New Issue

Ratings: Standard & Poor's: "AA+" (Underlying Rating)
Standard & Poor's: "A" (School Bond Reserve Act)
(*See* "RATINGS" herein)

OFFICIAL STATEMENT DATED APRIL 12, 2016

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 (as defined herein) 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), assuming 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 TOWNSHIP OF MONTGOMERY IN THE COUNTY OF SOMERSET, NEW JERSEY $18,502,000 SCHOOL BONDS (Book-Entry-Only) (Callable)

Dated: Date of Delivery　　　　Due: April 15, as shown below

The $18,502,000 School Bonds (the "Bonds") of The Board of Education of the Township of Montgomery in the County of Somerset, 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 April 15 and October 15 in each year until maturity, or earlier redemption, commencing on October 15, 2016. 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 April 1 and October 1 (the "Record Dates" for the payment of interest on the Bonds). The Bonds shall be subject to redemption prior to their stated maturities. *See* "DESCRIPTION OF THE BONDS- Redemption" herein.

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, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

Year	Principal Amount	Interest Rate	Yield	CUSIPS	Year	Principal Amount	Interest Rate	Yield	CUSIPS
2018	$1,200,000	1.000%	0.750%	614155JX8	2025	$1,600,000	2.000%	1.700%	614155KE8
2019	1,000,000	1.500	0.850	614155JY6	2026	1,500,000	2.000	1.850	614155KF5
2020	1,050,000	2.000	1.000	614155JZ3	2027	1,500,000	2.000	2.000	614155KG3
2021	1,100,000	2.000	1.100	614155KA6	2028	1,500,000	2.000	2.050	614155KH1
2022	1,150,000	2.000	1.250	614155KB4	2029	1,500,000	2.000	2.100	614155KJ7
2023	1,200,000	2.000	1.400	614155KC2	2030	1,500,000	2.125	2.250	614155KK4
2024	1,200,000	2.000	1.550	614155KD0	2031	1,502,000	2.375	2.375	614155KL2

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 May 3, 2016.

ROOSEVELT & CROSS
Incorporated

**THE BOARD OF EDUCATION OF
TOWNSHIP OF MONTGOMERY
IN THE COUNTY OF SOMERSET, NEW JERSEY**

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Phoenix Advisors, LLC
Bordentown, New Jersey

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 made 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
TOWNSHIP OF MONTGOMERY
IN THE COUNTY OF SOMERSET, NEW JERSEY

$18,502,000
SCHOOL BONDS
(BOOK-ENTRY-ONLY ISSUE)
(CALLABLE)

INTRODUCTION

This Official Statement, which includes the front cover page and the appendices attached hereto, has been prepared by The Board of Education of Township of Montgomery in the County of Somerset, 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 $18,502,000 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 have been authorized by the Board.

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

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

DESCRIPTION OF THE BONDS

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

Terms and Interest Payment Dates

The Bonds shall be dated the date of delivery and shall mature on April 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 April and October, commencing on October 15, 2016 (each an "Interest Payment Date") at the interest rates set forth on the front cover page hereof in each year until maturity, or earlier redemption, by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each April 1 and October 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 maturing prior to April 15, 2026 are not subject to optional redemption. The Bonds maturing on or after April 15, 2026 shall be subject to redemption at the option of the Board, in whole or in part, on any date on or after April 15, 2025 at the par amount of bonds to be refunded, plus unpaid accrued interest to the date fixed for redemption.

Notice of redemption shall be given by mailing by first class mail in a sealed envelope with postage prepaid to the registered owners of the Bonds not less than thirty (30) days, nor more than sixty (60) days prior to the date fixed for redemption. Such mailing shall be to the owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the Board or a duly appointed bond registrar. So long as DTC (or any successor thereto) acts as securities depository for the Bonds, such notice of redemption shall be sent directly to such depository and not to the Beneficial Owners of the Bonds. Any failure of the depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any notice of redemption shall not affect the validity of the redemption proceedings. If the Board determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the Board; the Bonds to be redeemed having the same maturity shall be selected by the securities depository in accordance with its regulations.

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

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 <u>et</u> <u>seq</u>.)

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 <u>et</u> <u>seq</u>. (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 school district, county or municipality and shall not obligate the State to make, nor entitle the school district, county or municipality to receive any additional appropriation or apportionment. Any amount so deducted shall be applied by the State Treasurer to satisfy the obligation of the school district, county or municipality arising as a result of the payment of interest or purchase price of bonds pursuant to the Act. On September 11, 2014 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, downgraded the School Bond Reserve rating from "A+" to "A". On June 10, 2015, Moody's Investors Service, Inc. downgraded the School Bond Reserve rating from "Aa3" to "A2."

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 5, 2016 and approved by a majority of the legal voters present and voting at the school district election held on March 8, 2016 and a resolution duly adopted by the Board on March 15, 2016 (the "Resolution").

The purpose of the Bonds is to provide funds (a) to undertake various improvements and renovations to Montgomery High School, Montgomery Upper Middle School, Montgomery Lower Middle School, Orchard Hill Elementary School and Village Elementary School; and (b) to acquire the necessary equipment as well as undertake any associated site work. The total cost of the project is $18,502,580. $18,502,000 will be funded through the issuance of the Bonds. The balance of $580 will be funded through other available funds of the Board. The Board also expects to receive 40% debt service aid on $17,877,293 of the Bonds.

BOOK-ENTRY-ONLY SYSTEM[1]

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 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 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

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[1] Source: The Depository Trust Company

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 School District is a Type II school district without a board of school estimate coterminous with the boundaries of the Township of Montgomery (the "Township") located in the County of Somerset, New Jersey (the "State"). The School District serves students attending Pre-kindergarten through 12th grade. The School District serves the residents of the Township and the Borough of Rocky Hill.

The Board consists of nine (9) elected members. Pursuant to State statute, the Board appoints a Superintendent and a Business Administrator/Board Secretary. *See* "APPENDIX A – Certain Economic and Demographic Information About the School District and the Township of Montgomery."

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 school 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 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 may also vote upon 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 school district and the president of and one member of the board of education, approves all fiscal matters;

(3) Regional and consolidated school districts comprising the territorial boundaries of more than one municipality in which the registered voters in the school district elect members of the board of education and may vote upon 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 fiscal matters; and

(6) County special services school districts have boards of education consisting of the County Superintendent and six (6) persons appointed by the board of chosen freeholders of the county. Such special services school districts shall also have a board of school estimate, consisting of two (2) members appointed by the board of education of the school district, 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 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 school district, or the board of education in a Type II school district, or when petitioned for by fifteen percent (15%) of the voters of any school district. The School District is a Type II school district.

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

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

In a Type II school district, the elected board of education develops the budget proposal and, at or after a public hearing, submits it for voter approval unless the board of education has moved its annual election to November as described below. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing bodies of the Township 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 school district, without a board of school estimate, to be moved from April to the first Tuesday after the first Monday in November, to be held simultaneously with the general election. Such change in the annual school election date must be authorized by resolution of either the board of education or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters, is filed with the board of education. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four years.

School districts that opt to move the annual school election to November are no longer required to submit the budget to the voters for approval if the budget is at or below the two-percent property tax levy cap as provided by current 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.

Spending Growth Limitation

CEIFA (as hereinafter defined) places limits on the amount school districts can increase their annual current expenses and capital outlay budgets, and such limits are known as a school district's spending growth limitation amount (the "Spending Growth Limitation"). See "SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT" herein.

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 school 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 approval by the Commissioner. The bill granted discretion to the Commissioner to grant other waivers from the cap for increases in special education costs, capital outlay, and tuition charges. The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

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

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

The previous legislation 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 limits the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election. The process for obtaining waivers from the Commissioner for additional increases over the tax levy cap or Spending Growth 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 school 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 school estimate) bonds shall be issued 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 of education is required to provide an annual audit of the school district's accounts and financial transactions. Beginning with the fiscal 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 and fourth 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.

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

Except as provided below, no additional debt shall be authorized if the principal amount, when added to the net debt previously authorized, exceeds a statutory percentage of the average equalized valuation of taxable property in a school district. As a kindergarten (K) through grade twelve (12) school district, the board can borrow up to 4% of the average equalized valuation of taxable property in the School District. The Board has not exceeded its 4% debt limit. See "APPENDIX A – Debt Limit of the Board."

Exceptions to Debt Limitation

A Type II school district (other than a regional school 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 financings must mature within five years except for certain lease purchase financings of energy savings equipment and other energy conservation measures, which may mature within fifteen (15) years and in certain cases twenty (20) years from the date the project is placed in service, if paid from energy savings (see "Energy Savings Obligations" below). Facilities lease purchase agreements, which may only be financed 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, effective July 18, 2000, as amended ("EFCFA") repealed the authorization to enter into facilities leases for a term in excess of five years. The payment of rent is treated as a current expense and within the school district's Spending Growth Limitation and tax levy cap, and the payment of rent on an ordinary equipment lease and on a five year and under facilities lease is subject to annual appropriation. 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 N.J.S.A. 18A:18A-4.6 (P.L. 2009, c. 4, effective March 23, 2009, as amended by P.L. 2012, c. 55, effective September 19, 2013), the Energy Savings Improvement Program Law or the "ESIP Law," school districts may issue energy savings obligations as refunding bonds without voter approval or lease purchase agreements 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. The lease purchase financings for such measures must mature within 15 years, or in certain instances 20 years, from the date the projects are placed in service. These energy savings refunding bonds or leases are payable from the general fund. Such payments are within the school district's Spending Growth Limitation and tax levy cap but are not necessarily subject to annual appropriation.

Promissory Notes for Cash Flow Purposes

N.J.S.A. 18A: 22-44.1 permits school districts to issue promissory notes in an amount not exceeding ½ the amount appropriated for current general fund expenses. These promissory notes are not considered debt and are used for cash flow purposes including funding in anticipation of the receipt of taxes, other revenues or grants.

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 school districts known as Abbott Districts after the school funding cases and instead has funding follow students with certain needs and provides aid in a way that takes into account the ability of the local school district to raise local funds to support the budget in amounts deemed adequate to provide for a thorough and efficient education as required by the State constitution. This legislation was challenged in the Court, and the Court held that the State's 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 in an amount equal to the greater of the district aid percentage or 40% times the eligible costs determined by the Commissioner either in the form of a grant or debt service aid as determined under the Educational Facilities Construction and Financing Act of 2001. The amount of the aid to which a school 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 2016 and has proposed the same reduction for 2017. 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 through 2016 budgets representing 15% of the school district's proportionate share of the principal and interest payments on the outstanding EDA bonds issued to fund such grants.

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 Township are general full faith and credit obligations.

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

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 Township 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 Township 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 Township or substantially reduce the ability of the Township 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 Township 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 Township 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 Township, which operate 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 (the "Director") prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations, 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 an 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 local unit to anticipate collection at the same rate realized for the collection of delinquent taxes in the previous year. Also, the local unit is required to make an appropriation for a "reserve for uncollected taxes" in accordance with a statutory formula to provide for a tax collection in an amount that does not exceed the percentage of taxes levied and payable in the preceding fiscal year that was received in cash by 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 year's budget. Both types of transfers require a 2/3 vote of the full membership of the governing body; however, transfers cannot be made from either the down payment account or the capital improvement fund. Transfers may be made between sub-account line items within the same account at any time during the year, subject to internal review and approval. In a "CAP" budget, no transfers may be made from excluded from "CAP" appropriations to within "CAP" 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". 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 year's 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 Township to levy *ad valorem* taxes upon all taxable real property within the Township 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 local unit, the local school district and the county, the tax rate is struck by the County Board of Taxation based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provision for the assessment of property, the levying of taxes and the collection thereof are set forth in N.J.S.A. 54:4-1 et seq. Special taxing districts are permitted in New Jersey for various special services rendered to the properties located within the special districts.

Tax bills are mailed annually in June by the 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 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 Constituent Municipality 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 <u>et</u> <u>seq</u>.)

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

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

FINANCIAL STATEMENTS

The financial statements of the Board for the fiscal year ended June 30, 2015 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Suplee, Clooney & Company, Westfield, New Jersey, an independent auditor, as stated in the report appearing in Appendix B to this Official Statement. See "APPENDIX B –Montgomery Board of Education Financial Statements".

LITIGATION

To the knowledge of the Board Attorney, Fogarty & Hara, Fair Lawn, New Jersey (the "Board Attorney"), there is no litigation of any nature now pending or threatened, 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 Underwriter 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 not 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 Tax

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 hereto. Certain legal matters will be passed on for the Board by its Board Attorney.

PREPARATION OF OFFICIAL STATEMENT

The Board hereby states that the descriptions and statements herein, including the Financial Statements, are true and correct in all material respects, and it will confirm same to the Underwriter by a certificate signed by the Board President and the 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 the 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.

RATINGS

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (the "Rating Agency"), has assigned a rating on the Bonds of “AA+” due to the creditworthiness of the School District. In addition, the Rating Agency has assigned a rating on the Bonds of “A” based upon the additional security for the Bonds provided by the New Jersey School Bond Reserve Act.

The ratings reflect only the view of the Rating Agency, and an explanation of the significance of such ratings may only be obtained from the Rating Agency at the following address: 55 Water Street, New York, New York 10041. The Board forwarded to the Rating Agency certain information and materials concerning the Bonds and the School District. There can be no assurance that the ratings will be maintained for any given period of time or that the ratings may not be raised, lowered or withdrawn entirely, if in the Rating Agency's judgment, circumstances so warrant. Any downward change in, or withdrawal of, such ratings, may have an adverse effect on the marketability or market price of the Bonds.

FINANCIAL ADVISOR

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

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, 2017, 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) property valuation information; (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, in accordance with the Rule, in a timely manner, under previous filing requirements its annual adopted budget for fiscal years ended June 30, 2011, 2012 and 2013. Additionally, the Board acknowledges that it previously failed to file material event notices and late filing notices in connection with its timely filings of (i) annual adopted budges; and (ii) certain rating changes. Such notices of material events and late filings have since been filed with the MSRB's Electronic Municipal Market Access Dataport ("EMMA"). The Board appointed Phoenix Advisors, LLC in November of 2013 to serve as continuing disclosure agent.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Annette M. Wells, Business Administrator/Board Secretary, at 1014 Route 601, Skillman, NJ 08558, (609) 466-7616, or to 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 this Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or otherwise), financial condition or results or operations of the Board except as set forth in or contemplated by this Official Statement.

MISCELLANEOUS

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

By: *<u>/s/ Annette M. Wells</u>*
Annette M. Wells, Business Administrator/Board Secretary

Date: April 12, 2016

APPENDIX A

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE SCHOOL DISTRICT AND THE TOWNSHIP OF MONTGOMERY

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INFORMATION REGARDING THE BOARD OF EDUCATION OF THE TOWNSHIP OF MONTGOMERY

Type

The School District is a Type II school district that serves the Township of Montgomery (the "Township") and the Borough of Rocky Hill (the "Borough").The School District provides a full range of educational services appropriate to Pre-Kindergarten through the grade twelve.

The Board is composed of nine (9) members elected by the legally qualified voters in the School District to terms of three (3) years on a staggered basis. The President and Vice President are chosen for one (1) year terms from among the members of the Board.

The Board is the policy making body of the School District and has the general responsibility for providing an education program, the power to establish policies and supervise the public schools in the School District and 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:

Facility	Grade Level	Student Enrollment (As of 6/30/15)
Orchard Hill	K-2	838
Village School	3-4	666
Lower Middle School	5-6	751
Upper Middle School	7-8	819
Montgomery High School	9-12	1,702

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.

The following table presents the number of full and part-time teaching professionals and support staff of the School District as of June 30, 2015 for each of the past five (5) years.

	2015	2014	2013	2012	2011
Teaching Professionals	465	447	443	444	447
Support Staff	251	251	242	242	212
Total Full & Part Time Employees	716	698	685	686	659

Source: Comprehensive Annual Financial Report of the School District

Pupil Enrollments

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

Pupil Enrollments

School Year	Enrollment
2014-2015	4,737
2013-2014	4,783
2012-2013	4,892
2011-2012	5,047
2010-2011	5,090

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 2015-16 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 2015-2016 fiscal year is $78,426,920. The major sources of revenue are $70,131,163 from the local tax levy and $4,383,051 from state aid.

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. A summary of the last five (5) budget years of the Board is presented below:

Budget Year	Amount Raised in Taxes	Budget Amount	Election Result
2015-2016	$70,131,163	$78,426,920	N/A
2014-2015	68,033,428	77,082,132	N/A
2013-2014	66,699,439	74,870,545	N/A
2012-2013	65,391,607	72,432,968	Approved
2011-2012	64,486,634	69,951,161	Approved

Source: School District

Financial Operations

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2011 through June 30, 2015 for the general fund. This summary should be used in conjunction with the tables from which it is derived. 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:

	2015	2014	2013	2012	2011
REVENUES					
Local Sources:					
Local Tax Levy	$68,033,428	$66,699,439	$65,391,607	$64,586,634	$63,359,787
Other Local Revenue	1,037,641	978,343	1,030,351	947,467	769,669
Total revenues-local sources	69,071,069	67,677,782	66,421,958	65,534,101	64,129,456
State Sources	11,789,456	10,552,185	11,313,929	9,125,685	7,378,102
Federal Sources	0	0	0	185,087	0
Total Revenues	$80,860,525	$78,229,967	$77,735,887	$74,844,873	$71,507,558
EXPENDITURES					
General Fund:					
Instruction	$32,255,472	$31,277,387	$30,569,643	$29,417,022	$28,841,378
Undistributed Expenditures	47,835,277	46,596,165	44,693,831	42,931,792	41,620,977
Capital Outlay	875,868	901,903	898,057	646,679	376,685
Total Expenditures	$80,966,617	$78,775,455	$76,161,531	$72,995,493	$70,839,039
Excess (Deficiency) of Revenues Over/(Under) Expenditures	(106,112)	(545,487)	1,574,356	1,849,380	668,519
Other Financing Sources (Uses):					
Proceeds of Capital Lease	388,426	410,000	597,000	417,908	206,848
Transfers in	0	9,259	17,373	20,840	130,926
Transfers out	(370,054)	(871,000)	(244,700)	0	0
Total other financing sources (uses)	18,372	(451,741)	369,673	438,747	337,774
Net Change in Fund Balance	(87,740)	(997,229)	1,944,029	2,288,128	1,006,292
Fund Balance, July 1	8,619,267	9,616,496	7,672,468	5,384,340	4,378,047
Fund Balance, June 30	$8,531,527	$8,619,267	$9,616,496	$7,672,468	$5,384,339

Capital Leases

As of June 30, 2015, the Board has capital leases outstanding with payments due through year ending June 30, 2024 totaling $8,375,936.43.

Source: Comprehensive Annual Financial Report of the School District

Operating Leases

As of June 30, 2015, the Board has no operating leases outstanding.

Source: Comprehensive Annual Financial Report of the School District

Short Term Debt

As of June 30, 2015, 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, 2015.

Fiscal Year Ending	Principal	Interest	Total
2016	$3,885,000	$2,609,430	$6,494,430
2017	3,975,000	2,472,005	6,447,005
2018	4,085,000	2,310,252	6,395,252
2019	4,225,000	2,129,909	6,354,909
2020	4,365,000	1,940,294	6,305,294
2021	4,495,000	1,763,994	6,258,994
2022	4,630,000	1,582,969	6,212,969
2023	4,770,000	1,396,659	6,166,659
2024	4,910,000	1,204,129	6,114,129
2025	5,070,000	995,189	6,065,189
2026	3,845,000	799,794	4,644,794
2027	2,850,000	659,225	3,509,225
2028	2,980,000	541,663	3,521,663
2029	3,110,000	415,013	3,525,013
2030	3,255,000	282,838	3,537,838
2031	3,400,000	144,500	3,544,500
TOTALS	$63,850,000	$21,247,860	$85,097,860

Source: Comprehensive Annual Financial Report of the School District

Debt Limit of the Board

The debt limitation of the Board is established by statute (N.J.S.A. 18A:24-19). The Board is permitted to incur debt up to 4% 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, 2015:

Average Equalized Real Property Valuation (2013, 2014, and 2015)	$4,438,568,833
School District Debt Analysis	
Permitted Debt Limitation (4% of AEVP)	$177,542,753
Less: Bonds and Notes Authorized and Outstanding	63,850,000
Remaining Limitation of Indebtedness	$113,692,753
Percentage of Net School Debt to Average Equalized Valuation	1.44%

Source: Comprehensive Annual Financial Report of the School District

INFORMATION REGARDING THE TOWNSHIP[1]

The following material presents certain economic and demographic information of the Township of Montgomery (the "Township"), in the County of Somerset (the "County"), State of New Jersey (the "State").

General Information

The Township, an area of 32.26 square miles, is located in the southeast corner of the County. It is approximately equidistant from New York City and Philadelphia. The Millstone River provides a border to the East between the Township and the Township of Franklin. The Township is bordered to the north by the Township of Hillsborough. The Township is bordered by the Township of Princeton to the south and the Townships of Hopewell and East Amwell to the west. The Sourland Mountains are situated along the Township's western side and provide a natural boundary. The Township was first settled in the early 1700's as a farming community from colonial times. During the last three decades, the Township has evolved into a primarily residential community while retaining its rural character. The Township also contains several major industrial, commercial and technological firms.

Form of Government

The Township, incorporated in 1798, operates under the Township Committee/Administrator form of government. The governing body consists of five members, each elected on a partisan basis, serving the Township for staggered three-year terms.

The Township Committee annually elects one of its members as Mayor and another as Deputy Mayor. The Mayor presides at all Committee meetings and has a voice and vote in the proceedings. Regular meetings of the Township Committee are held on the first and third Thursdays of each month. Work sessions are generally held on the first and third Wednesdays of each month.

The Township Administrator is the head of the Office of Administration and is responsible for the overall supervision and day-to-day operations of the Township. Responsibilities include, but are not limited to, budget preparation, personnel, labor negotiations, public relations, and carrying out the policies and procedures established by the Township Committee. The Township Administrator serves at the pleasure of the Township Committee and may be removed by a two-thirds vote of the full Committee.

Planning and Development

State Route 206, providing access to Interstate 287 and 78 to the north and the US Route 1 corridor and Interstate 95 and 195 to the south, traverses the Township from North to South. Additional north-south arteries include County Route 601 (the Great Road/Belle Mead Blawenburg Roads) and County Route 533 (River Road). East-west access through the Township is limited to County Route 518.

[1] Source: The Township, unless otherwise indicated

Township Services

The Township is served by a police department consisting of police officers and civilian employees who provide various clerical and dispatch services. The Police Director/Captain, who is appointed by the Township Committee, is responsible for the operation of the police department.

Fire protection is provided on a 24-hour, seven day-a-week basis through its volunteer fire companies. A significant portion of the costs of fire protection is funded through the two Special Fire Districts established for this purpose.

First aid and rescue services are provided by the Montgomery Emergency Medical Services Squad. The squad consists of active volunteers and operates several ambulances and cruisers. The First Aid Squad is supplemented by a cadre of municipal employees who have become certified as emergency medical technicians and can run the ambulance fleet during daytime hours in the event that a sufficient number of volunteers are not available for calls.

Retirement Systems

All full-time permanent or qualified Township 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, is the administrator of the funds with the benefit and contribution levels set by the State. The Township is enrolled in the Public Employees' Retirement System ("PERS") and the Police and Firemen's Retirement System ("PFRS").

Pension Information[2]

Employees who are eligible to participate in a pension plan are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost. The Township's share of pension costs in 2015, which is based upon the annual billings received from the State, is $699,708 for PERS and $646,670 for PFRS.

[2] Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Employment and Unemployment Comparisons

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

	Total Labor Force	Employed Labor Force	Total Unemployed	Unemployment Rate
Township				
2014	10,362	9,908	454	4.4%
2013	10,332	9,775	557	5.4%
2012	10,537	9,865	672	6.4%
2011	10,481	9,702	779	7.4%
2010	10,531	9,768	763	7.2%
County				
2014	173,968	165,075	8,893	5.1%
2013	173,782	162,866	10,916	6.3%
2012	176,094	163,106	12,988	7.4%
2011	174,622	161,803	12,819	7.3%
2010	173,699	160,521	13,178	7.6%
State				
2014	4,518,715	4,218,423	300,277	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
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%

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)

	Township	County	State
Median Household Income	$146,100	$97,440	$71,180
Median Family Income	167,889	115,214	86,779
Per Capita Income	62,642	47,067	35,768

Source: US Bureau of the Census 2010

Population

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

	Township		County		State	
Year	**Population**	**% Change**	**Population**	**% Change**	**Population**	**% Change**
2010	22,254	27.30%	323,444	8.72%	8,791,894	4.49%
2000	17,481	81.87	297,490	23.81	8,414,350	8.85
1990	9,612	30.60	240,279	18.29	7,730,188	4.96
1980	7,360	15.85	203,129	2.40	7,365,001	2.75
1970	6,353	64.97	198,372	37.84	7,168,164	18.15

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

Largest Taxpayers

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

Taxpayers	2015 Assessed Valuation	% of Total Assessed Valuation
Pike Run LLC/Cloverleaf	$82,310,300	2.20%
Montpen/Research Park LLC/ABCF LLC	49,838,400	1.33%
Johnson and Johnson	41,797,200	1.12%
Presbyterian Homes	41,000,000	1.10%
Sharbell Plainsboro Inc	24,228,600	0.65%
Bloomburg LP	15,837,600	0.42%
Convatec Inc	15,651,000	0.42%
JER/Herring Orchard	11,996,200	0.32%
P.H. Associates, LLC	10,302,700	0.28%
Princeton North Realty	8,069,000	0.22%
Total	$301,031,000	8.06%

Source: School District CAFR & Municipal Tax Assessor

Comparison of Tax Levies and Collections

Year	Tax Levy	Current Year Collection	Current Year % of Collection
2014	$106,948,848	$105,930,174	99.05%
2013	104,964,222	104,059,551	99.14%
2012	102,265,612	101,303,357	99.06%
2011	100,829,781	99,702,156	98.88%
2010	99,080,618	97,996,456	98.91%

Source: Annual Audit Reports of the Township

Delinquent Taxes and Tax Title Liens

Year	Amount of Tax Title Liens	Amount of Delinquent Tax	Total Delinquent	% of Tax Levy
2014	$272,205	$922,818	$1,195,023	1.12%
2013	254,990	782,649	1,037,639	0.99%
2012	253,065	739,141	992,206	0.97%
2011	230,229	850,163	1,080,392	1.07%
2010	204,091	784,615	988,706	1.00%

Source: Annual Audit Reports of the Township

Property Acquired by Tax Lien Liquidation

Year	Amount
2014	$115,210
2013	115,210
2012	115,210
2011	115,210
2010	115,210

Source: Annual Audit Reports of the Township

Tax Rates per $100 of Net Valuations Taxable and Allocations

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

Year	Municipal	Local School	County	Total Taxes
2015	$0.389	$2.001	$0.470	$2.860
2014	0.373	1.982	0.470	2.825
2013	0.360	1.950	0.474	2.784
2012	0.351	1.911	0.447	2.709
2011	0.344	1.870	0.445	2.659

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

Valuation of Property

Year	Aggregate Assessed Valuation of Real Property	Aggregate True Value of Real Property	Ratio of Assessed to True Value	Assessed Value of Personal Property	Equalized Valuation
2015	$3,734,903,200	$4,484,215,632	83.29%	$2,194,918	$4,486,410,550
2014	3,705,171,200	4,399,395,868	84.22	2,079,867	4,401,475,735
2013	3,704,345,000	4,432,094,999	83.58	2,306,369	4,434,401,368
2012	3,703,837,320	4,601,611,778	80.49	5,049,897	4,606,661,675
2011	3,721,249,900	4,529,272,030	82.16	4,927,137	4,534,199,167

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

Classification of Ratables

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

Year	Vacant Land	Residential	Farm	Commercial	Industrial	Apartments	Total
2015	$59,459,900	$3,223,428,000	$70,268,000	$281,624,200	$3,112,900	$97,010,200	$3,734,903,200
2014	58,144,700	3,188,845,100	71,569,800	286,488,500	3,112,900	97,010,200	3,705,171,200
2013	50,580,500	3,196,965,900	69,002,400	293,745,100	3,112,900	90,938,200	3,704,345,000
2012	43,839,200	3,202,829,520	69,805,500	291,172,600	3,112,900	93,077,600	3,703,837,320
2011	45,820,600	3,210,084,800	70,648,700	298,005,300	3,112,900	93,577,600	3,721,249,900

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

Financial Operations

The following table summarizes budgeted information on changes in financial resources and fund balance for the last five (5) fiscal years for the Current Fund. This summary should be used in conjunction with the tables from which it is derived.

Budgeted Information of Operations and Changes in Fund Balances for the Years Ended December 31

Anticipated Revenues	2011	2012	2013	2014	2015
Fund Balance	$5,300,000	$2,500,000	$2,998,680	$3,180,000	$4,305,000
Miscellaneous Revenues	9,143,670	19,040,835	10,060,439	10,163,885	8,796,741
Receipts from Delinquent Taxes	792,146	670,100	766,000	655,500	670,900
Amount to be Raised by Taxes for Support of Municipal Budget	11,362,451	11,567,318	11,887,063	12,348,992	13,099,775
Total Revenue:	$26,598,267	$33,778,253	$25,712,181	$26,348,377	$26,872,416
Appropriations					
General Appropriations	$18,086,483	$17,926,874	$18,312,167	$9,654,400	$19,384,287
Operations	2,634,542	1,390,733	1,516,160	8,929,265	1,463,905
Deferred Charges and Statutory Expenditures	0	82,500	90,550	2,034,031	118,000
Judgments	0	0	0	0	0
Capital Improvement Fund	94,774	123,638	105,000	172,475	299,850
Municipal Debt Service	4,689,920	13,098,650	4,647,500	4,559,050	4,562,550
Reserve for Uncollected Taxes	1,092,548	1,155,859	1,040,804	999,156	1,043,824
Total Appropriations:	$26,598,267	$33,778,253	$25,712,181	$26,348,377	$26,872,416

Source: Annual Adopted Budgets of the Township

Fund Balance

Current Fund

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

Fund Balance - Current Fund

Year	Balance 12/31	Utilized in Budget of Succeeding Year
2014	$6,304,057	$4,305,000
2013	5,228,680	3,180,000
2012	4,212,879	3,014,500
2011	2,986,389	2,500,000
2010	5,604,985	5,300,000

Sewer Utility Operating Fund

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

Fund Balance - Sewer Utility Operating Fund

Year	Balance 12/31	Utilized in Budget of Succeeding Year
2014	$1,896,013	$750,000
2013	2,661,376	1,650,000
2012	4,013,332	2,427,500
2011	3,769,648	2,131,300
2010	3,507,024	1,100,000

Source: Annual Audit Reports of the Township

Township Indebtedness as of December 31, 2014

General Purpose Debt	
Serial Bonds	$20,910,000
Bond Anticipation Notes	5,716,697
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	1,266,776
Total:	$27,893,473
Local School District Debt	
Serial Bonds	$65,515,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	0
Total:	$65,515,000
Self-Liquidating Debt	
Serial Bonds	$34,113,827
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	2,180,916
Other Bonds, Notes and Loans	0
Total:	$36,294,743
TOTAL GROSS DEBT	**$129,703,216**
Less: Statutory Deductions	
General Purpose Debt	$243,583
Local School District Debt	65,515,000
Self-Liquidating Debt	36,294,743
Total:	$102,053,326
TOTAL NET DEBT	**$27,649,891**

Source: Annual Debt Statement of the Township

Overlapping Debt (as of December 31, 2014)[3]

Name of Related Entity	Related Entity Debt Outstanding	Township Percentage	Township Share
Local School District	$65,515,000	100.00%	$65,515,000
County	170,821,882	7.61%	13,002,553
Net Indirect Debt			$78,517,553
Net Direct Debt			27,649,891
Total Net Direct and Indirect Debt			**$106,167,443**

Debt Limit

Average Equalized Valuation Basis (2012, 2013, 2014)	$4,477,700,882
Permitted Debt Limitation (3 1/2%)	156,719,531
Less: Net Debt	27,649,891
Remaining Borrowing Power	$129,069,640
Percentage of Net Debt to Average Equalized Valuation	0.62%
Gross Debt Per Capita based on 2010 population of 22,254	$5,828
Net Debt Per Capita based on 2010 population of 22,254	$1,242

Source: Annual Debt Statement of the Township

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

INFORMATION REGARDING THE BOROUGH[1]

The following material presents certain economic and demographic information of the Borough of Rocky Hill (the "Borough"), in the County of Somerset (the "County"), State of New Jersey (the "State").

General Information

The Borough was settled in 1701 and incorporated as a separate municipality in 1890.The Borough is situated in the southeast corner of Somerset County and is named for the Rocky Hill Ridge. The Borough is bordered by Franklin Township and Montgomery Township.

Retirement Systems

All full-time permanent or qualified Borough 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 Borough is enrolled in the Public Employees' Retirement System ("PERS") and the Police and Firemen's Retirement System ("PFRS").

Pension Information[2]

Employees who are eligible to participate in a pension plan are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost. The Borough's share of pension costs in 2015, which is based upon the annual billings received from the State, amounted to $10,831 for PERS and $0 for PFRS.

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[1] Source: The Borough, unless otherwise indicated.
[2] 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 Borough, the County, and the State:

	Total Labor Force	Employed Labor Force	Total Unemployed	Unemployment Rate
Borough				
2014	371	358	13	3.5%
2013	370	353	17	4.6%
2012	383	356	27	7.0%
2011	277	268	9	3.2%
2010	295	276	19	6.4%
County				
2014	173,968	165,075	8,893	5.1%
2013	173,782	162,866	10,916	6.3%
2012	176,094	163,106	12,988	7.4%
2011	174,622	161,803	12,819	7.3%
2010	173,699	160,521	13,178	7.6%
State				
2014	4,518,715	4,218,423	300,277	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
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%

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)

	Borough	County	State
Median Household Income	$88,929	$97,440	$71,180
Median Family Income	102,917	115,214	86,779
Per Capita Income	47,582	47,067	35,768

Source: US Bureau of the Census 2010

Population

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

	Borough		County		State	
Year	**Population**	**% Change**	**Population**	**% Change**	**Population**	**% Change**
2010	682	3.02%	323,444	8.72%	8,791,894	4.49%
2000	662	-4.47	297,490	23.81	8,414,350	8.85
1990	693	-3.35	240,279	18.29	7,730,188	4.96
1980	717	-21.81	203,129	2.40	7,365,001	2.75
1970	917	73.67	198,372	37.84	7,168,164	18.15

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

Largest Taxpayers

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

Taxpayers	2015 Assessed Valuation	% of Total Assessed Valuation
J & R Association LLC	$7,394,900	5.72%
Hayden, Stephen P.	1,107,400	0.86%
Bank of America	1,104,500	0.85%
Witherspoon Partners LLC	1,076,600	0.83%
Merritt Brothers, Inc.	1,062,500	0.82%
Schafer, Barbara D.	956,200	0.74%
Donato, Joseph & Alana	785,900	0.61%
Schellscheidt, Karl & Dani	726,300	0.56%
George F. White, Ill	715,900	0.55%
Copper Spoon Pro. LLC	700,000	0.54%
Total	$15,630,200	12.10%

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

Comparison of Tax Levies and Collections

Year	Tax Levy	Current Year Collection	Current Year % of Collection
2014	$2,583,063	$2,545,064	98.53%
2013	2,492,182	2,475,847	99.34%
2012	2,429,824	2,388,403	98.30%
2011	2,314,476	2,275,826	98.33%
2010	2,262,868	2,208,830	97.61%

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

Year	Amount of Tax Title Liens	Amount of Delinquent Tax	Total Delinquent	% of Tax Levy
2014	$0	$36,934	$36,934	1.43%
2013	0	16,336	16,336	0.66%
2012	0	34,768	34,768	1.43%
2011	0	35,044	35,044	1.51%
2010	0	52,255	52,255	2.31%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

Year	Amount
2014	$0
2013	0
2012	0
2011	0
2010	0

Source: Annual Audit Reports of the Borough

Tax Rates per $100 of Net Valuations Taxable and Allocations

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

Year	Municipal	Local School	County	Total Taxes
2015	$0.371	$1.273	$0.394	$2.038
2014	0.373	1.335	0.420	2.128
2013	0.378	1.284	0.400	2.062
2012	0.377	1.226	0.400	2.003
2011	0.383	1.152	0.374	1.909

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

Valuation of Property

Year	Aggregate Assessed Valuation of Real Property	Aggregate True Value of Real Property	Ratio of Assessed to True Value	Assessed Value of Personal Property	Equalized Valuation
2016	$128,843,800	$130,952,129	98.39%	$367,089	$131,319,218
2015	127,079,800	132,845,285	95.66	344,924	133,190,209
2014	120,669,600	123,019,268	98.09	342,424	123,361,692
2013	120,224,500	127,127,525	94.57	342,424	127,469,949
2012	120,871,300	125,933,840	95.98	337,357	126,271,197

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

Classification of Ratables

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

Year	Vacant Land	Residential	Farm	Commercial	Industrial	Apartments	Total
2015	$674,800	$111,209,300	$11,200	$6,316,000	$7,784,100	$1,084,400	$127,079,800
2014	420,500	104,150,800	20,900	7,657,000	7,394,900	1,025,500	120,669,600
2013	420,500	103,705,700	20,900	7,657,000	7,394,900	1,025,500	120,224,500
2012	420,500	104,910,700	20,900	7,098,800	7,394,900	1,025,500	120,871,300
2011	420,500	104,889,900	20,900	7,098,800	7,394,900	1,025,500	120,850,500

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

Financial Operations

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

Summary of Current Fund Budget

Anticipated Revenues	2011	2012	2013	2014	2015
Fund Balance	$318,000	$358,125	$498,000	$541,100	$305,000
Miscellaneous Revenues	219,541	341,763	140,986	502,654	475,516
Receipts from Delinquent Taxes	30,000	35,000	34,000	16,300	16,000
Amount to be Raised by Taxes for Support of Municipal Budget	453,256	445,419	443,355	439,260	461,352
Total Revenue:	$1,020,797	$1,180,307	$1,116,341	$1,499,314	$1,257,868
Appropriations					
General Appropriations	$642,907	$690,978	$729,843	$679,301	$724,025
Operations	182,155	125,957	228,480	522,200	298,791
Deferred Charges and Statutory Expenditures	91,031	57,031	65,031	106,031	102,200
Judgments	0	0	0	0	0
Capital Improvement Fund	0	200,000	0	90,000	37,000
Municipal Debt Service	34,250	34,265	34,581	34,581	34,137
Reserve for Uncollected Taxes	70,453	72,076	58,407	67,201	61,715
Total Appropriations:	$1,020,797	$1,180,307	$1,116,341	$1,499,314	$1,257,868

Source: Annual Adopted Budgets of the Borough

Fund Balance

Current Fund

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

Fund Balance - Current Fund

Year	Balance 12/31	Utilized in Budget of Succeeding Year
2014	$319,540	$305,000
2013	802,634	514,000
2012	828,622	498,000
2011	654,423	345,000
2010	469,906	318,000

Source: Annual Audit Reports of the Borough

Water/Sewer Utility Operating Fund

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

Fund Balance - Water/Sewer Utility Operating Fund

Year	Balance 12/31	Utilized in Budget of Succeeding Year
2014	$136,369	$63,810
2013	69,301	0
2012	14,784	0
2011	14,784	0
2010	45,784	25,000

Source: Annual Audit Reports of the Borough

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Borough Indebtedness as of December 31, 2015

General Purpose Debt	
Serial Bonds	$0
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	351,000
Other Bonds, Notes and Loans	69,458
Total:	$420,458
Regional School District Debt	
Serial Bonds	$1,837,826
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	0
Total:	$1,837,826
Self-Liquidating Debt	
Serial Bonds	$0
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	24,168
Other Bonds, Notes and Loans	0
Total:	$24,168
TOTAL GROSS DEBT	**$2,282,452**
Less: Statutory Deductions	
General Purpose Debt	$44,453
Regional School District Debt	1,837,826
Self-Liquidating Debt	24,168
Total:	$1,906,448
TOTAL NET DEBT	**$376,005**

Source: Annual Debt Statement of the Borough

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Overlapping Debt (as of December 31, 2015)[3]

Name of Related Entity	Related Entity Debt Outstanding	Borough Percentage	Borough Share
Regional School District	$65,734,600	2.80%	$1,837,826
County	375,978,667	0.23%	858,026
Net Indirect Debt			$2,695,852
Net Direct Debt			376,005
Total Net Direct and Indirect Debt			**$3,071,857**

Debt Limit

Average Equalized Valuation Basis (2013, 2014, 2015)	$127,664,026
Permitted Debt Limitation (3 1/2%)	4,468,241
Less: Net Debt	376,005
Remaining Borrowing Power	$4,092,236
Percentage of Net Debt to Average Equalized Valuation	0.29%
Gross Debt Per Capita based on 2010 population of 682	$3,347
Net Debt Per Capita based on 2010 population of 682	$551

Source: Annual Debt Statement of the Borough

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

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APPENDIX B

MONTGOMERY BOARD OF EDUCATION FINANCIAL STATEMENTS

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SCC
SUPLEE, CLOONEY & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
308 East Broad Street, Westfield, New Jersey 07090-2122
Telephone 908-789-9300 Fax 908-789-8535
E-mail info@scnco.com

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
Township of Montgomery School District
County of Somerset
Skillman, New Jersey 08558

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 Township of Montgomery School District, County of Somerset, New Jersey as of and for the year ended June 30, 2015, 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, audit requirements prescribed by the Division of Finance, Department of Education, State of New Jersey, the provisions of U.S. Office of Management and Budget (OMB) *Circular A-133* "Audits of States, Local Governments and Non-Profit Organizations" and State of New Jersey *OMB Circular 04-04* "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid." Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Montgomery School District, County of Somerset, New Jersey as of June 30, 2015, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 6 to the basic financial statements, in 2015, the District adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions (an Amendment of GASB Statement No. 27) and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68). Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2015 on our consideration of the Township of Montgomery School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Township of Montgomery School District's internal control over financial reporting and compliance.

SUPLEE, CLOONEY & COMPANY
Certified Public Accountants

/s/ Robert B. Cagnassola
Robert B. Cagnassola, C.P.A., R.M.A.

December 7, 2015

EXHIBIT "B-1"
SHEET #1

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

ASSETS AND OTHER DEBITS:	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
Assets:					
Cash and cash equivalents	$ 7,706,296.38	$	$ 2,134,112.28	$ 3.45	$ 9,840,412.11
Capital reserve account	217,684.66				217,684.66
Accounts receivable:					
State	835,452.16		97,277.05		932,729.21
Federal		82,714.00			82,714.00
Other	72,226.79	4,929.18			77,155.97
Due From Other Funds	26,668.80				26,668.80
Total assets	$ 8,858,328.79	$ 87,643.18	$ 2,231,389.33	$ 3.45	$ 11,177,364.75
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts payable	$ 269,755.82	$	$	$	$ 269,755.82
Due to Other Funds	6,343.00	26,668.80			33,011.80
Due to grantors		37,436.30			37,436.30
Unearned revenue	50,702.19	23,538.08	50,912.01		125,152.28
Total liabilities	$ 326,801.01	$ 87,643.18	$ 50,912.01	$	$ 465,356.20
Fund balances:					
Restricted for:					
Capital Reserve Account	$ 517,684.66	$	$	$	$ 517,684.66
Emergency Reserve	220,000.00				220,000.00
Excess surplus- designated for subsequent year's expenditures	3,169,671.24				3,169,671.24
Excess surplus-current year	3,170,543.38				3,170,543.38
Capital projects fund			2,180,477.32		2,180,477.32
Debt service fund				3.45	3.45
Unassigned:					
General fund	1,453,628.50				1,453,628.50
Total fund balances	$ 8,531,527.78	$	$ 2,180,477.32	$ 3.45	$ 10,712,008.55
Total liabilities and fund balances	$ 8,858,328.79	$ 87,643.18	$ 2,231,389.33	$ 3.45	$ 11,177,364.75

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

EXHIBIT "B-1"
SHEET #2

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

Total Fund Balances (Brought Forward)			$10,712,008.55
Amounts Reported for Governmental Activities in the Statement of Net Assets (A-1) are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Cost of Assets		$163,605,518.70	
Accumulated Depreciation		(48,650,348.83)	
			114,955,169.87
Long term liabilities, including bonds payable, and other related amounts that are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Net Pension Liability		(20,872,218.00)	
Compensated Absences		(918,656.45)	
Capital Leases		(7,282,739.34)	
Bonds Payable	($63,850,000.00)		
Unamortized Deferred Amount on Refunding Bonds	1,501,432.36		
		(62,348,567.64)	
			(91,422,181.43)
Deferred Outflows and Inflows of resources are applicable to future periods and therefore are not reported in the funds.			
Pensions:			
Deferred Outflows			
Pension related		1,296,008.00	
Employer Contribution related to pensions		982,471.00	
			2,278,479.00
Deferred Inflows:			
Pension related			(1,243,871.00)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.			
Pension Contribution Payable- FY16 (reported in accounts payable)			(982,471.00)
Accrued Interest Payable			(856,919.36)
Net Position of Governmental Activities			$33,440,214.63

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

EXHIBIT "B-2"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Local sources:					
Local tax levy	$ 68,033,428.00	$	$	$ 7,128,159.00	$ 75,161,587.00
Tuition	121,101.90				121,101.90
Miscellaneous revenues	916,538.82	56,387.15			972,925.97
Total revenues-local sources	$ 69,071,068.72	$ 56,387.15	$	$ 7,128,159.00	$ 76,255,614.87
State sources	$ 11,789,455.98	$ 44,128.27	$ 195,789.99	$ 256,938.00	$ 12,286,312.24
Federal sources		1,050,143.59			1,050,143.59
Total revenues	$ 80,860,524.70	$ 1,150,659.01	$ 195,789.99	$ 7,385,097.00	$ 89,592,070.70
EXPENDITURES:					
Current expense:					
Instruction:					
Regular	$ 22,992,817.36	$ 161,105.74	$	$	$ 23,153,923.10
Special education	6,484,823.92	877,647.03			7,362,470.95
Other instruction	2,777,830.56				2,777,830.56
Support services:					
Tuition	1,961,277.06				1,961,277.06
Student and instruction related services	7,947,790.80	97,861.69			8,045,652.49
General administrative services	1,098,499.06				1,098,499.06
School administrative services	3,190,700.98				3,190,700.98
Central services	1,121,272.93				1,121,272.93
Administration information technology	175,512.30				175,512.30
Plant operations and maintenance	6,464,109.10				6,464,109.10
Security	25,139.76				25,139.76
Student transportation services	3,992,910.48				3,992,910.48
Employee benefits	21,858,084.61				21,858,084.61
Capital outlay	875,867.78	14,044.55	1,356,000.53		2,245,912.86
Debt service:					
Principal				4,422,800.00	4,422,800.00
Interest				2,962,296.52	2,962,296.52
Total expenditures	$ 80,966,636.70	$ 1,150,659.01	$ 1,356,000.53	$ 7,385,096.52	$ 90,858,392.76
Excess (deficiency) of revenues over (under) expenditures	$ (106,112.00)	$	$ (1,160,210.54)	$ 0.48	$ (1,266,322.06)
Other financing sources (uses):					
Operating transfer out	$ (370,054.00)	$	$	$	$ (370,054.00)
Operating transfer in			370,054.00		370,054.00
Capital leases (non-budgeted)	388,426.48				388,426.48
Total financing sources(uses):	$ 18,372.48	$	$ 370,054.00	$	$ 388,426.48
Net change in fund balances	$ (87,739.52)	$	$ (790,156.54)	$ 0.48	$ (877,895.58)
Fund balances, July 1, 2014	8,619,267.30		2,970,633.86	2.97	11,589,904.13
Fund balances, June 30, 2015	$ 8,531,527.78	$	$ 2,180,477.32	$ 3.45	$ 10,712,008.55

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

EXHIBIT "B-3"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Total net change in fund balances - governmental funds (from B-2)		$ (877,895.58)
Amounts reported for governmental activities in the statement of activities (A-2) are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the period.		
Depreciation expense	$ (4,389,091.56)	
Capital outlays	2,245,912.86	
Capital outlays adjustments	(50,811.58)	
		(2,193,990.28)
Proceeds from debt issues are a financing source in the governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net assets.		
Proceeds from capital leases	(388,426.48)	
		(388,426.48)
Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.		
Payment of bond principal	3,815,000.00	
Payment of capital leases payable	970,918.99	
Amortization of Deferred Amounts- Refunding Bonds	(106,942.08)	
		4,678,976.91
In the statement of activities, interest on long-term debt is accrued, regardless of when due. In governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation.		45,522.50
District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activites		
District pension contributions	919,030.00	
Less: Pension expense	(1,190,213.00)	
		(271,183.00)
In the statement of activities, certain expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In 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 (+).		54,727.05
Change in net position of governmental activities		$ 1,047,731.12

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

EXHIBIT "B-4"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS - ENTERPRISE FUNDS
JUNE 30, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	MAJOR FUND	NON-MAJOR FUNDS		
	FOOD SERVICE	SUMMER ENRICHMENT	COMMUNITY EDUCATION	TOTAL
ASSETS				
Current assets:				
Cash & cash equivalents	$ 545,797.79	$ 347,405.45	$ 1,360.00	$ 894,563.24
Accounts receivable:				
State	496.12			496.12
Federal	6,722.90			6,722.90
Prepaid expenses		27,271.34		27,271.34
Inventories	28,489.36			28,489.36
Total current assets	$ 581,506.17	$ 374,676.79	$ 1,360.00	$ 957,542.96
Noncurrent assets:				
Furniture, machinery & equipment	$ 930,146.06	$	$	$ 930,146.06
Less accumulated depreciation	(662,271.90)			(662,271.90)
Total noncurrent assets	$ 267,874.16	$	$	$ 267,874.16
Total assets	$ 849,380.33	$ 374,676.79	$ 1,360.00	$ 1,225,417.12
LIABILITIES				
Current liabilities:				
Accounts payable	$ 122,271.58	$	$	$ 122,271.58
Unearned revenue	1,757.07	205,376.88		207,133.95
Total current liabilities	$ 124,028.65	$ 205,376.88	$	$ 329,405.53
Total liabilities	$ 124,028.65	$ 205,376.88	$	$ 329,405.53
NET POSITION				
Net Investment in Capital Assets	$ 267,874.16	$	$	$ 267,874.16
Unrestricted	457,477.52	169,299.91	1,360.00	628,137.43
Total net position	$ 725,351.68	$ 169,299.91	$ 1,360.00	$ 896,011.59

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

EXHIBIT "B-5"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	MAJOR FUND	NON-MAJOR FUNDS		
	FOOD SERVICE	SUMMER ENRICHMENT	COMMUNITY EDUCATION	TOTAL
OPERATING REVENUES:				
Charges for services:				
Daily sales - reimbursable programs	$ 232,553.50	$	$	$ 232,553.50
Daily sales - non-reimbursable programs	1,259,463.50			1,259,463.50
Special functions	27,469.78			27,469.78
Other fees	7,785.27	246,457.61		254,242.88
Total operating revenues	$ 1,527,272.05	$ 246,457.61	$	$ 1,773,729.66
OPERATING EXPENSES:				
Cost of sales	$ 691,000.44	$	$	$ 691,000.44
Salaries	448,721.42	196,217.20		644,938.62
Employee benefits	123,029.40	15,010.64		138,040.04
Other purchased services	113,322.00	3,673.85		116,995.85
Supplies and materials	102,220.45	4,348.95		106,569.40
Depreciation	43,783.39			43,783.39
Total operating expenses	$ 1,522,077.10	$ 219,250.64	$	$ 1,741,327.74
Operating income	$ 5,194.95	$ 27,206.97	$	$ 32,401.92
NONOPERATING REVENUES (EXPENSES):				
State sources				
State school lunch program	$ 5,770.48	$	$	$ 5,770.48
Federal sources				
National school lunch program	71,359.12			71,359.12
National food distribution commodities	54,149.40			54,149.40
Total nonoperating revenues	$ 131,279.00	$	$	$ 131,279.00
Change in Net Position	$ 136,473.95	$ 27,206.97	$	$ 163,680.92
Total net position - beginning	588,877.73	142,092.94	1,360.00	732,330.67
Total net position - ending	$ 725,351.68	$ 169,299.91	$ 1,360.00	$ 896,011.59

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

EXHIBIT "B-6"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	BUSINESS TYPE ACTIVITIES - ENTERPRISE FUNDS			
	MAJOR FUND	NON-MAJOR FUNDS		
	FOOD SERVICE	SUMMER ENRICHMENT	COMMUNITY EDUCATION	TOTAL
Cash flows from operating activities:				
Receipts from customers	$ 1,527,272.05	$ 213,288.04	$	$ 1,740,560.09
Payments to employees	(448,721.42)	(196,217.20)		(644,938.62)
Payments to employee benefits	(123,029.40)	(15,010.64)		(138,040.04)
Payment to suppliers	(853,368.90)	(8,022.80)		(861,391.70)
Net cash provided (used for) by operating activities	$ 102,152.33	$ (5,962.60)	$	$ 96,189.73
Cash flows from noncapital financing activities:				
State Sources	$ 5,871.48	$	$	$ 5,871.48
Federal Sources	72,317.64			72,317.64
Net cash provided by (used for) noncapital financing activities	$ 78,189.12	$	$	$ 78,189.12
Cash flows from capital and related financing activities				
Purchase of capital assets	$ (56,999.60)			(56,999.60)
Net cash used for capital and related financing activities	$ (56,999.60)			(56,999.60)
Net increase (decrease) in cash and cash equivalents	$ 123,341.85	$ (5,962.60)	$	$ 117,379.25
Cash and cash equivalents- July 1	422,455.94	353,368.05	1,360.00	777,183.99
Cash and cash equivalents- June 30	$ 545,797.79	$ 347,405.45	$ 1,360.00	$ 894,563.24
Operating income (loss)	$ 5,194.95	$ 27,206.97	$	$ 32,401.92
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:				
Depreciation	43,783.39			43,783.39
USDA Commodities	54,149.40			54,149.40
Change in assets and liabilities:				
(Increase) Decrease in inventory	3,830.72			3,830.72
(Increase) Decrease in other accounts receivable				
Increase (Decrease) in accounts payable	(2.81)			(2.81)
(Increase) Decrease in prepaid expenses				
Increase (Decrease) in deferred revenue	(4,803.32)	(33,169.57)		(37,972.89)
Net cash provided (used) by operating activities	$ 102,152.33	$ (5,962.60)	$	$ 96,189.73

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

EXHIBIT "B-7"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2015

	AGENCY FUNDS			STATE UNEMPLOYMENT
	STUDENT ACTIVITY	PAYROLL AGENCY	SCHOLARSHIP FUNDS	COMPENSATION TRUST
ASSETS				
Cash and cash equivalents	$ 661,881.28	$ 2,209,089.81	$ 55,131.62	$ 525,578.48
Due from Other Funds		6,343.00		
Total assets	$ 661,881.28	$ 2,215,432.81	$ 55,131.62	$ 525,578.48
LIABILITIES				
Net Salary payable	$	$ 1,822,323.76	$	$
Payroll deductions and withholdings		393,109.05		
Due to student groups	661,881.28			
Total liabilities	$ 661,881.28	$ 2,215,432.81	$	$
NET POSITION				
Reserve for state unemployment	$	$	$	$ 525,578.48
Reserve for scholarship awards			55,131.62	
Total net position	$ -0-	$ -0-	$ 55,131.62	$ 525,578.48

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

EXHIBIT "B-8"

TOWNSHIP OF MONTGOMERY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	SCHOLARSHIP FUNDS	STATE UNEMPLOYMENT COMPENSATION TRUST
ADDITIONS:		
Contributions:		
Employee Contributions	$	$ 124,796.53
Board Contributions		
Other	2,232.71	
Total contributions	$ 2,232.71	$ 124,796.53
Investment earnings:		
Interest	$ 108.14	$
Net investment earnings	$ 108.14	$
Total additions	$ 2,340.85	$ 124,796.53
DEDUCTIONS:		
Unemployment claims	$	$ 96,959.85
Awards	4,336.82	
Total deductions	$ 4,336.82	$ 96,959.85
Change in net position	$ (1,995.97)	$ 27,836.68
Net assets - July 1	$ 57,127.59	$ 497,741.80
Net assets - June 30	$ 55,131.62	$ 525,578.48

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

Township of Montgomery School District
Notes to the Financial Statements
June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Montgomery School District have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Board's accounting policies are described below.

Reporting Entity

The Township of Montgomery School District is a Type II District located in Somerset County, New Jersey. The District is an instrumentality of the State of New Jersey, established to function as an educational institution. The District is governed by a nine member board elected to three-year terms 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 primary criterion for including activities within the District's reporting entity are set forth in Statement No. 39 of the Governmental Accounting Standards Board entitled "*Determining Whether Certain Organizations are Component Units*" (GASB 39) as codified in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Organizations that are legally separate, tax-exempt entities and meet *all* of the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government.

2. The primary government, or its component unit, is entitled to, or has the ability to otherwise access, a majority of the economic resources of the organization.

3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitle to, or has the ability to otherwise access, are significant to that primary government.

The combined financial statements include all funds of the District over which the Board exercises operating control. The operations of the District include elementary schools through high school Grades K thru 12, located in the Township of Montgomery. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The District's basic financial statements consist of District-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

District-wide Statements: The Statement of Net Position and the Statement of Activities display information about the District as a whole. 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 generally between the governmental and business-type activity of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Net Position presents the financial condition of the governmental and business-type activity of the District at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirement of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as generally revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements: During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The New Jersey Department of Education (NJDOE) has elected to require New Jersey districts to treat each governmental fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJDOE believes that the presentation of all funds as major is important for public interest and to promote consistency among district financial reporting models.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Fund Types

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or non-instructional equipment which are classified in the Capital Outlay sub-fund.

As required by the New Jersey State Department of Education, the District includes budgeted capital outlay in this fund. Generally accepted accounting principles as they pertain to governmental entities state that General Fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, district taxes and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to fixed assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to Current Expense by board resolution.

Special Revenue Fund – The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Thus, the Special Revenue Fund is used to account for the proceeds of specific revenue from State and Federal Governments (other than major capital projects, debt service or the enterprise funds) and local appropriations that are legally restricted or committed to expenditures for specified purposes.

Capital Projects Fund - The Capital Projects Fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election, funds appropriated from the General Fund, and from aid provided by the State to offset the cost of approved capital projects.

Debt Service Fund – Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund

Enterprise Fund - The enterprise fund accounts for all revenues and expenses pertaining to cafeteria operations. The food service fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges.

Fiduciary Fund Types -

Agency Funds - The agency funds are used to account for assets held by the district on behalf of others and are custodial in nature. The agency funds included in this category are as follows:

Unemployment Compensation Insurance Trust Fund - A trust fund used to account for assets to finance the costs of unemployment benefits. Since the Board has adopted the direct reimbursement method, the District is under obligation to appropriate sufficient funds out of its general fund and hold them in trust for this purpose.

Payroll and Student Activities Funds (Agency) - These are agency funds used to account for the assets that the District holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

Private Purpose Trust Funds – These are trust funds used to account for assets donated by individuals that will provide for the payment of awards and scholarships to district students.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting - Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

District-wide, Proprietary, and Fiduciary Fund Financial Statements: The District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures. Ad Valorem (Property) Taxes are susceptible to accrual as under New Jersey State Statute a municipality is required to remit to its school district the entire balance of taxes in the amount voted upon or certified, prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available.

The District is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transactions can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and are voted upon at the annual school election on the third Tuesday in April. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2 (m) 1. All budget amendments and transfers must be approved by School Board resolution. All budget amounts presented in the accompanying required supplementary information reflect the original annual budget and all legally authorized revisions, such as amendments and transfers, which represents the final or amended budget.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the final budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year. The capital projects fund presents the remaining project appropriations compared to current year expenditures.

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 recognition of one or more 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 records.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrance Accounting

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds other than the special revenue fund are reported as assignments of fund balances at fiscal year end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services.

Open encumbrances in the special revenue fund and capital projects fund for which the District has received advances are reflected in the balance sheet as deferred revenues at fiscal year end.

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

Interfunds

Interfund receivables and payables arise from transactions between particular funds and are considered short term in duration. The interfund transactions are recorded by all funds affected in the period in which the transactions are executed and are part of the district's available expendable resources.

Inventories and Prepaid Expenses

Inventories of materials and supplies held for consumption in the governmental funds are recorded as expenditures at the time of purchase and year end balances are not reported in the financial statements.

Inventories of food and/or supplies in the food service fund are recorded at cost on a first-in, first-out basis or, in the case of Food Distribution Commodities, at stated value which approximates market.

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The District has an established formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated in the district-wide statements using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
School Buildings	50
Building Improvements	20
Electrical/Plumbing	30
Vehicles	8
Office and Computer Equipment	5-10
Instructional Equipment	10
Ground Equipment	15

Compensated Absences

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

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

The liability for compensated absences was accrued using the termination payment method, whereby the liability is calculated based on the amount of sick days that are expected to become eligible for payment upon retirement. The District estimates its accrued compensated absences liability based on the accumulated sick days at the balance sheet date by those employees who are currently eligible to receive retirement payments.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

For the District-wide Statements, the current portion is the amount estimated to be used in the following year. For the governmental funds in the fund financial statements, a liability is reported only for to the extent of the amount actually due at year end as a result of employee resignations/retirements. Compensated absences are a reconciling item between the fund level and district-wide presentations.

Fund Equity

Fund balance restrictions are used to indicate that portion of the fund balance that is not available for expenditures or is legally segregated for a specific future use. Designations of portions of the fund balances are established to indicate tentative plans for financial utilization in a future period. The unreserved fund balances represent the amount available for future budgetary operations.

Unrestricted retained earnings represent the remains of the District's equity in the cumulative earnings of the food service fund.

Unearned Revenue

Unearned revenue in the special revenue and proprietary funds represents funds which have been received but not yet earned. A corresponding accounts receivable has also been established for any open encumbrances at year end which is an allowable practice under generally accepted accounting principles.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the district-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long term debt is recognized as a liability on the fund financial statements when due.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

GASB 63 provides guidance for reporting net position in the statement of financial position and related disclosures. In compliance with GASB 63, the Statement of Net Assets has been renamed the Statement of Net Position. Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Fund Balance – 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. The District reports the Capital Reserve, Emergency Reserve, Maintenance Reserve and Excess Surplus as Restricted Fund Balance.

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. The District reports Year End Encumbrances as Assigned Fund Balance.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance – Governmental Funds (Continued)

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:

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.

The general fund is the only fund that will report a negative unassigned fund balance. For all other governmental funds the amount of a residual deficit would be classified as unassigned.

Revenues Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means within sixty days of the fiscal year end. Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, property taxes, grants, entitlements, and donations.

On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from property taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal yearend: property taxes available as an advance, interest, and tuition.

Proprietary Funds Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the School District enterprise funds are charges to customers. Operating expenses for enterprise funds include the cost of sales and services, administrative expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Allocation of Indirect Expenses

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses are allocated to functions but are reported separately in the Statement of Activities. Employee benefits, including the employer's share of social security, workers compensation, and medical and dental benefits, were allocated based on salaries of the program. Depreciation expense, where practicable, is specifically identified by function and is included in the indirect expense column of the Statement of Activities

Extraordinary and Special Items

Extraordinary items are transactions or events that are unusual in nature and infrequent of occurrence. Special items are transactions or events that are within control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions

In fiscal year 2015, the District implemented GASB 68. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting for pensions by state and local governments. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement is effective for periods beginning after June 15, 2014.

The District has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualify for reporting in this category, deferred amounts related to pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies in this category, deferred amounts related to pension.

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Board considers petty cash, change funds, cash in banks and short term investments with original maturities of three months or less as cash and cash equivalents.

Deposits

New Jersey statutes permit the deposit of public funds in public depositories which are located in New Jersey and which meet the requirements of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires a bank that accepts public funds to be a public depository. A public depository is defined as a state bank, a national bank, or a savings bank, which is located in the State of New Jersey, the deposits of which are insured by the Federal Deposit Insurance Corporation. The statutes also require public depositories to maintain collateral for deposits of public funds that exceed certain insurance limits.

Each depository participating in the GUDPA system must pledge collateral equal to 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of 75% of its capital funds. No collateral is required for amounts covered by FDIC insurance. The collateral which may be pledged to support these deposits includes obligations of the State and federal governments, insured securities and other collateral approved by the Department. When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the Department of Banking and Insurance requires additional collateral to be pledged. Under (GUDPA), 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 the deposits to the governmental unit.

The Township of Montgomery School District had the following cash and cash equivalents at June 30, 2015:

	Cash in Bank	Reconciling Items	Reported Total
General Fund	$ 8,619,869.11	(695,888.07)	$ 7,923,981.04
Special Revenue Fund			0.00
Capital Projects Fund	2,134,112.28		2,134,112.28
Debt Service Fund	3.45		3.45
Enterprise Funds	898,494.74	(3,931.50)	894,563.24
Fiduciary Funds	3,693,577.30	(241,896.11)	3,451,681.19
	$ 15,346,056.88	(941,715.68)	$ 14,404,341.20

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits (Continued)

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The District does not have a specific deposit policy for custodial credit risk other than those policies that adhere to the requirements of statute. As of June 30, 2015, based upon the coverage provided by FDIC and NJGUDPA, no amount of the bank balance was exposed to custodial credit risk. Of the cash on balance in the bank, $500,000.00 was covered by Federal Depository Insurance and $14,846,056.88 was covered under the provisions of NJGUDPA.

Investments

The purchase of investments by the Board is strictly limited by the express authority of the N.J.S.A. 18A:20-37 Education, Administration of School Districts. Permitted investments include any of the following type of securities:

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

2. Government money market mutual funds which are purchased from an investment company or investment trust which is registered with the Securities and Exchange Commission under the "Investment Company Act of 1940," 15 U.S.C. 80a-1 et seq., and operated in accordance with 17 C.F.R. § 270.2a-7 and which portfolio is limited to U.S. Government securities that meet the definition of an eligible security pursuant to 17 C.F.R. § 270.2a-7 and repurchase agreements that are collateralized by such U.S. Government securities in which direct investment may be made pursuant to paragraphs (1) and (3) of N.J.S.A. 18A:20-37. These funds are also required to be rated by a nationally recognized statistical rating organization.

3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

Investments (Continued)

4. Bonds or other obligations of the Local Unit or bonds or other obligations of school districts of which the Local Unit is a part or within which the school district is located.

5. Bonds or other obligations, having a maturity date not more than 397 days from date of purchase, approved by the Division of Investment of the Department of Treasury for investment by School Districts;

6. Local government investment pools that are fully invested in U.S. Government securities that meet the definition of eligible security pursuant to 17 C.F.R. § 270a-7 and repurchase agreements that are collateralized by such U.S. Government securities in which direct investment may be made pursuant to paragraphs (1) and (3) of N.J.S.A. 18A:20-37. This type of investment is also required to be rated in the highest category by a nationally recognized statistical rating organization.

7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C. 52:18A-90.4); or

8. Agreements for the repurchase of fully collateralized securities if:

   a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection;

   b. the custody of collateral is transferred to a third party;

   c. the maturity of the agreement is not more than 30 days;

   d. the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C. 17:19-41); and

   e. a master repurchase agreement providing for the custody and security of collateral is executed.

At June 30, 2015, the District had no outstanding investments.

Based upon the limitation set forth by New Jersey Statutes 18A:20-37 and its existing investment practices, the District is generally not exposed to credit risks, custodial credit risks, concentration of credit risks and interest rate risks for its investments, nor is it exposed to foreign currency risks for its deposits and investments.

Township of Montgomery School District
Notes to the Financial Statements
June 30, 2015

NOTE 3: CHANGE IN CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental activities:				
Capital assets that are not depreciated:				
Land	$ 6,760,785.00	$	$	$ 6,760,785.00
Construction in progress	1,674,932.02	1,503,224.55		3,178,156.57
Total capital assets that are not depreciated	$ 8,435,717.02	$ 1,503,224.55	$	$ 9,938,941.57
Capital assets being depreciated:				
Site improvements	$ 7,870,713.80	$	$	$ 7,870,713.80
Building and building improvements	135,082,522.20	4,347.16		135,086,869.36
Machinery and equipment	10,771,902.41	687,529.56	(750,438.00)	12,209,869.97
Total capital assets being depreciated	$ 153,725,138.41	$ 691,876.72	$ (750,438.00)	$ 155,167,453.13
Total gross assets	$ 162,160,855.43	$ 2,195,101.27	$ (750,438.00)	$ 165,106,394.70
Less: accumulated depreciation for:				
Site improvements	$ (3,099,086.97)	$ (362,222.80)	$	$ (3,461,309.77)
Building and building improvements	(33,704,233.05)	(3,407,659.21)		(37,111,892.26)
Machinery and equipment	(8,208,375.25)	(619,209.55)	750,438.00	(9,578,022.80)
	$ (45,011,695.27)	$ (4,389,091.56)	$ 750,438.00	$ (50,151,224.83)
Governmental activities capital assets, net	$ 117,149,160.16	$ (2,193,990.29)	$	$ 114,955,169.87
Business type activities:				
Machinery and equipment	$ 873,146.46	$ 56,999.60	$	$ 930,146.06
Less: accumulated depreciation	(618,488.51)	(43,783.39)		(662,271.90)
Proprietary fund capital assets, net	$ 254,657.95	$ 13,216.21	$	$ 267,874.16

Depreciation was charged to the following expense functions of the district:

Instruction:	
Regular	$ $2,277,803.43
Special	212,071.35
Other	10,996.29
Support Services:	
Student and Instruction related services	102,108.43
General and business related services	620,505.07
Plant operations & maintenance	144,522.70
Transportation	942,539.35
Unallocated	78,544.94
Total Depreciation Expenses, Governmental Activities	$ 4,389,091.56

NOTE 4: LONG-TERM LIABILITIES

Bonds are issued by the District pursuant to the provisions of Title 18A, Education, of the New Jersey Statutes and are required to be approved by the voters of the municipality through referendum. The proceeds of bonds are recorded in the Capital Projects Fund and are restricted to the use for which they were approved in the bond referendum. All bonds are retired in annual installments within the statutory period of usefulness.

School Bonds issued by the District are entitled to and benefit from the provision of the New Jersey School Board Reserve Act P.L. 1980 c.72. Basically, funds are held by the State of New Jersey within its State Fund for the Support of Free Public Schools as a school bond reserve pledged by law to secure payment of principal and interest due on such bonds in the event of the inability of the issuer to make payments.

The following is a summary of changes in liabilities that effect other long-term obligations for the year ended June 30, 2015:

	June 30, 2014	Additions	Reductions	June 30, 2015	Within One Year
Bonds Payable	$ 67,665,000.00		$ 3,815,000.00	$ 63,850,000.00	$ 3,885,000.00
Unamortized Bond Premium	1,089,337.96		90,778.16	998,559.80	
Capital Leases Payable	7,865,231.85	$ 388,426.48	970,918.99	7,282,739.34	994,557.05
Compensated Absences	973,383.50		54,727.05	918,656.45	91,865.65
Net Pension Liability	20,548,898.00	323,320.00	-	20,872,218.00	-
	$ 98,141,851.31	$ 711,746.48	$ 4,931,424.20	$ 93,922,173.59	$ 4,971,422.70

Capital Leases Payable:

The Board has entered into various capital leases for copier equipment and school buses. The following is a schedule of the future minimum lease payments under capital leases, and the present value of the net minimum lease payments at June 30, 2015:

Year	Amount
2016	$ 1,220,681.97
2017	1,132,638.05
2018	1,011,208.13
2019-2024	5,011,408.28
Total Minimum Lease Payments	$ 8,375,936.43
Less: Amounts Representing Interest	1,093,197.09
Present Value of Minimum Lease Payments	$ 7,282,739.34

NOTE 4: LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize all debt outstanding as of June 30, 2015, including interest payments on issued debt, are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2016	$ 3,885,000.00	$ 2,609,430.02	$ 6,494,430.02
2017	3,975,000.00	2,472,005.02	6,447,005.02
2018	4,085,000.00	2,310,251.89	6,395,251.89
2019	4,225,000.00	2,129,908.76	6,354,908.76
2020	4,365,000.00	1,940,293.76	6,305,293.76
2021	4,495,000.00	1,763,993.76	6,258,993.76
2022	4,630,000.00	1,582,968.76	6,212,968.76
2023	4,770,000.00	1,396,658.76	6,166,658.76
2024	4,910,000.00	1,204,128.76	6,114,128.76
2025	5,070,000.00	995,188.76	6,065,188.76
2026	3,845,000.00	799,793.76	4,644,793.76
2027	2,850,000.00	659,225.00	3,509,225.00
2028	2,980,000.00	541,662.50	3,521,662.50
2029	3,110,000.00	415,012.50	3,525,012.50
2030	3,255,000.00	282,837.50	3,537,837.50
2031	3,400,000.00	144,500.00	3,544,500.00
	$ 63,850,000.00	$ 21,247,859.51	$ 85,097,859.51

NOTE 4: LONG-TERM DEBT (CONTINUED)

The Bonds Issued and Outstanding at year end are comprised of the following issues:

$46,200,000 of 2007 Refunding bonds due in remaining annual installments of $495,000 to $3,400,000 through April 2031 at interest rates of 4.0% to 5.0%	$	39,925,000.00
$14,125,000 of 2010 bonds due in remaining annual installments of $895,000 to $1,330,000 through September 2024 at interest rates of 2% to 3.3%		10,990,000.00
$17,215,000 of 2011 Refunding bonds due in remaining annual installments of $1,110,000 to $1,325,000 through September 2024 at interest rates of 2% to 5.0%		12,935,000.00
	$	63,850,000.00

Under New Jersey Statutes the District may incur debt in an amount not to exceed 4% of the averaged equalized valuation basis of real property. For the fiscal year ended June 30, 2015, the District borrowing capacity under N.J.S. 18A:24-19 would be as follows:

Year	Equalized Valuation of Real Property
2014	$4,522,415,136.00
2013	4,559,222,524.00
2012	4,727,545,618.00
	$13,809,183,278.00
Average equalized valuation of property	$4,603,061,092.67
School borrowing margin (4% of $4,603,061,092.67)	$184,122,443.71
Net bonded school debt and authorized but not issued as of June 30, 2015	63,850,000.00
School borrowing power available	$120,272,443.71

Bonds Authorized But Not Issued

As of June 30, 2015, the District had $739,763 bonds authorized but not issued.

NOTE 5: 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 Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

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.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provision 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 under the provision of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one year of membership.

NOTE 5: PENSION PLANS (CONTINUED)

Significant Legislation

Effective June 28, 2011, P.L. 2011, c. 78 enacted certain changes in the operations and benefit provisions of the TPAF and the PERS systems.

Pension Plan Design Changes

Effective June 28, 2011, P.L. 2011, c. 78, new members of TPAF and PERS, hired on or after June 28, 2011, will need 30 years of creditable service and have attained the age of 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. New members will be eligible for a service retirement benefit at age 65.

Funding Changes

Under the new legislation, the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS, and TPAF. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30 year period and paid in level dollars. Beginning with the July 1, 2019 actuarial valuation (July 1, 2018 for PFRS), the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20 year period.

COLA Suspension

The payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries are suspended until reactivated as permitted by this law.

Vesting and Benefit Provisions The vesting and benefit provisions of 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 ten years of service, except for post-retirement healthcare benefits that vest after 25 years of service.

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.

NOTE 5: PENSION PLANS (CONTINUED)

Contribution Requirements The contribution policy is set by N.J.S.A. 43:15A 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.

Effective June 28, 2011, P.L. 2011, c. 78 provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for TPAF and PERS.

Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the District is a non-contributing employer of TPAF (*i.e.* the State of new Jersey makes the employer contribution on behalf of public school districts.

PERS Contribution Requirements

Year June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2015	$ 952,155.00	100.00%	$ 952,155.00
2014	839,663.00	100.00%	839,663.00
2013	808,471.00	100.00%	808,471.00

During the fiscal years ended June 30, 2015, 2014, and 2013, the State of New Jersey contributed $1,659,274.00, $1,285,170.00, and $2,007,635.00, respectively to the TPAF pension system on behalf of the District.

In accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District $2,453,025.98 during the year ended June 30, 2015 for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. This amount has been included in the basic financial statements, and the governmental fund statements and schedules as a revenue and expenditure in accordance with GASB 68.

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68

Public Employees Retirement System (PERS)

At June 30, 2015, the District reported a liability of $20,872,218.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2014, the District's proportion was 0.1114806015 percent, which was an increase of 0.0039622258 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of $1,190,213.00 At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Inflow of Resources	Deferred Outflow of Resources
Changes of assumptions		656,335.00
Net difference between projected and actual earnings on pension plan investments	1,243,871.00	
Changes in proportion and differences between District contributions and proportionate share of contributions		639,673.00
District contributions subsequent to the measurement date		982,471.00
	1,243,871.00	2,278,479.00

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (Continued)

Public Employees Retirement System (PERS) (Continued)

The $982,471.00 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2015, the plan measurement date is June 30, 2014) will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2016	($190,317.95)
2017	($190,317.95)
2018	($190,317.95)
2019	$120,649.74
Thereafter	$53,085.88

Additional Information

Collective balances at June 30, 2013 and 2014 are as follows:

	6/30/2014	6/30/2013
Collective deferred outflows of resources	$952,194,675	Not Available
Collective deferred inflows of resources	1,479,224,662	Not Available
Collective net pension liability	18,722,735,003	19,111,986,911
District's Proportion	0.1114806015%	0.1075183757%

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which rolled forward to June 30, 2014. The total pension liability for the July 1, 2013 measurement date was determined by an actuarial valuation as of July 1, 2013. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	3.01 Percent
Salary Increases	
2012-2021	2.15-4.40 Percent (based on age)
Thereafter	3.15-5.40 Percent (based on age)
Investment Rate of Return	7.90 Percent

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	6.00%	0.80%
Core Bond	1.00%	2.49%
Intermediate Term Bonds	11.20%	2.26%
Mortgages	2.50%	2.17%
High Yield Bonds	5.50%	4.82%
Inflation Indexed Bonds	2.50%	3.51%
Broad U.S. Equities	25.90%	8.22%
Developed Foreign Markets	12.70%	8.12%
Emerging Market Equities	6.50%	9.91%
Private Equity	8.25%	13.02%
Hedge Funds/Absolute Returns	12.25%	4.92%
Real Estate (Property)	3.20%	5.80%
Commodities	2.50%	5.35%
	100.00%	

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.39% and 5.55% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2014 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1-percentage-point higher than the current rate:

	June 30, 2014		
	1% Decrease 4.39%	At Current Discount Rate 5.39%	1% Increase 6.39%
District's proportionate share of the pension liability	26,257,960.00	20,872,218.00	16,349,564.00

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS).

Teachers Pensions and Annuity Fund (TPAF)

The employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the net pension liability that is associated with the local participating employer.

The portion of the TPAF Net Pension Liability that was associated with the District recognized at June 30, 2015 was as follows:

Net Pension Liability:	
Districts proportionate share	-0-
State's proportionate share associated with the District	$176,699,179
	$176,699,179

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The net pension liability associated with the District was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2014, the proportion of the TPAF net pension liability associated with the District was .3306079318%.

For the year ended June 30, 2015, the District recognized on-behalf pension expense and revenue of $15,228,992 for contributions provided by the State.

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (continued)

Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July l, 2013, which was rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of July I, 2013. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	2.50%
Salary increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment rate of return	7.90%

Mortality rates

Mortality rates were based on the RP-2000 Health Annuitant M01tality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement. The actuarial assumptions used in the July l, 2013 valuation were based on the results of an actuarial experience study for the period July l, 2009 to June 30, 2012.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2014 are summarized in the following table:

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	6.00%	0.50%
Core Fixed Income	0.00%	2.19%
Core Bonds	1.00%	1.38%
Short-Term Bonds	0.00%	1.00%
Intermediate- Term Bonds	11.20%	2.60%
Long-Term Bonds	0.00%	3.23%
Mortgages	2.50%	2.84%
High Yield Bonds	5.50%	4.15%
Non-US Fixed Income	0.00%	1.41%
Inflation-Indexed Bonds	2.50%	1.30%
Broad US Equities	25.90%	5.88%
Large Cap US Equities	0.00%	5.62%
Mid cap US Equities	0.00%	6.39%
Small Cap US Equities	0.00%	7.39%
Developed Foreign Equities	12.70%	6.05%
Emerging Market Equities	6.50%	8.90%
Private Equity	8.25%	9.15%
Hedge Funds Absolute Return	12.25%	3.85%
Real Estate (Property)	3.20%	4.43%
Real Estate (REITS)	0.00%	5.58%
Commodities	2.50%	3.60%
Long Credit Bonds	0.00%	3.74%
	100.00%	

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.68% and 4.95% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability,

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Because the District's proportionate share of the net pension liability is zero, consideration of potential changes in the discount rate is not applicable to the District.

NOTE 7: OTHER POST-RETIREMENT BENEFITS

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those state employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees. As of June 30, 2014 there were 103,432 retirees eligible for post-retirement medical benefits, and the State contributed $1.04 billion on their behalf. The cost of these benefits is funded through contributions by the state in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to Chapter 126, P.L. 1992, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid $165.8 million toward Chapter 126 benefits for 18,122 eligible retired members in Fiscal Year 2014.

The State will set the contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to the State Health Benefits Program Fund for TPAF retirees' post-retirement benefits on behalf of the School District for the years ended June 30, 2015, 2014, and 2013 were $2,823,612.00, $2,293,189.00, and $2,389,568.00, respectively, which equaled the required contributions for each year.

NOTE 8: LITIGATION

The Board attorney's letter advises that there is no litigation, pending litigation, claims, contingent liabilities, unasserted claims or assessments or statutory violations which involve the Board of Education and which might materially affect the Board's financial position.

NOTE 9: CONTINGENCIES

The Board receives financial assistance from the State of New Jersey and the U.S. Government in the form of grants. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. The State and Federal grants received and expended in the 2014-2015 fiscal year were subject to the U.S. OMB A-133 and New Jersey OMB Circular 04-04 which mandates that grant revenues and expenditures be audited in conjunction with the Board's annual audit. Findings and questioned costs, if any, relative to federal awards and state financial assistance programs will be discussed in the Single Audit Section, Schedule of Findings and Questioned Costs. In addition, all grants and cost reimbursements are subject to financial and compliance audits by the grantors. Further, the School Child Nutrition Program is a recipient of federal reimbursements and is subject to certain related federal regulations. These federal reimbursements are subject to subsequent audit and interpretation by the New Jersey Department of Education. The Board management does not believe such an audit would result in material amounts of disallowed costs.

NOTE 10: 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. The District maintains commercial coverage covering each of those risks of loss. The administration believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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 table 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 previous two years:

Fiscal Year	Interest Earned	Board &Employee Contributions	Amount Reimbursed	Ending Balance
2014-15	$	$ 124,796.53	$ 96,959.85	$ 525,578.48
2013-14		123,359.99	134,948.52	497,741.80
2012-13		309,861.62	143,577.55	509,330.33

NOTE 11: FUND BALANCE APPROPRIATED – BUDGETARY BASIS

General Fund - Of the $8,912,891.78 in General Fund Balance at June 30, 2015, $517,684.66 has been restricted in the Capital Reserve Account; $220,000.00 has been restricted as Emergency Reserve; $3,169,671.24 has been restricted as excess surplus resulting from the year ended June 30, 2014; $3,170,543.38 has been restricted as excess surplus resulting from the year ended June 30, 2015; and $1,834,992.50 is unassigned.

NOTE 12: CALCULATION OF EXCESS SURPLUS

The designation for Reserved Fund Balance Excess Surplus is a required calculation in accordance with N.J.S.A.18A:7F-7. New Jersey school districts are required to reserve General 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 combined excess fund balance resulting from the years ended June 30, 2015 and 2014 is $6,340,214.62.

Township of Montgomery School District
Notes to the Financial Statements
June 30, 2015

NOTE 12: CALCULATION OF EXCESS SURPLUS (CONTINUED)

General Fund Expenditures Fiscal Year Ended June 30, 2015	$80,966,636.70
Add:	
Transfer from Capital Outlay to Capital Projects Fund	370,054.00
Less:	
On-behalf TPAF Pension and Social Security Reimbursement and assets acquired under capital leases	7,443,715.46
Adjusted General Fund Expenditures	73,892,975.24
Excess Surplus Percentage	2.00%
2% of Adjusted 2014-15 General Fund Expenditures	1,477,859.50
Add: Allowable Adjustments	357,133.00
Maximum Unreserved/Undesignated Fund Balance	1,834,992.50
Actual Unreserved/Undesignated Fund Balance	5,005,535.88
General Fund Expenditures: Excess Surplus	$3,170,543.38

NOTE 13: CAPITAL RESERVE ACCOUNT

A capital reserve account was originally established by the Township of Montgomery School District by inclusion of $100.00 on September 25, 2000, 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. The balance remaining in the reserve as of June 30, 2015 is $517,684.66.

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. 6A:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

NOTE 13: CAPITAL RESERVE ACCOUNT (CONTINUED)

The activity of the capital reserve for the July 1, 2014 to June 30, 2015 fiscal year is as follows:

Beginning balance, July 1, 2014	$217,684.66
Increased by:	
Board resolution	300,000.00
Ending balance, June 30, 2015	$517,684.66

NOTE 14: DEFERRED COMPENSATION

The District offers its employees a choice of the deferred compensation plans created in accordance with Internal Revenue Code Section 403(b) and 457. The plans 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. Since the District does not have any property or rights to the plan assets and no fiduciary relationship exists between the District and the deferred compensation plan, the plan assets are not included in the District's financial statements as of June 30, 2015.

NOTE 15: INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances remained on the balance sheet at June 30, 2015:

	Interfund Balance	
Fund	Receivable	Payable
General Fund	$ 26,668.80	$ 6,343.00
Special Revenue Fund		26,668.80
Fiduciary Fund	6,343.00	
	$ 33,011.80	$ 33,011.80

All balances resulted from the time lag between the dates that short-term loans were disbursed and payments between funds were received.

NOTE 16: SUBSEQUENT EVENTS

The District has evaluated subsequent events occurring after the financial statement date through December 7, 2015 which is the date the financial statements were available to be issued. Based upon this evaluation, the District has determined that there are no material subsequent events needed to be disclosed.

NOTE 17: RESTATEMENT

As stated in Note 6 in FY2015 the District implemented GASB 68. In addition, Net Investment in Capital Assets was adjusted to properly reflect the District's treatment of refunded debt in accordance with GASB 65. As a result the District's Net Position at June 30, 2014 was restated as follows:

		Governmental Activities
Beginning Net Position 06/30/14	$	52,350,659.17
Adjustments:		
Restatement of Refunding Debt		590,722.34
Recognition of Net Pension Liability		(20,548,898.00)
Beginning Net Position 06/30/14 (As restated)	$	32,392,483.51

APPENDIX C

FORM OF APPROVING LEGAL OPINION

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75 Livingston Avenue, Roseland, NJ 07068 (973) 622-1800

_________, 2016

The Board of Education of the
Township of Montgomery in the
County of Somerset, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the Township of Montgomery in the County of Somerset, New Jersey (the "Board of Education") in connection with the issuance by the Board of Education of $18,502,000 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 5, 2016 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on March 8, 2016 and (iii) a resolution duly adopted by the Board of Education on March 15, 2016. 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,