

OFFICIAL STATEMENT DATED MAY 15, 2014

In the opinion of McManimon, Scotland & Baumann, LLC, Bond Counsel to the Board (as defined herein), pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. It is also the opinion of Bond Counsel that interest on the Bonds held by corporate taxpayers is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. In addition, in the opinion of Bond Counsel, interest on and any gain from the sale of the Bonds is not includable as gross income under the New Jersey Gross Income Tax Act. Bond Counsel's opinions described herein are given in reliance on representations, certifications of fact, and statements of reasonable expectation made by the Board in its Tax Certificate (as defined herein), assume continuing compliance by the Board with certain covenants set forth in its Tax Certificate, and are based on existing statutes, regulations, administrative pronouncements and judicial decisions. See "TAX MATTERS" herein.

**THE BOARD OF EDUCATION OF THE
CITY OF OCEAN CITY
IN THE COUNTY OF CAPE MAY, NEW JERSEY
\$2,497,000 SCHOOL BONDS
(Book-Entry-Only) (Non-Callable) (Bank Qualified)**

Dated: Date of Delivery

Due: May 15, as shown below

The \$2,497,000 School Bonds (the "Bonds") of The Board of Education of the City of Ocean City in the County of Atlantic, New Jersey (the "Board" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) will be issued in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as Securities Depository. See "Book-Entry-Only System" herein.

Interest on the Bonds will be payable semiannually on May 15 and November 15 in each year until maturity, commencing on November 15, 2014. Principal of and interest on the Bonds will be paid to DTC by the Board or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding May 1 and November 1 (the "Record Dates" for the payment of interest on the Bonds). The Bonds shall not be subject to redemption prior to their stated maturities.

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

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS, and CUSIPS

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2016	\$225,000	1.00%	0.45%	674690DN9
2017	240,000	1.00	0.75	674690DP4
2018	250,000	1.00	1.05	674690DQ2
2019	265,000	1.50	1.30	674690DR0
2020	275,000	2.00	1.55	674690DS8
2021	290,000	2.00	1.80	674690DT6
2022	300,000	2.20	2.05	674690DU3
2023	315,000	2.25	2.20	674690DV1
2024	337,000	2.25	2.30	674690DW9

The Bonds are offered when, as and if issued, and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey, and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey, has served as financial advisor in connection with the issuance of the Bonds. Delivery is anticipated to be via DTC in New York, New York on or about June 5, 2014.

**THE BOARD OF EDUCATION OF
CITY OF OCEAN CITY
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

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BOND COUNSEL

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Board to give any information or to make any representations with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. The information contained herein has been provided by the Board and other sources deemed reliable; however, no representation is made as to the accuracy or completeness of information from sources other than the Board. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and the expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder under any circumstances shall create any implication that there has been no change in any of the information herein since the date hereof or since the date as of which such information is given, if earlier.

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the Board or the Underwriter.

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**OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION OF THE
CITY OF OCEAN CITY
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

**\$2,497,000
SCHOOL BONDS
(BOOK-ENTRY-ONLY ISSUE)
(NON-CALLABLE) (BANK QUALIFIED)**

INTRODUCTION

This Official Statement, which includes the front cover page and the appendices attached hereto, has been prepared by The Board of Education of City of Ocean City in the County of Cape May, New Jersey (the "Board" or "Board of Education" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the sale and issuance of its \$2,497,000 School Bonds (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the Business Administrator/Board Secretary and its distribution and use in connection with the sale of the Bonds has been authorized by the Board.

This Official Statement contains specific information relating to the Bonds including their general description, certain matters affecting the financing, certain legal matters, historical financial information and other information pertinent to this issue. This Official Statement should be read in its entirety.

All financial and other information presented herein has been provided by the Board from its records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information and, but only to the extent specifically provided herein, certain projections into the immediate future, and is not necessarily indicative of future or continuing trends in the financial position of the Board.

DESCRIPTION OF THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds themselves for the complete text thereof, and the discussion herein is qualified in its entirety by such reference.

Terms and Interest Payment Dates

The Bonds shall be dated the date of delivery and shall mature on May 15 in each of the years and in the amounts set forth on the front cover page hereof. The Bonds shall bear interest from the date of delivery, which interest shall be payable semi-annually on the fifteenth day of May and November, commencing on November 15, 2014 (each an "Interest Payment Date"), in each of the years and at the interest rates set forth on the front cover page hereof in each year until maturity by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each May 1 and November 1 immediately preceding the respective Interest Payment Dates (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Bonds. *See* "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Redemption

The Bonds are not subject to redemption.

Security for the Bonds

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable property within the School District without limitation as to rate or amount.

New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 et seq.)

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

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

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

The Act further provides that the amount of any payment of interest or purchase price of school bonds paid pursuant to the Act shall be deducted from the appropriation or apportionment of State aid, other than certain State aid which may be otherwise restricted pursuant to law, payable to the district, county or municipality and shall not obligate the State to make, nor entitle the district, county or municipality to receive any additional appropriation or apportionment. Any amount so deducted shall be applied by the State Treasurer to satisfy the obligation of the district, county or municipality arising as a result of the payment of interest or purchase price of bonds pursuant to the Act.

Authorization and Purpose

The Bonds have been authorized and are being issued pursuant to Title 18A, Chapter 24 of the New Jersey Statutes (N.J.S.A. 18A:24-1 et seq.), a proposal adopted by the Board on January 29, 2014 and approved by a majority of the legal voters present and voting at the school district election held on March 11, 2014 and by a resolution duly adopted by the Board on April 30, 2014 (the “Resolution”).

The purpose of the Bonds is to provide funds for various improvements and renovations to the Ocean City Primary School, including the acquisition and installation of equipment and any necessary site work. The total cost of the project is \$5,998,198 and is expected to be funded, in part, by grants from the State of New Jersey in the amount of \$2,399,279; funds allocated from the Board of Education’s capital reserve account in the amount of \$1,101,497 and through the issuance of bonds of the School District in the principal amount of \$2,497,000. The remaining \$422 will be made available by other funds available to the School District. The Board has also authorized to transfer local share funds between the school facilities projects.

BOOK-ENTRY-ONLY SYSTEM¹

The following description 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 defined below, confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners, is based on certain information furnished by DTC to the Board. Accordingly, the Board does not make any representations concerning these matters.

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York

¹ Source: The Depository Trust Company

Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has 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 each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct Participants’ and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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 Participants or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to 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 Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to

whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and 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 in 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 Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

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

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

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

Discontinuance of Book-Entry-Only System

In the event that the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Board/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 Board/ Paying Agent together with the duly executed assignment in form satisfactory to the Board/ Paying Agent; and (iii) for every exchange or registration of transfer of Bonds, the Board/ 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 Date, whether or not a business day, next preceding an Interest Payment Date.

THE SCHOOL DISTRICT AND THE BOARD

The Board consists of nine members from the City elected to three-year terms and three members from Upper Township, a high school sending district, appointed by the Township of Upper Board of Education for a period of one year ("Upper Township Members"). The Upper Township Members are limited to voting on issues concerning only the high school and central administration. The purpose of the School District is to educate students in grades kindergarten through twelve. The School District receives high school students on a tuition basis from Upper Township, Sea Isle City and Corbin City. The superintendent of the School District is appointed by the Board and is responsible for the administrative control of the School District.

The School District is a Type II school district and provides a full range of educational services appropriate to kindergarten (K) through grade twelve (12), including regular and special education programs. The high school students attend Ocean City High School. The School District is coterminous with the boundaries of the City of Ocean City (the "City"), in the County of Cape May.

THE STATE'S ROLE IN PUBLIC EDUCATION

The constitution of the State of New Jersey provides that the legislature of the State shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all children in the State between the ages of 5 and 18 years. Case law has expanded the responsibility to include children between the ages of 3 and 21.

The responsibilities of the State with respect to the general supervision and control of public education have been delegated to the New Jersey Department of Education (the "Department"), which is a part of the executive branch of the State government and was created by the State Legislature. The Department is governed and guided by the policies set forth by the New Jersey Board of Education (the "State Board"). The State Board is responsible for the general supervision and control of public education and is obligated to formulate plans and to make recommendations for the unified, continuous and efficient development of public education of all people of all ages within the State. To fulfill these responsibilities, the State Board has the power, *inter alia*, to adopt rules and regulations that have the effect of law and that are binding upon school districts.

The Commissioner of Education (the "Commissioner") is the chief executive and administrative officer of the Department. The Commissioner is appointed by the Governor of the State with the advice and consent of the State Senate, and serves at the pleasure of the Governor during the Governor's term of office. The Commissioner is Secretary and Chief Executive Officer of the State Board and is responsible for the supervision of all school districts in the State and is obligated to enforce the rules and regulations of the State Board. The Commissioner has the authority to recommend the withholding of State financial aid and the Commissioner's consent is required for authorization to sell school bonds that exceed the debt limit of the municipality in which the school district is located and may also set the amount to be raised by taxation for a board of education if a school budget has not been adopted by a board of school estimate or by the voters.

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

STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY

Categories of School Districts

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

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

(2) Type II, in which the registered voters in a school district elect the members of a board of education and either (a) the registered voters also vote upon all fiscal matters, or (b) a board of school estimate, consisting of two (2) members of the governing body of and the CEO of each municipality within the district and the president of and one member of the board of education, approves all fiscal matters;

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

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

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

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

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

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

In a Type I school district, a separate body from the school district, known as the board of school estimate, examines the budget requests and fixes the appropriation amounts for the next year's operating budget at or after a public hearing. This board, whose composition is fixed by statute, certifies the budget to the municipal governing body or board of education. If the board of education disagrees with the

certified budget of the board of school estimate, then it can appeal to the Commissioner to request changes.

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

The New Budget Election Law (P.L. 2011, c. 202, effective January 17, 2012) establishes procedures that allow the date of the annual school election of a Type II district, without a board of school estimate, to be moved from April to the first Tuesday after the first Monday in November, to be held simultaneously with the general election. Such change in the annual school election date must be authorized by resolution of either the Board or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters, is filed with the Board. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four years.

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

SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT

Levy and Collection of Taxes

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

Budgets and Appropriations

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

Tax and Spending Limitations

The Public School Education Act of 1975, N.J.S.A. 18A:7A-1 et seq., P.L. 1975, c. 212 (amended and partially repealed) first limited the amount of funds that could be raised by a local school district. It limited the annual increase of any school district's net current expense budget. The budgetary limitation

was known as a “CAP” on expenditures. The “CAP” was intended to control the growth in local property taxes. Subsequently there have been numerous legislative changes as to how the spending limitations would be applied.

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

The Comprehensive Educational Improvement and Financing Act of 1996, N.J.S.A. 18A:7F-1 et seq., P.L. 1996, c. 138 (“CEIFA”), (as amended by P.L. 2004, c.73, effective July 1, 2004), which followed QEA, also limited the annual increase in a school district's net budget by a spending growth limitation. CEIFA limited the amount school districts could increase their annual current expenses and capital outlay budgets, defined as a school district's Spending Growth Limitation. Generally, budgets could increase by either a set percent or the consumer price index, whichever was greater. Amendments to CEIFA lowered the budget cap to 2.5% from 3%. Budgets could also increase because of certain adjustments for enrollment increases, certain capital outlay expenditures, pupil transportation costs, and special education costs that exceeded \$40,000 per pupil. Waivers were available from the Commissioner based on increasing enrollments and other fairly narrow grounds and increases higher than the cap could be approved by a vote of 60% at the annual school election.

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

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

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

The previous legislation has now been amended by P.L. 2010, c. 44, approved July 13, 2010 and applicable to the next local budget year following enactment. The new law will limit the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election. The process for obtaining waivers from the Commissioner for additional increases over the tax levy or spending limitations has been eliminated under Chapter 44.

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

Issuance of Debt

Among the provisions for the issuance of school debt are the following requirements: (i) bonds must mature in serial installments within the statutory period of usefulness of the projects being financed but not exceeding forty (40) years; (ii) bonds shall be issued pursuant to an ordinance adopted by the governing body of the municipality comprised within the school district for a Type I school District; (iii) for Type II school districts (without boards of estimate) by board of education resolution approving the bond proposal and by approval of the legally qualified voters of the school district; (iv) debt must be authorized by a resolution of a board (and approved by a board of school estimate in a Type I school district); and (v) there must be filed with the State by each municipality comprising a school district a Supplemental Debt Statement and a school debt statement setting forth the amount of bonds and notes authorized but unissued and outstanding for such school district.

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

Every board is required to provide an annual audit of the school district's accounts and financial transactions. Beginning with the year ended June 30, 2010, a licensed public school accountant must complete the annual audit no later than five months (5) after the end of the fiscal year. P.L. 2010, c. 49 amended N.J.S.A. 18A:23-1 to provide an additional month for the completion of a school district's audit. Previously the audit was required to be completed within four months. The audit, in conformity with statutory requirements, must be filed with the board of education and the Commissioner. Additionally, the audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days following receipt of the annual audit by such board of education.

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

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

Exceptions to Debt Limitation

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

Capital Lease Financing

School districts are permitted to enter into lease purchase agreements for the acquisition of equipment or for the improvement of school buildings. Generally, lease purchase agreements cannot exceed five years except for certain energy-saving equipment which may be leased for up to fifteen (15) years if paid from energy savings. Lease purchase agreements for a term of five (5) years or less must be

approved by the Commissioner. The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 ("EFCFA"), repealed the authorization to enter into facilities leases in excess of five years. The payment of rent on an equipment lease and on a five year and under facilities lease is treated as a current expense and within the school district's Spending Growth Limitation and tax levy cap. Lease purchase payments on leases in excess of five years entered into under prior law (CEIFA) are treated as debt service payments and, therefore, will receive debt service aid if the school district is entitled and are outside the school district's Spending Growth Limitation and tax levy cap.

Energy Saving Obligations

Under P.L. 2009, c. 4, approved January 21, 2009 and effective 60 days thereafter, districts may issue energy savings obligations without voter approval to fund certain improvements that result in reduced energy use, facilities for production of renewable energy or water conservation improvements provided that the value of the savings will cover the cost of the measures.

SUMMARY OF STATE AID TO SCHOOL DISTRICTS

In 1973, the Supreme Court of the State of New Jersey (the "Court") first ruled in Robinson v. Cahill that the method then used to finance public education principally through property taxation was unconstitutional. Pursuant to the Court's ruling, the State Legislature enacted the Public School Education Act of 1975, N.J.S.A. 18A:7A-1 et seq., (P.L. 1975, c. 212) (the "Public School Education Act") (since amended and partially repealed), which required funding of the State's school aid through the New Jersey Gross Income Tax Act, P. L. 1976, c. 47, since amended and supplemented, enacted for the purpose of providing property tax relief.

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

Since that time there has been much litigation and many cases affecting the State's responsibilities to fund public education and many legislative attempts to distribute State aid in accordance with the court cases and the constitutional requirement. The cases addressed not only current operating fund aid but also addressed the requirement to provide facilities aid as well. The legislation has included the QEA (now repealed), CEIFA and EFCFA, which became law on July 18, 2000. For many years aid was simply determined in the State Budget, which itself is an act of the legislature, based upon amounts provided in prior years. The most current school funding formula, provided in the School Funding Reform Act of 2008, P.L. 2007, c. 260 approved January 1, 2008 (A500), removed the special status given to certain districts known as Abbott Districts after the school funding cases and instead has funding follow students with certain needs and provides aid in a way that takes into account the ability of the local district to raise local funds to support the budget in amounts deemed adequate to provide for a thorough and efficient education as required by the State constitution. This legislation was challenged in the Court, and the Court held that the State's current plan for school aid is a "constitutionally adequate scheme".

Notwithstanding over 35 years of litigation, the State provides State aid to school districts of the State in amounts provided in the State Budget each year. These now include equalization aid, educational adequacy aid, special education categorical aid, transportation aid, preschool education aid, school choice aid, security aid, adjustment aid and other aid determined in the discretion of the Commissioner.

State law requires that the State will provide aid for the construction of school facilities (Facilities Aid) in an amount equal to the greater of the district aid percentage or 40% times the eligible costs determined by the Commissioner of Education either in the form of a grant or debt service aid as

determined under the Education Facilities Construction and Financing Act of 2001. The amount of the aid to which a district is entitled is established prior to the authorization of the project. Grant funding is provided by the State up front and debt service aid must be appropriated annually by the State.

The State reduced debt service aid by fifteen percent (15%) for the fiscal years 2011 through 2014 and has proposed the same reduction for 2015. As a result of the debt service aid reduction, for those fiscal years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, school districts which received grants under the EFCFA, which grants were financed through the New Jersey Economic Development Authority (the "EDA"), were assessed an amount in their fiscal year 2011, 2012, 2013 and 2014 budgets representing 15% of the school district's proportionate share of the fiscal principal and interest payments on the outstanding EDA bonds issued to fund such grants.

SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS

Federal funds are available for certain programs approved by the Federal government with allocation decided by the State, which assigns a proportion to each local school district. The Elementary and Secondary Education Act, as amended and restated by the No Child Left Behind Act of 2001, 20 U.S.C.A. § 6301 et seq., is a Federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is available under Chapter 1 Aid. Such Federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

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

The authorized bonded indebtedness of the City for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3-1/2% of its average equalized valuation basis. The City has not exceeded its statutory debt limit.

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

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

The City may sell short-term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. A local unit’s bond anticipation notes must mature within one year, but may be renewed or rolled over. Bond anticipation notes, including renewals, must mature and be paid no later than the first day of the fifth month following the close of the tenth fiscal year next following the date of the original notes. For bond ordinances adopted on or after February 3, 2003, notes may only be renewed beyond the third anniversary date of the original notes if a minimum payment equal to the first year’s required principal payment on the bonds is paid to retire a portion of the notes on or before each subsequent anniversary date from funds other than the proceeds of bonds or notes. For bond ordinances adopted prior to February 3, 2003, the governing body may elect to make such minimum principal payment only when the notes are renewed beyond the third and fourth anniversary dates.

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. The City, which operates on a calendar year (January 1 to December 31), 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 among others, for certification.

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 any anticipated revenue in the budget 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 the last day of that fiscal 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 the 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, revaluation programs, revision and codification of ordinances, master plan preparations, and drainage map preparation for flood control purposes which may be amortized over five years. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

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

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

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

Neither the tax levy limitation nor the "Cap Law" limits, including the provisions of the recent legislation, would limit the obligation of the City to levy *ad valorem* taxes upon all taxable real property within the City to pay debt service on its bonds or notes.

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing six years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may

contemplate over the next six years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget if the terms were detailed.

Tax Assessment and Collection Procedure

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income, where appropriate. Current assessments are the results of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners, but it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

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

Tax bills are mailed annually in June by the City's Tax Collector. The taxes are due August 1 and November 1, respectively, and are adjusted to reflect the current calendar year's total tax liability. The preliminary taxes due February 1 and May 1 of the succeeding year are based upon one-half of the current year's total tax.

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum on the first \$1,500.00 of the delinquency and 18% per annum on any amount in excess of \$1,500.00. These interest and penalties are the highest permitted under New Jersey statutes. If a delinquency is in excess of \$10,000.00 and remains in arrears after December 31st, an additional penalty of 6% shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

Tax Appeals

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

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

This law regulates the non-budgetary financial activities of local governments. The Chief Financial Officer of every local unit must file annually, with the Director, a verified statement of the financial condition of the local unit and all constituent boards, agencies or commissions.

An independent examination of each local unit accounts must be performed annually by a licensed registered municipal accountant. The audit, conforming to the Division of Local Government Services' "Requirements of Audit", includes recommendations for improvement of the local unit's

financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its submission.

FINANCIAL STATEMENTS

The financial statements of the Board for the year ended June 30, 2013 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Ford-Scott & Associates, L.L.C., Ocean City, New Jersey, an independent auditor (the "Auditor"), as stated in the reports appearing in Appendix B to this Official Statement. See "APPENDIX B – The Board of Education of the City of Ocean City Financial Statements".

LITIGATION

To the knowledge of the Board Attorney, Michael P. Stanton, Esq., Ocean City, New Jersey (the "Board Attorney"), there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Board or the School District or the title of any of the present officers. To the knowledge of the Board Attorney, no litigation is presently pending or threatened that, in the opinion of the Board Attorney, would have a material adverse impact on the financial condition of the Board if adversely decided. A certificate to such effect will be executed by the Board Attorney and delivered to the purchaser of the Bonds at the closing.

TAX MATTERS

Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") provides that interest on the Bonds is not included in gross income for federal income tax purposes if various requirements set forth in the Code are met. The Board has covenanted in its Arbitrate and Tax Certificate (the "Tax Certificate"), delivered in connection with the issuance of the Bonds, to comply with these continuing requirements and has made certain representations, certifications of fact, and statements of reasonable expectation in connection with the issuance of the Bonds to assure this exclusion. Pursuant to Section 103(a) of the Code, failure to comply with these requirements could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

In the opinion of McManimon, Scotland & Baumann, LLC ("Bond Counsel"), pursuant to Section 103(a) of Code, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. Bond Counsel is also of the opinion that interest on the Bonds held by corporate taxpayers is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. Bond Counsel's opinions described herein are given in reliance on the representations, certifications of fact, and statements of reasonable expectation made by the Board in its Tax Certificate, assume continuing compliance by the Board with certain covenants set forth in its Tax Certificate, and are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

Certain Federal Tax Consequences Relating to the Bonds

Although, pursuant to Section 103(a) of the Code, interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Bonds,

particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions and certain recipients of Social Security benefits, are advised to consult their own tax advisors as to the tax consequences of purchasing or holding the Bonds.

Bank Qualification

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

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

New Jersey Gross Income

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

Future Events

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the Federal or state level, may adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, or the exclusion of interest on and any gain realized on the sale of the Bonds under the existing New Jersey Gross Income Tax Act, and any such legislation, administrative action or court decisions and even proposals for change could adversely affect the market price or marketability of the Bonds.

ALL POTENTIAL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY CHANGES IN THE STATUTES, PROPOSED FEDERAL OR NEW JERSEY STATE TAX LEGISLATION, ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, COURT DECISIONS OR PROPOSALS FOR CHANGE ON THE TAX AND MARKET IMPLICATIONS OF OWNERSHIP OF THE BONDS.

MUNICIPAL BANKRUPTCY

The undertakings of the Board should be considered with reference to 11 U.S.C. 401, et seq., as amended and supplemented (the "Bankruptcy Code"), and other bankruptcy laws affecting creditors' rights and municipalities in general. The Bankruptcy Code permits the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants certain priority to debt owed for services or material; and provides that the plan must be accepted in writing by or on behalf of classes of creditors holding at least two-thirds in amount and more than one half in number of the allowed claims of such class. The Bankruptcy Code specifically does not limit or impair the power of a state to control, by

legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Code.

The Bankruptcy Code provides that special revenue acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by such debtor before the commencement of such bankruptcy case. However, any such lien, other than municipal betterment assessments, shall be subject to the necessary operating expenses of such project or system. Furthermore, the Bankruptcy Code provides that a transfer of property of a debtor to or for the benefit of any holder of a bond or note, on account of such bond or note, may not be avoided pursuant to certain preferential transfer provisions set forth in such Bankruptcy Code.

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

Reference to the Bankruptcy Code or the State statute should not create any implication that the Board expects to utilize the benefits of their provisions.

APPROVAL OF LEGAL PROCEEDINGS

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

PREPARATION OF OFFICIAL STATEMENT

The Board hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects, and it will confirm same to the Underwriter by certificates signed by the Board President and Business Administrator/Board Secretary.

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

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

UNDERWRITING

The Bonds have been purchased from the Board at a public sale by Robert W. Baird & Co., Milwaukee, Wisconsin (the "Underwriter") at a price of \$2,497,582.89, which includes a par amount of the bonds in the amount of \$2,497,000.00, and a premium in the amount of \$582.89. The Underwriter has purchased the Bonds in accordance with the Notice of Sale. The Bonds are being offered for sale at the yields or prices set forth on the front cover page of this Official Statement.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers

depositing bonds into investment trusts) at yields higher than the public offering yields set forth on the cover page, and such public offering yields may be changed, from time to time, by the Underwriter without prior notice.

RATING

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (the "Rating Agency") has assigned an underlying rating of "AA-" to the Bonds based upon the underlying credit of the School District.

The rating reflects only the view of the Rating Agency and an explanation of the significance of such rating may only be obtained from the Rating Agency. The Board furnished to the Rating Agency certain information and materials concerning the Bonds and the Board. There can be no assurance that the rating will continue for any given period of time or that the ratings will not be revised downward entirely by the Rating Agency if, in their judgment, circumstances so warrant. Any downward change in or withdrawal of such rating may have an adverse effect on the marketability or market price of the Bonds.

FINANCIAL ADVISOR

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

SECONDARY MARKET DISCLOSURE

Solely for purposes of complying with Rule 15c2-12 of the Securities and Exchange Commission, as amended and interpreted from time to time (the "Rule"), and provided that the Bonds are not exempt from the Rule and provided that the Bonds are not exempt from the following requirements in accordance with paragraph (d) of the Rule, for so long as the Bonds remain outstanding (unless the Bonds have been wholly defeased), the Board shall provide for the benefit of the holders of the Bonds and the beneficial owners thereof:

(a) On or prior to February 1 of each year, beginning February 1, 2015, electronically to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system or such other repository designated by the SEC to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the Board of Education consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the Board of Education and certain financial information and operating data consisting of (1) Board of Education and overlapping indebtedness including a schedule of outstanding debt issued by the Board of Education; (2) the Board of Education's most current adopted budget; (3) property valuation information; and (4) tax rate, levy and collection data. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

(b) if any of the following material events occur regarding the Bonds, a timely notice not in excess of ten business days after the occurrence of the event sent to EMMA:

- (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 other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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.

For the purposes of the event identified in subparagraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person 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 obligated person, 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 obligated person.

(c) Notice of failure of the Board to provide required annual financial information on or before the date specified in the Resolution shall be sent in a timely manner to EMMA.

(d) If all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Resolution, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

(e) The Business Administrator/Board Secretary shall determine, in consultation with Bond Counsel, the application of the Rule or the exemption from the Rule for each issue of obligations of the Board prior to their offering. Such officer is hereby authorized to enter into additional written contracts or undertakings to implement the Rule and is further authorized to amend such contracts or undertakings or the undertakings set forth in the Resolution, provided such amendment is, in the opinion of nationally recognized bond counsel, in compliance with the Rule.

(f) In the event that the Board fails to comply with the Rule requirements or the written contracts or undertakings specified in the Resolution, the Board shall not be liable for monetary damages,

remedy being hereby specifically limited to specific performance of the Rule requirements or the written contracts or undertakings therefor.

The Board previously failed to file its annual audited financial information in accordance with SEC Rule 15c2-12 for year-end financials for fiscal years ending June 30, 2009, 2010, 2011 and 2012 in a timely manner under their current filing requirements. The Board also previously failed to provide its most current adopted budget in a timely manner in accordance with SEC Rule 15c2-12 for fiscal years ending June 2010, 2011, 2012, 2013, and 2014. The Board has completed all required filing under the Rule, as shown in the table below.

Bond Issue <u>Dated Date</u>	Filing Deadline <u>(Following End of Fiscal Year)</u>	2009 <u>CAFR</u>	2010 <u>CAFR</u>	2011 <u>CAFR</u>	2012 <u>CAFR</u>	2013 <u>CAFR</u>
9/29/05	180 days	1/5/10	3/18/11	4/30/12	3/28/13	12/17/13
2/24/10	February 1	N/A	3/30/11	3/28/13	3/28/13	12/31/13

The Board is now in compliance with all prior continuing disclosure agreements in all material respects and has implemented procedures to file in a timely manner in the future.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Pasquale Yacovelli, Business Administrator/Board Secretary, at 501 Atlantic Avenue, Suite 1, Ocean City, NJ 08226, (609) 399-4161 or the Financial Advisor, Phoenix Advisors, LLC at 4 West Park Street, Bordentown, New Jersey 08505, (609) 291-0130.

CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT

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

MISCELLANEOUS

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

THE BOARD OF EDUCATION OF THE CITY OF OCEAN CITY IN THE COUNTY OF CAPE MAY, NEW JERSEY

By: /s/ Pasquale Yacovelli
Pasquale Yacovelli, Business Administrator/Board Secretary

Date: May 15, 2014

APPENDIX A

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE SCHOOL DISTRICT AND THE CITY OF OCEAN CITY

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INFORMATION REGARDING THE SCHOOL DISTRICT¹

Type

The School District is a Type II school district that is coterminous with the borders of the City of Ocean City (the “Board”). The School District provides a full range of educational services appropriate to kindergarten (K) through grade twelve (12). The School District receives high school students on a tuition basis from Upper Township, Sea Isle City and Corbin City.

The Board is composed of nine (9) members and three (3) members from Upper Township, a high school sending district, appointed by the Township of Upper Board of Education for a period of one year (“Upper Township Members”). Each Board member is elected by the legally qualified voters in the School District to terms of three (3) years on a staggered basis. The President and Vice President are chosen for one (1) year terms from among the members of the Board. The Upper Township Members are limited to voting on issues concerning only the high school.

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

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

Description of Facilities

The Board presently operates the following school facilities:

<u>Facility</u>	<u>Grade Level</u>	<u>Student Enrollment (As of 6/30/13)</u>
Ocean City Primary School	K-3	394
Ocean City Intermediate School	4-8	477
Ocean City High School	9-12	1,228

Source: Comprehensive Annual Financial Report of the School District

¹ Source: The Board, unless otherwise indicated.

Staff

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Teaching Professionals	183	194	242	252	247
Support Staff	<u>113</u>	<u>127</u>	<u>93</u>	<u>97</u>	<u>95</u>
Total Full & Part Time Employees	<u>296</u>	<u>321</u>	<u>335</u>	<u>349</u>	<u>342</u>

Source: Comprehensive Annual Financial Report of the School District

Pupil Enrollments

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

Pupil Enrollments	
<u>School Year</u>	<u>Enrollment</u>
2013-2014	2,089
2012-2013	2,089
2011-2012	2,034
2010-2011	2,049
2009-2010	2,102

Projected Future Enrollments	
<u>School Year</u>	<u>Enrollment</u>
2014-2015	2095

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

Labor Relations

Labor Contract <u>Representing</u>	Date of Contract <u>Expiration</u>
Education Association	6/30/2014
Administrators	6/30/2015
Support Staff	6/30/2015

Source: School District

Pensions

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

Fiscal 2013-14 Budget

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

The General Fund budget is the sum of all state aid (exclusive of pension aid and social security aid) and the local tax levy (exclusive of debt service). The Board's General Fund Budget for the 2013-2014 fiscal year is \$37,544,287. The major sources of revenue are \$21,640,721 from the local tax levy and \$3,351,869 from state aid.

Source: Annual User-Friendly Budget of the School District

Budget History

As noted, prior to the Board's budget for its 2012-2013 fiscal year, the Board was required to submit its budget for voter approval. The results of the last five budget elections of the Board are as follows:

<u>Budget Year</u>	<u>Amount Raised in Taxes</u>	<u>Budget Amount</u>	<u>Election Result</u>
2013-2014	\$21,640,721	\$38,744,359	N/A
2012-2013	21,640,721	38,711,113	N/A
2011-2012	21,640,721	37,942,194	Approved
2010-2011	21,289,923	37,301,808	Approved
2009-2010	20,471,080	38,650,129	Approved

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

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Financial Operations

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2009 through June 30, 2013 for the general fund. This summary should be used in conjunction with the tables from which it is derived (see Appendix B). Beginning with the 1993-94 fiscal year, school districts in the State of New Jersey have begun to prepare their financial statements in accordance with Generally Accepted Accounting Principles in the United States.

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
REVENUES					
Local Sources:					
Local Tax Levy	\$21,640,721	\$21,640,721	\$21,289,923	\$20,471,080	\$19,663,731
Other Local Revenue	<u>13,039,534</u>	<u>13,736,291</u>	<u>14,208,954</u>	<u>14,938,123</u>	<u>15,189,926</u>
Total revenues-local sources	34,680,255	35,377,012	35,498,877	35,409,203	34,853,657
State Sources	5,999,078	4,484,558	3,349,730	4,515,857	4,666,695
Federal Sources	<u>34,215</u>	<u>97,529</u>	<u>18,707</u>	<u>21,124</u>	<u>0</u>
Total Revenues	\$40,713,548	\$39,959,100	\$38,867,314	\$39,946,183	\$39,520,351
EXPENDITURES					
General Fund, Special Revenue and Capital Projects Funds:					
Instruction	\$18,428,827	\$17,861,474	\$18,069,326	\$19,179,054	\$19,629,524
Undistributed Expenditures	20,776,399	19,009,428	18,891,114	19,677,372	19,986,502
Capital Outlay	<u>480,290</u>	<u>241,444</u>	<u>173,376</u>	<u>46,417</u>	<u>266,210</u>
Total Expenditures	\$39,685,516	\$37,112,347	\$37,133,816	\$38,902,843	\$39,882,235
Excess (Deficiency) of Revenues					
Over/(Under) Expenditures	1,028,032	2,846,752	1,733,498	1,043,340	(142,085)
Other Financing Sources (Uses):					
Proceeds of Capital Lease	0	0	0	0	0
Transfers in	0	0	0	18,063	0
Transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(18,063)</u>	<u>(1,643,837)</u>	<u>(24,565)</u>
Total other financing sources (uses)	(50,000)	(50,000)	(18,063)	(1,625,774)	(24,565)
Net Change in Fund Balance	978,032	2,796,752	1,715,435	(582,434)	(166,650)
Fund Balance, July 1	9,619,798	6,823,046	5,107,610	5,690,044	5,856,694
Fund Balance, June 30	<u>\$10,597,830</u>	<u>\$9,619,798</u>	<u>\$6,823,046</u>	<u>\$5,107,610</u>	<u>\$5,690,044</u>

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

Capital Leases

As of June 30, 2013, the Board has no capital lease(s) outstanding.

Source: Comprehensive Annual Financial Report of the School District

Operating Leases

As of June 30, 2013, the Board has operating leases outstanding with payments due through year ending June 30, 2016, totaling \$215,567.45.

Source: Comprehensive Annual Financial Report of the School District

Short Term Debt

As of June 30, 2013, the Board has no short term debt outstanding.

Source: Comprehensive Annual Financial Report of the School District

Long Term Debt

The following table outlines the outstanding long term debt of the Board as of June 30, 2013.

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$1,805,000	\$836,063	\$2,641,063
2015	1,895,000	756,013	2,651,013
2016	1,985,000	671,413	2,656,413
2017	2,080,000	581,969	2,661,969
2018	2,180,000	486,915	2,666,915
2019	2,285,000	386,565	2,671,565
2020	2,419,000	279,590	2,698,590
2021	2,140,000	171,905	2,311,905
2022	<u>2,105,000</u>	<u>86,305</u>	<u>2,191,305</u>
TOTALS	<u>\$18,894,000</u>	<u>\$4,256,736</u>	<u>\$23,150,736</u>

Source: Comprehensive Annual Financial Report of the School District

Debt Limit of the Board

The debt limitation of the Board is established by the statute (N.J.S.A. 18A:24-19). The Board is permitted to incur debt up to 4% of the average equalized valuation for the past three years. (See “SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT- Exceptions to Debt Limitation”). The following is a summation of the Board’s debt limitations as of June 30, 2013:

Average Equalized Real Property Valuation (2011, 2012, and 2013)	\$11,770,538,775
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School District Debt Analysis

Permitted Debt Limitation (4% of AEVP)	\$470,821,551
Less: Bonds and Notes Authorized and Outstanding	<u>18,894,000</u>
Remaining Limitation of Indebtedness	\$451,927,551
Percentage of Net School Debt to Average Equalized Valuation	0.16%

Source: Comprehensive Annual Financial Report of the School District

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INFORMATION REGARDING THE CITY²

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

General Information

The City is an island situated on the northern tip of the County. It is bordered by the Atlantic Ocean on the southeast, Great Egg Harbor Bay on the northwest, Great Egg Harbor Inlet on the northeast and Corson’s Inlet on the southwest. The City is eight (8) miles long and three-quarters ($\frac{3}{4}$) of a mile wide at its widest point.

The local economy consists primarily of tourism related businesses along with retail, and service sector establishments. The diversity of the local economy provides for a relatively low unemployment rate and has been consistently lower than those in the rest of Cape May County and that of many communities throughout South Jersey.

The major attraction for the City is, of course, the beach with eight miles of sand manicured each summer day, stretching from Great Egg Inlet on the northerly border to Corson's Inlet State Park. Along a portion of the beach is the two and one-half ($2\frac{1}{2}$) mile long boardwalk. The boardwalk provides many activities for all age levels. Some of the activities include amusement parks, movie theaters, miniature golf courses and concert and theatre events at the historic Music Pier building. There are also many food establishments and shops throughout the entire length of the boardwalk.

Form of Government

Ocean City was incorporated as a City in 1897. From 1911 until 1978, the City had a commission form of government. In 1977, following a comprehensive study of the City’s function and government, the voters opted for a change to the mayor-council form of government with an appointed administrator. On July 1, 1978, the mayor and Council members took office. Three of the Council members are elected at-large for four-year terms. The remaining four members are elected from wards. The Mayor is the chief executive of the City and supervises all departments. The Mayor appoints the City Administrator and all other department heads subject to advice and consent of Council. The Administrator’s principal duties are to assist in preparation of the annual budget and to administer the purchasing and personnel systems.

Planning and Development

There continues to be numerous changes to Ocean City's physical landscape and infrastructure. The Route 52 Causeway project, the largest bridge span project in the State of New Jersey, was completed in 2012. This \$500 million project includes a state-of-the-art

² Source: The City, unless otherwise indicated.

Welcome Center, boat ramps, fishing piers as well as a protected bikeway and pedestrian walk that will spans the entire Causeway.

The Ocean City Planning Board completed in 2012 an eighteen month Reexamination of their Master Plan. This comprehensive report recommends a series of actions and zoning changes to attract new year-round residents and improve opportunities for year-round housing, while maintaining the City's resort character.

Retirement Systems

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

Pension Information³

Employees, who are eligible to participate in a pension plan, are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost. The City's share of pension costs in 2013, which is based upon the annual billings received from the State, amounted to \$1,198,931 for PERS and \$2,805,206 for PFRS.

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

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>City</u>				
2012	9,402	8,485	917	9.8%
2011	9,270	8,420	850	9.2%
2010	9,469	8,629	840	8.9%
2009	9,413	8,656	757	8.0%
2008	9,303	8,764	539	5.8%
<u>County</u>				
2012	58,190	50,397	7,793	13.4%
2011	57,239	50,015	7,224	12.6%
2010	58,396	51,254	7,142	12.2%
2009	57,851	51,417	6,434	11.1%
2008	56,639	52,058	4,581	8.1%
<u>State</u>				
2012	4,595,500	4,159,300	436,200	9.5%
2011	4,556,200	4,131,800	424,400	9.3%
2010	4,502,400	4,076,700	425,700	9.5%
2009	4,536,700	4,118,400	418,300	9.2%
2008	4,496,700	4,251,200	245,500	5.5%

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 2010)

	<u>City</u>	<u>County</u>	<u>State</u>
Median Household Income	\$55,202	\$54,292	\$69,811
Median Family Income	79,196	69,978	84,904
Per Capita Income	40,864	33,571	34,858

Source: US Bureau of the Census 2010

Population

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

<u>Year</u>	<u>City</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	11,701	-23.91%	97,265	-4.95%	8,791,894	4.49%
2000	15,378	-0.86	102,326	7.61	8,414,350	8.85
1990	15,512	11.21	95,089	15.59	7,730,188	4.96
1980	13,949	31.91	82,266	38.14	7,365,001	2.75
1970	10,575	38.82	59,554	22.65	7,168,164	18.15

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2013 Assessed Valuation</u>	<u>% of Total Assessed</u>
Magton, Inc.	\$18,033,900	0.16%
Gilamco, Inc.	15,766,600	0.14%
Raab Family, LLC	15,759,500	0.14%
Berman H & 1200 Boardwalk	11,806,100	0.10%
Port-O-Call Associates	11,800,000	0.10%
Berman Properties, LLC.	10,345,200	0.09%
North, Warren E.	9,794,700	0.09%
Gillian Brothers, Inc.	9,634,100	0.09%
Holloway, et. al.	9,567,200	0.08%
Sports Development, Inc.	8,691,800	0.08%
Total	<u>\$121,199,100</u>	<u>1.07%</u>

Source: Comprehensive Annual Financial Report of the School District & 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>
2013U	\$95,863,853	\$94,937,907	99.03%
2012	95,770,897	93,780,435	97.92%
2011	97,104,511	95,257,230	98.10%
2010	94,558,775	93,140,423	98.50%
2009	90,988,763	89,633,296	98.51%

U: Unaudited

Source: Annual Audit Reports of the City

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2013U	\$1,748	\$800,887	802,635	0.84%
2012	1,731	1,161,734	1,163,465	1.21%
2011	1,464	1,003,281	1,004,745	1.03%
2010	1,460	1,266,836	1,268,296	1.34%
2009	1,209	1,212,687	1,213,896	1.33%

U: Unaudited

Source: Annual Audit Reports of the City

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2013U	\$262,576
2012	262,576
2011	262,576
2010	262,576
2009	262,576

U: Unaudited

Source: Annual Audit Reports of the City

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

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

<u>Year</u>	<u>Municipal</u>	<u>Local School</u>	<u>County</u>	<u>Total Taxes</u>
2013	\$0.421	\$0.215	\$0.206	\$0.842
2012	0.390	0.200	0.193	0.783
2011	0.191	0.189	0.372	0.752
2010	0.188	0.186	0.359	0.733
2009	0.18	0.177	0.349	0.706

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>
2013	\$11,312,649,400	\$11,446,574,320	98.83%	\$3,792,665	\$11,450,366,985
2012	12,167,174,000	11,632,097,514	104.60	4,615,847	11,636,713,361
2011	12,848,261,600	12,232,944,492	105.03	4,667,892	12,237,612,384
2010	12,847,576,747	12,759,535,949	100.69	5,039,299	12,764,575,248
2009	12,815,102,547	13,051,331,650	98.19	5,227,845	13,056,559,495

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

Classification of Ratables

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

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2013	\$134,356,700	\$10,627,028,800	\$0	\$504,758,500	\$733,300	\$45,772,100	\$11,312,649,400
2012	157,937,800	11,417,208,500	0	541,656,800	733,300	49,640,800	12,167,177,200
2011	191,622,200	12,053,938,400	0	549,540,300	733,300	52,427,400	12,848,261,600
2010	173,362,600	12,082,661,200	0	537,615,447	733,300	53,204,200	12,847,576,747
2009	203,206,600	12,005,892,900	0	551,146,947	733,300	54,122,800	12,815,102,547

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

Financial Operations

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

Summary of Current Fund Budget

<u>Anticipated Revenues</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Fund Balance	\$2,067,000	\$2,327,075	\$2,550,000	\$2,500,000	\$3,043,750
Miscellaneous Revenues	14,439,385	14,558,769	17,712,537	17,266,882	19,362,634
Receipts from Delinquent Taxes	850,200	950,000	950,000	950,000	950,000
Amount to be Raised by Taxes for Support of Municipal Budget	<u>44,697,831</u>	<u>46,103,105</u>	<u>47,628,392</u>	<u>47,304,943</u>	<u>47,551,565</u>
Total Revenue:	<u>\$62,054,416</u>	<u>\$63,938,949</u>	<u>\$68,840,928</u>	<u>\$68,021,825</u>	<u>\$70,907,950</u>
<u>Appropriations</u>					
General Appropriations	\$46,466,247	\$47,691,346	\$50,036,798	\$50,345,050	\$51,022,106
Operations	5,140,930	5,756,679	4,845,400	5,691,555	4,199,919
Deferred Charges and Statutory Expenditures	540,925	286,957	227,417	0	1,109,900
Judgments	0	0	0	0	0
Capital Improvement Fund	930,000	906,000	1,020,000	730,000	725,000
Municipal Debt Service	7,561,315	7,812,967	11,226,313	9,770,221	12,366,024
Reserve for Uncollected Taxes	<u>1,415,000</u>	<u>1,485,000</u>	<u>1,485,000</u>	<u>1,485,000</u>	<u>1,485,000</u>
Total Appropriations:	<u>\$62,054,416</u>	<u>\$63,938,949</u>	<u>\$68,840,928</u>	<u>\$68,021,825</u>	<u>\$70,907,950</u>

Source: Annual Adopted Budgets of the City

Fund Balance

Current Fund

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

<u>Fund Balance - Current Fund</u>		
<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2013U	\$5,811,666	N/A
2012	4,638,161	3,043,750
2011	5,032,608	2,500,000
2010	5,431,337	2,550,000
2009	5,236,486	2,327,075
2008	4,803,672	2,067,000

Source: Annual Audit Reports of the City

City Indebtedness as of December 31, 2013

General Purpose Debt

Serial Bonds	\$48,670,000
Bond Anticipation Notes	22,400,000
Bonds and Notes Authorized but Not Issued	8,227,100
Other Bonds, Notes and Loans	<u>5,063,376</u>
Total:	\$84,360,476

Local School District Debt

Serial Bonds	\$18,554,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$18,554,000

Self-Liquidating Debt

Serial Bonds	\$0
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$0

TOTAL GROSS DEBT

\$102,914,476

Less: Statutory Deductions	
General Purpose Debt	\$1,307,026
Local School District Debt	18,554,000
Self-Liquidating Debt	<u>0</u>
Total:	\$19,861,026

TOTAL NET DEBT

\$83,053,450

Source: Annual Debt Statement of the City

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Overlapping Debt (as of December 31, 2013)⁴

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>City Percentage</u>	<u>City Share</u>
Local School District	\$18,554,000	100.00%	\$18,554,000
County	176,957,999	24.43%	43,226,155
Net Indirect Debt			\$61,780,155
Net Direct Debt			<u>83,053,450</u>
Total Net Direct and Indirect Debt			<u>\$144,833,605</u>

Debt Limit

Average Equalized Valuation Basis (2011, 2012, 2013)	\$11,770,538,775
Permitted Debt Limitation (3 1/2%)	411,968,857
Less: Net Debt	<u>83,053,450</u>
Remaining Borrowing Power	<u>\$328,915,407</u>
Percentage of Net Debt to Average Equalized Valuation	0.71%
Gross Debt Per Capita based on 2010 population of 11,701	\$8,795
Net Debt Per Capita based on 2010 population of 11,701	\$7,098

Source: Annual Debt Statement of the City

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

APPENDIX B

**THE BOARD OF EDUCATION OF THE CITY OF OCEAN CITY (FINANCIAL
STATEMENTS)**

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Independent Auditor's Report

The Honorable President and
Members of the Board of Education
City of Ocean City School District
County of Cape May
Ocean City, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean City School District, State of New Jersey, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean City School District, in the County of Cape May, State of New Jersey, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ocean City School District's basic financial statements. The combining and individual non-major fund financial statements and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of state financial assistance as required by NJ OMB 04-04 and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the schedule of and the schedule of state financial assistance as required by NJ OMB 04-04 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of state financial assistance as required by NJ OMB 04-04 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013 on our consideration of the City of Ocean City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ocean City School District's internal control over financial reporting and compliance.

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

Glen J. Ortman

Glen J. Ortman
Certified Public Accountant
Licensed Public School Accountant
No. 853

November 22, 2013

REQUIRED SUPPLEMENTARY INFORMATION – PART I

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED**

The discussion and analysis of City of Ocean City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net position increased \$1,507,495, which represents an increase of approximately 5 percent from 2012.
- General revenues accounted for \$25,329,032 in revenue or 57 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$19,429,626 or 43 percent of total revenues of \$44,758,658.
- Total assets of governmental activities decreased \$701,330 as cash and cash equivalents decreased by \$1,951,559, receivables increased by \$2,803,322, and net capital assets decreased by \$1,553,093.
- The School District had \$43,251,163 in expenses; only \$19,429,626 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$25,329,032 were adequate to provide for these programs.
- Among governmental funds, the General Fund had \$40,713,548 in revenues and \$39,735,516 in expenditures. The General Fund's fund balance increased \$978,032 from 2012. This increase was anticipated by the Board of Education.

Using this Comprehensive Annual Financial Report (CAFR)

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

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

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and ask the question, "How did we do financially during 2013?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in those assets. This change in net position is important because it tells the reader that, for the school district as a whole, the financial position of the School district have improved or diminished. The causes of this change may be the result of many factors, some financial and some not. Non-financial factors include the School District's property tax base, current laws in New Jersey restricting revenue growth, facility condition, required educational programs and other factors.

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

- **Governmental Activities** - All of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.
- **Business-Type Activity** - This service is provided on a charge for goods or services basis to recover all the expenses of the goods or services provided. The Food Service enterprise fund is reported as a business activity.

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the School District's funds. The School District uses many funds to account for a multitude of financial transaction. The School District's governmental funds are the General Fund, Special Revenue Fund, Capital Projects Fund, and Debt Service Fund.

Governmental Funds

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

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

Reporting the School District's Most Significant Funds (Continued)

Enterprise Fund

The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 32 to 53 of this report.

The School District as a Whole

Recall that the Statement of Net Position provides the perspective of the School District as a whole. Net Position may serve over time as a useful indicator of a government's financial position.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table 1 provides a summary of the School District's net position for 2013 and 2012.

**Table 1
Net Position**

	<u>2013</u>	<u>2012</u>
Assets		
Current and Other Assets	\$ 11,130,104.63	\$ 10,328,874.57
Capital Assets	45,095,850.14	46,661,802.69
	<u>56,225,954.77</u>	<u>56,990,677.26</u>
Deferred Outflows of Resources		
Loss on Refunding Bonds	<u>1,186,630.21</u>	<u>1,286,450.37</u>
Liabilities		
Long-Term Liabilities	22,095,861.67	24,412,144.92
Other Liabilities	478,739.88	534,494.28
	<u>22,574,601.55</u>	<u>24,946,639.20</u>
Net Position		
Net Investment in Capital Assets	25,041,900.65	26,076,727.81
Restricted	10,372,279.92	9,333,566.60
Unrestricted	(576,197.14)	(2,079,805.98)
	<u>\$ 34,837,983.43</u>	<u>\$ 33,330,488.43</u>

The District's combined Net Position was \$34,837,983 on June 30, 2013. This was an increase of 5 percent from the prior year.

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

The School District as a Whole (Continued)

Table 2 shows changes in net position for fiscal year 2013 and 2012.

**Table 2
Changes in Net Position**

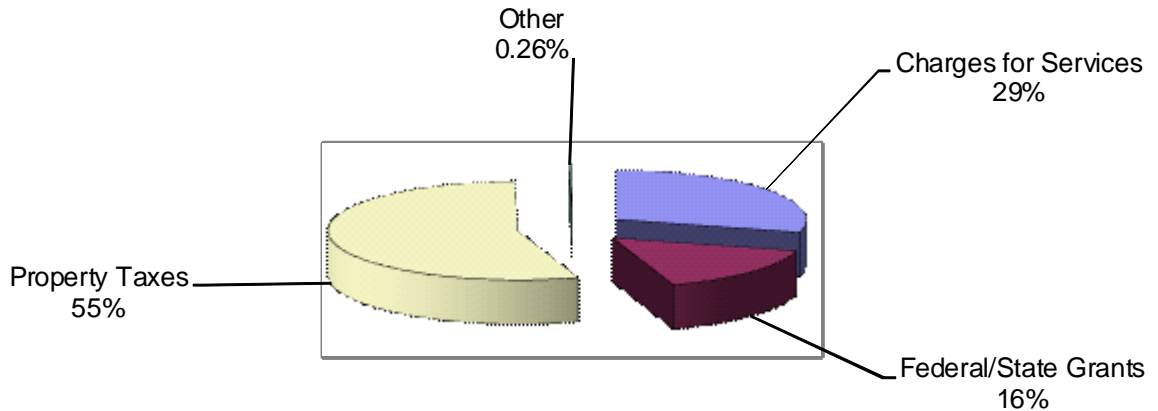
	2013	2012
Revenues		
Program Revenues:		
Charges for Services	\$ 13,253,581.14	\$ 14,013,013.98
Operating Grants and Contributions	6,176,044.77	5,286,412.20
General Revenues:		
Property Taxes	24,272,584.00	24,253,876.00
Grants and Entitlements	941,643.88	372,949.32
Other	114,804.25	134,621.85
Total Revenues	<u>44,758,658.04</u>	<u>44,060,873.35</u>
Program Expenses		
Instruction	26,762,119.96	25,337,352.98
Support Services:		
Tuition	304,527.47	356,509.50
Pupils and Instructional Staff	4,997,510.57	4,747,828.08
General and School Administration, Business		
Operations and Maintenance of Facilities	8,504,639.79	7,632,022.60
Pupil Transportation	944,320.74	867,420.55
Special Schools and Charter Schools	42,374.00	76,404.55
Interest on Debt	998,170.57	964,837.22
Food Service	697,499.94	698,153.14
Other	-	20,151.34
Total Expenses	<u>43,251,163.04</u>	<u>40,700,679.96</u>
Increase (Decrease) in Net Position	<u>\$ 1,507,495.00</u>	<u>\$ 3,360,193.39</u>

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

Governmental Activities

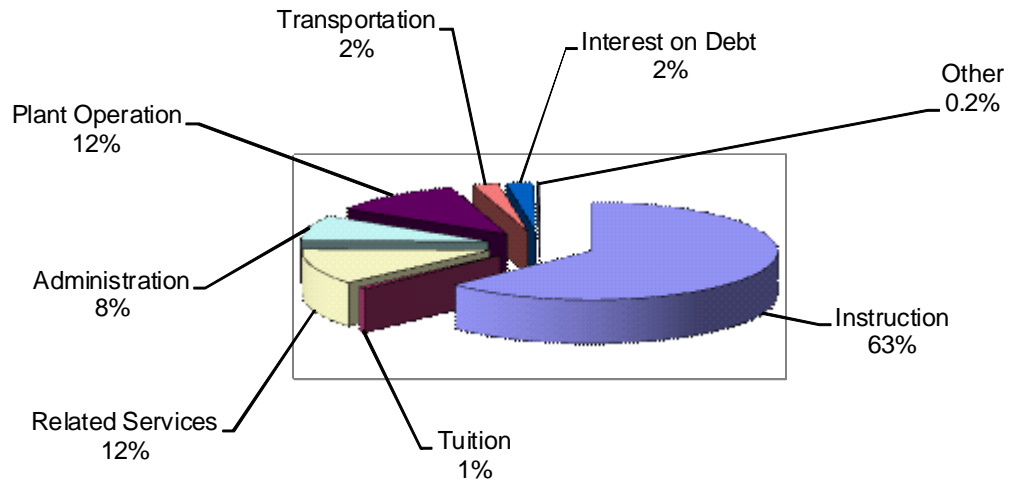
Property taxes made up 55 percent of revenues for governmental activities for the Ocean City School District for fiscal year 2013. The District's total governmental revenues were \$44,228,757 for the year ended June 30, 2013. Charges for services represents 29 percent of revenue and federal, state, and local grants accounted for another 16 percent of revenue.

Sources of Revenue 2013



The total cost of all program and services was \$42,603,663. Instruction comprises 63 percent of District expenses

Expenses for 2013



**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

Business-Type Activities

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

- Food service expenses exceeded revenues by \$115,312.
- Charges for services represent \$330,862 of revenue. This represents amounts paid by patrons for daily food service.
- Federal and state reimbursement for meals, including payments for free and reduced lunches and breakfast, and donated commodities was \$201,130.

Governmental Activities

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

	<u>Total Cost of Services 2013</u>	<u>Net Cost of Services 2013</u>	<u>Total Cost of Services 2012</u>	<u>Net Cost of Services 2012</u>
Instruction	\$ 26,762,119.96	\$ 9,232,840.75	\$ 25,337,352.98	\$ 7,873,355.08
Support Services:				
Tuition	304,527.47	304,527.47	356,509.50	356,509.50
Pupils and Instructional Staff	4,997,510.57	4,259,310.67	4,747,828.08	4,096,877.48
General Administration and				
Business Services	1,664,901.00	1,521,783.22	1,573,078.51	1,463,774.90
School Administration	1,921,996.81	1,676,515.69	1,806,159.35	1,613,185.75
Operation of Plant	4,917,741.98	4,917,741.98	4,252,784.74	4,252,784.74
Pupil Transportation	944,320.74	702,765.47	867,420.55	641,907.95
Interest and Finance Charges	998,170.57	998,170.57	964,837.22	964,837.22
Other	42,374.00	42,374.00	96,555.89	95,043.23
Total Expenses	\$ <u>42,553,663.10</u>	\$ <u>23,656,029.82</u>	\$ <u>40,002,526.82</u>	\$ <u>21,358,275.85</u>

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

Tuition is predominately made up of charges for private schools for disabled students.

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

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

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

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

Governmental Activities (Continued)

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

Interest on debt involves the transactions associated with the payment of interest and other related charges to debt of the School District.

"Other" includes special schools and unallocated depreciation.

The School District's Funds

All governmental funds (i.e., general fund, special revenue fund, capital projects fund and debt service fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. Total revenues amounted to \$44,228,757 and expenditures were \$42,282,839. The net increase in fund balance for the year was \$945,918.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds for the fiscal year ended June 30, 2013, and the amount and percentage of increases and decreases in relation to prior year revenues.

Revenue	Amount	Percent of Total	Increase (Decrease) from 2012	Percent of Increase (Decrease)
Local Sources	\$ 37,392,893.42	84.54%	\$ (684,494.58)	-1.80%
State Sources	6,027,668.36	13.63%	1,478,409.96	32.50%
Federal Sources	808,195.11	1.83%	29,409.45	3.78%
Total	<u>\$ 44,228,756.89</u>	100.00%	<u>\$ 823,324.83</u>	1.90%

The increase in State funding is due to increased categorical aid and increased on-behalf TPAF Pension Contributions. The decrease in local sources is mostly due to a decrease in tuition revenue due to adjustments back to sending districts.

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

The School District's Funds (Continued)

The following schedule represents a summary of general fund, special revenue fund, and debt service fund expenditures for the fiscal year ended June 30, 2013, and the percentage of increases and decreases in relation to prior year amounts.

Expenditures	Amount	Percent of Total	Increase (Decrease) from 2012	Percent of Increase (Decrease)
Current expense:				
Instruction	\$ 19,115,862.82	45.21%	\$ 640,538.94	3.47%
Undistributed expenditures	19,968,169.40	47.23%	769,104.97	4.01%
Capital Outlay	524,569.86	1.24%	276,128.39	111.14%
Special Schools & Charter Schools	42,374.00	0.10%	(30,110.00)	-41.54%
Debt Service:				
Principal	1,720,000.00	4.07%	90,000.00	5.52%
Interest	911,862.50	2.16%	(71,300.00)	-7.25%
Total	<u>\$ 42,282,838.58</u>	100.00%	<u>\$ 1,674,362.30</u>	4.12%

Changes in expenditures were the results of varying factors. Salary increases from contract negotiations were finalized during FY 2013 resulting in increases in instructional salaries and undistributed salaries.

General Fund Budgeting Highlights

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

Over the course of the year, the District revised the annual operating budget several times. Revisions in the budget were made to recognize revenues that were not anticipated and to prevent over-expenditures in specific line item accounts.

- The District transferred \$75,000 from unassigned fund balance to Required Maintenance of School Facilities during the year for Repairs at the High School.
- On-behalf TPAF Pension contributions appear as both a revenue and an expense in the District's financial statements. The State of New Jersey made on behalf TPAF Pension Contributions of \$1,291,667 for FY 2013 and also made on-behalf TPAF post-retirements contributions for the District in the amount of \$1,460,549.
- The State of New Jersey reimbursed the District for TPAF Social Security contributions made during the school year. The amount of \$1,439.693 is reflect as both a revenue and expenditure in the District's financial statements.
- The District expended \$198,784 less than the amount originally budgeted for Tuition to CSSD and Regional Day Schools. Transfers were made to other accounts nearing over-expenditure.
- The District expended \$1,156,616 less than the amount originally budgeted for Health Benefits. Transfers were made to other accounts nearing over-expenditure.

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

Capital Assets

At the end of the fiscal year 2013, the School District had \$45,095,850 invested in land, building, furniture and equipment, and vehicles. Table 4 shows fiscal year 2013 balances compared to 2012.

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

	<u>2013</u>	<u>2012</u>
Land	\$ 879,750.00	\$ 879,750.00
Land Improvements	226,995.79	246,004.28
Sites, Buildings and Building Improvements	43,298,903.36	44,742,214.43
Machinery and Equipment	690,200.99	793,833.98
Total	<u>\$ 45,095,850.14</u>	<u>\$ 46,661,802.69</u>

Overall capital assets decreased \$1,565,953 from fiscal year 2012 to fiscal year 2013. The decrease in capital assets is due primarily to depreciation expense.

Debt Administration

At June 30, 2013, the School District had \$22,095,861.67 of outstanding long term liabilities. Of this amount, \$2,041,912.18 is for compensated absences, and \$20,053,949.49 of serial bonds net of unamortized costs.

**Table 5
Bonded Outstanding Debt at June 30,**

	<u>2013</u>	<u>2012</u>
2005 Refunding Bonds	\$ 16,405,000.00	\$ 17,785,000.00
2010 General Obligation Bonds	2,489,000.00	2,829,000.00
Unamortized Bond Premium	1,159,949.49	1,257,525.25
Compensated Absences	2,041,912.18	2,540,619.67
Total	<u>\$ 22,095,861.67</u>	<u>\$ 24,412,144.92</u>

At June 30, 2013, the School District was within its overall legal debt margin.

**CITY OF OCEAN CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013
UNAUDITED (CONTINUED)**

For the Future

The City of Ocean City School District is in good financial condition presently. The School District is proud of its community support of the public schools.

In conclusion, the City of Ocean City School District has committed itself to financial excellence for many years. In addition, the School District's system for financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue to identify operational efficiencies which will allow it to meet the challenges of a declining student enrollment and tuition revenue base that will be realized in the future years.

Contacting the School District's Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact Business Administration/Board Secretary at Ocean City Board of Education, 501 Atlantic Avenue, Suite 1, Ocean City, NJ 08226-3891. Please visit our website at www.oceancityschools.org.

BASIC FINANCIAL STATEMENTS

DISTRICT WIDE FINANCIAL STATEMENTS

The statement of net position and the statement of activities display information about the District. These statements include the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District.

OCEAN CITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 3,651,552.95	\$ 189,060.53	\$ 3,840,613.48
Receivables, Net	7,197,193.26	34,949.87	7,232,143.13
Internal Balances	248,335.07	(248,335.07)	-
Due from Fiduciary Funds	54,094.97		54,094.97
Inventory		3,253.05	3,253.05
Capital Assets			
Land	879,750.00		879,750.00
Capital Assets being Depreciated, net	44,134,762.96	81,337.18	44,216,100.14
Total Assets	<u>56,165,689.21</u>	<u>60,265.56</u>	<u>56,225,954.77</u>
DEFERRED OUTFLOWS OF RESOURCES			
Loss on Refunding Bonds	<u>1,186,630.21</u>	<u>-</u>	<u>1,186,630.21</u>
LIABILITIES			
Accounts Payable	139,393.28	26,316.78	165,710.06
Payable to State Government	2,026.00		2,026.00
Unearned Revenue	64,611.92	25,602.99	90,214.91
Accrued Interest	220,788.91		220,788.91
Noncurrent Liabilities			
Due Within One Year	1,908,585.86		1,908,585.86
Due Beyond One Year	20,187,275.81		20,187,275.81
Total Liabilities	<u>22,522,681.78</u>	<u>51,919.77</u>	<u>22,574,601.55</u>
NET POSITION			
Net Investment in Capital Assets	24,960,563.47	81,337.18	25,041,900.65
Restricted for:			-
Capital Projects	4,250,600.06		4,250,600.06
Other Purposes	6,121,679.86		6,121,679.86
Unrestricted	(503,205.75)	(72,991.39)	(576,197.14)
Total Net Position	<u>\$ 34,829,637.64</u>	<u>\$ 8,345.79</u>	<u>\$ 34,837,983.43</u>

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

FUND FINANCIAL STATEMENTS

The individual fund financial statements present more detailed information for the individual funds in a format that segregates information by fund type.

OCEAN CITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2013

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,627,828.22	\$ -	\$ 23,431.67	\$ 293.06	\$ 3,651,552.95
Tax Levy Receivable	2,850,222.00				2,850,222.00
Due from Other Funds	4,089,406.66				4,089,406.66
Receivables from Other Governments	85,286.30	287,116.00	3,927,209.65		4,299,611.95
Other Receivables	26,766.03	20,593.28			47,359.31
Total Assets	<u>\$ 10,679,509.21</u>	<u>\$ 307,709.28</u>	<u>\$ 3,950,641.32</u>	<u>\$ 293.06</u>	<u>\$ 14,938,152.87</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 81,679.28	\$ 57,714.00	\$ -	\$ -	\$ 139,393.28
Due to Other Funds		183,357.36	3,603,619.26		3,786,976.62
Payable to State Government		2,026.00			2,026.00
Unearned Revenue		64,611.92			64,611.92
Total Liabilities	<u>81,679.28</u>	<u>307,709.28</u>	<u>3,603,619.26</u>	<u>-</u>	<u>3,993,007.82</u>
Fund Balances:					
Restricted for:					
Excess Surplus - Current Year	1,287,848.78				1,287,848.78
Excess Surplus - Prior Year - Designated for Subsequent Year's Expenditures	1,717,075.00		347,022.06	293.06	1,717,075.00
Capital Projects Fund					347,022.06
Debt Service				293.06	293.06
Committed to:					
Capital Reserve	3,903,578.00				3,903,578.00
Maintenance Reserve	738,684.00				738,684.00
Tuition Reserve	1,700,000.00				1,700,000.00
Emergency Reserve	353,000.00				353,000.00
Assigned to:					
Other Purposes	324,779.02				324,779.02
Unassigned	572,865.13				572,865.13
General Fund	<u>10,597,829.93</u>	<u>-</u>	<u>347,022.06</u>	<u>293.06</u>	<u>10,945,145.05</u>
Total Liabilities and Fund Balances	<u>\$ 10,679,509.21</u>	<u>\$ 307,709.28</u>	<u>\$ 3,950,641.32</u>	<u>\$ 293.06</u>	

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

OCEAN CITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2013

General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Amounts reported for <i>governmental activities</i> in the statement of Net Position (A-1) are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$61,811,465.80 and the accumulated depreciation is \$16,792,379.00.				45,014,512.96
Deferred Outflows of Resources - Loss on Refunding Bond Issue is not a resource in the funds and therefore not reported as a debit in the funds.				1,186,630.21
Interest on long-term debt in the statement of activities is accrued, regardless of when due.				(220,788.91)
Long-term liabilities, including bonds and capital lease payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.				(22,095,861.67)
Net Position of governmental activities				<u>\$ 34,829,637.64</u>

OCEAN CITY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Local Sources:					
Local Tax Levy	\$ 21,640,721.00	\$ -	\$ -	\$ 2,631,863.00	\$ 24,272,584.00
Tuition Charges	12,922,719.00				12,922,719.00
Interest Earned on Investments	11,898.27		80.74		11,979.01
Miscellaneous	104,916.72	80,694.69			185,611.41
Total Local Sources	34,680,254.99	80,694.69	80.74	2,631,863.00	37,392,893.42
State Sources	5,999,078.36	28,590.00	-		6,027,668.36
Federal Sources	34,214.69	773,980.42			808,195.11
Total Revenues	40,713,548.04	883,265.11	80.74	2,631,863.00	44,228,756.89
EXPENDITURES					
Current:					
Regular Instruction	14,179,593.36				14,179,593.36
Special Education Instruction	2,808,149.85	687,035.67			3,495,185.52
Other Special Instruction	1,441,083.94				1,441,083.94
Support Services:					
Tuition	304,527.47				304,527.47
Student & Instruction Related Serv.	3,427,366.87	184,144.44			3,611,511.31
General Administrative Services	730,876.96				730,876.96
School Administrative Services	1,356,087.37				1,356,087.37
Plant Operation and Maintenance	3,760,381.44				3,760,381.44
Pupil Transportation	931,832.01				931,832.01
Central Services	577,857.50				577,857.50
Unallocated Employee Benefits	9,645,095.34				9,645,095.34
Special Schools	-				-
Transfer to Charter School	42,374.00				42,374.00
Debt Service:					
Principal				1,720,000.00	1,720,000.00
Interest and Other Charges				911,862.50	911,862.50
Capital Outlay	480,289.88	12,085.00	32,194.98		524,569.86
Total Expenditures	39,685,515.99	883,265.11	32,194.98	2,631,862.50	43,232,838.58
Excess (Deficiency) of Revenues Over Expenditures	1,028,032.05	-	(32,114.24)	0.50	995,918.31
OTHER FINANCING SOURCES (USES)					
Transfer in			-	80.74	80.74
Transfer out	(50,000.00)		(80.74)		(50,080.74)
Total Other Financing Sources and Uses	(50,000.00)	-	(80.74)	80.74	(50,000.00)
Net Changes in Fund Balance	978,032.05	-	(32,194.98)	81.24	945,918.31
Fund Balance - July 1	9,619,797.88	-	379,217.04	211.82	9,999,226.74
Fund Balance - June 30	<u>\$ 10,597,829.93</u>	<u>\$ -</u>	<u>\$ 347,022.06</u>	<u>\$ 293.06</u>	<u>\$ 10,945,145.05</u>

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

OCEAN CITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2013

Total Net Change in Fund Balance - Governmental Funds (from B-2)		\$ 945,918.31
Amounts reported for governmental activities in the statement of activities (A-2) are different because:		
Capital outlays are reported in governmental funds as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current fiscal year.		
Depreciation expense	\$ (1,669,048.00)	
Loss on Disposal of Capital Assets	(2,286.92)	
Capital Outlay	<u>118,242.06</u>	(1,553,092.86)
Repayment of bond principal and capital leases are expenditures in the governmental funds, but the repayment reduces long - term liabilities in the statement of Net Position and is not reported in the statement of activities.		
Bonds	<u>1,720,000.00</u>	1,720,000.00
Governmental funds report the effect of premiums, discounts and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of the difference in the treatment of the long-term debt related items.		
Amortization of Bond Premium	97,575.76	
Amortization of Loss on Refunding Bonds	<u>(99,820.16)</u>	(2,244.40)
In the statement of activities, certain operating expenses, e.g., compensated absences (vacations and sick pay) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.		
		498,707.49
In the statement of activities, interest on long - term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is a deduction in the reconciliation.		
		13,518.33
Change in Net Position of Governmental Activities		<u><u>\$ 1,622,806.87</u></u>

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

OCEAN CITY SCHOOL DISTRICT
Proprietary Funds
Statement of Net Position
June 30, 2013

	Business-Type Activities - Enterprise Fund	
	Food Service	Totals
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 189,060.53	\$ 189,060.53
Intergovernmental Accounts Receivable	34,949.87	34,949.87
Inventories	3,253.05	3,253.05
Total Current Assets	<u>227,263.45</u>	<u>227,263.45</u>
Noncurrent Assets:		
Furniture, Machinery & Equipment	362,400.74	362,400.74
Less: Accumulated Depreciation	(281,063.56)	(281,063.56)
Total Noncurrent Assets	<u>81,337.18</u>	<u>81,337.18</u>
Total Assets	<u><u>\$ 308,600.63</u></u>	<u><u>\$ 308,600.63</u></u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 26,316.78	\$ 26,316.78
Interfund Payable	248,335.07	248,335.07
Unearned Revenue	25,602.99	25,602.99
Total Current Liabilities	<u>300,254.84</u>	<u>300,254.84</u>
Noncurrent Liabilities:		
None		-
Total Noncurrent Liabilities	<u>-</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets		
Related Debt	81,337.18	81,337.18
Unrestricted	(72,991.39)	(72,991.39)
Total Net Position	<u><u>\$ 8,345.79</u></u>	<u><u>\$ 8,345.79</u></u>

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

OCEAN CITY SCHOOL DISTRICT
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Fund	
	Food Service	Totals Enterprise
Operating Revenues:		
Charges for Services:		
Daily Sales	\$ 315,237.33	\$ 315,237.33
Special Functions	14,538.41	14,538.41
Vending Machine Commissions	86.40	86.40
Miscellaneous	1,000.00	1,000.00
Total Operating Revenue	<u>330,862.14</u>	<u>330,862.14</u>
Operating Expenses:		
Cost of Sales	167,470.41	167,470.41
Salaries and Benefits	426,646.18	426,646.18
General Supplies	46,870.93	46,870.93
Administration Fee	21,782.53	21,782.53
Management Fee	6,702.38	6,702.38
Repairs and Maintenance	12,255.82	12,255.82
Depreciation	12,859.69	12,859.69
Miscellaneous	2,912.00	2,912.00
Total Operating Expenses	<u>697,499.94</u>	<u>697,499.94</u>
Operating Income (Loss)	<u>(366,637.80)</u>	<u>(366,637.80)</u>
Nonoperating Revenues (Expenses):		
State Sources:		
State School Lunch Program	5,006.40	5,006.40
Federal Sources:		
National School Lunch Program	166,518.16	166,518.16
School Breakfast Program	6,650.24	6,650.24
Food Distribution Program	22,955.69	22,955.69
Interest and Investment Income	195.44	195.44
Total Nonoperating Revenues (Expenses)	<u>201,325.93</u>	<u>201,325.93</u>
Income (Loss) before Contributions & Transfers	<u>(165,311.87)</u>	<u>(165,311.87)</u>
Transfers In (Out)	<u>50,000.00</u>	<u>50,000.00</u>
Changes in Net Position	(115,311.87)	(115,311.87)
Total Net Position - Beginning	<u>123,657.66</u>	<u>123,657.66</u>
Total Net Position - Ending	<u>\$ 8,345.79</u>	<u>\$ 8,345.79</u>

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

OCEAN CITY SCHOOL DISTRICT
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2013

	Business-Type Activities - Enterprise Fund	
	Food Service	Totals Enterprise
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers and Other Income	\$ 361,776.93	\$ 361,776.93
Payments for Food and Supplies	(189,185.70)	(189,185.70)
Payments for Employees and Benefits	(187,820.36)	(187,820.36)
Net Cash Provided by (Used for) Operating Activities	<u>(15,229.13)</u>	<u>(15,229.13)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State Sources	4,082.54	4,082.54
Federal Sources	144,734.28	144,734.28
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>148,816.82</u>	<u>148,816.82</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest and Dividends	195.44	195.44
Net Cash Provided by (Used for) Investing Activities	<u>195.44</u>	<u>195.44</u>
Net Increase (Decrease) in Cash and Cash Equivalents	133,783.13	133,783.13
Balance - Beginning of Year	55,277.40	55,277.40
Balance - End of Year	<u>\$ 189,060.53</u>	<u>\$ 189,060.53</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	\$ (366,637.80)	\$ (366,637.80)
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by (Used for) Operating Activities:		
Depreciation and Net Amortization	12,859.69	12,859.69
Food Distribution Program	22,955.69	22,955.69
(Increase) Decrease Accounts Receivable	5,311.80	5,311.80
(Increase) Decrease in Inventories	18,175.69	18,175.69
Increase (Decrease) in Accounts Payable	26,316.78	26,316.78
Increase (Decrease) in Unearned Revenue	25,602.99	25,602.99
Increase (Decrease) in Accrued Salaries	240,186.03	240,186.03
Total Adjustments	<u>351,408.67</u>	<u>351,408.67</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ (15,229.13)</u>	<u>\$ (15,229.13)</u>

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

OCEAN CITY SCHOOL DISTRICT
Fiduciary Funds
Statement of Net Position
June 30, 2013

	<u>Unemployment Compensation</u>	<u>Private Purpose Scholarship Fund</u>	<u>Agency Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 216,955.92	\$ -	\$ 535,561.15
Investments, at Fair Value:			
Certificates of Deposit	177,265.98	93,937.88	45,656.42
Total Investments	<u>177,265.98</u>	<u>93,937.88</u>	<u>45,656.42</u>
 Total Assets	 <u>394,221.90</u>	 <u>93,937.88</u>	 <u>\$ 581,217.57</u>
 LIABILITIES			
Accounts Payable	\$ 3,754.20	\$ -	\$ -
Payable to Student Groups			240,794.36
Interfunds Payable			54,094.97
Payroll Deductions and Withholdings			286,328.24
 Total Liabilities	 <u>3,754.20</u>	 <u>-</u>	 <u>\$ 581,217.57</u>
 NET POSITION			
Held in Trust for Unemployment Claims and Other Purposes	 <u>\$ 390,467.70</u>		
 Reserved for Scholarships		 <u>\$ 93,937.88</u>	

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

OCEAN CITY SCHOOL DISTRICT
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013

	<u>Unemployment Compensation</u>	<u>Private Purpose Scholarship Fund</u>
ADDITIONS		
Contributions:		
Plan Member	\$ 11,011.07	\$ -
Other	-	121,077.16
Total Contributions	<u>11,011.07</u>	<u>121,077.16</u>
Investment Earnings:		
Interest	<u>396.98</u>	<u>165.73</u>
Total Additions	<u>11,408.05</u>	<u>121,242.89</u>
DEDUCTIONS		
Unemployment Claims	13,649.05	-
Scholarships Awarded	-	118,625.00
Total Deductions	<u>13,649.05</u>	<u>118,625.00</u>
Changes in Net Position	(2,241.00)	2,617.89
Net Position - Beginning of the Year	392,708.70	91,319.99
Net Position - End of the Year	<u><u>\$ 390,467.70</u></u>	<u><u>\$ 93,937.88</u></u>

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

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ocean City School District is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of elected officials and is responsible for the fiscal control of the District. A superintendent is appointed by the Board and is responsible for the administrative control of the District.

The financial statements of the Board of Education (Board) of the Ocean City School District (District) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In its accounting and financial reporting, the District follows the pronouncements of the Governmental Accounting Standards Board (GASB). The more significant accounting policies established in GAAP and used by the District are discussed below.

A. REPORTING ENTITY

The Ocean City School District is a Type II district located in the County of Cape May, State of New Jersey. As a Type II District, the School District functions independently through a Board of Education. The board is comprised of nine members elected to three-year terms. Effective with the 2012 fiscal year, the election of Board Members was moved to the general election in November resulting in the members whose term would have expired in April of 2012 being carried over to December 31, 2012. The purpose of the district is to educate students in grades K-12. The Ocean City School District had an enrollment at June 30, 2013 of 2,065 students.

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

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

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

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The District's general and special revenue activities are classified as governmental activities. The District's food service program is classified as business-type activities.

In the governmental-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net position are reported in three parts-invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The District first utilizes restricted resources to finance qualifying activities.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS (Continued)

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities (food service). The functions are also supported by general government revenues (property taxes, tuition, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (regular instruction, vocational programs, student & instruction related services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property taxes, interest income, etc.).

- a. The District does allocate indirect costs such as depreciation expense, compensated absences, On-behalf TPAF Pension Contributions, and Reimbursed TPAF Social Security Contributions.

The government-wide focus is more on the sustainability of the District as an entity and the change in the District's net position resulting from the current year's activities. Fiduciary funds are not included in the government-wide statements.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The State of New Jersey Department of Education has mandated that all New Jersey School Districts must report all governmental funds as major, regardless of the fund meeting the GASB definition of a major fund. However, the criteria are applied to proprietary funds.

The following fund types are used by the District:

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the District.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (Continued)

1. Governmental Funds (Continued):

- a. **General fund** is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. **Special revenue** funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specific purpose. The special revenue fund is specifically used to account for state and federal grant monies that have been allocated to the District.
- c. **Capital projects** funds are used to account for all financial resources to be used for the acquisition or construction of major capital facilities. The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election.
- d. **Debt service** funds are used to account for the accumulation of resources for, and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs.

Fund Balances – Governmental Funds

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of Education, the District's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of Education.

Assigned – includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's policy, amounts may be assigned by the Business Administrator.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The District reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned:

The details of the fund balances are included in the Governmental Funds Balance Sheet. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (Continued)

2. Proprietary Funds:

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

- a. **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designated to recover similar costs. The District operates a food service fund to provide a child nutrition program for the students of the district.

3. Fiduciary Funds:

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support District programs. The reporting focus is on net position and changes in net position, and are reported using accounting principles similar to proprietary funds.

The District's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.), and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

All fund internal activity is eliminated when carried to the Government-wide statements.

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Accrual:

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

2. Modified Accrual:

The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

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

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

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

NJSA 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental units.

2. Investments:

Investments, including deferred compensation and pension funds, are stated at fair value, (quoted market price or the best available estimate). Interest earned on investments in the Capital Projects Fund is recognized as a reserve to pay future debt service or transferred to the general fund.

3. Inventories:

Inventories in the general fund consist of expendable supplies held for the District's use and are carried at cost using the first-in, first-out method. Inventories in the enterprise fund are valued at cost, which approximates market, using the first-in, first –out method. As of June 30, 2013, the District did not have inventory in the general fund and had the following inventory in the enterprise fund:

Food	\$	2,215.84
Supplies		1,037.21
	\$	<u>3,253.05</u>

The value of Federal donated commodities is the difference between market value and cost of the commodities at the date of purchase and has been included as an item of nonoperating revenue in the financial statements. The value of commodities included in the food inventory on June 30, 2013 is \$0.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FINANCIAL STATEMENT AMOUNTS (Continued)

4. Capital Assets:

Capital assets purchased or acquired with an original cost of \$2,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	20-50 years
Machinery and equipment	5-10 years
Improvements	10-20 years
Infrastructure Assests	50-65 years

Infrastructure assets include roads, parking lots, underground pipe, etc. The District includes all infrastructure assets as depreciable assets in the financial statements.

5. Revenues:

Substantially all governmental fund revenues are accrued. Property taxes are susceptible to accrual and under New Jersey State Statutes a municipality is required to remit to its school district the entire balance of taxes in the amount certified, prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non operating revenue. In respect to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and unearned revenue by the recipient. Program revenues, including tuition revenue are reported as reductions to expenses in the statement of activities.

6. Expenditures:

Expenses are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

7. Compensated Absences:

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

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FINANCIAL STATEMENT AMOUNTS (Continued)

7. Compensated Absences (Continued):

In governmental and similar trust funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as both an expenditure and a fund liability in the fund that will pay for the compensated absences. The remainder of the compensated absences liability is reported in the District-wide Financial Statements as a Governmental Activity.

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

8. Interfund Activity:

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related costs as reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

9. Budgets/Budgetary Control:

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue and debt service funds. The budgets are submitted to the county office for approval and, as long as the District budget is within State mandated CAPs, there is no public vote on the budget. If the budget exceeds State mandated CAPs, the voters have an opportunity to approve or reject the budget at the regular election held in November. Budgets are prepared using the modified accrual basis of accounting, except for the special revenue fund as described later. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:23-2(g). Transfers of appropriations may be made by School Board resolution at any time during the fiscal year and are subject to two-thirds majority vote by the School Board and under certain circumstances require approval by the County Superintendent of Schools.

Significant transfers approved by the Board of Education during the fiscal year were as follows:

Regular Programs - Undistributed Instruction	
General Supplies	110,580.00
Undistributed Expenditures	
Tuition to CSSD & Regional Day Schools	(122,892.51)
Undistributed Expenditures - Required Maintenance	
Cleaning, Repairs and Maint. Services	265,000.00
Undistributed Expenditures - Employee Benefits	
Health Benefits	(442,736.80)

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. FINANCIAL STATEMENT AMOUNTS (Continued)

9. Budgets/Budgetary Control (Continued):

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles with the exception of the legally mandated revenue recognition of the last state aid payments for budgetary purposes only and the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

10. Tuition Receivable:

Tuition charges were established by the Board of Education based on estimated costs. The charges are subject to adjustment when the final costs have been determined. The final cost is based on an agreement with various Boards of Education with a negotiated amount up to the final cost as determined by State of New Jersey.

11. Tuition Payable:

Tuition charges for the fiscal years 2012/13 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

12. Use of Estimates:

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

13. Allocation of Costs:

In the government-wide statement of activities, the District has allocated unallocated benefits to various programs based on the budgetary expenditures by program.

F. ACCOUNTING CHANGES

Change in Accounting Principles – As the result of implementing Governmental Accounting Standards Board (GASB) Statement Nos. 63 and 65, the District has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2012 by \$221,151. The decrease results from no longer deferring and amortizing bond issuance costs. Further, the District has restated its long-term liabilities to reflect that a component of those liabilities as of June 30, 2012 – deferred charges on refunding – is now reported as a deferred outflow of resources on the government-wide Statement of Net Position. The effect of this change, as of June 30, 2013, is an increase of \$1,286,450 in long-term liabilities and a corresponding increase in deferred outflows of resources.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

In April 2012, GASB issued Statement No. 66 “Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62”. This statement, which resolves conflicts between Statements No. 10 and No. 54 provides more flexibility in fund classifications for risk based activities, is effective for fiscal periods beginning after December 15, 2012, is not anticipated to have any effect on the District’s financial reporting.

In June 2012, GASB issued Statement No. 67 “Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25”. This statement, which is effective for fiscal periods beginning after June 15, 2013, will not have any effect on the District’s financial reporting.

In June 2012, GASB issued Statement No. 68 “Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27”. This statement, which is effective for fiscal periods beginning after June 15, 2014, will not have any effect on the District’s financial reporting.

In January 2013, GASB issued Statement No. 69 “Government Combinations and Disposals of Government Operations”. This statement, which is effective for fiscal periods beginning after December 15, 2013, will not have any effect on the District’s financial reporting.

In April 2013, GASB issued Statement No. 70 “Accounting and Financial Reporting for Nonexchange Financial Guarantees”. This statement, which is effective for fiscal years beginning after June 15, 2013, will not have any impact on the District’s financial statements

NOTE 2 – CASH

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The district’s policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 18A:20-37 that are treated as cash equivalents. As of June 30, 2013, \$535,483.72 of the government’s bank balance of \$6,139,301.43 was exposed to custodial credit risk.

NOTE 3 - INVESTMENTS

As of June 30, 2013, the District had the following investments:

	Maturities	Fair Value
Certificate of Deposit	Various	\$ 229,681.96
Total		\$ <u>229,681.96</u>

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 18A:20-37 limits the length of time for most investment to 397 days.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 3 – INVESTMENTS (Continued)

Credit Risk. New Jersey Statutes 18A:20-37 limits district investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the district or the local units in which the district is located; obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The district places no limit on the amount the district may invest in any one issuer.

NOTE 4 – RECEIVABLES

Receivables at June 30, 2013, consisted of accounts (extraordinary services), interfund, intergovernmental, and other revenues. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

	Governmental Fund Financial Statements	Government Wide Financial Statements
State Aid	\$ 4,045,835.95	\$ 4,046,759.81
Federal Aid	253,776.00	287,802.01
Property Taxes	2,850,222.00	2,850,222.00
Due from Other Funds	4,089,406.66	54,094.97
Other	47,359.31	47,359.31
Gross Receivables	11,286,599.92	7,286,238.10
Less: Allowance for Uncollectibles		
Total Receivables, Net	<u>\$ 11,286,599.92</u>	<u>\$ 7,286,238.10</u>

NOTE 5 – INTERFUND TRANSFERS AND BALANCES

Transfers between funds are used to (1) move investment income earned in the Capital Projects Fund that is required to be expended in the Debt Service Fund; (2) repay expenses paid by another fund; and (3) make a Board contribution to the Unemployment Compensation Trust Fund; and (4) transfer federal and state food subsidies received in the General Fund to the Food Service Fund.

The following interfund balances remained on the fund financial statements at June 30, 2013:

Fund	Interfund Receivable	Interfund Payable
General Fund	\$ 4,089,406.66	\$
Special Revenue Fund		183,357.36
Capital Projects Fund		3,603,619.26
Food Service Fund		248,335.07
Fiduciary Funds		54,094.97
	<u>\$ 4,089,406.66</u>	<u>\$ 4,089,406.66</u>

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 5 – INTERFUND TRANSFERS AND BALANCES (Continued)

The general fund receivable is comprised of four interfunds. The first is due from the special revenue fund in the amount of \$183,357.36 which is a result of the general fund pay expenses for the special revenue fund. The second interfund of \$248,335.07 owed to the General Fund from the Food Service Fund for expenses paid by the general fund on behalf of the food service fund. The third interfund was a loan of \$3,603,335.07 to the Capital Projects Fund for expense paid by that fund. There are SDA grants owed to the capital fund that will allow repayment of the interfund. Lastly, the Agency Fund owes the General Fund \$54,094.97 for deductions withheld but not yet paid to the general fund.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 879,750.00	\$ -	\$ -	\$ 879,750.00
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	<u>879,750.00</u>	<u>-</u>	<u>-</u>	<u>879,750.00</u>
Capital assets being depreciated:				
Land Improvements	480,559.94			480,559.94
Buildings and building improvements	56,973,582.70			56,973,582.70
Machinery and Equipment	3,357,044.18	118,242.06	(2,286.92)	3,472,999.32
Total capital assets being depreciated at historical cost	<u>60,811,186.82</u>	<u>118,242.06</u>	<u>(2,286.92)</u>	<u>60,927,141.96</u>
Less accumulated depreciation for:				
Land Improvements	(234,555.66)	(19,008.49)		(253,564.15)
Buildings and improvements	(12,231,368.27)	(1,443,311.07)		(13,674,679.34)
Equipment	(2,657,407.07)	(206,728.44)	-	(2,864,135.51)
Total capital assets being depreciated, net of accumulated depreciation	<u>45,687,855.82</u>	<u>(1,550,805.94)</u>	<u>(2,286.92)</u>	<u>44,134,762.96</u>
Governmental activity capital assets, net	<u>46,567,605.82</u>	<u>(1,550,805.94)</u>	<u>(2,286.92)</u>	<u>45,014,512.96</u>
Business-type activities:				
Capital assets being depreciated:				
Equipment	362,400.74	-	-	362,400.74
Less accumulated depreciation	(268,203.87)	(12,859.69)	-	(281,063.56)
Enterprise Fund capital assets, net	<u>94,196.87</u>	<u>(12,859.69)</u>	<u>-</u>	<u>81,337.18</u>
	<u>\$ 46,661,802.69</u>	<u>\$ (1,563,665.63)</u>	<u>\$ (2,286.92)</u>	<u>\$ 45,095,850.14</u>

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 6 – CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$ 815,060.78
Special Education Instruction	176,984.70
Other Special Instruction	72,971.75
Student and Instruction Related Services	263,715.58
School Administrative Services	68,667.80
General and Business Administrative Services	66,270.00
Plant Operations and Maintenance	205,377.39
	<u>\$ 1,669,048.00</u>

No interest on debt was capitalized during the year and the amount of interest expense paid on long term debt was \$911,862.50

NOTE 7 – LONG-TERM OBLIGATIONS

Changes in long-term obligations for the year ended June 30, 2013 are as follows:

	<u>Balance July 1, 2012</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance June 30, 2013</u>	<u>Amounts Due Within One Year</u>
Compensated Absences	\$ 2,540,619.67	\$	\$ 498,707.49	\$ 2,041,912.18	\$ -
Bonds Payable	20,614,000.00		1,720,000.00	18,894,000.00	1,805,000.00
Unamortized Costs:					
Bond Premiums	<u>1,257,525.25</u>	<u>-</u>	<u>97,575.76</u>	<u>1,159,949.49</u>	<u>103,585.86</u>
	<u>\$ 24,412,144.92</u>	<u>\$ -</u>	<u>\$ 2,316,283.25</u>	<u>\$ 22,095,861.67</u>	<u>\$ 1,908,585.86</u>

Compensated absences and capital leases have been liquidated in the General Fund.

Bonds Payable

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

At June 30, 2013, bonds payable consisted of the following issues:

\$19,510,000 School Refunding Bonds dated September 1, 2005, due in annual installments through April 1, 2022, bearing interest at rates ranging from 4.00% to 5.00%. The balance remaining as of June 30, 2013 is \$16,405,000.00.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 7 – LONG-TERM OBLIGATIONS (Continued)

Bonds Payable (Continued)

On September 27, 2005, the District issued \$19,510,000 in Refunding School Bonds with a net interest cost of 3.85% to advance refund and redeem on April 1, 2012, \$19,282,000 aggregate principal amount of the School Districts outstanding callable School Bonds, Series 2002 with an average interest rate between 4.75 and 5.00 percent. The net proceeds of \$20,693,225.57, including a premium on the bonds of \$1,379,494.95 and net of payments of \$75,113.50 in underwriting fees and \$121,155.88 of issuance costs were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for part of future debt service payments until the call date (April 1, 2012) at which time the escrow will have sufficient funds to pay the principal of the 2002 bonds, when due.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old bonds of \$1,411,225.57. The difference, reported in the accompanying financial statements as a deduction from the bonds payable, is being charged to operations through the fiscal year 2022 using the Bonds Outstanding Method. The District completed the advance refunding to reduce it's total debt service payments over the next 8 years by \$848,641.41 and obtain an economic gain (difference between the present values of the old and new debt service payments) of \$613,692.45.

\$3,469,000 School Bonds dated February 24, 2012, due in annual installments through September 15, 2019, bearing interest at rates ranging from 2.00% to 3.00%. The balance remaining as of June 30, 2013 is \$2,489,000.00.

Debt service requirements on serial bonds payable at June 30, 2013 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2014	1,805,000.00	836,062.50	2,641,062.50
2015	1,895,000.00	756,012.50	2,651,012.50
2016	1,985,000.00	671,412.50	2,656,412.50
2017	2,080,000.00	581,968.75	2,661,968.75
2018	2,180,000.00	486,915.00	2,666,915.00
2019-2022	8,949,000.00	924,365.00	9,873,365.00
	<u>\$ 18,894,000.00</u>	<u>\$ 4,256,736.25</u>	<u>\$ 23,150,736.25</u>

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**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 8 – OPERATING LEASES

The District has commitments to lease certain office equipment under operating leases that expire in 2015. Total operating lease payments made during the year ended June 30, 2013 were \$61,315.75. Future minimum lease payments are as follows:

Year Ending June 30,	Principal
2014	100,151.34
2015	94,937.34
2016	20,478.77
Total future minimum lease payments	\$ <u>215,567.45</u>

NOTE 9 – UNEARNED REVENUE

The District has unearned revenue reflected on the Statement of Net Position in the District-Wide Financial Statements of \$90,214.91. This consists of unearned revenue of \$64,611.92 in the special revenue fund which is made up of grant proceeds on hand where the grant period overlaps the district's fiscal year and encumbrances payable at year end and \$25,602.99 in the food service fund for student meals prepaid.

NOTE 10 – PENSION PLANS

Description of Plans - All required employees of the District are covered by either the Public Employees' Retirement System or the Teachers' Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pension and Benefits, PO Box 295, Trenton, New Jersey, 08625 or the reports can be accessed on the internet at <http://www.state.nj.us/treasury/pensions/annrpts/achive.htm>.

Teachers' Pension and Annuity Fund (TPAF)

The Teachers' Pension and Annuity Fund was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide retirement benefits, death, disability and medical benefits to certain qualified members. The Teachers' Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the District and the system's other related non-contributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 10 – PENSION PLANS (Continued)

Public Employees' Retirement System (PERS)

The Public Employees' Retirement System (PERS) 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. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Defined Contribution Retirement Program (DCRP)

The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2007 under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et seq.). The DCRP is a cost-sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N. J.S.A. 43:15C-1 et. seq.

The contribution requirements of plan members are determined by state statute. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. The State Treasurer has the right under current law to make temporary reductions in member rates based on the existence of surplus plan assets in the retirement system; however statute also requires the return to the normal rate when such surplus pension assets no longer exist. In addition to the employee contributions, the School District's contribution amounts for each pay period are required to be transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period. The School District has no employees enrolled in the Defined Contribution Retirement Program (DCRP) during the fiscal year ended June 30, 2013.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. TPAF and PERS provide for employee contributions of 5.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The current TPAF rate is 6.5% and the PERS rate is 6.5% of covered payroll. The School District's contributions to TPAF for the years ending June 30, 2013, 2012 and 2011 were \$1,291,667, \$650,872 and \$64,436 respectively, and paid by the State of New Jersey on behalf of the board, equal to the required contributions for each year. The School District's contributions to PERS for the years ending June 30, 2013, 2012 and 2011 were \$488,020, \$403,241 and \$387,185 respectively, equal to the required contributions for each year.

During the fiscal years ended June 30, 2013, 2012 and 2011, the State of New Jersey contributed \$1,460,549, \$1,308,423 and \$1,368,630, respectively, to the TPAF for post-retirement medical benefits on behalf of the Board. Also, in accordance with NJSA 18A:66-66 the State of New Jersey reimbursed the Board \$1,439,693, \$1,388,186, and \$1,472,524, during the same fiscal years for the employer's share of social security contributions for TPAF members as calculated on their base salaries. These amounts, which are not required to be budgeted, have been included in the financial statements, and the combining and individual fund and account group statements and schedules as revenues and expenditures in accordance in GASB 27.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 10 – PENSION PLANS (Continued)

Vesting and Benefit Provisions - The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:6C for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The TPAF and PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Significant Legislation

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

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

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PES members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

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

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 10 – PENSION PLANS (Continued)

Significant Legislation - Continued

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

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

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

NOTE 11 – POST-RETIREMENT BENEFITS

The School District contributes to the New Jersey State Health Benefits Program ("the SHBP"), a cost sharing multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP provides medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Program is found in the New Jersey Statutes Annotated, Title 52, Article 17.25 et seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The Division of Pension and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required TPAF and PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2008, C. 103 amended the law to eliminate the funding and payment of post-retirement medical benefits for retired state employees through TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees. As of June 30, 2012, there were 97,661 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 11 – POST-RETIREMENT BENEFITS (Continued)

The State is also responsible for the cost attributable to P.L. 1992 c. 126 which provides free health benefits for members PERS and the Alternative Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$146.6 million toward Chapter 126 benefits for 16,618 eligible retired members in Fiscal Year 2013. The State also makes on-behalf payments for Teacher Pension and Annuity Program retirees for health benefits. The on-behalf amount paid by the State of New Jersey in fiscal year 2012 was \$1,308,423.

NOTE 12 – COMPENSATED ABSENCES

The liability for vested compensated absences for the governmental fund types is recorded in current and long-term liabilities. The current portion of the compensated absences balance of the governmental funds is not considered material to the applicable funds total liabilities, and therefore is not shown separately from the long-term liability of compensated absences.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 2013, no liability existed for compensated absences in the Food Service Enterprise Fund.

NOTE 13 – DEFERRED COMPENSATION

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

Vanguard Fiduciary Trust Co.
Lincoln Life
Lincoln Investment Planning, Inc.
Washington National Insurance Co.
Prudential Investments

The Equitable
Retirement Annuity Consultants, Inc.
Thomas Seely Agency
Siracusa Benefits Program

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**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 14 – CAPITAL RESERVE ACCOUNT

A capital reserve account was established by City of Ocean City Board of Education by the inclusion of \$1.00 on September 27, 2001 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the district's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6:23A-2.13(g) 7, the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

The activity of the capital reserve account for the July 1, 2012 to June 30, 2013 fiscal year is as follows:

Beginning balance, July 1, 2012		\$	2,556,000.00	
Deposits				
Budgeted increase in capital reserve	\$	351,578.00		
Interest earned		1,000.00		
Board Resolution - June 26, 2013		<u>995,000.00</u>		
				<u>1,347,578.00</u>
Withdrawals:				
None				<u> </u>
Ending balance, June 30, 2013		\$	<u><u>3,903,578.00</u></u>	

NOTE 15 – MAINTENANCE RESERVE ACCOUNT

A maintenance reserve account was established by the Ocean City Board of Education for the accumulation of funds for use as required maintenance expenditures in subsequent fiscal years. The maintenance reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

The activity of the Maintenance reserve for the July 1, 2012 to June 30, 2013 fiscal year is as follows:

Beginning balance, July 1, 2012	\$ 562,684.00
Budgeted Increase – FY 2013	1,000.00
Excess Surplus Transfer by	
Board Resolution	250,000.00
Withdrawals:	
Per Approved Budget:	
Board resolutions	(75,000.00)
Total Withdrawals	
Ending balance, June 30, 2013	<u><u>\$738,684.00</u></u>

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 16 – TUITION RESERVE ACCOUNT

A tuition reserve account was established by the Ocean City Board of Education in accordance with N.J.A.C. 6A:23-3.1(f)(8). This reserve represents foreseeable future tuition adjustments up to a maximum of 10% of the estimated tuition cost of the respective year. The tuition reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

The activity of the tuition reserve for the July 1, 2012 to June 30, 2013 fiscal year is as follows:

Beginning balance, July 1, 2012	\$ 1,300,000.00
Budgeted Increase – FY 2013	1,000.00
Excess Surplus Transfer by	
Board Resolution	900,000.00
Withdrawals:	
Per Approved Budget:	(500,000.00)
Board resolutions	
Total Withdrawals	
Ending balance, June 30, 2013	<u><u>\$1,700,000.00</u></u>

Of the balance of \$1,700,000.00 in the reserve; \$800,000.00 was appropriated for tuition adjustments in the FY 2014 district budget and \$900,000.00 will be appropriated in the FY 2015 budget for tuition adjustments.

NOTE 17 – EMERGENCY RESERVE ACCOUNT

An emergency reserve account was established by the Ocean City Board of Education for the accumulation of funds for the purpose of financing unanticipated general fund expenditures required for a thorough and efficient education in accordance with N.J.S.A. 18A:7F-41c(1). The emergency reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

The activity of the emergency reserve for the July 1, 2012 to June 30, 2013 fiscal year is as follows:

Beginning balance, July 1, 2012	\$ 352,000.00
Budgeted Increase – FY 2013	1,000.00
Withdrawals:	
	None
Total Withdrawals	
Ending balance, June 30, 2013	<u><u>\$353,000.00</u></u>

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**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 18 – COMMITMENTS

The District does not have encumbrance policy for the fiscal year end to determine significant encumbrances. All encumbrances are classified as either Assigned Fund Balance in the General Fund or Committed Fund Balance in the Capital Projects Fund. Encumbrances in the Special Revenue Fund are reflected as unearned revenue. Significant encumbrances at June 30th are as follows;

Fund	Amount
General Fund Encumbered Orders	\$ 324,779.02
Special Revenue Fund - Encumbered Orders	9,222.28
	\$ 334,001.30

NOTE 19 – RISK MANAGEMENT

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

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

New Jersey Unemployment Compensation Insurance - The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State. The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's expendable trust fund for the current and prior year:

Fiscal Year	Employee Contributions	Interest on Investments	Amount Reimbursed	Ending Balance
2012-2013	\$ 11,011.07	\$ 396.98	\$ 13,649.05	\$ 390,467.70
2011-2012	82,414.07	692.49	20,945.94	392,708.70
2010-2011	-	1,780.35	72,030.51	330,548.08

NOTE 20 – CONTINGENT LIABILITIES

Federal and State Grants

The District participates in a number of federal grant programs. The grant programs are subject to program compliance audits by the grantors or their representatives. The District 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 would result in the disallowance of program expenditures.

**OCEAN CITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013
(CONTINUED)**

NOTE 21 – FUND BALANCE APPROPRIATED

General Fund – Of the \$10,597,830 General Fund fund balance, at June 30, 2013, \$327,779 is reserved for encumbrances; \$3,004,924 is reserved as excess surplus in accordance with NJSA 18A:7F-7 (\$1,717,075 of the total reserve for excess surplus has been appropriated and included as anticipated revenue for the year ending June 30, 2014), \$3,903,578 has been reserved in the Capital Reserve Account; \$738,684 has been reserved in a Maintenance Reserve Account; \$1,700,000 has been reserved in a Tuition Reserve Account; \$353,000 has been reserved in an Emergency Reserve Account; and \$572,865 is classified as Unassigned.

NOTE 22 – CALCULATION OF EXCESS SURPLUS

In accordance with NJSA 18A:7F-7, as amended by P.L. 2004, c.73, the designation for Reserved Fund Balance – Excess Surplus is a required calculation. New Jersey school districts are required to reserve General Fund fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2013 is \$3,004,924, of which \$1,717,075 has been included in the 2014 fiscal year.

NOTE 23 – LITIGATION

As of the date of this report, the Ocean City Board of Education is currently involved in various matters of litigation. In all cases if it is believed that the outcome, or exposure to the Board of Education, from such litigation is either unknown or potential losses, if any would not be material to the financial statements.

NOTE 24 – ECONOMIC DEPENDENCY

The District receives support from federal government and from the state government. A significant reduction in the level of support, if this were to occur, would have an effect on the District's programs and activities.

NOTE 25 – SUBSEQUENT EVENT

Management has reviewed and evaluated all events and transactions that occurred from June 30, 2013 through November 22, 2013, the date that the financial statements were available to be issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

APPENDIX C

FORM OF APPROVING LEGAL OPINION

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_____, 2014

The Board of Education of the
City of Ocean City in the
County of Cape May, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the City of Ocean City in the County of Cape May, New Jersey (the “Board of Education”) in connection with the issuance by the Board of Education of \$2,497,000 School Bonds, dated the date hereof (the “Bonds”). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us, as we have deemed necessary.

The Bonds are issued pursuant to (i) Title 18A, Education, Chapter 24 of the New Jersey Statutes, (ii) a proposal adopted by the Board of Education on January 29, 2014 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on March 11, 2014 and (iii) a resolution duly adopted by the Board of Education on April 30, 2014. The Bonds are secured under the provisions of the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c.72 , approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003).

In our opinion, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws or application by a court of competent jurisdiction of legal or equitable principles relating to the enforcement of creditors' rights, the Bonds are valid and legally binding general obligations of the Board of Education, and the Board of Education has the power and is obligated to levy *ad valorem* taxes upon all the taxable real property within the school district for the payment of the Bonds and the interest thereon without limitation as to rate or amount.

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

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

Very truly yours,