

NEW ISSUE
BOOK-ENTRY ONLY

Rating: S&P “AA”
(See “RATING” herein)

In the opinion of Bond Counsel, assuming continuing compliance with the provisions of the Internal Revenue Code of 1986, as amended (the “Code”) applicable to the Bonds and subject to certain provisions of the Code which are described herein, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of the Bonds, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax imposed by the Code on individuals. Under the laws of the State of New Jersey, as enacted and construed on the date of the original delivery of the Bonds, interest on the Bonds and gain from the sale thereof are excludable from gross income under the New Jersey Gross Income Tax Act. See “TAX MATTERS” herein..

\$13,105,000*
BOROUGH OF SOUTH RIVER
IN THE COUNTY OF MIDDLESEX, NEW JERSEY
GENERAL OBLIGATION BONDS, SERIES 2019
consisting of:
\$10,500,000* General Improvement Bonds, Series 2019A
\$2,605,000* Water Improvement Bonds, Series 2019B
(BOOK-ENTRY-ONLY) (CALLABLE)

Dated: Date of Delivery

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

The \$13,105,000* aggregate principal amount of General Obligation Bonds, Series 2019, consisting of \$10,500,000* General Improvement Bonds, Series 2019A (the “General Improvement Bonds”) and \$2,605,000* Water Improvement Bonds, Series 2019B (the “Water Bonds”) and, together with the General Improvement Bonds, the “Bonds”) are general obligations of the Borough of South River, County of Middlesex, State of New Jersey (the “Borough”), for which the full faith and credit of the Borough are pledged. The Borough is authorized and required by law to levy ad valorem taxes on all taxable property within the Borough without limitation as to rate or amount for the payment of the principal thereof and the interest thereon.

The Bonds of each series will be issued in fully registered book-entry only form and, when issued, will be registered in the name of and held by Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC, an automated depository for securities and clearing house for securities transactions, will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book entry form, in the denomination of \$5,000 or more.

The Bonds shall bear interest from the date of delivery thereof, payable semi-annually on June 1 and December 1 of each year, commencing June 1, 2020, at such rates of interest, as shown on the inside front cover page hereof, until maturity or earlier redemption. The Bonds will be payable as to principal upon presentation and surrender thereof at the offices of the Borough or a duly designated paying agent. Interest on the Bonds will be paid by check, draft or wire transfer mailed, delivered or transmitted by the Borough to the registered owner thereof as of the Record Dates (as defined herein).

The Bonds are authorized by, and are issued pursuant to, the provisions of the Local Bond Law, N.J.S.A. 40A:2-1 *et seq.*, as amended and supplemented (the “Local Bond Law”), various bond ordinances duly adopted by the Borough Council on the dates set forth herein, and by a resolution duly adopted by the Borough Council on March 25, 2019.

The proceeds of the Bonds, along with other available funds of the Borough, will be used to: (i) refund, on a current basis, the Borough’s \$14,707,250 bond anticipation notes, dated December 10, 2018 and maturing December 10, 2019; (ii) permanently finance the cost of various capital improvements in and by the Borough; and (iii) pay the costs of issuing the Bonds.

The Bonds will constitute general obligations of the Borough for the payment of the principal of and interest on which the full faith, credit and taxing power of the Borough is available, and all the taxable real property within the Borough is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for such purposes.

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as and if received by the purchaser and subject to prior sale, withdrawal or modification of the offer without notice, and to approval of legality by GluckWalrath LLP, Red Bank, New Jersey, Bond Counsel, and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey, serves as Municipal Advisor to the Borough in connection with the issuance of the Bonds. It is expected that the Bonds, in definitive form, will be available for delivery on or about December 5, 2019.

BIDS FOR THE BONDS, IN ACCORDANCE WITH THE FULL NOTICE OF SALE FOR THE BONDS, WILL BE RECEIVED ON NOVEMBER 14, 2019.

* Preliminary, subject to change.

\$13,105,000*
BOROUGH OF SOUTH RIVER
IN THE COUNTY OF MIDDLESEX, NEW JERSEY
GENERAL OBLIGATION BONDS, SERIES 2019
consisting of:
\$10,500,000* General Improvement Bonds, Series 2019A
\$2,605,000* Water Improvement Bonds, Series 2019B
(BOOK-ENTRY-ONLY) (CALLABLE)

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

<u>Maturity</u> <u>(December 1)</u>	<u>General</u> <u>Improvement*</u>	<u>Water</u> <u>Improvement*</u>	<u>Aggregate</u> <u>Principal*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP**</u>
2020	\$555,000	\$140,000	\$695,000	%	%	839669__
2021	645,000	280,000	925,000			839669__
2022	700,000	280,000	980,000			839669__
2023	725,000	280,000	1,005,000			839669__
2024	725,000	280,000	1,005,000			839669__
2025	725,000	280,000	1,005,000			839669__
2026	725,000	280,000	1,005,000			839669__
2027	725,000	265,000	990,000			839669__
2028	725,000	260,000	985,000			839669__
2029	725,000	260,000	985,000			839669__
2030	725,000		725,000			839669__
2031	700,000		700,000			839669__
2032	700,000		700,000			839669__
2033	700,000		700,000			839669__
2034	700,000		700,000			839669__

* 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 Borough 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.

**BOROUGH OF SOUTH RIVER
IN THE COUNTY OF MIDDLESEX, NEW JERSEY
48 WASHINGTON STREET
SOUTH RIVER, NJ 08882-1247
(732) 257-1999**

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CHIEF FINANCIAL OFFICER
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TAX COLLECTOR
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BOROUGH CLERK
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No broker, dealer, salesperson or other person has been authorized by the Borough to give any information or to make any representations with respect to the Bonds other than those contained in this document, 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 Borough 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 of accuracy or completeness and such information is not to be construed as a representation of warranty by the Purchaser or, as to information from sources other than itself, by the Borough. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

References in this document 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.

This document 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. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than as contained in this document. If given or made, such other information or representations must not be relied upon as having been authorized by the Borough.

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**OFFICIAL STATEMENT
OF
BOROUGH OF SOUTH RIVER
IN THE COUNTY OF MIDDLESEX, NEW JERSEY**

**RELATING TO
\$13,105,000*
GENERAL OBLIGATION BONDS, SERIES 2019
consisting of:
\$10,500,000* General Improvement Bonds, Series 2019A
\$2,605,000* Water Improvement Bonds, Series 2019B
(BOOK-ENTRY-ONLY) (CALLABLE)**

INTRODUCTION

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by the Borough of South River (the “Borough”), in the County of Middlesex (the “County”), New Jersey (the “State”), in connection with the sale and issuance of \$13,105,000* aggregate principal amount of General Obligation Bonds, Series 2019, consisting of \$10,500,000* General Improvement Bonds, Series 2019A (the “General Improvement Bonds”) and \$2,605,000* Water Improvement Bonds, Series 2019B (the “Water Bonds” and, together with the General Improvement Bonds, the “Bonds”).

THE BONDS

General Description

The Bonds will be dated the date of delivery and will mature on December 1 in each of the years and in the principal amounts as shown on the inside front cover page hereof. The interest on the Bonds will be payable semi-annually beginning June 1, 2020 and on each December 1 and June 1 thereafter. The record dates for the Bonds is each preceding May 15 and November 15, respectively (the “Record Dates”). The Bonds will be issued in book-entry form only.

The Bonds are general obligations of the Borough and are secured by a pledge of the full faith and credit of the Borough for the payment of the principal thereof and interest thereon. The Borough is obligated to levy *ad valorem* taxes upon all of the taxable property within the Borough for the payment of principal of and interest on the Bonds without limitation as to rate or amount.

Optional Redemption

The Bonds maturing prior to December 1, 2027 are not subject to optional redemption. The Bonds maturing on or after December 1, 2027 shall be subject to redemption at the option of the Borough, in whole or in part, on any date on or after December 1, 2026 at a price of 100% of the principal amount being redeemed (the “Redemption Price”), plus unpaid accrued interest to the date fixed for redemption.

Notice of 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

* Preliminary, subject to change.

addresses as they last appear on the registration books kept for that purpose by the Borough or a duly appointed Bond Registrar. So long as DTC (the “Depository Trust Company”) (or any successor thereto) acts as securities depository for the Bonds (“Securities Depository”), such Notice of Redemption shall be sent directly to such depository and not to the Beneficial Owners of the Bonds. Any failure of the 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 Borough determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the Borough; within a maturity the Bonds to be redeemed shall be selected by the Securities Depository in accordance with its procedures.

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

Authorization for the Issuance of the Bonds

The Bonds are authorized by, and are issued pursuant to, the provisions of the Local Bond Law, N.J.S.A. 40A:2-1 et seq., as amended and supplemented (the “Local Bond Law”), and are authorized by various bond ordinances duly adopted by the Borough Council on the dates set forth in the chart on the following page and published and approved as required by law, and by a resolution duly adopted by the Borough Council on March 25, 2019.

The bond ordinances authorizing the Bonds were published in full or in summary after their final adoption along with the statement that the twenty (20) day period of limitation within which a suit, action or proceeding questioning the validity of such bond ordinances could be commenced began to run from the date of the first publication of such statement. The Local Bond Law provides, that after issuance, all obligations shall be conclusively presumed to be fully authorized and issued by all laws of the State, and all persons shall be estopped from questioning their sale, execution or delivery by the Borough. Such estoppel period has concluded as of the date of this Official Statement.

Purpose of the Bonds

Proceeds of the Bonds, along with available funds of the Borough in the amount of \$1,602,250, are being issued to: (i) refund, on a current basis, the Borough’s \$14,707,250 bond anticipation notes, dated December 10, 2018 and maturing December 10, 2019 (the “Prior Notes”); and (ii) pay the costs associated with the issuance of the Bonds.

The purposes for which the Bonds are to be issued have been authorized by duly adopted, approved and published bond ordinances of the Borough, which bond ordinances are described in the following table by ordinance number, description and the amount of the Prior Notes being refunded with the proceeds of the Bonds. The bond ordinances are:

General Improvement

<u>Ordinance No.</u>	<u>Purpose</u>	<u>Amount of Prior Notes Being Refunded</u>
2006-39/2009-30	Improvements to Burton Avenue and Replacement of Emergency Generators	\$64,000
2008-19/ 2011-20/2013-14/ 2014-08/2014-13	Planning, Site Acquisition and Construction of Municipal Facilities	2,069,000

2010-09/2011-26/ 2013-09/2016-06	Acquisition of Various Equipment, Road Improvements, and Various Other Improvements	2,739,000
2011-10	Improvements to Kamm Avenue	61,000
2012-17/2016-16	Various Capital Improvements and Acquisition of Various Capital Equipment	726,000
2012-22	Improvements to Kamm Avenue Section II	65,000
2012-27	Improvements to Radio Communication System	375,000
2012-30	Rehabilitation of Jackson Street, William Street Pump Station and Human Resource Building	750,000
2013-22	Various Road, Curb, Sidewalk and Concrete Improvements	144,000
2014-14/2014-26	Various 2014 Road Improvements	692,000
2014-30/2015-03	Acquisition of Various Capital Equipment	490,000
2015-10/2016-23/ 2017-03/2018-16	Construction of a New Firehouse	875,000
2015-16	Improvements to Montgomery Street	100,000
2015-18	Acquisition of Various Capital Equipment	200,000
2016-05	Improvements to Montgomery Street – Phase II	50,000
2016-07	Various Capital Improvements and Acquisition of Various Capital Equipment	200,000
2016-11	Acquisition of Various Furniture and Equipment for New Firehouse	600,000
2017-10	Various Capital Improvements	125,000
2017-19/2018-22	Various Capital Improvements	175,000
	Total General Improvement Proceeds:	<u>\$10,500,000</u>

Water Bonds

<u>Ordinance No.</u>	<u>Purpose</u>	<u>Amount of Prior Notes Being Refunded</u>
2003-18/2008-26/ 2008-48/2010-18	Resurfacing and Upgrading of the Appleby Water Storage Tower	\$1,061,000
2008-28	Improvements to the Water Treatment Plant	755,000
2010-10	Water System Improvements	231,000
2012-23	Various Water System Improvements	138,000
2012-28	Improvements to the Radio Communication System	132,000
2015-19	Various Water Utility Improvements	188,000
2018-24	Various Water Utility Improvements	100,000
	Total Water Proceeds:	<u>\$2,605,000</u>

Payment of Bonds

The Bonds are general obligations of the Borough for which the full faith and credit of the Borough will be pledged. The Borough is authorized and required by law to levy *ad valorem* taxes on all taxable

property within the Borough for the payment of principal of and interest on Bonds without limitation as to rate or amount. See "SECURITY FOR THE BONDS."

Denominations and Place of Payment

The Bonds are issuable only as fully registered bonds without coupons, and when issued will be in the form of one certificate per maturity and will be registered in the name of Cede & Co., as registered owner and nominee for DTC. DTC will act as Securities Depository for the Bonds. Purchase of the Bonds will be made in book entry form, in the denomination of \$5,000 or more. Purchasers will not receive certificates representing their interest in Bonds purchased. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to the registered owners shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. See "Book-Entry-Only System" herein.

SECURITY FOR THE BONDS

The Bonds are general obligations of the Borough, and the Borough has pledged its full faith and credit for the payment of the principal, redemption premium, if any, and the interest on the Bonds. The Borough is required by law to levy *ad valorem* taxes on all taxable real property in the Borough for the payment of the principal, redemption premium, if any, of and the interest on the Bonds, without limitation as to rate or amount.

The Borough

The Borough, primarily a residential community, is located in the central part of the County. See Appendix "A" for general information regarding the Borough.

BOOK-ENTRY-ONLY SYSTEM

The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, and other payments on the Bonds to DTC Participants or Beneficial Owners (as each such term is hereinafter defined), confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners, is based on certain information furnished by DTC to the Borough. Accordingly, the Borough does not make any representations as to the completeness or accuracy of such information.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct

Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its 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 the Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Redemption proceeds and distributions on the Bonds, if any, 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 Borough or its designated Paying Agent on 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 will be the responsibility of such Participant and not of DTC, the Borough, or the Borough's designated Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borough or its designated Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

NEITHER THE BOROUGH NOR ITS DESIGNATED PAYING AGENT WILL HAVE THE RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, OR THE INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

Discontinuance of Book-Entry Only System

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

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 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, with no annual principal payment greater than 100% of the smallest amount of any prior year's principal amount. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes. All bonds issued by the Borough are general full faith and credit obligations.

Debt Limits

The authorized bonded indebtedness of the Borough is limited by statute, subject to the exceptions noted below, to an amount equal to 3½% of its average equalized valuation basis over the past three years. The equalized valuation basis of a municipality is set by statute as the average for the last three preceding years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries, as determined annually by the State Director of Taxation. Certain categories of debt, which include the portion of school debt within a school district's debt limitation and the self-liquidating portion of a utility's debt, are permitted by statute to be deducted for purposes of computing the statutory debt limit. As shown in Appendix "A", the Borough has not exceeded its statutory debt limit as of December 31, 2018.

Exceptions to Debt Limits - Extensions of Credit

The Borough 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 Borough 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 Borough or substantially reduce the ability of the Borough to meet its obligations or to provide essential public improvements and services, or makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the Borough, without approval of the Local Finance Board, 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).

Short Term Financing

The Borough 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 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, as may be amended and supplemented, creating such capital expenditure. A local unit's bond anticipation notes may be issued for one year periods, with the last date of issuance not to exceed ten years and four months from the original issuance date. 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.

The 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 ("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.

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 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. When such appropriations exceed 3% of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated quasi-capital projects ("special emergencies") such as 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 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 major appropriation accounts are prohibited, except for: (i) during the first three (3) months of a current fiscal year, appropriation reserves may be transferred to the immediately preceding fiscal year's budget; and (ii) transfers between major appropriation accounts are permitted during the last two (2) months of a current fiscal year. Such transfers must be approved by two-thirds of the full membership of the governing body of a local governmental unit. Although sub-accounts within an appropriation account are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

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

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 2.4% or less.

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

The Division has advised that counties and municipalities must comply with both budget "CAP" and the tax levy limitation. Neither the tax levy limitation nor the "CAP" law, however, limits the obligation of the Borough to levy ad valorem taxes upon all taxable property within the boundaries of the Borough to pay debt service on bonds and 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 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 Borough 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 Tax Board on or before the 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.

The 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 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 units financial procedures and must be filed with the report, together with all recommendations made, and must be published in a local newspaper within 30 days of its submission. The entire annual audit report for each local unit is on file with the Clerk and is available for review during business hours.

School Debt Subject to Voter Approval

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

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code") imposes certain requirements that must be met at and subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded from gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Borough has covenanted to comply with the provisions of the Code applicable to the Bonds, and has covenanted not to take any action or permit any action that would cause the interest on the Bond to be included in gross income under Section

103 of the Code or cause interest on the Bonds to be treated as an item of tax preference for purposes of the alternative minimum tax imposed by the Code on individuals. Bond Counsel will not independently verify the accuracy of those certifications and representations.

Assuming the Borough observes its covenants with respect to compliance with the Code, GluckWalrath LLP, Bond Counsel to the Borough, is of the opinion that, under laws, regulations, rulings and judicial decisions existing on the date of the original delivery of Bonds, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code. Bond Counsel is further of the opinion that interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax imposed by the Code on individuals. See "Certain Federal Tax Considerations" below.

State Taxes

In the opinion of Bond Counsel, under the laws of the State of New Jersey as enacted and construed on the date of original delivery of the Bonds, interest on the Bonds and any gains from the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act.

Original Issue Premium

The initial public offering price of the Bonds may be greater than the stated redemption price thereof at maturity (the "Premium Bonds"). The difference between the initial public offering price for the Premium Bonds and the stated redemption price at maturity is "original issue premium." For federal income tax purposes original issue premium is amortizable periodically over the term of the Premium Bonds through reductions in the holder's tax basis for the Premium Bonds for determining gain or loss from sale or redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the Premium Bonds rather than creating a deductible expense or loss. Purchasers of the Bonds should consult their tax advisors for an explanation of the accrual rules for original issue premium and any other federal, state or local tax consequences of the purchase of the Premium Bonds.

Certain Federal Tax Considerations

Ownership of the Bonds may result in collateral federal tax consequences to certain taxpayers, including, without limitation, financial institutions, S corporations with excess net passive income, property and casualty companies, individual recipients of social security or railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, foreign corporations that may be subject to the foreign branch profits tax, and taxpayers who may be deemed to have incurred indebtedness to purchase or carry the Bonds. Bond Counsel will express no opinion with respect to these or any other collateral tax consequences of the ownership of the Bonds. The nature and extent of the tax benefit to a taxpayer of ownership of the Bonds will generally depend upon the particular nature of such taxpayer or such taxpayer's own particular circumstances, including other items of income or deduction. Accordingly, prospective purchasers of the Bonds should consult their own tax advisors with respect to these and other collateral federal tax consequences resulting from ownership of the Bonds.

Bond Counsel is not rendering any opinion on any federal tax matters other than those described under the caption "TAX MATTERS." Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Backup Withholding

Commencing with interest paid in 2006, interest paid on tax-exempt obligations such as the Bonds is subject to information reporting to the IRs in a manner similar to interest paid on taxable obligations. In addition, interest on the Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Changes in Law and Post-Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Bonds for federal or state income tax purposes, and thus on the value or marketability of the Bonds. This impact could result 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), repeal of the exclusion of interest on the Bonds from gross income of the owners thereof for federal or state income tax purposes, or otherwise. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Bonds may occur. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Bonds may affect the tax status of interest on the Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of counsel other than Bond Counsel.

Section 265 Qualification

The Code denies the interest deduction for indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations. The denial to such institutions of 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 must be so 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.

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

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

LEGALITY FOR INVESTMENT

The State and all public officers, municipalities, counties, political subdivisions and public bodies, and agencies thereof, all banks, bankers, trust companies, savings and loan associations, savings banks and institutional building and loan associations, investment companies, and other persons carrying on banking business, all insurance companies, and all executors, administrators, guardians, trustees, and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control in any bonds of the Borough including the Bonds, and such Bonds are authorized security for any and all public deposits.

CONTINUING DISCLOSURE

Pursuant to the requirements of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the Borough will deliver concurrently with the delivery of the Bonds a Continuing Disclosure Certificate in substantially the form annexed hereto as Appendix "C" (the "Form of Continuing Disclosure Certificate"). The Borough has covenanted for the benefit of the Bondholders, in accordance with the provisions of the Form of Continuing Disclosure Certificate, to provide or cause to be provided, in accordance with the requirements of the Rule, certain financial information and operating data to the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System ("EMMA") dataport or to any other designated nationally recognized municipal securities information repository (the "National Repository") and to the appropriate State information depository, if any (as defined in the Form of Continuing Disclosure Certificate). The Borough has also covenanted in the Form of Continuing Disclosure Certificate to provide notices of the occurrence of certain enumerated events.

The Borough has previously entered into continuing disclosure undertakings under the Rule in respect of its own obligations. The Borough appointed Phoenix Advisors, LLC, Bordentown, New Jersey in October of 2014 to act as Continuing Disclosure Agent to assist in the filing of certain information on EMMA as required under its obligations.

LITIGATION

Upon delivery of the Bonds, the Borough shall furnish a certificate of Rothstein, Mandell, Strohm, Halm, Cipriani, P.C., Lakewood, New Jersey (the "Borough Solicitor"), dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or, to the Borough Solicitor's knowledge, threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the Bonds. In addition, such certificate shall state that there is no litigation of any nature now pending or threatened by or against the Borough wherein an adverse judgment or ruling could have a material adverse impact on the financial condition of the Borough or adversely affect the power of the Borough to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds and notes, which has not been disclosed in this Official Statement.

MUNICIPAL BANKRUPTCY

The undertakings of the Borough should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 401, et seq., as amended by Public Law 95-598, approved November 6, 1978, and as further amended on November 3, 1988, by an Act to Amend the Bankruptcy Law to Provide for Special Revenue Notes, and for Other Purposes, and on October 22, 1994, by the Bankruptcy Reform Act of 1994, and by other bankruptcy laws affecting creditors' rights and municipalities in general. Chapter IX permits a state or any political subdivision, public agency or instrumentality that is insolvent or unable to meet its debts to file a petition in a bankruptcy court for the ultimate purpose of effecting a plan to adjust its debts. Chapter IX directs such a petitioner to file with the Bankruptcy Court a list of the petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner, with the exception that such petition does not operate as a stay of application of pledged special revenues to the payment of indebtedness secured by such revenues; grants priority to administrative and operational expenses and to debts owed for services or material, up to \$4,000 per individual or corporation, actually provided within ninety (90) days of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; provides that any securities issued under a reorganization plan will be exempt from the securities laws and, therefore, exempt

from registration requirements; permits the petitioner, during bankruptcy proceedings, to continue to pay pre-petition debt without prior court approval; and provides that the plan must be accepted by a class of creditors, in writing, by or on behalf of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors. A plan shall not be approved by the Bankruptcy Court unless it is in the best interests of creditors and is feasible.

Reference should also be made to N.J.S.A. 52:27-40 through 52:27-45.11, which provides that any county, municipality, or other political subdivision of this State has the power to file a petition with any Bankruptcy Court, provided the approval of the municipal finance commission has been obtained, and such petition has been authorized by ordinance of the governing body of the political subdivision. 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. However, the Bankruptcy Act does provide that a municipality must obtain any regulatory or electoral approval necessary under constitutional, statutory, or charter provisions, for actions taken under the reorganization plan.

CERTAIN REFERENCES

The foregoing statements and descriptions of provisions of the New Jersey Constitution, the Local Bond Law and other laws of the State of New Jersey, the Federal Bankruptcy Code, the Ordinances of the Borough and the Bonds and all references to other material not purported to be quoted in full are only brief, generalized descriptions thereof, do not purport to be complete, and are in all respects subject to and qualified in their entireties by express reference to the complete provisions thereof. Copies of the Ordinances will be furnished by the Borough on request.

All estimates and assumptions herein are believed to be reasonable, but no warranty, guaranty or other representation is made that such estimates or assumptions will be realized or are correct. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

CERTIFICATION OF OFFICIAL STATEMENT

The Borough hereby states that the descriptions and statements herein relating to the Borough are true and correct in all material respects and, upon request, it will confirm to the purchasers of the Bonds, by certificates signed by an official of the Borough, that to their knowledge such descriptions and statements, as of the date hereof, and as of closing, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

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

Bond Counsel has not participated in the preparation of the financial or statistical information contained in this Official Statement, nor has it verified the accuracy, completeness or fairness thereof and, accordingly, expresses no opinion with respect thereto.

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.

An explanation of the significance of such rating may be obtained from the Rating Agency at 55 Water Street, New York, New York, 10041. The rating is not a recommendation to buy, sell or hold the Bonds and there is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the Rating Agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating by the Rating Agency may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds have been purchased from the Borough at a public sale by _____ (the "Underwriter") at a price of \$_____.

MUNICIPAL ADVISOR

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

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 GluckWalrath LLP, Red Bank, New Jersey, Bond Counsel to the Borough, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as Appendix "D". Certain legal matters will be passed on for the Borough by the Borough Attorney.

FINANCIAL STATEMENTS

Appendix "B" contains certain audited financial data of the Borough for the Borough's fiscal year ending December 31, 2018. The audited financial data was extracted from the report prepared by PKF O'Connor Davies, LLP, Cranford, New Jersey (the "2018 Auditor"), to the extent and for the period set forth in their report appearing in Appendix "B". The 2018 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 audited financial statements appearing in Appendix "B" hereto) and, accordingly, will express no opinion with respect thereto.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including any information additional to that contained herein, may be directed to the Borough's Chief Financial Officer, 48 Washington Street, South River, New Jersey 08882-1247, telephone (732) 257-1999 ext. 112, or the Borough's Municipal Advisor, Phoenix Advisors, LLC, 625 Farnsworth Avenue, Bordentown, New Jersey, telephone (609) 291-0130.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Borough and the purchasers or 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 Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Borough since the date hereof.

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

Joseph Zanga,
Chief Financial Officer

Dated: November __, 2019

APPENDIX A
GENERAL INFORMATION REGARDING THE BOROUGH

INFORMATION REGARDING THE BOROUGH¹

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

History of the Borough

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

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

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

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

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

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

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

Local development took place mainly along the area adjacent to the Causeway, Main Street, Jackson and Whitehead Avenues and Prospect Street. These streets were the main routes

¹ Source: The Borough, unless otherwise indicated.

traveled by the industrial and commercial traffic created in connection with the area industrialization taking place, as well as by the brick, clay and garment manufacturing of a later period. Today, the Borough is almost completely developed.

Form of Government

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

Transportation

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

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 is 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 1, 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.

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2018	8,360	7,912	448	5.4%
2017	8,367	7,905	462	5.5%
2016	8,422	7,892	530	6.3%
2015	8,453	7,836	617	7.3%
2014	8,407	7,702	705	8.4%
<u>County</u>				
2018	435,053	419,262	15,791	3.6%
2017	436,742	418,904	17,838	4.1%
2016	436,159	416,825	19,334	4.4%
2015	435,612	413,173	22,439	5.1%
2014	432,008	405,617	26,391	6.1%
<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>Borough</u>	<u>County</u>	<u>State</u>
Median Household Income	\$62,332	\$83,133	\$76,475
Median Family Income	81,951	99,470	94,337
Per Capita Income	28,845	36,558	39,069

Source: US Bureau of the Census, 2017 American Community Survey 5-Year Estimates

Population

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

	<u>Borough</u>		<u>County</u>		<u>State</u>	
<u>Year</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2017 Estimate	16,349	2.13%	842,798	4.07%	8,958,013	1.89%
2010	16,008	4.48	809,859	7.96	8,791,894	4.49
2000	15,322	11.90	750,162	11.67	8,414,350	8.85
1990	13,692	-4.66	671,780	12.74	7,730,188	4.96
1980	14,361	-6.92	595,893	2.07	7,365,001	2.75

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2019 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Lit Industrial LP	\$7,266,200	1.77%
Lit Northend LLC	4,942,500	1.20%
Leonardine Gardens, LLC	2,350,000	0.57%
Emess Apts Ltd.	1,571,400	0.38%
East Coast Village Green Apts	1,200,000	0.29%
425 Whitehead Ave LLC	980,000	0.24%
Zifovski, Zlatan & Luba	792,400	0.19%
Felmore Associates	700,000	0.17%
Sherwood Court	633,100	0.15%
Patrick and Barbara DiNicola	<u>622,500</u>	<u>0.15%</u>
Total	<u>\$21,058,100</u>	<u>5.12%</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>
2018	\$33,031,601	\$32,381,286	98.03%
2017	31,882,585	31,128,301	97.63%
2016	30,696,741	30,044,664	97.88%
2015	30,073,830	29,350,585	97.60%
2014	29,524,807	28,976,314	98.14%

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2018	\$579,203	\$572,031	\$1,151,234	3.49%
2017	522,627	687,884	1,210,511	3.80%
2016	458,643	575,742	1,034,385	3.37%
2015	400,698	638,959	1,039,657	3.46%
2014	300,547	531,796	832,343	2.82%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2018	\$47,300
2017	47,300
2016	47,800
2015	47,800
2014	47,800

Source: Annual Audit Reports of the Borough

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

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

	Local			
<u>Year</u>	<u>Municipal</u>	<u>School</u>	<u>County</u>	<u>Total</u>
2019	\$2.558	\$4.334	\$1.345	\$8.237
2018	2.443	4.254	1.342	8.039
2017	2.363	4.068	1.314	7.745
2016	2.181	3.995	1.276	7.452
2015	2.057	3.980	1.248	7.285

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

Valuation of Property

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2019	\$409,978,600	\$1,440,543,219	28.46%	\$0	\$1,440,543,219
2018	410,476,700	1,419,843,307	28.91	0	1,419,843,307
2017	411,212,600	1,383,622,476	29.72	0	1,383,622,476
2016	411,689,000	1,350,242,703	30.49	0	1,350,242,703
2015	412,491,700	1,338,389,682	30.82	0	1,338,389,682

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

Classification of Ratables

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

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2019	\$3,047,800	\$355,815,200	\$0	\$24,504,000	\$16,998,400	\$9,613,200	\$409,978,600
2018	3,009,200	356,487,700	0	24,601,200	17,118,400	9,260,200	410,476,700
2017	3,006,500	357,199,100	0	24,841,400	17,097,600	9,068,000	411,212,600
2016	2,929,800	357,919,900	0	24,922,700	17,141,900	8,774,700	411,689,000
2015	2,965,000	358,560,500	0	24,954,400	17,237,100	8,774,700	412,491,700

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

Financial Operations

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

Summary of Current Fund Budget

<u>Anticipated Revenues</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Fund Balance Utilized	\$1,501,790	\$1,392,790	\$1,404,582	\$1,419,581	\$1,344,845
Miscellaneous Revenues	5,992,180	6,272,281	5,877,804	5,997,923	6,674,814
Receipts from Delinquent Taxes	500,000	605,000	575,000	650,000	565,000
Amount to be Raised by Taxation	<u>8,489,248</u>	<u>8,980,886</u>	<u>9,721,847</u>	<u>10,030,974</u>	<u>10,491,547</u>
Total Revenue:	<u>\$16,483,218</u>	<u>\$17,250,957</u>	<u>\$17,579,233</u>	<u>\$18,098,478</u>	<u>\$19,076,206</u>

Appropriations

General Appropriations	\$11,899,082	\$12,049,986	\$11,974,142	\$12,329,386	\$12,588,957
Operations (Excluded from CAPS)	1,994,320	2,237,309	1,974,253	2,239,863	2,310,930
Deferred Charges and Statutory Expenditures	0	23,265	100,000	100,827	100,000
Capital Improvement Fund	100,000	100,000	300,000	300,000	130,000
Municipal Debt Service	1,699,816	2,020,397	2,390,838	2,268,402	3,076,319
Reserve for Uncollected Taxes	<u>790,000</u>	<u>820,000</u>	<u>840,000</u>	<u>860,000</u>	<u>870,000</u>
Total Appropriations:	<u>\$16,483,218</u>	<u>\$17,250,957</u>	<u>\$17,579,233</u>	<u>\$18,098,478</u>	<u>\$19,076,206</u>

Source: Annual Adopted Budgets of the Borough

Fund Balance

Current Fund

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

<u>Fund Balance - Current Fund</u>		
	<u>Balance</u>	<u>Utilized in Budget</u>
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018	\$1,680,979	\$1,344,845
2017	1,879,432	1,419,581
2016	1,929,751	1,404,582
2015	1,796,124	1,392,790
2014	1,720,251	1,501,790

Source: Annual Audit Reports of the Borough

Electric Utility Operating Fund

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

Fund Balance-Electric Utility Operating Fund

	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018	\$3,999,066	\$3,978,500
2017	3,846,272	3,250,000
2016	4,150,723	3,250,000
2015	4,250,527	3,300,000
2014	3,039,700	3,000,000

Source: Annual Audit Reports of the Borough

Parking Utility Operating Fund

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

Fund Balance - Parking Utility Operating Fund

	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018	\$94,755	\$30,500
2017	83,931	25,200
2016	70,841	22,000
2015	73,157	24,000
2014	76,426	23,500

Source: Annual Audit Reports of the Borough

Water Utility Operating Fund

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

<u>Fund Balance - Water Utility Operating Fund</u>		
	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018	\$289,754	\$288,935
2017	344,383	344,319
2016	830,265	610,613
2015	886,518	566,509
2014	1,117,765	650,973

Source: Annual Audit Reports of the Borough

Borough Indebtedness as of December 31, 2018

General Purpose Debt

Serial Bonds	\$2,865,000
Bond Anticipation Notes	11,820,250
Bonds and Notes Authorized but Not Issued	3,525,335
Other Bonds, Notes and Loans	<u>9,420,800</u>
Total:	\$27,631,385

Local School District Debt

Serial Bonds	\$8,853,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>81,771</u>
Total:	\$8,934,771

Regional School District Debt

Serial Bonds	\$0
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$0

Self-Liquidating Debt

Serial Bonds	\$1,960,000
Bond Anticipation Notes	2,887,000
Bonds and Notes Authorized but Not Issued	3,267,000
Other Bonds, Notes and Loans	<u>400,000</u>
Total:	\$8,514,000

TOTAL GROSS DEBT

\$45,080,156

Less: Statutory Deductions	
General Purpose Debt	\$0
Local School District Debt	8,934,771
Regional School District Debt	0
Self-Liquidating Debt	<u>8,514,000</u>
Total:	\$17,448,771

TOTAL NET DEBT

\$27,631,385

Source: Annual Debt Statement of the Borough

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Overlapping Debt (as of December 31, 2018)²

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Local School District	\$8,934,771	100.00%	\$8,934,771
County	662,191,350	1.28%	<u>8,458,397</u>
Net Indirect Debt			\$17,393,168
Net Direct Debt			<u>27,631,385</u>
Total Net Direct and Indirect Debt			<u>\$45,024,553</u>

Debt Limit

Average Equalized Valuation Basis (2016, 2017, 2018)	\$1,384,569,495
Permitted Debt Limitation (3 1/2%)	48,459,932
Less: Net Debt	<u>27,631,385</u>
Remaining Borrowing Power	<u>\$20,828,548</u>
Percentage of Net Debt to Average Equalized Valuation	1.996%
 Gross Debt Per Capita based on 2010 population of 16,008	 \$2,816
Net Debt Per Capita based on 2010 population of 16,008	\$1,726

Source: Annual Debt Statement of the Borough

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

APPENDIX B
FINANCIAL INFORMATION REGARDING THE BOROUGH

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the Borough Council
Borough of South River
County of Middlesex, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements, consisting of the combined statement of assets, liabilities, reserves and fund balance – all fund types and accounts – regulatory basis, the combined statement of revenues, expenditures and changes in fund balance – regulatory basis – current and utility operating funds, the statement of fund balance – trust other fund – regulatory basis, the statement of fund balance – general capital fund – regulatory basis and the combined statement of fund balance – utility capital funds – regulatory basis of the Borough of South River, County of Middlesex, New Jersey, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Borough 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 financial reporting provisions of 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 misstatement, whether due to error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

As described in Note 1, these financial statements were prepared in conformity with accounting practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, United States of America, that demonstrate compliance with the modified accrual basis, with certain exceptions, and the budget laws of New Jersey, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These prescribed principles are designed primarily for determining compliance with legal provisions and budgetary restrictions, and as a means of reporting on the stewardship of public officials with respect to public funds. Accordingly, the accompanying financial statements – regulatory basis are not intended to present financial position and results of operations in accordance with accounting principles generally accepted in the United States of America. The effect on the financial statements of the differences between these regulatory accounting practices 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 matters discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial positions of the Borough of South River, County of Middlesex, New Jersey, as of December 31, 2018, the changes in its financial position, and, where applicable, its cash flows for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements – regulatory basis referred to above present fairly, in all material respects, the financial position – regulatory basis of the various funds and governmental fixed assets of the Borough of South River, County of Middlesex, New Jersey as of December 31, 2018 and the results of operations and changes in fund balance – regulatory basis for the year then ended and the related statements of revenues – regulatory basis and statements of expenditures – regulatory basis of the various funds for the year then ended, on the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in the notes to the financial statements, during the fiscal year ending December 31, 2018, the Borough of South River implemented the provisions of Statement Number 75 of the Governmental Accounting Standards Board, (GASB 75). GASB 75 changed the measurement criteria and reporting provisions relating to the Borough's proportionate share (if any), of the annual expense and net liability of the post-retirement employee benefits other than pensions (OPEB) of plans in which its employees are enrolled. Our opinion is not modified with respect to this matter.

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements of the Borough of South River, County of Middlesex, New Jersey. The information included in the Introductory Section, Part II and Part III, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Borough of South River, County of Middlesex, New Jersey.

The Part II – Combining and Individual Fund Statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

The information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements – regulatory basis taken as a whole.

The schedules and information contained in the Introductory Section and in Part III – Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated October 22, 2019 on our consideration of the Borough of South River's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Borough of South River's internal control over financial reporting and compliance.



HODULIK & MORRISON, P.A.
A division of PKF O'Connor Davies
Certified Public Accountants
Registered Municipal Accountants

Hodulik & Morrison, P.A.
Andrew G. Hodulik
Registered Municipal Accountant
No. 406

Cranford, New Jersey
October 22, 2019

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

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the Borough Council
Borough of South River
County of Middlesex, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements – regulatory basis of the Borough of South River, County of Middlesex, New Jersey as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Borough of South River's financial statements and have issued our report thereon dated October 22, 2019. Our report was modified due to the departure from accounting principles generally accepted in the United States of America, as disclosed in Note 1, that are embodied in the Other Comprehensive Basis of Accounting utilized for financial statements and was unmodified based upon that Other Comprehensive Basis of Accounting.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough of South River's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of material noncompliance that is required to be reported under Government Auditing Standards and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

We also noted other matters involving compliance and internal control over financial reporting that we have reported to management of the Borough of South River in the General Comments section of the Report of Audit.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



HODULIK & MORRISON, P.A.
A division of PKF O'Connor Davies
Certified Public Accountants
Registered Municipal Accountants
Public School Accountants

Cranford, New Jersey
October 22, 2019

BASIC FINANCIAL STATEMENTS

BOROUGH OF SOUTH RIVER
COMBINED STATEMENT OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCE -
ALL FUND TYPES AND ACCOUNTS - REGULATORY BASIS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017)

	Governmental Funds					General	Totals	
	Current	General Capital	Trust Funds	Utilities *		Fixed Asset Account	(Memorandum Only)	
				Operating	Capital		2018	2017
<u>ASSETS AND OTHER DEBITS</u>								
Cash and Cash Equivalents	\$ 4,607,144.20	\$ 719,022.26	\$ 2,139,884.89	\$ 5,955,643.53	\$ 1,647,773.79		\$ 15,069,468.67	\$ 14,680,665.45
Amount Held by Plan Administrator			1,141,442.27				1,141,442.27	1,138,203.84
Intergovernmental Accounts Receivable		795,831.87					795,831.87	970,989.73
Receivables and Other Assets:								
Delinquent Property Taxes	572,030.65						572,030.65	687,883.62
Consumer Accounts Receivable				1,917,649.49			1,917,649.49	1,693,813.49
Liens Receivable	579,203.13			52,202.53			631,405.66	574,829.67
Inventory				374,274.16			374,274.16	370,531.76
Property Acquired for Taxes - Assessed Valuation	47,300.00						47,300.00	47,300.00
Other Accounts Receivable	14,609.40		3,486.29	57,812.00			75,907.69	73,694.51
Deferred Charges	300,000.00	27,631,384.81					27,931,384.81	28,331,324.15
Fixed Capital					38,275,226.70		38,275,226.70	37,766,042.18
Fixed Assets						\$ 34,832,281.64	34,832,281.64	34,579,269.78
Grant Fund:								
Grants Receivable	18,010.46						18,010.46	19,143.15
Interfund Receivable	245,857.71						245,857.71	75,986.98
	<u>\$ 6,384,155.55</u>	<u>\$ 29,146,238.94</u>	<u>\$ 3,284,813.45</u>	<u>\$ 8,357,581.71</u>	<u>\$ 39,923,000.49</u>	<u>\$ 34,832,281.64</u>	<u>\$ 121,928,071.78</u>	<u>\$ 121,009,678.31</u>

* Electric, Water and Parking Utility

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
COMBINED STATEMENT OF ASSETS, LIABILITIES, RESERVES AND FUND BALANCE -
ALL FUND TYPES AND ACCOUNTS - REGULATORY BASIS
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2017)

	Governmental Funds			Utilities *		General	Totals	
	Current	General Capital	Trust Funds	Operating	Capital	Fixed Asset Account	(Memorandum Only)	
							2018	2017
<u>LIABILITIES, RESERVES</u>								
<u>AND FUND BALANCE</u>								
Liabilities and Reserves:								
Appropriation Reserves	\$ 937,573.33			\$ 596,169.13			\$ 1,533,742.46	\$ 985,735.77
Reserve for Losap (unaudited)			\$ 1,141,442.27				1,141,442.27	1,138,203.84
Other Liabilities and Reserves	2,042,733.99	\$ 675,750.77	2,138,491.11	954,802.90	\$ 616,188.13		6,427,966.90	6,765,848.26
Improvement Authorizations		4,048,584.22			4,156,718.63		8,205,302.85	7,700,828.24
Accrued Interest on Bonds, Notes and Loans				21,096.90			21,096.90	25,335.93
Interfunds Payable	245,857.71						245,857.71	75,986.98
Serial Bonds		2,865,000.00			1,960,000.00		4,825,000.00	5,980,000.00
Bond Anticipation Notes		11,820,250.00			2,887,000.00		14,707,250.00	14,897,250.00
Loans Payable		9,420,799.76			400,000.00		9,820,799.76	10,294,650.86
Reserve for Receivables and Other Assets	1,213,143.18			2,401,938.18			3,615,081.36	3,442,612.76
Reserve for Amortization					28,864,226.70		28,864,226.70	27,464,042.18
Deferred Reserve for Amortization					897,000.00		897,000.00	847,000.00
Grant Fund:								
Reserve for Encumbrances	5,338.88						5,338.88	4,838.78
Unappropriated/Appropriated Reserves	258,529.29						258,529.29	90,291.35
Total Liabilities and Reserves	\$ 4,703,176.38	\$ 28,830,384.75	\$ 3,279,933.38	\$ 3,974,007.11	\$ 39,781,133.46		\$ 80,568,635.08	\$ 79,712,624.95
Equity and Other Credits:								
Fund Balance	\$ 1,680,979.17	\$ 315,854.19	\$ 4,880.07	\$ 4,383,574.60	\$ 141,867.03		\$ 6,527,155.06	\$ 6,717,783.58
Investment in General Fixed Assets						\$ 34,832,281.64	34,832,281.64	34,579,269.78
Total Equity and Other Credits	\$ 1,680,979.17	\$ 315,854.19	\$ 4,880.07	\$ 4,383,574.60	\$ 141,867.03	\$ 34,832,281.64	\$ 41,359,436.70	\$ 41,297,053.36
Total Liabilities, Reserves and Fund Balance	\$ 6,384,155.55	\$ 29,146,238.94	\$ 3,284,813.45	\$ 8,357,581.71	\$ 39,923,000.49	\$ 34,832,281.64	\$ 121,928,071.78	\$ 121,009,678.31

* Electric, Water and Parking Utility

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CURRENT AND UTILITY OPERATING FUNDS - REGULATORY BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	Current Fund			Utility Operating Funds *		
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable/ (Unfavorable)</u>
Revenues:						
Fund Balance Anticipated	\$ 1,419,581.07	\$ 1,419,581.07		\$ 3,619,519.00	\$ 3,619,519.00	
Rents				14,818,367.00	17,572,752.04	\$ 2,754,385.04
Miscellaneous Revenues	4,931,663.64	4,998,284.79	\$ 66,621.15	182,800.00	182,800.00	
State Aid	825,291.00	825,291.00				
Grants	286,033.14	286,033.14				
	<u>\$ 7,462,568.85</u>	<u>\$ 7,529,190.00</u>	<u>\$ 66,621.15</u>	<u>\$ 18,620,686.00</u>	<u>\$ 21,375,071.04</u>	<u>\$ 2,754,385.04</u>
Receipts from Delinquent Taxes	650,000.00	692,610.25	42,610.25			
Amount to be Raised by Taxes for Support of Municipal Budget:						
Local Tax for Municipal Purposes						
Including Reserve for Uncollected Taxes	9,569,766.00	9,808,897.55	239,131.55			
Library Tax	461,208.00	461,208.00				
	<u>\$ 18,143,542.85</u>	<u>\$ 18,491,905.80</u>	<u>\$ 348,362.95</u>	<u>\$ 18,620,686.00</u>	<u>\$ 21,375,071.04</u>	<u>\$ 2,754,385.04</u>
Budget Totals						
Non-budget Revenues		396,735.37	396,735.37		284,424.25	284,424.25
Other Credits to Income		489,123.54	489,123.54		689,698.11	689,698.11
Taxes Allocated to School and County	22,971,180.36	22,971,180.36				
	<u>\$ 41,114,723.21</u>	<u>\$ 42,348,945.07</u>	<u>\$ 1,234,221.86</u>	<u>\$ 18,620,686.00</u>	<u>\$ 22,349,193.40</u>	<u>\$ 3,728,507.40</u>
Total Revenues						

* Electric, Water and Parking Utility

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CURRENT AND UTILITY OPERATING FUNDS - REGULATORY BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	Current Fund			Utility Operating Funds *		
	Final Budget	Actual	Variance Favorable/ (Unfavorable)	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Expenditures:						
Current:						
Within "CAPS":						
General Government	\$ 827,400.00	\$ 827,400.00				
Public Safety	4,763,350.00	4,763,350.00				
Public Works	2,027,000.00	2,027,000.00				
Health and Human Services	252,694.00	252,694.00				
Utility Expense and Bulk Purchases	320,000.00	320,000.00				
Sanitary Landfill	525,000.00	525,000.00				
Land Use	61,500.00	61,500.00				
Insurance	1,714,625.00	1,714,625.00				
Parks and Recreation	449,317.00	449,317.00				
Contingent	500.00	500.00				
Deferred Charges and Statutory Expenditures	1,388,000.00	1,388,000.00				
Excluded from "CAPS":						
Public Safety	121,500.00	121,500.00				
Public Works	185,000.00	185,000.00				
Education - Library	461,208.00	461,208.00				
Sewer	1,225,987.00	1,225,987.00				
Grants	291,233.14	291,233.14				
Operating - Utility				\$ 13,299,000.00	\$ 13,299,000.00	
Deferred Charges and Statutory Expenditures	100,826.71	100,826.71		511,500.00	511,500.00	
Capital Improvements	300,000.00	300,000.00		257,500.00	257,500.00	
Debt Service	2,268,402.00	2,268,402.00		1,302,686.00	1,302,686.00	
Budget - Anticipated Surplus to Current Reserve for Uncollected Taxes	860,000.00	860,000.00		3,250,000.00	3,250,000.00	
Total Budget Expenditures	\$ 18,143,542.85	\$ 18,143,542.85		\$ 18,620,686.00	\$ 18,620,686.00	

* Electric, Water and Parking Utility

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
CURRENT AND UTILITY OPERATING FUNDS - REGULATORY BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

	Current Fund			Utility Operating Funds *		
	Final Budget	Actual	Variance Favorable/ (Unfavorable)	Final Budget	Actual	Variance Favorable/ (Unfavorable)
Expenditures (Continued):						
County and School Taxes	\$ 22,971,180.36	\$ 22,971,180.36				
Other Expenses		13,093.71	\$ (13,093.71)			
Total Expenditures	\$ 41,114,723.21	\$ 41,127,816.92	\$ (13,093.71)	\$ 18,620,686.00	\$ 18,620,686.00	
Statutory Excess to Fund Balance		\$ 1,221,128.15	\$ 1,221,128.15		\$ 3,728,507.40	\$ 3,728,507.40
Fund Balance, January 1, 2018		\$ 1,879,432.09	\$ 1,879,432.09		\$ 4,274,586.20	\$ 4,274,586.20
		\$ 3,100,560.24	\$ 3,100,560.24		\$ 8,003,093.60	\$ 8,003,093.60
Decreased by:						
Utilization as Anticipated Revenue		\$ 1,419,581.07	\$ 1,419,581.07		\$ 3,619,519.00	\$ 3,619,519.00
		\$ 1,419,581.07	\$ 1,419,581.07		\$ 3,619,519.00	\$ 3,619,519.00
Fund Balance, December 31, 2018		\$ 1,680,979.17	\$ 1,680,979.17		\$ 4,383,574.60	\$ 4,383,574.60

* Electric, Water and Parking Utility

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
TRUST OTHER FUND
STATEMENT OF FUND BALANCE - REGULATORY BASIS

	<u>Trust Other Fund #1</u>	<u>Trust Other Fund #2</u>	<u>Total</u>
<u>BALANCE, DECEMBER 31, 2017</u>			
AND			
<u>BALANCE, DECEMBER 31, 2018</u>	\$ <u>598.22</u>	\$ <u>4,281.85</u>	\$ <u>4,880.07</u>

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
GENERAL CAPITAL FUND
STATEMENT OF FUND BALANCE - REGULATORY BASIS

<u>BALANCE, DECEMBER 31, 2017</u>	\$ 269,873.34
<u>INCREASED BY</u>	
Premium on Sale of Bond Anticipation Notes	<u>145,980.85</u>
	\$ 415,854.19
<u>DECREASED BY</u>	
Transferred to Current Fund as Anticipated Revenue	<u>100,000.00</u>
<u>BALANCE, DECEMBER 31, 2018</u>	<u>\$ 315,854.19</u>

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
UTILITY CAPITAL FUNDS
COMBINED STATEMENT OF FUND BALANCE - REGULATORY BASIS

	<u>Electric Utility</u>	<u>Parking Utility</u>	<u>Water Utility</u>	<u>Total</u>
<u>BALANCE, DECEMBER 31, 2017</u>	\$ 91,688.12	\$ 16,391.54	\$ 180,932.22	\$ 289,011.88
<u>INCREASED BY</u>				
Premium on Sale of Bond Anticipation Notes	<u> </u>	<u>1,271.46</u>	<u>34,383.69</u>	<u>35,655.15</u>
	\$ 91,688.12	\$ 17,663.00	\$ 215,315.91	\$ 324,667.03
<u>DECREASED BY</u>				
Transferred to Operating Fund as Anticipated Revenue	<u>1,800.00</u>	<u>1,000.00</u>	<u>180,000.00</u>	<u>182,800.00</u>
<u>BALANCE, DECEMBER 31, 2018</u>	<u>\$ 89,888.12</u>	<u>\$ 16,663.00</u>	<u>\$ 35,315.91</u>	<u>\$ 141,867.03</u>

See Notes to Financial Statements.

BOROUGH OF SOUTH RIVER
MIDDLESEX COUNTY, NEW JERSEY

NOTES TO FINANCIAL STATEMENTS – REGULATORY BASIS
YEAR ENDED DECEMBER 31, 2018 and 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Borough of South River is located in Middlesex County, just outside the City of New Brunswick and approximately 35 miles south of New York City. The population, according to the 2010 census, is 16,008.

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

The financial statements do not include the operations of the Municipal Library, which is a separate entity subject to a separate examination.

B. Description of Funds

The Governmental Accounting Standards Board (GASB) is the recognized standard setting body for establishing governmental accounting and financial reporting principles. However, the accounting policies of the Borough conform to the accounting principles applicable to municipalities that have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. These principles are on the regulatory basis which differs from accounting principles generally accepted in the United States of America ("GAAP") for governmental entities. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Borough accounts for its financial transactions through the following separate funds and an account which differs from GAAP.

Current Fund – Encompasses resources and expenditures for basic governmental operations. Fiscal activity of Federal, State, County and Local grant programs are reflected in a segregated section of the Current Fund.

Trust Fund – The records of receipts, disbursement and custodianship of monies in accordance with the purpose for which each reserve was created are maintained in the Trust Funds. These include the Animal Control Trust Fund, Trust Other Fund, Electric Consumer Deposits, Tax Title Lien Premiums/Redemption, Unemployment, and the Length of Service Awards Plan ("LOSAP") and other required funds.

General Capital Fund – The receipts and expenditure records for the acquisition of general infrastructure and other capital facilities, other than those acquired through the Current Fund, are maintained in this Fund, as well as related long-term debt accounts.

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

B. Description of Funds (Cont'd.)

Utilities Funds – Water, Parking and Electric Utilities are treated as separate entities. Each maintains its own Operating and Capital Funds which reflect revenues, expenditures, stewardship, acquisitions of utility infrastructure and other capital facilities, debt service, long-term debt and other related activity.

Free Public Library – The municipal library levy through budget appropriations and state aid are transferred to the Free Public Library Trust Fund account and are expended with the approval of the Library for its purposes. Interest on investments, Library fines and other revenue are retained by the Library and expended there from. The Library is the subject of a separate report.

Payroll Trust Fund – Net salaries, certain payroll deductions and social security contributions of municipal and utility operations are deposited into bank accounts of the Payroll Fund. Other deductions are retained by the operating funds and paid directly there from. A Payroll Fund does not exist under GAAP.

C. Basis of Accounting

Basis of Accounting - The accounting principles and practices prescribed for municipalities by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, differ in certain respects from GAAP. The accounting system is maintained on the modified accrual basis with certain exceptions. Significant accounting policies in New Jersey are summarized as follows:

Property Taxes and Other Revenue - Property Taxes and other revenue are realized when collected in cash or approved by regulation for accrual from certain sources of the State of New Jersey and the Federal Government. Accruals of taxes and other revenue are otherwise deferred as to realization by the establishment of offsetting reserve accounts. GAAP requires such revenue to be recognized in the accounting period when they became susceptible to accrual, reduced by an allowance for doubtful accounts.

Grant Revenue – Federal, State, County and Local grants, entitlements or shared revenue received for purposes normally financed through the Current Fund are recognized when anticipated in the borough of South River's budget. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual.

Expenditures – Expenditures for general and utility operations are generally recorded on the accrual basis. Unexpended appropriation balances, except for amounts that may have been canceled by the governing body or by statutory regulation, are automatically recorded as liabilities at December 31st of each year, under the title of "Appropriation Reserves".

Grant appropriations are charged upon budget adoption to create spending reserves.

Budget transfers to the Capital Improvement Fund are recorded as expenditures to the extent permitted by law.

Budget Appropriations for Interest on General Capital Long-Term Debt is raised on the cash basis and is not accrued on the records; interest on Utility Debt is raised on the accrual basis and so recorded.

GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due

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

C. Basis of Accounting (Cont'd.)

Encumbrances – As of January 1, 1986 all local units were required by Technical Accounting Directive No. 85-1, as promulgated by the Division of Local Government Services, to maintain an encumbrance accounting system. The directive states that contractual orders outstanding at December 31 are reported as expenditures through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures under GAAP.

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

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

Property Acquired for Taxes – Property Acquired for Taxes (Foreclosed Property) is recorded in the Current Fund at the assessed valuation during the year when such property was acquired by deed or foreclosure and is offset by a corresponding reserve account. GAAP requires such property to be recorded in the general fixed assets account group at market value on the date of acquisition.

Interfund Accounts Receivable – Interfund Accounts Receivable in the Current Fund are generally recorded with offsetting reserves that are established by charges to operations. Collections are recognized as income in the year that the receivables are realized. Interfund Accounts Receivable of all other funds are recorded as accrued and are not offset with reserve accounts. Interfund Accounts Receivable of one fund are offset with Interfund Accounts Payable of the opposite fund. GAAP does not require the establishment of an offsetting reserve.

Inventories of Supplies – Materials and supplies purchased by all funds are recorded as expenditures.

An annual inventory of materials and supplies for the Water and Electric utilities is required, by regulation, to be prepared by Borough personnel for inclusion on the Water and Electric Utility Operating Fund balance sheets. Annual changes in valuations, offset with a Reserve Account, are not considered as affecting results of operations. Materials and supplies of other funds are not inventoried nor included on their respective balance sheets.

Fixed Assets

General – In accordance with Technical Accounting Directive No. 85-2, Accounting for Governmental Fixed Assets, as promulgated by the Divisions of Local Government Services, which differs in certain respects from GAAP, the Borough of South River has developed a fixed asset accounting and reporting system.

GAAP requires that fixed assets be capitalized at historical or estimated historical cost if actual historical cost is not available. Depreciation on utility fixed assets should also be recorded.

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

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

C. Basis of Accounting (Cont'd.)

Fixed Assets (Cont'd.)

Acquisition of land, buildings machinery, equipment and other capital assets are recorded on a perpetual fixed asset record.

Vehicles, furniture, equipment and other items are reflected at replacement values at the time of inventory preparation. Additions to the established fixed assets are valued at cost.

Depreciation of assets is not recorded as an operating expense of the Borough.

Utilities – Capital acquisitions, including utility infrastructure costs of the Water, Parking and Electric Utilities, are recorded at the cost upon purchase or project completion in the Fixed Capital account of the utilities. The Fixed Capital Accounts are adjusted for dispositions or abandonments. The accounts include moveable fixed assets of the Utility but are not specifically identified and are considered as duplicated in the Capital Asset Group of Accounts. The duplication is considered as insignificant on its effect on the financial statements taken as a whole.

Utility improvements that may have been constructed by developers are not recorded as additions to Fixed Capital.

Fixed Capital of the Utilities are offset by accumulations in Amortization Reserve Accounts. The accumulations represent costs of fixed assets purchased with budgeted funds or acquired by gift as well as grants, developer contributions or liquidations of related bonded debt and other liabilities incurred upon fixed asset acquisition.

The Fixed Capital Accounts reflected herein are recorded in the records of the municipality and do not necessarily reflect the true condition of such Fixed Capital. The records consist of a control account only. Detailed records are not maintained.

Recent Accounting Standards

GASB issued Statement No. 84, "Fiduciary Activities" in January 2017. This Statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB issued Statement No. 85 "Omnibus 2017" in March 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB issued Statement No. 86 "Certain Debt Extinguishment Issues" in May 2017. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt when resources other than the proceeds of refunding debt obligations are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

GASB issued Statement No. 87 "Leases" in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

C. Basis of Accounting (Cont'd.)

Recent Accounting Standards (Cont'd.)

GASB issued Statement No. 88 "Certain Disclosures Related to Debt Including Direct Borrowings and Direct Placements" in April 2018. The objective of this statement is to improve note disclosures in government financial statements relating to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

GASB issued Statement No. 89 "Accounting for Interest Cost Incurred Before the end of a Construction Period" in June 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB issued Statement No. 90 "Majority Equity Interests – An Amendment of GASB Statements No 14 and No 61" in August 2018. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

The Borough does not prepare its financial statements in accordance with generally accepted accounting principles. Unless these new standards are incorporated into the other comprehensive basis of accounting that is utilized by the Borough through legislation or rulemaking they will not become part of the standards followed by the Borough for financial reporting. For the purpose of providing disclosures relating to Pension, The Borough has adopted certain provisions of GASB statements No. 73 and 77, which amend and clarify the provisions of GASB statement No. 68. The Borough has not adopted the provisions of any of the GASB statements listed above for financial reporting on the face of its financial statements. The effect of the adoption of the GASB standards cannot be determined.

Volunteer Length of Service Award Plan (LOSAP)

The Borough has established a volunteer Length of Service Award Plan ("LOSAP") to ensure retention of the Borough's volunteer fire department. The Plan shall be construed under the laws of the State of New Jersey and is established with the intent that it meets the requirements of a "Length of service award plan under sections 457(e)11 of the Internal Revenue Code". Per regulation, the LOSAP financial statements are subject to an accountant's review report only.

Disclosures About Pension Liabilities

The Borough has included information relating to its allocated shares of the net pension liabilities of the state sponsored, cost-sharing, multiple employer defined benefit pension plans in which it participates in Note 10 and the accompanying required supplementary information. As the Borough does not present entity-wide financial statements, it does not present on the face of its financial statements its proportionate share of the net pension liability of the defined benefit plans in which its employees are enrolled. GAAP requires the recognition of the net pension liability and associated deferred inflows and deferred outflows of financial resources in the entity-wide financial statements.

Disclosures About OPEB Liabilities

With the implementation of GASB 75 for disclosure purposes, the Borough has included information for OPEB (Postemployment Benefits Other Than Pensions) liabilities relating to healthcare benefits provided to its retirees within the Notes to the Financial Statements and the accompanying required supplementary information, if applicable. As the Borough does not present entity-wide financial statements, it does not present on the face of its financial statements its proportionate share of the OPEB liability of the defined benefit healthcare plans in which its retirees are enrolled. GAAP requires the recognition of the OPEB liability and associated deferred inflows and deferred outflows of financial resources in the entity-wide financial statements.

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

D. Basis Financial Statements

Total Columns on Combined Statements – Total columns are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

New Jersey Statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC) or any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities that mature or are redeemed within one year. Twenty-five percent of the Fund may be invested in eligible securities that mature within two years provided, however, the arbitrage maturity of all investments in the Fund shall not exceed one year. Collateralization of Fund investments is generally not required.

In addition, by regulation of the Division of Local Government Services, municipalities are allowed to deposit funds in the Municipal Bond Insurance Association (MBIA) through their investment management company, the Municipal Investors Service Corporation.

In accordance with the provisions of the Governmental Unit Deposit Protection Act of New Jersey, public depositories are required to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal five percent of the average daily balance of public funds or

If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

All collateral must be deposited with the Federal Reserve Bank, The Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.00.

Note 2: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONT'D.)

B. Investments

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

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

In addition, a variety of State laws permit the local governments to invest in a wide range of obligations issued by State governments and its agencies.

C. Risk

As of December 31, 2018, and 2017, the Borough had funds on deposit in checking and statement savings accounts. The amount of the Borough's Cash and Cash Equivalents funds on deposit as of December 31, 2018 and 2017 was \$15,510,020.11 and \$14,987,062.71, respectively whereas, the carrying amount was \$15,069,468.67 and \$14,680,165.45, respectively. Of the amount on deposit, \$750,000 was covered by Federal depository insurance and \$14,760,020.11 and \$14,237,062.71, of the funds were covered by the Government Unit Deposit Protection Act "GUDPA", respectively. These funds constitute "deposits with financial institutions" as defined by GASB Statement #3 as amended by GASB Statement No. 40. There were no securities that the Borough held that could be categorized as investments.

Note 3: TAXES AND TAX TITLE LIENS RECEIVABLE

Property assessments are determined on true values and taxes are assessed based upon these values. The residential tax bill includes the levies for the Borough, County and School purposes. Certified adopted budgets are submitted to the County Board of Taxation by each taxing district. The tax rate is determined by the Board upon the filing of these budgets.

The tax bills are mailed by the Tax Collector annually in June and are payable in four quarterly installments due the first of August and November of the current year and a preliminary billing due the first of February and May of the subsequent year. The August and November billings represent the third and fourth quarter installments and are calculated by taking the total year tax levy less the preliminary first and second quarter installments due February and May. The preliminary levy is based on one-half of the current year's total tax.

Tax installments not paid by the above due dates are subject to interest penalties determined by a resolution of the governing body. The rate of interest in accordance with the aforementioned resolution of 8% per annum on the first \$1,500.00 of delinquency and 18% on any delinquency in excess of \$1,500.00. The governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000.00 who fails to pay that delinquency as billed prior to the end of the fiscal year. The penalty so fixed shall not exceed 6% of the amount of the delinquency with respect to each most recent fiscal year only. The resolution also sets a grace period of ten days before interest is calculated.

NOTES TO FINANCIAL STATEMENTS

Note 3: TAXES AND TAX TITLE LIENS RECEIVABLE (CONT'D.)

Taxes unpaid on the 11th day of the eleventh month in the fiscal year when the taxes became in arrears are subject to the tax sale provisions of the New Jersey statutes. The municipality may institute in rem foreclosure proceedings after six months from the date of the sale if the lien has not been redeemed.

The following is a five-year comparison of certain statistical information relative to property taxes and property tax collections for the current and previous four years.

Comparative Schedule of Tax Rates

Tax Rate	\$	<u>2018</u> 8.039	\$	<u>2017</u> 7.745	\$	<u>2016</u> 7.452	\$	<u>2015</u> 7.285	\$	<u>2014</u> 7.118
Apportionment of Tax Rate:										
Municipal		2.331		2.254		2.073		1.953		1.889
Library		0.112		0.109		0.108		0.104		0.105
County:										
Regular		1.240		1.215		1.178		1.153		1.171
Open Space		0.102		0.099		0.098		0.095		0.096
Local School		4.254		4.068		3.995		3.980		3.857

Note 3: TAXES AND TAX TITLE LIENS RECEIVABLE (CONT'D.)

Assessed Valuation

2018	\$	410,476,700.00
2017		411,212,600.00
2016		411,689,000.00
2015		412,491,700.00
2014		414,141,225.00

Comparison of Tax Levies and Collections

<u>Year</u>		<u>Tax Levy</u>		<u>Cash Collections</u>	<u>Percentage of Collections</u>
2018	\$	33,031,600.85	\$	32,381,285.91	98.03%
2017		31,882,585.24		31,128,301.33	97.63%
2016		30,696,741.03		30,044,663.91	97.88%
2015		30,073,829.82		29,350,585.26	97.60%
2014		29,524,806.74		28,976,314.33	98.14%

Delinquent Taxes and Tax Title Liens

<u>Year</u>		<u>Tax Title Liens</u>		<u>Delinquent Taxes</u>		<u>Total Delinquent</u>	<u>Percentage of Tax Levy</u>
2018	\$	579,203.13	\$	572,030.65	\$	1,151,233.78	3.49%
2017		522,627.14		687,883.62		1,210,510.76	3.80%
2016		458,642.83		575,742.35		1,034,385.18	3.37%
2015		400,698.24		638,959.22		1,039,657.46	3.46%
2014		300,547.14		531,795.92		832,343.06	2.82%

Note 4: PROPERTY ACQUIRED BY TAX TITLE LIEN LIQUIDATION

The value of property acquired by liquidation of tax title liens on December 31, on the basis of the last assessed valuation of such properties, was as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 47,300.00
2017	47,300.00
2016	47,800.00
2015	47,800.00
2014	47,800.00

Note 5: UTILITY RECEIVABLES AND COLLECTIONS

The Borough operates on Electric Utility, Parking Utility and a Water Utility for the benefit of its residents.

Comparison of Electric Utility Levies and Collections

The Borough's Electric Utility Customers are billed monthly based on usage.

<u>Year</u>		<u>Levy**</u>		<u>Cash Collections*</u>
2018	\$	14,585,087.52	\$	14,471,870.53
2017		14,028,417.66		14,081,441.84
2016		14,620,880.06		14,401,911.84
2015		15,526,567.54		15,665,087.65
2014		13,748,173.59		13,667,419.79

* Cash collections include amounts that were levied in prior years.

** In 2011 the Borough effected an Annual Power Cost Adjustment ("APCA") which essentially is an automatic pass-through adjustment based on the cost of power purchased.

Comparison of Water Utility Levies and Collections

The Borough's Water Utility Customers are billed based on usage quarterly on a cycle basis.

<u>Year</u>		<u>Levy**</u>		<u>Cash Collections*</u>
2018	\$	3,175,538.28	\$	3,041,152.72
2017		3,129,151.21		3,096,284.18
2016		3,306,917.76		3,364,302.73
2015		3,343,283.01		3,345,804.62
2014		3,236,394.81		3,309,077.21

* Cash collections include amounts that were levied in prior years.

Any unpaid levies are subject to the same provision as unpaid taxes under the provision of the New Jersey Statutes.

Note 5: UTILITY RECEIVABLES AND COLLECTIONS (CONT'D.)Comparison of Parking Utility Collections

<u>Year</u>	<u>Cash Collections</u>
2018	\$ 59,728.79
2017	54,832.40
2016	58,401.32
2015	49,666.54
2014	45,084.45

Note 6: FUND BALANCES APPROPRIATED

The following schedule details the amount of fund balances available at the end of each year and the amounts utilized in the subsequent year's budget.

<u>Year</u>	<u>Balance December 31</u>	<u>Utilized in Budget of Succeeding Year</u>	<u>Transferred to Current Fund as Revenue in Succeeding Year</u>	<u>Percentage of Fund Balanced Used</u>
<u>Current Fund</u>				
2018	\$ 1,680,979.17	\$ 1,344,844.98	N/A	80.00%
2017	1,879,432.09	1,419,581.07	N/A	75.53%
2016	1,929,750.65	1,404,582.00	N/A	72.79%
2015	1,796,123.60	1,392,790.18	N/A	77.54%
2014	1,720,251.14	1,501,790.00	N/A	87.30%
<u>Electric Utility Operating Fund</u>				
2018	\$ 3,999,065.69	\$ 3,978,500.00	None	99.49%
2017	3,846,272.31	3,250,000.00	None	84.50%
2016	4,150,723.49	3,250,000.00	None	78.30%
2015	4,250,527.19	3,300,000.00	None	77.64%
2014	3,039,700.46	3,000,000.00	None	98.69%
<u>Parking Utility Operating Fund</u>				
2018	\$ 94,755.40	\$ 30,500.00	None	32.19%
2017	83,930.57	25,200.00	None	30.02%
2016	70,841.08	22,000.00	None	31.06%
2015	73,157.48	24,000.00	None	32.81%
2014	76,425.91	23,500.00	None	30.75%
<u>Water Utility Operating Fund</u>				
2018	\$ 289,753.51	\$ 288,935.00	None	99.72%
2017	344,383.32	344,319.00	None	99.98%
2016	830,265.17	610,613.00	None	73.54%
2015	886,518.49	566,509.00	None	63.90%
2014	1,117,764.76	650,973.00	None	58.24%

Note 7: MUNICIPAL DEBT

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

Summary of Municipal Debt (Excluding Current and Operating Debt)

	<u>Year 2018</u>	<u>Year 2017</u>	<u>Year 2016</u>
Issued:			
General:			
Bonds, Loans and Notes	\$ 24,106,049.76	\$ 24,933,900.86	\$ 25,412,027.12
Electric Utility:			
Bonds and Notes	1,960,000.00	2,590,000.00	3,956,000.00
Parking Utility:			
Bonds and Notes	103,000.00	121,000.00	139,000.00
Water Utility:			
Bonds, Loans and Notes	<u>3,184,000.00</u>	<u>3,527,000.00</u>	<u>3,980,200.41</u>
Total Issued:	<u>\$ 29,353,049.76</u>	<u>\$ 31,171,900.86</u>	<u>\$ 33,487,227.53</u>
Authorized But Not Issued:			
General:			
Bonds and Notes	\$ 3,525,335.05	\$ 2,996,596.58	\$ 3,783,595.89
Electric Utility:			
Bonds and Notes	1,161,000.00	1,161,000.00	1,400,000.00
Parking Utility:			
Bonds and Notes	15,000.00	15,000.00	15,000.00
Water Utility:			
Bonds and Notes	<u>2,091,000.00</u>	<u>2,041,000.00</u>	<u>2,041,000.00</u>
Total Authorized But Not Issued:	<u>\$ 6,792,335.05</u>	<u>\$ 6,213,596.58</u>	<u>\$ 7,239,595.89</u>
Net Bond and Notes Issued and Authorized But Not Issued	<u>\$ 36,145,384.81</u>	<u>\$ 37,385,497.44</u>	<u>\$ 40,726,823.42</u>

Note 7: MUNICIPAL DEBT (CONT'D.)Summary of Statutory Debt Condition, Annual Debt Statement

The summarized statement of debt condition that follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicated a statutory net debt of 1.996%.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School District Debt	\$ 8,934,770.80	\$ 8,934,770.80	None
Electric Utility Debt	3,121,000.00	3,121,000.00	None
Parking Utility Debt	118,000.00	118,000.00	None
Water Utility Debt	5,275,000.00	5,275,000.00	None
General Debt	<u>27,631,384.81</u>	<u>None</u>	<u>27,631,384.81</u>
	<u>\$ 45,080,155.61</u>	<u>\$ 17,448,770.80</u>	<u>\$ 27,631,384.81</u>

Net Debt \$27,631,384.81 divided by Equalized Valuation basis per N.J.S. 40A:2-2 As Amended, \$1,384,569,495.33 equals 1.996%. The Annual Debt Statement has been filed.

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

3 1/2% of Average Equalized Valuation Basis (Municipal)	\$ 48,459,932.34
Net Debt	<u>27,631,384.81</u>
Remaining Borrower Power	<u>\$ 20,828,547.53</u>

School Debt Deduction

School debt is deductible up to the extent of 4.0% of the Average Equalized Assessed Valuation of real property for the Local School District.

NOTES TO FINANCIAL STATEMENTS

Note 7: MUNICIPAL DEBT (CONTD.)

Calculation of "Self-Liquidating Purpose", Electric Utility Per N.J.S. 40A:2-45

Cash Receipts for Fees, Rents and Other Charges for the Year		\$	17,878,804.43
Deductions:			
Operating and Maintenance Costs	\$	10,936,000.00	
Debt Service		728,892.69	
Total Deductions			<u>11,664,892.69</u>
Excess in Revenue		\$	<u>6,213,911.74</u>

Calculation of "Self-Liquidating Purpose", Water Utility Per N.J.S. 40A:2-45

Cash Receipts for Fees, Rents and Other Charges for the Year		\$	3,646,354.87
Deductions:			
Operating and Maintenance Costs	\$	2,836,500.00	
Debt Service		458,147.25	
Total Deductions			<u>3,294,647.25</u>
Excess in Revenue		\$	<u>351,707.62</u>

Calculation of "Self-Liquidating Purpose", Parking Utility Per N.J.S. 40A:2-45

Cash Receipts for Fees, Rents and Other Charges for the Year		\$	87,738.85
Deductions:			
Operating and Maintenance Costs	\$	38,000.00	
Debt Service		21,066.66	
Total Deductions			<u>59,066.66</u>
Excess in Revenue		\$	<u>28,672.19</u>

NOTES TO FINANCIAL STATEMENTS

Note 7: MUNICIPAL DEBT (CONTD.)

Long-Term Debt

As of December 31, 2018, the Borough's long-term debt is as follows:

General Capital Fund - Serial Bonds:

\$3,630,000.00 General Improvement Refunding Bonds, Series 2016A- Refunding of 2007 Series. Annual maturities of \$710,000.00 to \$720,000.00 through December 1, 2022 at an annual interest rate of 4.0%	\$ <u>2,865,000.00</u> *
	\$ <u>2,865,000.00</u>

Electric Utility Capital Fund - Serial Bonds:

\$2,415,000.00 Electric Utility Refunding Bonds, Series 2016B, Refunding of 2007 Series Annual maturities of \$455,000.00 to \$525,000.00 through through December 1, 2022 at an annual interest rate of 4.0%	\$ <u>1,960,000.00</u> *
	\$ <u>1,960,000.00</u>
	\$ <u><u>4,825,000.00</u></u>

* Redemption of General Obligation Series 2007 and Electric System Improvement Bonds Series 2007. The Bonds maturing prior to December 1, 2018 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after December 1, 2018 are subject to redemption at the option of the Borough, in whole or in part, on any date on or after December 1, 2017, upon notice as required herein, at a redemption price equal to one hundred percent (100%) of the principal amount being redeemed (the "Redemption Price") plus accrued interest to the date fixed for redemption. If Notice of Redemption has been given as provided herein, the Bonds or the portion thereof called for redemption shall be due and payable on the date fixed for redemption at the Redemption Price, together with accrued interest to the date for redemption. The Governing Body has not, as of the date of this report, opted to redeem the Bonds.

NOTES TO FINANCIAL STATEMENTS

Note 7: MUNICIPAL DEBT (CONT'D.)

Long-Term Debt (Cont'd.)

State of New Jersey Environmental Infrastructure Trust Loans (NJEIT)

General Capital Fund - Serial Bonds:

\$430,000.00 NJEIT - State Portion

Year 2000 - Annual maturities of \$30,000.00 to \$35,000.00

through August 1, 2020 at an annual interest rate of 5.25% \$ 65,000.00

\$425,000.00 NJEIT - Federal Portion

Year 2000 -Semi-annual maturity in the amount of \$15,690.98 through

August 1, 2019. There is no interest being charged on this loan. 15,690.98

\$ 80,690.98

Water Utility Capital Fund:

\$2,620,000.00 NJEIT - State Portion

Year 2000 - Annual maturities of \$195,000.00 to \$205,000.00

through August 1, 2020 at an annual interest rate of 5.25% \$ 400,000.00

\$ 400,000.00

\$ 480,690.98

NOTES TO FINANCIAL STATEMENTS

Note 7: MUNICIPAL DEBT (CONTD.)

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

Serial Bonds:

Calendar Year	General Capital Fund		
	Principal	Interest	Total
2019	\$ 720,000.00	\$ 114,600.00	\$ 834,600.00
2020	720,000.00	85,800.00	805,800.00
2021	715,000.00	57,000.00	772,000.00
2022	710,000.00	28,400.00	738,400.00
	<u>2,865,000.00</u>	<u>285,800.00</u>	<u>3,150,800.00</u>
	\$ 2,865,000.00	\$ 285,800.00	\$ 3,150,800.00

Calendar Year	Electric Utility Capital Fund		
	Principal	Interest	Total
2019	\$ 455,000.00	\$ 78,400.00	\$ 533,400.00
2020	480,000.00	60,200.00	540,200.00
2021	500,000.00	41,000.00	541,000.00
2022	525,000.00	21,000.00	546,000.00
	<u>1,960,000.00</u>	<u>200,600.00</u>	<u>2,160,600.00</u>
	\$ 1,960,000.00	\$ 200,600.00	\$ 2,160,600.00

Calendar Year	Total for all Funds - Bonds		
	Principal	Interest	Total
2019	\$ 1,175,000.00	\$ 193,000.00	\$ 1,368,000.00
2020	1,200,000.00	146,000.00	1,346,000.00
2021	1,215,000.00	98,000.00	1,313,000.00
2022	1,235,000.00	49,400.00	1,284,400.00
	<u>4,825,000.00</u>	<u>486,400.00</u>	<u>5,311,400.00</u>
	\$ 4,825,000.00	\$ 486,400.00	\$ 5,311,400.00

Note 7: MUNICIPAL DEBT (CONT'D.)United States Department of Agriculture-Community Facilities LoanGeneral Capital Fund

Original Loan Amount -2016	\$	9,800,000.00
Balance December 31, 2018	\$	9,340,108.78
Interest Rate:		0.02
Due Dates:		June 13 and December 31
Final Maturity:		December 13, 2046
Purpose:		Construction of a Firehouse
Semi-Annual Payment	\$	229,320.00
Source of Repayment Funds		Current Fund

Note 7: MUNICIPAL DEBT (CONT'D.)Schedule of Annual Debt Service for Principal and Interest for Bonded Debt Issued and Outstanding (Cont'd.)New Jersey Environmental Infrastructure Trust ("NJEIT") Loan Payable

Calendar Year	General Capital Fund		
	Principal	Interest	Total
2019	\$ 45,690.98	\$ 3,412.50	\$ 49,103.48
2020	35,000.00	1,837.50	36,837.50
	<u>\$ 80,690.98</u>	<u>\$ 5,250.00</u>	<u>\$ 85,940.98</u>

Calendar Year	Water Utility Capital Fund		
	Principal	Interest	Total
2019	\$ 195,000.00	\$ 21,000.00	\$ 216,000.00
2020	205,000.00	10,762.50	215,762.50
	<u>\$ 400,000.00</u>	<u>31,762.50</u>	<u>431,762.50</u>

Calendar Year	Total for all Funds - NJEIT Loans		
	Principal	Interest	Total
2019	\$ 240,690.98	\$ 24,412.50	\$ 265,103.48
2020	240,000.00	12,600.00	252,600.00
	<u>\$ 480,690.98</u>	<u>37,012.50</u>	<u>517,703.48</u>

Note 7: MUNICIPAL DEBT (CONT'D.)Bond Anticipation Notes

At December 31, 2018 the Borough's outstanding Bond Anticipation Notes are as follows:

	<u>Interest Rate</u>	<u>Original Issue Date</u>	<u>Amount</u>	<u>Payment Required</u>	
				<u>First</u>	<u>Final</u>
General Capital Fund	3.50%	2008	\$ 1,319,000.00	2011	2019
	3.50%	2009	65,250.00	2012	2020
	3.50%	2010	4,111,000.00	2013	2021
	3.50%	2011	266,000.00	2014	2022
	3.50%	2012	424,000.00	2015	2023
	3.50%	2013	594,000.00	2016	2024
	3.50%	2014	948,000.00	2017	2025
	3.50%	2015	693,000.00	2018	2026
	3.50%	2016	1,150,000.00	2019	2027
	3.50%	2017	1,475,000.00	2020	2028
	3.50%	2018	775,000.00	2021	2029
			<u>11,820,250.00</u>		
Water Utility Capital Fund	3.50%	2008	\$ 179,000.00	2011	2019
	3.50%	2009	1,561,000.00	2012	2020
	3.50%	2010	413,000.00	2013	2021
	3.50%	2012	205,000.00	2015	2023
	3.50%	2013	138,000.00	2016	2024
	3.50%	2015	88,000.00	2018	2026
	3.50%	2016	100,000.00	2019	2027
	3.50%	2018	100,000.00	2021	2029
			<u>2,784,000.00</u>		
Parking Utility Capital Fund	3.50%	2014	\$ 103,000.00	2017	2025
			<u>103,000.00</u>		
			<u>\$ 14,707,250.00</u>		

Bond and Notes Authorized But Not Issued

At December 31, 2018, the Borough had authorized but not issued bonds and notes as follows:

General Capital Fund	\$ 3,525,335.05
Electric Utility Capital Fund	1,161,000.00
Water Utility Capital Fund	2,091,000.00
Parking Utility Capital Fund	<u>15,000.00</u>
	<u>\$ 6,792,335.05</u>

NOTES TO FINANCIAL STATEMENTS

Note 7: MUNICIPAL DEBT (CONT'D.)

Due to Bond Registrar/Paying Agent

The Water Utility Operating Fund Balance Sheet reflects an amount due from Bond Registrar/Paying Agent of \$57,812 and due to Bond Registrar/Paying Agent of \$81,840.00. These balances represent amounts that were paid (due from) in prior year and a liability (due to) for the current and prior years. The amounts were possibly never invoiced properly by the Paying Agent. These amounts are being reviewed on an ongoing basis for liquidation.

Continuing Disclosure Requirement

As a result of the General Obligation Refunding Bonds, Series 2016 General Obligation Bond Sales, the Borough is required to comply with the Securities and Exchange Commission Rule 15c2-12, which is related to the Annual Continuing Disclosure Requirement. The Borough complied with the requirement in 2018 and 2017.

Note 8: DEFERRED SCHOOL DISTRICT TAXES

The Local School District Tax was raised on the school year basis and liability deferred by statute, resulting in school tax payable set forth in liabilities computed as follows.

The Borough of South River has elected to defer school taxes as follows

Local School District Taxes			
<u>Balance, December 31</u>			
	<u>2018</u>	<u>2017</u>	Increase/ (Decrease)
Balance of Tax*	\$ 8,320,307.00	\$ 7,955,388.00	\$ 364,919.00
Deferred	<u>7,559,686.00</u>	<u>7,559,686.00</u>	<u>0.00</u>
Payable	\$ <u>760,621.00</u>	\$ <u>395,702.00</u>	<u>364,919.00</u>

* Required for School operations for the six-month period following December 31st.

Note 9: DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS

Certain expenditures are required to be deferred to budgets of succeeding years. At December 31, 2018, the following deferred charges are shown on the various balance sheets:

	<u>Balance December 31, 2017</u>	<u>Amount Raised in 2018</u>	<u>Balance December 31, 2018</u>
Current Fund:			
Municipal Wide Revaluation	<u>\$400,000.00</u>	<u>\$100,000.00</u>	<u>\$300,000.00</u>
Total	<u>\$400,000.00</u>	<u>\$100,000.00</u>	<u>\$300,000.00</u>

Note 10: PENSION PLANS

Description of Plans - The State of New Jersey, Division of Pension and Benefits (the Division) was created and exists pursuant to N.J.S.A. 52:18A to oversee and administer the pension trust and other postemployment benefit plans sponsored by the State of New Jersey (the State). According to the State of New Jersey Administrative Code, all obligations of the Systems will be assumed by the State of New Jersey should the plans terminate. Each defined benefit pension plan's designated purpose is to provide retirement, death and disability benefits to its members. The authority to amend the provision of plan rests with new legislation passed by the State of New Jersey. Pension reforms enacted pursuant to Chapter 78, P.L. 2011 included provisions creating special Pension Plan Design Committees for the Public Employees Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS), once a Target Funded Ratio (TFR) is met, that will have the discretionary authority to modify certain plan design features, including member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. The committee will also have the authority to reactivate the cost of living adjustment (COLA) on pensions. However, modifications can only be made to the extent that the resulting impact does not cause the funded ratio to drop below the TFR in any one year of a projection period. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for each of the plans. This report may be accessed via the Division of Pensions and Benefits website, at www.state.nj.us/treasury/pensions, or may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

A. Public Employees' Retirement System (PERS) - The Public Employee Retirement System is a cost-sharing, multiple employer defined benefit pension plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the PERS Plan are as follows:

Plan Membership and Contributing Employers- Substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency are enrolled in PERS, 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. Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving benefits	174,904	170,124
Inactive plan members entitled to but not yet receiving benefits	589	650
Active plan members	<u>254,780</u>	<u>254,685</u>
Total	<u>430,273</u>	<u>425,459</u>
Contributing Employers	1,708	1,705

Significant Legislation – Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State Fiscal Year 2009. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of PERS, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Pursuant to the provision of Chapter 78, P.L. 2011, COLA increases were suspended for all current and future retirees of PERS.

Note 10: PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Payrolls and Covered Wages - For the year ended December 31, 2018 and 2017 the Borough's total payroll for all employees was \$9,669,148 and \$9,384,634, respectively. Total PERS covered payroll was \$4,443,829 and \$4,755,619, respectively. Covered payroll refers to all compensation paid by the Borough to active employees covered by the Plan.

Specific Contribution Requirements and benefit provisions – The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Pursuant to the provisions of P.L. 2011, C. 78, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.34% in State fiscal year 2018. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. The Borough's cash basis contributions to the Plan for the years ended December 31, 2018 and 2017 were \$650,879 and \$612,151, respectively. Borough Contributions are due and payable on April 1st in the second fiscal period subsequent to plan year for which the contribution requirements were calculated. Borough payments to PERS for the years ending December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Normal Cost	\$ 84,476	\$ 95,128
Amortization of Accrued Liability	<u>526,054</u>	<u>484,115</u>
Total Pension	610,530	579,243
NCGI Premiums	<u>31,284</u>	<u>28,909</u>
Total Regular Billing	641,814	608,152
Additional Billings:		
LTD Expense	<u>9,065</u>	<u>3,999</u>
Total PERS Payment	<u>\$ 650,879</u>	<u>\$ 612,151</u>

Ch. 19, P.L. 2009 billings reflect the recoupment of the 50% deferral of normal and accrued liability costs due on April 1, 2009. The law set a fifteen-year repayment schedule for the deferred amount, with additional annual adjustments to reflect the return on investment of actuarial net assets of the plan on deferred principal balances.

The Borough recognizes liabilities to PERS and records expenditures for same in the fiscal period that bills become due.

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

NOTES TO FINANCIAL STATEMENTS

Note 10: PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

The following represents the membership tiers for PERS:

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

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

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – The regulatory basis of accounting which is basis for the preparation of the Borough's basic financial statements does not require or permit the inclusion of entity-wide, full accrual basis financial statements. Accordingly, the Borough does not recognize pension liabilities for any current or prior period until the fiscal period in which such payments will become due and payable.

At June 30, 2018, the PERS reported a liability of \$19,689,501,539 for its Non-State Employer Member Group. The Borough's proportionate share of the net pension liability for the Non-State Employer Group that is attributable to the Borough was \$13,424,624 or 0.06818164% a decrease of 0.00109931% from its proportion measured as of June 30, 2017. At June 30, 2017, the PERS reported a net pension liability of \$23,278,401,588 for its Non-State Employer Member Group. The proportionate share of the State of New Jersey's net pension liability for the Non-State Employer Member Group that is attributable to the Borough was \$16,127,498 or 0.06928095%.

Actuarial Assumptions- The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Inflation	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%

Note 10: PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Preretirement 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 Conduent modified 2014 projection scale. Postretirement 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. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the Conduent 2014 projection scale thereafter. 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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Risk Mitigation Strategies	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
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 Asset	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 5.66% as of June 30, 2018. 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 3.87% as of June 30, 2018 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.

Note 10: PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

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 50% 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 June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of Collective Net Pension Liability to Changes in the Discount Rate – the following presents the collective net pension liability of PERS participating employers as of June 30, 2018, calculated using the discount rates as disclosed above as well as what the collective net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage rate higher than the current rate:

	At 1% Decrease (4.66%)	At current discount rate (5.66%)	At 1% increase (6.66%)
State	\$27,413,044,035	\$23,704,298,093	\$20,597,322,253
Local	<u>24,757,279,564</u>	<u>19,689,501,539</u>	<u>15,437,959,879</u>
PERS Plan Total	<u>\$52,170,323,599</u>	<u>\$43,393,799,632</u>	<u>\$36,035,282,132</u>
South River Borough Share	<u>\$16,879,919</u>	<u>\$13,424,624</u>	<u>\$10,525,854</u>

Components of Net Pension Liability – The components of the collective net pension liability for PERS, including the State of New Jersey, at June 30, 2018 is as follows:

	State	Local	Total
Total Pension Liability	\$30,434,600,657	\$42,431,573,511	\$72,866,174,168
Plan Fiduciary Net Position	<u>6,730,302,564</u>	<u>22,742,071,972</u>	<u>29,472,374,536</u>
Net Pension Liability	<u>\$23,704,298,093</u>	<u>\$19,689,501,539</u>	<u>\$43,393,799,632</u>

At December 31, 2018, the Borough's deferred outflow of resources and deferred inflow of resources related to PERS were from the following sources, if GASB 68 was recognized:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expended and actual experience	\$256,010	\$69,222
Change in assumptions	2,212,156	4,292,481
Net difference between projected and actual earnings On pension plan investments		125,924
Changes in proportion and differences between Borough Contributions and proportionate share of contributions	<u>220,986</u>	<u>203,904</u>
Total	<u>\$2,689,152</u>	<u>\$4,691,531</u>

Note 10: PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Collective Deferred Outflows of Resources and Deferred Inflows of Resources – Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

<u>Year ending</u>	<u>Amount</u>
2019	\$ 146,272
2020	(96,513)
2021	(935,288)
2022	(831,823)
2023	(285,027)
Total	\$ <u>(2,002,379)</u>

Additional Information

Collective balances at June 30, 2018

Collective deferred outflows of resources	\$4,684,852,302
Collective deferred inflows of resources	7,646,736,226
Collective net pension liability – Local group	19,689,501,539

Borough' Proportion	0.06818164%
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B. Police and Firemen's Retirement System (PFRS) - The Police and Firemen's Retirement System is a cost-sharing, multiple employer defined benefit pension plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the PFRS Plan are as follows:

Plan Membership and Contributing Employers- Substantially all full-time county and municipal police or firemen and state firemen or officer employees with police powers appointed after June 30, 1944 are enrolled in PFRS. Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Inactive plan members or beneficiaries currently receiving benefits	43,755	43,011
Inactive plan members entitled to but not yet receiving benefits	39	47
Active plan members	<u>41,517</u>	<u>40,789</u>
Total	<u>85,311</u>	<u>83,847</u>
Contributing Employers	586	586

Pursuant to the provision of Chapter 78, P.L. 2011, COLA increases were suspended for all current and future retirees of PFRS.

For the year ended December 31, 2018 and 2017 the Borough's total payroll for all employees was \$9,669,148 and \$9,384,634, respectively. Total PFRS covered payroll was \$3,355,148 and \$3,207,108, respectively. Covered payroll refers to all compensation paid by the Borough to active employees covered by the Plan.

Significant Legislation – P.L. 2009, C. 19, effective March 17, 2009, provided an option for local employers of PFRS and PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law.

Note 10: PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

This unfunded liability is paid by the employer in level annual payments over a period of 15 years beginning with fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Specific Contribution Requirements and benefit provisions – The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Pursuant to the provisions of P.L. 2011, C. 78, the active member contribution rate was 10.0% in State fiscal year 2018. Employers' contributions are based on an actuarially determined amount, which includes the normal cost and unfunded accrued liability. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. The Borough's cash basis contributions to the Plan for the years ended December 31, 2018 and 2017 were \$774,675 and \$722,007, respectively. Borough Contributions are due and payable on April 1st in the second fiscal period subsequent to plan year for which the contribution requirements were calculated. Borough payments to PFRS for the years ending December 31, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Normal Cost	\$ 241,218	\$ 245,753
Amortization of Accrued Liability	<u>502,155</u>	<u>444,866</u>
Total Pension	743,373	690,619
NCGI Premiums	<u>31,302</u>	<u>31,388</u>
Total Regular Billing	<u>774,675</u>	<u>722,007</u>
Total PFRS Payment	\$ <u>774,675</u>	\$ <u>722,007</u>

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits, which vest after four years of service.

The following represents the membership tiers for PFRS:

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

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years, but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – The regulatory basis of accounting which is basis for the preparation of the Borough's basic financial statements does not require or permit the inclusion of entity-wide, full accrual basis financial statements. Accordingly, the Borough does not recognize pension liabilities for any current or prior period until fiscal period in which such payments will become due and payable.

Note 10: PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

At June 30, 2017, the PFRS reported a net pension liability of \$15,438,066,691 for its Non-State, Non-Special Funding Situation Employer Member Group. The Borough's proportionate share of the net pension liability for the Non-State, Non-Special Funding Situation Employer Member Group was \$13,513,260 or 0.087532%. At June 30, 2016, the PFRS reported a net pension liability of \$19,102,557,969 for its Non-State, Non-Special Funding Situation Employer Member Group. The Borough's proportionate share of the net pension liability for the Non-State, Non-Special Funding Situation Employer Member Group was \$16,915,852 or 0.088553%.

Actuarial Assumptions- The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Inflation	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%

Preretirement mortality rates were based on the RP-2000 Combined Healthy Mortality tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB and the Conduent modified 2014 projection scale thereafter. For preretirement accidental mortality, a custom table with representative rates was used and there is no mortality improvement assumed. Post-retirement mortality rates for male service retirements are based the RP-2000 Combined Healthy Mortality Tables projected on a generational basis using Projection Scale AA from the base year of 2012 to 2013 and the Conduent modified 2014 projection scale thereafter. Postretirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected on a generational basis from the base year of 2000 to 2013 using Projection Scale BB and the Conduent modified 2014 projection scales thereafter. Disability mortality rates were based on a custom table with representative rates and no mortality improvement assumed.

The actuarial assumptions used in the July 1, 2017 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, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment 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.

Note 10: PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

Best estimates of arithmetic rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Risk Mitigation Strategies	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
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 Asset	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 6.51% as of June 30, 2018. 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 3.87% as of June 30, 2018 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 nonemployer contributing entity will be made based on the contribution rate in the most recent fiscal year.

The State employer contributed 50% 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 June 30, 2062. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2062, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of Net Pension Liability — The following presents the collective net pension liability of the participating employers as of June 30, 2018, 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:

	At 1% Decrease (5.51%)	At current discount rate (6.51%)*	At 1% increase (7.51%)
State	\$ 5,090,302,750	\$ 4,329,304,276	\$ 3,702,605,881
Local	<u>20,570,435,198</u>	<u>15,369,699,278</u>	<u>11,080,039,474</u>
PFRS Plan Total	<u>\$25,660,737,948</u>	<u>\$19,699,003,554</u>	<u>\$14,782,645,355</u>
South River Borough Share	<u>\$19,728,104</u>	<u>\$12,977,546</u>	<u>\$10,626,327</u>

Note 10: PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (Cont'd):

*- Local Share includes \$1,838,050,687 of Special Funding Situation allocated to the State of NJ as a non-employer.

Components of Net Pension Liability – The components of the collective net pension liability of the participating employers for PFRS, including the State of New Jersey, at June 30, 2018 is as follows:

	State	Local	Total
Total Pension Liability	\$ 5,837,506,505	\$40,960,053,149	\$46,797,559,654
Plan Fiduciary Net Position	<u>1,508,202,229</u>	<u>25,590,353,871</u>	<u>27,098,556,100</u>
Net Pension Liability	\$ <u>4,329,304,276</u>	<u>\$15,369,699,278</u>	<u>\$19,699,003,554</u>

At December 31, 2018, the Borough's deferred outflow of resources and deferred inflow of resources related to PFRS were from the following sources, if GASB 68 was recognized:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expended and actual experience	\$132,030	\$53,704
Change in assumptions	1,113,948	3,325,921
Net difference between projected and actual earnings		
On pension plan investments		70,999
Changes in proportion and differences between Borough		
Contributions and proportionate share of contributions	<u>1,117,925</u>	<u>613,033</u>
Total	<u>\$2,363,903</u>	<u>\$4,063,657</u>

Collective Deferred Outflows of Resources and Deferred Inflows of Resources – Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

<u>Year ending</u>	<u>Amount</u>
2019	\$ 109,987
2020	(384,699)
2021	(929,343)
2022	(444,334)
2023	<u>(51,365)</u>
Total	<u>\$(1,699,754)</u>

Additional Information

Collective balances at June 30, 2018

Collective deferred outflows of resources	\$1,988,215,695
Collective deferred inflows of resources	4,286,994,294
Collective net pension liability – Local group	15,369,699,278

Borough' Proportion	0.0959051356%
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Note 10: PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

Special Funding Situation

The Borough is responsible for the actuarially determined annual contributions to the PFRS, except where legislation was passed that legally obligates the State if certain circumstances occur. A special funding situation exists for the Local employers of the PFRS. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers based upon the provisions of several legislative actions.

The provisions of GASB Statement No. 68 define this these relationship as a "special funding situation", and the State of New Jersey is defined as a "non-employer contributing entity".

Unaudited data provided by the PFRS indicates that the total Non-employer contributions made to the PFRS by the State for the year ended June 30, 2018 was \$108,857,000. The portion of that contribution allocated to the Borough was \$104,399, or 0.0959051%. The June 30, 2018 State special funding situation pension expense of \$217,714,180 was actuarially determined and represents the required contribution due from the State for the year. The special funding situation net pension liability under the special funding situation was reported at \$1,838,050,687 at June 30, 2018 and represents the accumulated difference between the actuarially determined annual contributions required and the actual State contributions through the valuation date. The Borough's allocated shares of the special funding situation pension expense for the year ended June 30, 2018 and its share of the special funding situation NPL at that date were \$208,799 and \$1,762,785, respectively.

C. Defined Contribution Retirement System (DCRP):

The Defined Contribution Retirement Plan (DCRP) is a multiple employer defined contribution plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the DCRP are as follows:

Plan Membership and Contributing Employers- Enrollment in the DCRP is required for state or local officials, elected or appointed on or after July 1, 2007; employees enrolled in PFRS or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PFRS or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least \$5,000 annually; and employees otherwise eligible to enroll in PFRS or PERS after May 21, 2010, who do not work the minimum number of hours per week required for tier 4 or tier 5 enrollment, but who earn salary of at least \$5,000 annually. At June 30, 2017, the membership in the DCRP, based on the information within the Division's database, was 46,557.

Contribution Requirement and Benefit Provisions - State and local government employers contribute 3% of the employees' base salary. Active members contribute 5.5% of base salary.

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

Note 10: PENSION PLANS (CONT'D.)

C. Defined Contribution Retirement System (DCRP) (Cont'd.):

For the year ended December 31, 2018 and 2017 the Borough's total payroll for all employees was \$9,669,148 and \$9,384,634, respectively. Total DCRP covered payroll was \$90,000 for both 2018 and 2017. Covered payroll refers to pensionable compensation, rather than total compensation, paid by the Borough to active employees covered by the Plan. Employee payroll deductions for DCRP contributions were \$4,950.00 and \$2,882.22 for 2018 and 2017, respectively. The Borough contributed \$2,700.00 and \$1,664.25, respectively to the DCRP accounts of eligible employees.

D. Cumulative PERS and PFRS Deferred Outflows of Resources and Deferred Inflows of Resources:

	<u>Net Pension Liability</u>	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>	<u>Total Pension Expense</u>
PERS	\$ 16,127,498	\$4,056,428	\$3,237,223	\$612,151
PFRS	<u>13,513,260</u>	<u>2,065,142</u>	<u>3,146,164</u>	<u>722,007</u>
Total	<u>\$ 29,640,758</u>	<u>\$6,121,570</u>	<u>\$6,383,387</u>	<u>\$1,334,158</u>

Note 11: POST-EMPLOYMENT RETIREMENT BENEFITS – OTHER THAN PENSION PLANS - HEALTHCARE BENEFITS

The Borough provides its retirees with health benefits (the "Plan"), which are funded fully or in part by the Borough, which benefits are negotiated through bargaining unit contracts. Eligibility requirements are described below. The annual costs are determined by the provider, per approved schedules in accordance with the insured individual's age and plan status.

The Plan offers medical, prescription drug and dental insurance coverage to retirees and their covered dependents. The Plan is not a separate entity or trust and does not issue standalone financial statements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

The Borough's total OPEB liability of \$49,990,506 was measured as of December 31, 2018, and was determined by an actuarial valuation as of that date. There were 85 Retiree and surviving spouses and 86 active employees as part of the plan.

Key actuarial assumptions - The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Consumer Price Index	2.50%
Salary increases	2.50%
Discount rate	4.10%
Healthcare cost trend	Range from 5.8% to 10.0%

NOTES TO FINANCIAL STATEMENTS

Note 11: POST EMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSION PLANS – HEALTHCARE BENEFITS (CONT'D.)

The discount rate was based on the Bond Buyer 20-Bond Go Index.

Mortality rates were based on the RP-2000 Combined Healthy Male Mortality rates set forward three years.

Turnover based on NJ State Pensions Ultimate Withdrawal Rates – prior to benefit eligibility.

Assumed Retirement Age – at first eligibility after completing 25 years of service.

Medical Cost Aging Factor – NJ SHBP Medical Morbidity Rates

The attribution period begins with the date of hire and ends with the full benefits eligibility date.

Per capita cost methods – the valuation reflects per capita net premium costs based on actual 2018 medical premiums and the plan option selected. Plan selections are assumed to remain unchanged in retirement. The age specific cost was derived based on per person costs at the average age of the active population (43) and scaled to each age based on the medical cost aging factors. At age 65, Medicare becomes the primary payor of medical benefits and consequently, per capita plan costs are offset by Medicare payments. When actual data is not available, post 65 costs are decreased using the assumption that Medicare picks up 66.7% of medical costs.

Retire Contributions - NJ Chapter 78 requires that certain future retirees contribute toward the cost of their benefits. Specifically, those who had retired prior to passage of Chapter 78 and those employees that had more than 25 years of service on the date of passage are grandfathered. All others are subject to the contribution rates in effect when they retire, but not less than 1.5% of their annual retirement allowance from the Public Employees Retirement System. For purposes of this valuation and for conservatism, it is assumed that future retiree contributions percentage rates will not increase. Thus, it is assumed that a future retiree will contribute his/her current employee contribution as reported by the Borough increased annually by the rate of medical trend.

The actuarial assumptions used in the December 31, 2018 valuation were based in the results of an actuarial experience study for the period January 1, 2018 - December 31, 2018.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 12/31/2017	\$48,863,350
Changes for the year:	
Interest cost	1,990,754
Service cost	246,837
Changes in assumptions or other inputs:	
Benefit payments	<u>(1,110,435)</u>
Net changes	1,127,156
Balance 12/31/2018	<u>\$49,990,506</u>

NOTES TO FINANCIAL STATEMENTS

Note 11: POST-EMPLOYMENT RETIREMENT BENEFITS OTHER THAN PENSION PLANS – HEALTHCARE BENEFITS (CONT'D.)

Sensitivity of the total OPEB liability to changes in the discount rate - The following presents the total OPEB liability of the Borough, as well as what the Borough's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Increase (5.10%)	Discount rate (4.10%)*	1% Decrease (3.10%)
Total OPEB Liability	\$ 45,089,461	\$ 49,990,506	\$ 55,865,660

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates - The following presents the total OPEB liability of the Borough, as well as what the Borough's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Increase	Healthcare cost Trend rates	1% Decrease
Total OPEB Liability	\$ 55,514,897	\$ 49,990,506	\$ 45,324,016

OPEB Expense

For the year ended December 31, 2018, the Borough recognized OPEB expense of \$2,237,591.

Special Funding Situation

Under Chapter 330, P.L. 1997, the State shall pay the premium or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No 75 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan, there is no net OPEB liability, deferred outflows of resources or deferred inflows of resources to report in the financial statements of the local participating employers related to this legislation.

The State of New Jersey's Total OPEB Liability for special funding situation was \$6,213,844,492 and \$8,695,413,135 at June 30, 2018 and 2017, respectively.

The amount of the State's proportionate share of the net OPEB liability for special funding situation attributable to employees and retirees of the Borough of South River was \$7,216,262 and \$9,684,169 at June 30, 2018 and 2017, respectively.

Note 12: INTERFUNDS RECEIVABLE AND PAYABLE

Interfund receivable and payable balances at December 31, 2018 were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Current Fund		\$245,857.71
Grant Fund	\$245,857.71	

Note 13: RISK MANAGEMENT

Property and Liability Insurance

The Borough, together with other governmental units, are members of the Middlesex County Municipal Joint Insurance Fund (the "Fund"). The Fund, which is organized and operated pursuant to the regulatory authority of the Departments of Insurance and Community Affairs, State of New Jersey, provides for a pooling of risks, subject to established limits and deductibles. In addition, the Fund has obtained cost effective reinsurance and excess liability coverages for participant local units.

For the year ended December 31, 2018, the Fund provided coverage for Property, Boiler and Machinery, Automobile Liability, General Liability, Workmen's Compensation, Public Employee Blanket Bond and public officials surety bond coverage. The coverage is subject to certain policy limits and deductible amounts. The coverage is designed to minimize the impact of any potential losses to the Borough for matters that may have been caused or related to the Borough or its employees.

New Jersey Unemployment Compensation Insurance

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

<u>Year Ended Dec. 31,</u>		<u>Employer Contributions</u>		<u>Interest Earned</u>		<u>Amount Reimbursed</u>		<u>Ending Balance</u>
2018	\$	27,360.32	\$	836.50	\$	87,586.84	\$	60,143.65
2017		27,400.76		388.86		37,333.40		119,533.67
2016		40,000.00		86.24		9,456.13		129,077.45

Note 14: SEGMENT INFORMATION FOR UTILITY OPERATING ENTERPRISE FUNDS

The Borough of South River maintains three (3) enterprise funds that provide electric, parking and water to the residents and businesses of the Borough. Segment information for the year ended December 31, 2018 is as follows:

	Electric <u>Utility</u>	Parking <u>Utility</u>	Water <u>Utility</u>	Total Enterprise <u>Fund</u>
Revenue and Other Income Realized:				
Operating Fund Balance				
Appropriated	\$ 3,250,000.00	\$ 25,200.00	\$ 344,319.00	\$ 3,619,519.00
Rents	14,471,870.53	59,728.79	3,041,152.72	17,204,131.07
Miscellaneous	<u>1,800.00</u>	<u>1,000.00</u>	<u>180,000.00</u>	<u>182,800.00</u>
Budget Totals	17,723,670.53	85,928.79	3,565,471.72	21,006,450.07
Other Credits to Income:				
Nonbudget Revenue	\$ 184,604.39	\$ 1,830.06	\$ 97,989.80	\$ 178,113.07
Current Appropriations Canceled	5,274.31	633.34	88,671.75	94,579.40
Unexpended Balance of Appropriation Reserves Lapsed and Encumbrances Canceled	429,411.15	13,832.64	151,874.92	444,703.82
Total Revenue	<u>\$ 18,342,960.38</u>	<u>\$ 102,224.83</u>	<u>\$ 3,904,008.19</u>	<u>\$ 21,723,846.36</u>
Expenditures:				
Operating:				
Salaries and Wages	\$ 1,385,000.00	\$ 18,000.00	\$ 748,000.00	\$ 2,151,000.00
Other Expenses	1,940,000.00	15,000.00	1,039,000.00	3,077,300.00
Purchase of Power/Water	7,300,000.00		854,000.00	8,154,000.00
Capital Improvements	20,000.00	6,500.00	231,000.00	451,500.00
Debt Service	734,167.00	21,700.00	546,819.00	1,302,686.00
Deferred Charges and Statutory Expenditures	311,000.00	5,000.00	195,500.00	492,000.00
Surplus - General Budget	<u>3,250,000.00</u>	<u></u>	<u></u>	<u>3,250,000.00</u>
Total Expenditures	<u>\$ 14,940,167.00</u>	<u>\$ 66,200.00</u>	<u>\$ 3,614,319.00</u>	<u>\$ 18,878,486.00</u>
Statutory Excess to Fund Balance	\$ 3,402,793.38	\$ 36,024.83	\$ 289,689.19	\$ 3,105,369.46
Fund Balance, January 1, 2018	<u>\$ 3,846,272.31</u>	<u>\$ 83,930.57</u>	<u>\$ 344,383.32</u>	<u>\$ 4,274,586.20</u>
	<u>\$ 7,249,065.69</u>	<u>\$ 119,955.40</u>	<u>\$ 634,072.51</u>	<u>\$ 8,003,093.60</u>
Decreased by:				
Utilization as Anticipated Revenue	<u>\$ 3,250,000.00</u>	<u>\$ 25,200.00</u>	<u>\$ 344,319.00</u>	<u>\$ 3,619,519.00</u>
Fund Balance, December 31, 2018	<u>\$ 3,999,065.69</u>	<u>\$ 94,755.40</u>	<u>\$ 289,753.51</u>	<u>\$ 4,383,574.60</u>

Note 15: DEFERRED COMPENSATION PLAN

The Borough of South River offers its employees a Deferred Compensation Plan created in accordance with the provisions of N.J.S. 43:15B-1 et seq., and the Internal Revenue Code, Section 457. The Plan, available to all municipal employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Statutory and regulatory requirements governing the establishment and operation of Deferred Compensation Plans have been codified in the New Jersey Administrative Code under the reference N.J.A.C. 5:37.

The "Small Business Job Protective Act of 1996" modified several provisions of Section 457 of the Internal Revenue Code. The most significant change in the law related to the ownership of the fund.

The Borough of South River authorized such modifications to their plan by resolution of the Borough Council adopted September 10, 1997. The Deferred Compensation Plan is administered by the American Insurance General (AIG).

Note 16: LENGTH OF SERVICE AWARDS PROGRAM

On November 2, 1999, the voters of the Borough approved a referendum authorizing the establishment of the Length of Service Awards program (LOSAP). On November 2, 2004 the voters of the Borough approved an increase of the annual appropriation to \$112,800.00 subject to a per member minimum of \$800.00 and a maximum of \$1,500.00. The LOSAP will provide tax-deferred income benefits to the active volunteer fire fighters and first aid members who are eligible to participate.

The LOSAP funds are administered independently and distinct from the Borough and are subject to a review in accordance with the American Institute of Certified Public Accounts Standards for Accounting and Review Services. A separate report as of December 31, 2018 and 2017 revealed net position available for benefits of \$1,141,442.27 and \$1,138,203.84, respectively. The Borough's contribution for December 31, 2018 and 2017 is \$52,237.71 and \$65,311.20, respectively. Contributions for the past three (3) years are as follows:

		<u>Total</u>		<u>Per Member</u>
2018	\$	52,237.71	\$	1,411.83
2017		65,311.20		1,389.60
2016		66,171.36		1,378.54

Note 17: TERMINATION BENEFITS AND ACCRUED SICK PAY

A. Termination Benefits

The Borough grants terminal leave for all employees who retire from the Borough, the amount due to be paid is two (2) days of terminal leave for every year of service with the Borough subject to a minimum of ten (10) years of service. In accordance with GASB #47, the Borough is obligated to determine the amount; however, not required to fund or encumber the liability. The amount accrued to the benefit of the employees as of December 31, 2018 and 2017 is \$631,104.64 and \$582,630.67, respectively. Amounts are provided for in the Borough's annual operating budgets to meet the obligations as they become due.

NOTES TO FINANCIAL STATEMENTS

Note 17: TERMINATION BENEFITS AND ACCRUED SICK PAY (CONT'D.)

B. Accrued Sick Pay

The Borough's collective bargaining agreements provide for payment to employees upon retirement for unused sick days. There are six (6) collective bargaining agreements, which provide for amounts of payments based on the individual agreements. The noncollective bargaining employees are subject to a limit of one (1) day for every six (6) days accumulated and used. The total liability, based upon the above data and limitations, is on file in the Finance Office and amounts to \$642,825.94.

Note 18: CONTINGENT LIABILITIES

A. Litigation

The Borough is a party to various legal proceedings. These legal proceedings are not likely to have an adverse financial impact on the Borough, based on inquiry of management and the various attorneys.

B. Grants

The Borough of South River participates in federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Borough is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

C. Tax Appeals

The Borough has a Reserve for State Tax Appeals at December 31, 2018 of \$75,000.00, which represents an estimate for several tax appeals that are pending for 2018. In the event the appeals are awarded in excess of that amount, then a charge to Fund Balance/(Operations) will be needed.

Note 19: SUBSEQUENT EVENTS

During the period subsequent to the balance sheet date, through the date of the auditor's report, the Borough has authorized capital improvement projects, which provide for the issuance of bonds and notes to finance the costs thereof, as follows:

The following Programs/Projects for CY 2019 have been authorized:

<u>Project</u>	<u>Total</u>	<u>Bond/Notes Authorized</u>
Park Improvements	\$62,701.00	-0-
Various Capital Improvements and Various Capital Equipment	1,610,000.00	\$981,000.00
Various Water Utility Improvements and Equipment Acquisitions	400,000.00	\$380,000.00

On May 13, 2019, the Governing Body adopted the FY2019 Municipal Budget in the aggregate amount of \$19,076,205.56, the Water Utility Budget in the aggregate amount of \$3,761,235.00, the Electric Utility Budget in the aggregate amount of \$15,796,384.00 and the Parking Utility Budget in the aggregate amount of \$71,500.00.

APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Borough of South River, in the County of Middlesex, New Jersey (the "Issuer") in connection with the issuance by the Issuer of \$_____ General Obligation Bonds, Series 2019, consisting of \$_____ General Improvement Bonds, Series 2019A, and \$_____ Water Improvement Bonds, Series 2019B (collectively, the "Bonds"). The Bonds are being issued pursuant to various bond ordinances (the "Ordinances") duly adopted by the Borough Council of the Issuer (the "Council") and a resolution duly adopted by the Council on March 25, 2019 (the "Resolution"). The Bonds are dated their date of delivery. The Bonds shall mature on December 1 in the years 2020 through 2034, inclusive. The Issuer covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the provisions of Rule 15c2-12(b)(5) promulgated by the Bonds and Exchange Commission ("SEC") under the Bonds Exchange Act of 1934, as the same may be amended from time to time ("Exchange Act").

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

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Bondholder" shall mean any person who is the registered owner of any Bond, including holders of beneficial interests in the Bonds.

"Continuing Disclosure Information" shall mean: (i) the Annual Report; (ii) any notice required to be filed with the Repositories pursuant to Section 5 hereof; and (iii) any notice of an event required to be filed with the Repositories pursuant to Section 3(c) hereof.

"Dissemination Agent" shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access System ("EMMA"), an internet based filing system created and maintained by the MSRB in accordance with the SEC Release, pursuant to which issuers of tax-exempt bonds, including the Bonds, and other filers on behalf of the such issuers shall upload Continuing Disclosure Information to assist underwriters

in complying with the Rule and to provide the general public with access to such Continuing Disclosure Information.

"Financial Obligation" 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). The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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

"MSRB" shall mean the Municipal Bonds Rulemaking Board established pursuant to Section 15B(b)(1) of the Exchange Act.

"National Repository" shall mean the MSRB, through the internet facilities of EMMA, or any other public or private repository or entity that shall hereafter be designated by the SEC as a repository for purposes of the Rule.

"Official Statement" shall mean the Official Statement of the Borough, dated _____, 2019, relating to the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" or "Repositories" shall mean each National Repository and each State Repository, if any.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Exchange Act, as the same may be amended from time to time.

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

"State" shall mean the State of New Jersey.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than September 30 of each year, commencing September 30, 2020 for the Annual Report for the fiscal year ending December 31, 2019, provide to the MSRB in an electronic format as prescribed by the MSRB, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-

reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's fiscal year changes, it shall give notice of such change to MSRB and the filing deadline shall be adjusted accordingly. Any and all items that must be included in the Annual Report may be incorporated by reference from other information that is available to the public on the MSRB's Internet Web site, or that has been filed with the SEC.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for making available or providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall, in a timely manner, send a notice to the MSRB in substantially the form attached as Exhibit A, in an electronic format as prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(c) The Dissemination Agent shall file a report with the Issuer certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Agreement, stating the date it was provided.

Section 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

1. The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting standards (GAAS) as from time to time in effect, and as prescribed by the Division of Local Government Services in the Department of Community Affairs of the State pursuant to Chapter 5 of Title 40A of the New Jersey Statutes. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

2. Certain financial information and operating data of the Issuer as contained in Appendix A of the Official Statement under the following headings: Comparison of Tax Levies and Collections; Delinquent Taxes and Tax Title Liens; Tax Rates per \$100 of Net Valuations Taxable and Allocations; Valuation of Property; Classification of Ratables; Financial Operations; Fund Balance; and Borough Indebtedness as of December 31, 2018.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence 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 security, or others material events affecting the tax status of the Bonds;
7. modifications to rights of Bondholders, if material;
8. Bond Calls, if material and tender offers;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership or similar events of the Issuer, which shall be considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;
13. the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive

agreement relating to any such actions, other than pursuant to its terms, if material;

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 Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer, any of which affect Bondholders, if material; and
16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event described in subsection (a) for which a disclosure obligation is dependent upon materiality, the Issuer shall as soon as possible determine if such event would be material under applicable federal Bonds laws.

(c) If disclosure of a Listed Event is required, the Issuer shall, in a timely manner not in excess of ten business days after the occurrence of the event, file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be the Issuer.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change

in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders or Beneficial Owners of the Bonds.

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

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Bondholder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default on the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers,

directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Issuer under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and the Bondholders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated: _____, 2019

BOROUGH OF SOUTH RIVER, IN THE
COUNTY OF MIDDLESEX, NEW JERSEY

By: _____
Joseph Zanga, Chief Financial Officer

EXHIBIT A

NOTICE TO OF FAILURE TO FILE ANNUAL REPORT

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

Name of Bond Issue: \$_____ General Obligation Bonds, Series 2019, consisting of
\$_____ General Improvement Bonds, Series 2019A, and
\$_____ Water Improvement Bonds, Series 2019B

Date of Issuance: _____, 2019
(CUSIP Number:_____)

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Certificate dated _____, 2019. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____, 20__

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

By: _____
Name:
Title:

APPENDIX D
FORM OF BOND COUNSEL'S OPINION



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Reply to:

Red Bank Office

Meghan Ann Bennett

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Mbennett@glucklaw.com

*An opinion in substantially the following form
will be delivered at Closing assuming no
material changes in facts or law.*

December __, 2019

Mayor and Members of the Borough Council
Borough of South River
Middlesex County, New Jersey

**RE: Borough of South River, County of Middlesex, New Jersey
\$_____ General Obligation Bonds, Series 2019**

Dear Mayor and Council:

We have examined the record of proceedings relating to the issuance of \$_____ General Obligation Bonds, Series 2019, consisting of \$_____ General Improvement Bonds, Series 2019A, and \$_____ Water Improvement Bonds, Series 2019B (collectively, the “Bonds”), of the Borough of South River, in the County of Middlesex, a municipal corporation of the State of New Jersey (the “Borough”). The Bonds are dated December __, 2019 and mature on December 1st in each year in the principal amounts set forth in the table below. Interest on the Bonds, at the respective rates of interest set forth below, is payable semiannually on June 1st and December 1st of each year, commencing on June 1, 2020, until maturity.

Maturity (December 1st)	General Improvement Bonds, Series 2019A Principal Amount	Water Improvement Bonds, Series 2019B Principal Amount	Combined Maturity	Interest Rate
2020	\$	\$	\$	%
2021	\$	\$	\$	%
2022	\$	\$	\$	%
2023	\$	\$	\$	%
2024	\$	\$	\$	%
2025	\$	\$	\$	%
2026	\$	\$	\$	%
2027	\$	\$	\$	%

2028	\$	\$	\$	%
2029	\$	\$	\$	%
2030	\$	\$	\$	%
2031	\$	\$	\$	%
2032	\$	\$	\$	%
2033	\$	\$	\$	%
2034	\$	\$	\$	%

The Bonds are subject to redemption prior to maturity as set forth in the Official Statement.

The Bonds are issued in fully registered form without coupons and are transferable as provided therein and are of various denominations and are numbered consecutively upwards. We have examined each bond as executed, and, in our opinion, their form and execution are regular and proper.

The Bonds are authorized pursuant to the Local Bond Law of the State of New Jersey (*N.J.S.A. 40A:2-1 et seq.*) and are issued pursuant to a Bond Resolution adopted by the Borough on March 25, 2019 (the “Bond Resolution”), and by virtue of various Bond Ordinances finally adopted by the Borough as identified in the Bond Resolution (collectively, the “Bond Ordinances”). The Bonds are being issued to: (i) currently refund and permanently finance a portion of the Borough’s \$14,707,250 bond anticipation notes, dated December 10, 2018 and maturing December 10, 2019; and (ii) pay costs of issuance and delivery of the Bonds.

In forming our opinion, we have examined certified copies of the Bond Ordinances, Bond Resolution and related proceedings. We also have examined originals (or copies certified or otherwise identified to our satisfaction) of such other instruments, certificates and documents as we have deemed necessary or appropriate, including the Arbitrage and Use of Proceeds Certificate of the Borough dated the date of the Bonds (the “Arbitrage Certificate”) for the purpose of the opinions rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents. We have relied, as to the execution and delivery of the Bonds, on a certificate of the Borough executed by the Mayor, Clerk, and Chief Financial Officer. We have not reviewed and are not passing upon any statistical or financial data or other information relating to the Borough which may have been provided to any purchaser or prospective purchaser of the Bonds.

The Internal Revenue Code of 1986, as amended (the “Code”), sets forth certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest thereon will be and will remain excluded from gross income pursuant to Section 103 of the Code. The Borough has provided the Arbitrage Certificate which contains provisions and procedures regarding compliance with the requirements of the Code. In executing the Arbitrage Certificate, the Borough has certified to the effect that it expects to be able to, and will, comply with the provisions and procedures set forth therein and that to the extent authorized by law will

do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds is not includible in gross income under Section 103 of the Code. In rendering this opinion, we have assumed compliance by the Borough with the covenants contained in the Bonds and the statements contained in the Arbitrage Certificate that are intended to comply with the provisions of the Code relating to actions to be taken by the Borough in respect of the Bonds after the issuance thereof to the extent necessary to effect or maintain the federal tax-exempt status of the interest on the Bonds. These covenants and statements relate to, *inter alia*, the use of proceeds of the Bonds and the property financed or refinanced thereby and the rebating to the United States Treasury of specified arbitrage earnings, if required. We have assumed that the Borough will comply with the provisions of the Arbitrage Certificate. Furthermore, we take no responsibility for the continuing review or verification as to the satisfaction of the requirements under the Code, or any similar or related legislation when enacted or amended, for compliance by the Borough therewith.

Based upon and subject to the foregoing we are of the opinion that:

1. The Bonds are valid and legally binding obligations of the Borough, and the Borough has the power and is obligated to levy *ad valorem* taxes upon all the taxable property within the Borough for the payment of the principal of the Bonds and the interest thereon, without limitation as to rate or amount. The enforceability of rights or remedies with respect to such Bonds may be limited by any applicable bankruptcy, reorganization, insolvency, moratorium or other similar laws affecting creditors' rights in general, from time to time in effect and by equitable principles, whether considered at law or in equity.

2. Interest on the Bonds and any gain from the sale thereof are not includible in gross income under the New Jersey Gross Income Tax Act.

3. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes under existing law, as currently enacted and construed. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed upon individuals and corporations by the Internal Revenue Code of 1986, as amended (the "Code"). Interest on a Bond held by a corporation (other than an S corporation, regulated investment company, real estate investment trust or real estate mortgage investment conduit) may be indirectly subject to alternative minimum tax because of its inclusion in the adjusted current earnings of the corporate holder. Interest on a Bond held by a foreign corporation may be subject to the branch profits tax imposed by the Code.

The opinions set forth herein are given solely for the benefit of the original purchaser of the Notes and the addressee hereof and may not be relied on by any other person or entity without our express prior written consent. This opinion is rendered on the basis of federal law and the laws of the State of New Jersey as enacted and construed on the date hereof. We express no opinion as to any matter not set forth in the numbered paragraphs above, including, without limitation, with respect to, and assume no responsibility for, the accuracy, adequacy or completeness of any financial or other information relating to the Borough furnished in connection with the sale of the Notes and make no representation that we have independently

December __, 2019

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verified any such information. The opinions set forth herein are given solely as of the date hereof, and we do not undertake to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,