(2,253,115)
Changes in proportion	717,841	(954,855)
Net difference between projected and actual earnings on pension plan investments	262,530	
Total	<u>\$ 2,766,105</u>	<u>(3,288,716)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,		
2018	\$	275,932
2019		715,232
2020		(22,631)
2021		(1,025,240)
2022		(465,905)
Total	<u>\$</u>	<u>(522,611)</u>

{This space intentionally left blank}

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

Inflation rate	2.25%
Salary increases:	
Through 2026	2.10% - 8.98% (based on age)
Thereafter	3.10% - 9.98% (based on age)
Investment rate of return:	7.00%

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

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) 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 PFRS's target asset allocation as of June 30, 2017 are summarized in the following table:

{This space intentionally left blank}

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liability was 6.14% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the non-employer contributing entity will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% 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 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Municipality's proportionate share of the net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2017, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (5.14%)	Current Discount Rate (6.14%)	1% Increase (7.14%)
District's proportionate share of the net pension liability	\$ 17,750,893	13,757,734	10,477,880

In addition to the PFRS liabilities listed above, a special funding situation exists for the Local employers of the Police and Fire Retirement System of New Jersey. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers under Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The June 30, 2017 State special funding situation net pension liability amount of \$1,729,193,507.00 is the accumulated differences between the annual actuarially determined State obligation under the special funding situation and the actual State contribution through the valuation date. The fiscal year ending June 30, 2017 State special funding situation pension expense of \$211,519,420.00 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2017. The pension expense is deemed to be a State administrative expense due to the special funding situation.

The contribution policy for PFRS is set by N.J.S.A. 43:16A and required contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. For fiscal year 2016, the State contributed an amount less than the actuarially determined amount.

Although the liabilities related to the special funding situation are the liabilities of the State of New Jersey, the proportionate share of the statewide liability allocated to the Municipality was 0.08911565550% for 2017. The net pension liability amount allocated to the Municipality was \$1,540,982.00. For the fiscal year ending June 30, 2017 State special funding situation pension expense of \$188,497.00 is allocated to the Municipality.

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PFRS financial report.

NOTE 13: POST-RETIREMENT BENEFITS

Plan Description The City of Cape May contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at to <http://www.state.nj.us/treasury/pensions/shbp.htm>

{This space intentionally left blank}

Plan Coverage The City currently has 8 union groups, UAW Local 2327 Cape May Lieutenant Lifeguards, UAW Local 2327 Cape May Lifeguards, UAW Local 2327 Upper Management Employees, UAW Local 2327 White Collar Clerical Employees, UAW Local 2327 Blue Collar Employees (Public Works and Water Sewer Employees), UAW Local 2327 Communications Employees, Policemen Benevolent Association Local 59 and International Association of Fire Fighters Local 3495. The employee's post-employment benefits are dependent upon the collective bargaining unit to which they are a member as well as the year of retirement. The benefits by collective bargaining unit are:

UAW Local 2327 (except Lifeguards) – Upon retirement after 25 years of service to the City (or 27 years of service to the City for employees hired on or after January 1, 2010), the City will pay the entire cost of health benefit coverages available for retirees at the time of retirement to supplement Medicare or any other health benefits to which the retiring employee may be entitled for the lifetime of the retiring employee and the employee's spouse at the time of retirement. The health plan for retirees shall reflect a lifetime limit as provided for under the specific health plan selected by the retiree.

International Association of Fire Fighters Local 3495 – Upon retirement after 25 years of service to the City, the City will pay the entire cost of health benefit coverages available for retirees at the time of retirement to supplement Medicare or any other health benefits to which the retiring employee may be entitled for the lifetime of the retiring employee and the employee's spouse at the time of retirement. The health plan for retirees shall reflect a lifetime limit as provided for under the specific health plan selected by the retiree. Dependent health coverage will be provided according to the terms of eligibility of the retiree's selected health plan.

Policemen Benevolent Association Local 59 – Upon retirement after 25 years of service with the City, the City will provide full time Officers and their eligible dependents at the time of retirement, lifetime medical coverage as set forth in this Article and subject to (1) the conditions established below and (2) the requirements of SHBP, including requirements to participate in Medicare. Officers who retire prior to January 1, 2012, shall be subject to the premium cost sharing provisions in effect when they retired as applicable to retirees. Pursuant to P.L. 2011, Chapter 78, Officers retiring on or after January 1, 2012 either with 25 years or more of pensionable law enforcement service in a State administered retirement system and with 25 years of services with the City or (ii) from a work related accidental disability pension, as set forth in Article 9.L. below, shall make a standard contribution to the City as a deduction from their retirement benefits.

Non Affiliated Employees - Individuals who retired with at least 25 years of service (or 27 years of service to the City for employees hired on or after January 1, 2010) in the Public Employees' Retirement System receive hospitalization, major medical and prescription for the employee and spouse in effect at the time of retirement.

Funding Policy Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the City of Cape May on a monthly basis. The rates charged by the system for the year ended December 31, 2012 vary according to the type of coverage selected by the retiree and range from \$378 to \$1,770 monthly per retiree.

The City of Cape May contributions to SHBP for post-retirement benefits for the year ended December 31, 2017 and 2016 were \$830,853.49 and \$671,192.85 respectively, which equaled the required contribution for the year.

{This space intentionally left blank}

NOTE 14: ACCRUED SICK AND VACATION BENEFITS

The City has permitted employees to accrue unused vacation, personal and sick time, which may be taken as time off or paid at a later date at an agreed upon rate. Employees are only eligible to receive 50% of the sick time they have accrued, and the maximum dollar amount of sick time that may be earned is \$12,000. The monetary value of these earned and unused employee benefits has not been accrued by either charges to operations or to budgets of prior years, although in some cases they might be material, since the realization of this liability may be affected by conditions which preclude an employee from receiving full payment of the accrual. At December 31, 2017, the City estimates this liability to approximate \$1,331,377.68 based on 2017 pay rates and compensated absence balances.

NOTE 15: ECONOMIC DEPENDENCY

The City of Cape May is not economically dependent on any one business or industry as a major source of tax revenue for the City.

NOTE 16: RISK MANAGEMENT

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

Property and Liability Insurance - The City maintains commercial insurance coverage for property, liability and surety bonds. During the year ended December 31, 2017 and 2016 the City did not incur claims in excess of their coverage and the amount of coverage did not significantly decrease.

The City is a member of the Atlantic County Joint Insurance Fund (JIF) and the Municipal Excess Liability Fund (MEL) which also includes other municipalities throughout the region. The City is obligated to remit insurance premiums into these funds for sufficient insurance coverage. There is an unknown contingent liability with the Atlantic County Municipal Joint Insurance Fund if there is a catastrophic insurance claim from any member of the fund. The City has a general liability limit of \$200,000 under JIF, which increases to \$4,900,000 under MEL.

New Jersey Unemployment Compensation Insurance – The City has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan, the City 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 City is billed quarterly for amounts due to the State.

NOTE 17: DEFERRED COMPENSATION

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. In 1998 the City of Cape May amended the plan by resolution to comply with a private letter ruling of the Internal Revenue Service that requires assets of deferred compensation plans be held in trust under the beneficial ownership of the Trustee, (City of Cape May) serving as Trustee, for the exclusive benefit of the plan participants and their beneficiaries, and that the assets shall not be diverted to any other purpose. The plan administrator is as follows:

Voya Retirement Insurance and Annuity Company

NOTE 18: CONTINGENT LIABILITIES

From time to time, the City is a defendant in legal proceedings relating to its operations as a municipality. In the best judgment of the City's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

NOTE 19: INTERFUND BALANCES

During the most current calendar year ended December 31, 2017, the following interfunds were included on the balance sheets of the various funds of the City of Cape May:

	Due From	Due To
	<u> </u>	<u> </u>
Current Fund:		
Animal Control Fund	\$ 1,201.01	
Federal and State Grant Funds	438,182.36	
Trusts Other	2.84	357.75
Utility Operating	645.25	
Grant Fund:		
Current Fund		438,182.36
Other Trusts:		
Current Fund	357.75	2.84
Animal Control Fund:		
Current Fund		1,201.01
Utility Operating:		
Current Fund		645.25
Utility Capital	6,275.00	
Utility Capital:		
Utility Operating		6,275.00
	<u>\$ 446,664.21</u>	<u>446,664.21</u>

The balances are primarily the result of disbursements made from the various funds which were not reimbursed prior to year end.

NOTE 20: LENGTH OF SERVICE AWARD PROGRAM

The City's Length of Service Awards Program (LOSAP) was created by a City Ordinance adopted on January 20, 2004 pursuant to Section 457 (e)(11)(13) of the Internal Service Code of 1986, as amended, except for provisions added by reason of the Length of Service Award Program as enacted into federal law in 1997. The voters of the City of Cape May approved the adoption of the LOSAP at the general election held on January 20, 2004, and the first year of eligibility for entrance into the LOSAP by qualified volunteers was fiscal year 2004. The LOSAP provides tax deferred income benefits to active volunteer firefighters and emergency medical personnel.

Amounts deferred under Section 457 plans must be held in trust for the exclusive benefit of participating employees and not be accessible by the City or its creditors. Since the City does not have a fiduciary relationship with the LOSAP, the balances and activities of the LOSAP are not reported in the City's financial statements.

As required by N.J.A.C. 5:30-14.49, the City must have an annual review of its LOSAP performed in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

NOTE 21: SUBSEQUENT EVENTS

The City has evaluated subsequent events through June 1, 2018, the date which the financial statements were available to be issued. The following events were identified:

The matter of Police Captain Robert Sheehan v. City of Cape May was settled in February 2018. The settlement was paid by the City through a 2018 budget appropriation and their insurance carrier.

Subsequent to December 31, the City of Cape May authorized additional Bonds and Notes as follows:

<u>Purpose</u>	<u>Date</u>	<u>Amount</u>
General Capital:		
Bonds and Notes:		
Preliminary expenses for the construction of a new safety building	Introduced: February 20, 2018 Adopted: March 20, 2018	\$ 300,000.00
Various Capital Improvements	Introduced: May 1, 2018 Adopted: **	\$ 1,615,000.00
Various Improvements to the Beach Utility	Introduced: May 1, 2018 Adopted: **	\$ 393,000.00
Various Improvements to the Water/Sewer Utility	Introduced: May 1, 2018 Adopted: **	\$ 1,019,000.00
		\$ 3,327,000.00
**: As of the date of this report, ordinance has not been adopted.		

{This space intentionally left blank}

[THIS PAGE INTENTIONALLY LEFT BLANK]

**SELECTED UNAUDITED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2018**

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	(Unaudited) <u>2018</u>	<u>2017</u>
Regular Fund:		
Cash:		
Treasurer	\$ 8,098,453.20	9,270,119.94
Petty Cash and Change Funds	950.00	950.00
Total Cash	<u>8,099,403.20</u>	<u>9,271,069.94</u>
Receivables and Other Assets with Full Reserves:		
Delinquent Property Taxes Receivable	247,879.00	314,118.19
Tax Title and Other Liens	196,305.21	8,194.99
Property Acquired for Taxes - at Assessed Valuation	83,316.00	83,316.00
Revenue Accounts Receivable	8,777.95	5,325.83
Due from State:		
Chapter 20 P.L. 1971	17,275.82	12,130.31
Interfund Receivable:		
TTL Premium	7.59	2.84
Animal Control	694.67	1,201.01
Utility Operating	-	645.25
Federal and State Grant Funds	116,471.38	438,182.36
Total Receivables and Other Assets	<u>670,727.62</u>	<u>863,116.78</u>
Total Regular Fund	<u>8,770,130.82</u>	<u>10,134,186.72</u>
Federal and State Grant Fund:		
Cash	450,286.89	450,286.89
Federal and State Grants Receivable	3,285,987.78	3,141,568.03
Revolving Loan Receivable	600,000.00	600,000.00
Total Federal and State Grant Fund	<u>4,336,274.67</u>	<u>4,191,854.92</u>
Total Current Fund	<u>\$ 13,106,405.49</u>	<u>14,326,041.64</u>

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	(Unaudited)	
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>2018</u>	<u>2017</u>
Regular Fund:		
Liabilities:		
Appropriation Reserves	\$ 1,256,555.02	1,386,116.71
Reserve for Encumbrances/Accounts Payable	363,575.24	571,543.58
Prepaid Taxes	619,547.38	2,424,055.21
Overpaid Taxes	16,442.36	3,984.34
County Added Tax Payable	36,954.93	52,794.30
Local School Tax Payable (Overpaid)	-	-
Regional School Tax (Overpaid)	(0.07)	(0.07)
Due to State:		
Marriage Licenses	475.00	525.00
DCA Training Fees	4,542.00	15,158.00
Interfund Payable:		
Trusts Other	-	357.75
General Capital	25,000.00	-
Other:		
Payroll Taxes Payable	(7,874.00)	30,201.13
Tax Title Lien Exchange	1,482.58	1,482.58
Reserve for Section 8	16,394.81	16,394.81
Reserve for Codification of Ordinances	353.16	353.16
Reserve for Purchase of Ambulance	160.71	160.71
Reserve for Payment of Bonds and Coupons	15,080.51	15,080.51
Reserve for Escrow Deposits	167,121.41	133,806.76
Reserve for State Tax Appeal	4,558.48	4,558.48
Reserve for Revaluation	48,455.00	48,455.00
Reserve for Master Plan	27,744.12	27,744.12
	<u>2,596,568.64</u>	<u>4,732,772.08</u>
Reserve for Receivables and Other Assets	653,451.80	850,986.47
Fund Balance	5,520,110.38	4,550,428.17
	<u>8,770,130.82</u>	<u>10,134,186.72</u>
Total Regular Fund		
Federal and State Grant Fund:		
Unappropriated Reserves	12,990.90	28,256.32
Appropriated Reserves	3,512,484.77	3,092,624.88
Reserve for Encumbrances/Accounts Payable	49,327.62	32,791.36
Due to Current Fund	116,471.38	438,182.36
Due to General Capital Fund	45,000.00	-
Reserve for Revolving Loans Receivable	600,000.00	600,000.00
	<u>4,336,274.67</u>	<u>4,191,854.92</u>
Total Federal and State Grant Fund		
Total Current Fund	\$ <u><u>13,106,405.49</u></u>	<u><u>14,326,041.64</u></u>

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	(Unaudited) 2018	2017
	2018	2017
Revenue and Other Income Realized		
Fund Balance	\$ 2,820,000.00	2,300,000.00
Miscellaneous Revenue Anticipated	7,407,672.44	7,090,176.25
Receipts from Delinquent Taxes	232,927.05	174,346.09
Receipts from Current Taxes	26,262,619.77	24,706,266.43
Non Budget Revenue	192,281.90	117,313.34
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	1,175,627.70	1,075,560.15
Interfund Returned	323,557.24	-
Prior Year Accounts Payable Cancelled	-	10,046.57
Total Income	38,414,686.10	35,473,708.83
Expenditures		
Budget and Emergency Appropriations:		
Appropriations Within "CAPS"		
Operations:		
Salaries and Wages	6,209,984.00	6,005,928.00
Other Expenses	5,681,936.00	5,191,821.00
Deferred Charges & Statutory Expenditures	1,641,899.63	1,618,430.00
Appropriations Excluded from "CAPS"		
Operations:		
Salaries and Wages	780,067.00	764,772.00
Other Expenses	835,345.57	831,620.97
Capital Improvements	528,000.00	322,000.00
Debt Service	2,912,983.50	2,639,327.91
Deferred Charges	-	-
Local District School Tax	1,849,389.00	1,841,677.70
Regional District School Tax	6,401,189.00	5,449,880.00
County Tax	7,663,578.13	7,487,320.20
County Share of Added Tax	36,954.93	52,794.30
Interfund Created	699.42	169,865.88
Prior Year Accounts Payable	82,977.71	-
Total Expenditures	34,625,003.89	32,375,437.96
Excess/(Deficit) in Revenue	3,789,682.21	3,098,270.87

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	(Unaudited) 2018	2017
	<u> </u>	<u> </u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	-	-
Total Adjustments	<u>-</u>	<u>-</u>
Statutory Excess to Fund Balance	<u>3,789,682.21</u>	<u>3,098,270.87</u>
Fund Balance January 1	<u>4,550,428.17</u>	<u>3,752,157.30</u>
	8,340,110.38	6,850,428.17
Decreased by:		
Utilization as Anticipated Revenue	<u>2,820,000.00</u>	<u>2,300,000.00</u>
Fund Balance December 31	\$ <u><u>5,520,110.38</u></u>	<u><u>4,550,428.17</u></u>

**GENERAL CAPITAL FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	(Unaudited) 2018	2017
Cash	\$ 2,981,617.19	2,143,968.09
Deferred Charges to Future Taxation -		
Funded	13,219,091.99	15,195,622.09
Unfunded	32,567,510.97	31,127,872.66
State Grant Receivable	348,066.77	348,066.77
NJEIT Loans Receivable	35,670.53	35,670.53
Due from Current Fund	25,000.00	-
	<u>49,176,957.45</u>	<u>48,851,200.14</u>
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Encumbrances Payable	1,249,444.81	1,098,113.32
Bond Anticipation Notes Payable	10,155,000.00	8,350,000.00
Serial Bonds Payable	13,024,916.71	14,962,379.72
Green Trust Loan Payable	131,246.31	148,547.43
Environmental Infrastructure Trust Loans Payable	62,928.97	84,694.94
Due to Beach Operating Fund	10,000.00	-
Due to W/S Operating Fund	15,000.00	-
Improvement Authorizations:		
Funded	940,773.21	1,038,498.34
Unfunded	20,145,617.90	20,130,158.15
Reserve to Pay Bonds or Notes	445,382.19	595,382.19
Reserve for Open Space	2,386,569.00	2,164,569.00
Reserves Other	26,575.60	26,575.60
Capital Improvement Fund	64,301.00	14,301.00
Fund Balance	519,201.75	237,980.45
	<u>\$ 49,176,957.45</u>	<u>48,851,200.14</u>

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>(Unaudited)</u> <u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Operating Fund:		
Cash	\$ 1,260,384.67	1,675,032.33
	<u>1,260,384.67</u>	<u>1,675,032.33</u>
Receivables and Other Assets with Full Reserves:		
Consumer Accounts Receivable	15,214.82	22,255.66
Interfunds:		
Due from Utility Capital	-	6,275.00
	<u>15,214.82</u>	<u>28,530.66</u>
Deferred Charges:		
Overexpenditure of Appropriation	20,871.53	-
	<u>20,871.53</u>	<u>-</u>
Total Operating Fund	<u>1,296,471.02</u>	<u>1,703,562.99</u>
Capital Fund:		
Cash	1,768,766.58	922,627.28
Loans Receivable	459,132.47	52,126.47
Due from General Capital	15,000.00	-
Fixed Capital	18,975,433.85	18,975,433.85
Fixed Capital - Authorized and Uncompleted	26,170,155.99	25,151,155.99
Total Capital Fund	<u>47,388,488.89</u>	<u>45,101,343.59</u>
	<u>\$ 48,684,959.91</u>	<u>46,804,906.58</u>

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>(Unaudited)</u>	
	<u>2018</u>	<u>2017</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Appropriation Reserves	\$ 240,353.88	440,965.26
Reserve for Encumbrances	75,560.00	79,786.43
Overpaid Rents	34,476.32	41,551.14
Sales Tax Payable	190.71	190.71
Accrued Interest on Bonds and Notes	162,940.19	149,699.13
Reserve for Sewer Treatment Plant	809.71	809.71
Interfunds:		
Due to Current Fund	-	645.25
	<u>514,330.81</u>	<u>713,647.63</u>
Reserve for Receivables	15,214.82	22,255.66
Fund Balance	766,925.39	967,659.70
Total Operating Fund	<u>1,296,471.02</u>	<u>1,703,562.99</u>
Capital Fund:		
Encumbrances Payable	511,747.97	1,090,114.45
Bond Anticipation Notes Payable	3,635,000.00	2,650,000.00
Serial Bonds Payable	3,968,559.66	4,712,702.30
Loans Payable	8,464,301.09	7,042,564.38
Improvement Authorizations:		
Funded	268,230.79	269,158.29
Unfunded	2,738,554.35	2,465,810.17
Due to Utility Operating	-	6,275.00
Reserve for Amortization	24,974,315.86	23,953,961.93
Deferred Reserve for Amortization	1,789,655.23	1,789,655.23
Reserve for Debt Service	519,817.60	650,817.60
Capital Improvement Fund	140,000.00	130,000.00
Fund Balance	378,306.34	340,284.24
Total Capital Fund	<u>47,388,488.89</u>	<u>45,101,343.59</u>
	<u>\$ 48,684,959.91</u>	<u>46,804,906.58</u>

**WATER AND SEWER UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	(Unaudited) 2018	2017
	<u>2018</u>	<u>2017</u>
Revenue and Other Income Realized		
Fund Balance Utilized	\$ 732,314.00	675,000.00
Water and Sewer Rents	6,275,219.01	6,192,150.18
Reserve to Pay Bonds and Notes	131,000.00	119,490.00
Miscellaneous	67,922.16	62,546.56
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	233,729.85	202,732.30
Total Income	<u>7,440,185.02</u>	<u>7,251,919.04</u>
Expenditures		
Operations:		
Salaries and Wages	780,000.00	800,625.00
Other Expenses	4,475,020.00	4,204,470.00
Capital Improvements	60,000.00	70,000.00
Debt Service	1,527,236.86	1,589,300.17
Deferred Charges and Statutory Expenditures	87,220.00	95,802.00
Refund of Prior Year Revenue		274.41
Total Expenditures	<u>6,929,476.86</u>	<u>6,760,471.58</u>
Excess in Revenue	<u>510,708.16</u>	<u>491,447.46</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	20,871.53	-
Total Adjustments	<u>20,871.53</u>	<u>-</u>
Excess in Operations	<u>531,579.69</u>	<u>491,447.46</u>
Fund Balance January 1	<u>967,659.70</u>	<u>1,151,212.24</u>
Decreased by:	1,499,239.39	1,642,659.70
Utilization as Anticipated Revenue	<u>732,314.00</u>	<u>675,000.00</u>
Fund Balance December 31	<u>\$ 766,925.39</u>	<u>967,659.70</u>

**BEACH UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	(Unaudited) 2018	2017
<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
Operating Fund:		
Cash	\$ 1,425,887.90	1,348,466.01
	<u>1,425,887.90</u>	<u>1,348,466.01</u>
Deferred Charges:		
Overexpenditure of Appropriation	6,834.02	-
	<u>6,834.02</u>	<u>-</u>
Total Operating Fund	<u>1,432,721.92</u>	<u>1,348,466.01</u>
Capital Fund:		
Cash	840,001.98	604,894.74
Fixed Capital - Authorized and Uncompleted	5,489,900.00	5,096,900.00
Due from General Capital	10,000.00	-
Due from Beach Operating	93.94	-
Total Capital Fund	<u>6,339,995.92</u>	<u>5,701,794.74</u>
	<u>\$ 7,772,717.84</u>	<u>7,050,260.75</u>

**BEACH UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>(Unaudited)</u>	
	<u>2018</u>	<u>2017</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Appropriation Reserves	\$ 166,863.37	153,289.53
Encumbrances Payable	22,171.56	14,983.57
Accrued Interest on Bonds and Notes	30,318.75	25,391.67
Due to Beach Operating	93.94	-
	<u>219,447.62</u>	<u>193,664.77</u>
 Fund Balance	 1,213,274.30	 1,154,801.24
 Total Operating Fund	 <u>1,432,721.92</u>	 <u>1,348,466.01</u>
 Capital Fund:		
Encumbrances Payable	56,278.00	122,228.40
Bond Anticipation Notes Payable	715,000.00	325,000.00
General Serial Bonds Payable	1,490,000.00	1,630,000.00
Reserve for Amortization	1,695,000.00	1,545,000.00
Improvement Authorizations		
Funded	245,026.98	245,026.98
Unfunded	1,337,766.32	1,191,093.64
Capital Improvement Fund	679,000.00	529,000.00
Fund Balance	121,924.62	114,445.72
	<u>6,339,995.92</u>	<u>5,701,794.74</u>
 Total Capital Fund	 <u>6,339,995.92</u>	 <u>5,701,794.74</u>
	 <u>\$ 7,772,717.84</u>	 <u>7,050,260.75</u>

BEACH UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,

	(Unaudited)	
	2018	2017
	<u>2018</u>	<u>2017</u>
Revenue and Other Income Realized		
Fund Balance Utilized	\$ 274,475.00	214,125.00
Beach Fees	2,464,499.00	2,409,700.00
Miscellaneous Revenue	1,503.03	2,844.39
Other Credits to Income:		
Unexpended Balance of Appropriation		
Reserves	155,921.03	200,944.25
Total Income	<u>2,896,398.06</u>	<u>2,827,613.64</u>
Expenditures		
Operations:		
Salaries and Wages	1,487,000.00	1,464,425.00
Other Expenses	548,975.00	533,150.00
Capital Improvements	150,000.00	100,000.00
Debt Service	210,309.02	186,480.55
Deferred Charges and Statutory Expenditures	174,000.00	173,000.00
Refund of Prior Year's Revenue		-
Total Expenditures	<u>2,570,284.02</u>	<u>2,457,055.55</u>
Excess/(Deficit) in Revenue	<u>326,114.04</u>	<u>370,558.09</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by		
Statute Deferred Charges to Budgets of		
Succeeding Year	6,834.02	-
Total Adjustments	<u>6,834.02</u>	<u>-</u>
Excess in Operations	<u>332,948.06</u>	<u>370,558.09</u>
Fund Balance January 1	<u>1,154,801.24</u>	<u>998,368.15</u>
Decreased by:		
Utilization as Anticipated Revenue	<u>1,487,749.30</u>	<u>1,368,926.24</u>
Fund Balance December 31	<u>\$ 1,213,274.30</u>	<u>1,154,801.24</u>

**TOURISM UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	(Unaudited) 2018	2017
<u>ASSETS</u>		
Operating Fund:		
Cash	\$ 1,013,112.72	830,015.24
Change Fund	500.00	500.00
	1,013,612.72	830,515.24
Total Operating Fund	1,013,612.72	830,515.24
	1,013,612.72	830,515.24
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Operating Fund:		
Appropriation Reserves	147,641.66	106,561.51
Encumbrances Payable	9,831.42	23,362.84
Accounts Payable	236.46	-
Sales Tax Payable	630.89	630.89
Due to Security Deposit	34,817.50	33,817.50
	193,157.93	164,372.74
Fund Balance	820,454.79	666,142.50
Total Operating Fund	1,013,612.72	830,515.24
	\$ 1,013,612.72	830,515.24

**TOURISM UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	(Unaudited) 2018	2017
	<u>2018</u>	<u>2017</u>
Revenue and Other Income Realized		
Fund Balance Utilized	\$ 125,000.00	100,000.00
Tourism Fees	1,297,698.93	1,241,252.45
Other Credits to Income:		
Miscellaneous Revenue not Anticipated	5,032.51	22,364.80
Unexpended Balance of Appropriation Reserves	96,725.85	112,258.93
Total Income	<u>1,524,457.29</u>	<u>1,475,876.18</u>
Expenditures		
Operations:		
Salaries and Wages	452,000.00	401,000.00
Other Expenses	793,000.00	788,000.00
Refund of Prior Year's Revenue	145.00	-
Total Expenditures	<u>1,245,145.00</u>	<u>1,189,000.00</u>
Excess/(Deficit) in Revenue	<u>279,312.29</u>	<u>286,876.18</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	-	-
Total Adjustments	<u>-</u>	<u>-</u>
Excess in Operations	<u>279,312.29</u>	<u>286,876.18</u>
Fund Balance January 1	<u>666,142.50</u>	<u>479,266.32</u>
Decreased by:	945,454.79	766,142.50
Utilization as Anticipated Revenue	<u>125,000.00</u>	<u>100,000.00</u>
Fund Balance December 31	<u>\$ 820,454.79</u>	<u>666,142.50</u>

APPENDIX C

FORM OF APPROVING LEGAL OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

_____, 2019

City Council of the
City of Cape May, in the
County of Cape May, New Jersey

Dear Council Members:

We have acted as bond counsel to the City of Cape May, in the County of Cape May, New Jersey (the "City"), in connection with the issuance by the City of \$15,165,000* General Obligation Bonds, Series 2019, consisting of \$10,155,000* General Improvement Bonds, \$4,250,000* Water/Sewer Utility Bonds and \$760,000* Beach Utility Bonds (together, the "Bonds"), dated the date hereof. In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us as we have deemed necessary.

The Bonds are issued pursuant to the Local Bond Law of the State of New Jersey, a resolution of the City adopted on May 21, 2019 pursuant to N.J.S.A. 40A:2-26(f), in all respects duly approved, and the various bond ordinances referred to therein, each in all respects duly approved and published as required by law.

In our opinion, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws or application by a court of competent jurisdiction of legal or equitable principles relating to the enforcement of creditors' rights, the Bonds are valid and legally binding obligations of the City payable from *ad valorem* taxes that may be levied upon all the taxable real property within the City without limitation as to rate or amount.

On the date hereof, the City has covenanted in its Arbitrage and Tax Certificate (the "Certificate") to comply with certain continuing requirements that must be satisfied subsequent to the issuance of the Bonds in order to preserve the tax-exempt status of the Bonds pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to Section 103 of the Code, failure to comply with these requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. In the event that the City continuously complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the City in the Certificate, it is our opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code. Interest on the Bonds are not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. Further, in our opinion, based upon existing law, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. These opinions are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

This opinion is issued as of the date hereof. We assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may come to our attention or any changes in law or interpretations thereof that may occur after the date of this opinion or for any reason whatsoever.

Very truly yours,

*Preliminary, subject to change.

[THIS PAGE INTENTIONALLY LEFT BLANK]