

OFFICIAL STATEMENT DATED JULY 19, 2017

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
BOROUGH OF FREEHOLD
IN THE COUNTY OF MONMOUTH, NEW JERSEY
\$15,605,000 SCHOOL BONDS
(Book-Entry-Only) (Callable)**

Dated: Date of Delivery**Due:** August 15, as shown below

The \$15,605,000 School Bonds (the "Bonds") of The Board of Education of the Borough of Freehold in the County of Monmouth, 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 February 15 and August 15 in each year until maturity, or earlier redemption, commencing on August 15, 2018. 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 February 1 and August 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.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by MUNICIPAL ASSURANCE CORP.

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

| <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIPS*</u> | <u>Year</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIPS*</u> |
|-------------|-------------------------|----------------------|--------------|----------------|-------------|-------------------------|----------------------|--------------|----------------|
| 2019 | \$450,000 | 2.50% | 1.10% | 356464DZ7 | 2029 | \$900,000 | 3.00% | 2.80% | 356464EK9 |
| 2020 | 480,000 | 2.50 | 1.25 | 356464EA1 | 2030 | 900,000 | 3.00 | 2.90 | 356464EL7 |
| 2021 | 510,000 | 2.50 | 1.40 | 356464EB9 | 2031 | 900,000 | 3.00 | 2.95 | 356464EM5 |
| 2022 | 810,000 | 2.50 | 1.50 | 356464EC7 | 2032 | 900,000 | 3.00 | 3.00 | 356464EN3 |
| 2023 | 825,000 | 2.50 | 1.70 | 356464ED5 | 2033 | 900,000 | 3.00 | 3.04 | 356464EP8 |
| 2024 | 855,000 | 2.50 | 1.85 | 356464EE3 | 2034 | 900,000 | 3.00 | 3.08 | 356464EQ6 |
| 2025 | 875,000 | 3.00 | 2.00 | 356464EF0 | 2035 | 900,000 | 3.00 | 3.12 | 356464ER4 |
| 2026 | 900,000 | 3.00 | 2.20 | 356464EG8 | 2036 | 900,000 | 3.00 | 3.15 | 356464ES2 |
| 2027 | 900,000 | 3.00 | 2.40 | 356464EH6 | 2037 | 900,000 | 3.00 | 3.17 | 356464ET0 |
| 2028 | 900,000 | 3.00 | 2.60 | 356464EJ2 | | | | | |

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 Municipal Advisor in connection with the issuance of the Bonds. Delivery is anticipated to be via DTC in New York, New York on or about August 17, 2017.

ROOSEVELT & CROSS, INC. AND ASSOCIATES

* CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by S&P Capital IQ's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Board does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**THE BOARD OF EDUCATION OF THE
BOROUGH OF FREEHOLD
IN THE COUNTY OF MONMOUTH, NEW JERSEY**

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Joseph Howe

BOARD AUDITOR

Samuel Klein and Company
Freehold, New Jersey

SOLICITOR

Cleary, Giaccobe, Alfieri & Jacobs, LLC
Oakland, New Jersey

MUNICIPAL ADVISOR

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 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.

Municipal Assurance Corp. ("MAC") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, MAC has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding MAC supplied by MAC and presented under the heading "BOND INSURANCE" and "Appendix D - Specimen Municipal Bond Insurance Policy".

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**OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION OF THE
BOROUGH OF FREEHOLD
IN THE COUNTY OF MONMOUTH, NEW JERSEY**

**\$15,605,000
SCHOOL BONDS
(BOOK-ENTRY-ONLY) (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 Borough of Freehold in the County of Monmouth, 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) in connection with the sale and issuance of its \$15,605,000 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 August 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 February and August, commencing on August 15, 2018 (each an "Interest Payment Date"), in each of the years and at the interest rates set forth on the front cover page hereof in each year until maturity, or earlier redemption, by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each February 1 and August 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 Cede & Co. (or any successor or assign) 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 August 15, 2026 are not subject to redemption prior to maturity. The Bonds maturing on or after August 15, 2026 shall be subject to redemption at the option of the Board, in whole or in part, on any date on or after August 15, 2025 at a price of 100% of the Bonds to be redeemed (the "Redemption Price"), 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 except to the extent that enforcement of such payment may be limited by bankruptcy, insolvency or other similar laws on equitable principles effecting the enforcement of creditors' rights general.

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

All school bonds are secured by the School Bond Reserve established in the Fund for the Support of Free Public Schools of the State of New Jersey (the "Fund") in accordance with the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c. 72, approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003 (the "Act")). Amendments to the Act provide that the Fund will be divided into two School Bond Reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited

by a School Bond Reserve account funded in an amount equal to 1-1/2% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued prior to July 1, 2003 (the "Old School Bond Reserve Account") and all bonds, including the Bonds, issued on or after July 1, 2003 shall be benefited by a School Bond Reserve account equal to 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued on or after July 1, 2003 (the "New School Bond Reserve Account"), provided such amounts do not exceed the moneys available in the Fund. If a municipality, county or school district is unable to make payment of principal of or interest on any of its bonds issued for school purposes, the trustees of the Fund will purchase such bonds at par value and will pay to the bondholders the interest due or to become due within the limits of funds available in the applicable School Bond Reserve account in accordance with the provisions of the Act.

The Act provides that the School Bond Reserve shall be composed entirely of direct obligations of the United States government or obligations guaranteed by the full faith and credit of the United States government. Securities representing at least one-third of the minimal market value to be held in the School Bond Reserve shall be due to mature within one year of issuance or purchase. Beginning with the fiscal year ending on June 30, 2003 and continuing on each June 30 thereafter, the State Treasurer shall calculate the amount necessary to fully fund the Old School Bond Reserve Account and the New School Bond Reserve Account as required pursuant to the Act. To the extent moneys are insufficient to maintain each account in the Reserve at the required levels, the State agrees that the State Treasurer shall, no later than September 15 of the fiscal year following the June 30 calculation date, pay to the trustees for deposit in the School Bond Reserve such amounts as may be necessary to maintain the Old School Bond Reserve Account and the New School Bond Reserve Account at the levels required by the Act. No moneys may be borrowed from the Fund to provide liquidity to the State unless the Old School Bond Reserve Account and New School Bond Reserve Account each are at the levels certified as full funding on the most recent June 30 calculation date. The amount of the School Bond Reserve in each account is pledged as security for the prompt payment to holders of bonds benefited by such account of the principal of and the interest on such bonds in the event of the inability of the issuer to make such payments. In the event the amounts in either the Old School Bond Reserve Account or the New School Bond Reserve Account fall below the amount required to make payments on bonds, the amounts in both accounts are available to make payments for bonds secured by the reserve.

The Act further provides that the amount of any payment of interest or purchase price of school bonds paid pursuant to the Act shall be deducted from the appropriation or apportionment of State aid, other than certain State aid which may be otherwise restricted pursuant to law, payable to the 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 November 11, 2016, S&P Global Ratings, acting through Standard & Poor's Financial Services LLC, downgraded the School Bond Reserve rating from "A (negative)" to "A- (negative)". Moody's Investors Service, Inc. has downgraded the School Bond Reserve rating from "A2 (negative)" to "A3 (stable)" on April 4, 2017.

AUTHORIZATION AND PURPOSE

The Bonds have been authorized and are being issued pursuant to Title 18A, Chapter 7G of the New Jersey Statutes (N.J.S.A. 18A:7G-12 et seq.), by virtue of the approval by the New Jersey Office of Administrative Law Judge by an order directing the issuance of bonds pursuant to N.J.S.A. 18A:7G-12 (3 OAI DKT. NO. EDU 8980-15 dated December 16, 2015), by the Commissioner of Education's Ruling (#291-16 dated August 4, 2016) and by a resolution duly adopted by the Board on June 19, 2017 (the "Resolution").

The purpose of the Bonds is to: (i) provide \$2,000,000 to currently refund the Board's \$2,000,000 Temporary Notes, dated July 27, 2017 and maturing August 18, 2017, originally issued to finance a portion

of the Board's local share of the costs of rehabilitation of the Freehold Learning Center, the Park Avenue Elementary School and the Freehold Intermediate School (the "Renovation Project"); and (ii) permanently finance the cost of the Renovation Project by the Board in the amount of \$13,605,000.

The Board is authorized to expend an amount not-to-exceed \$41,251,535 for the total project which includes the Renovation Project and new construction, of which: (i) \$25,645,850 is expected to be funded by grants from the State for the new construction and expansions at Freehold Learning Center, the Park Avenue Elementary School and the Freehold Intermediate School; (ii) \$685 is expected to be funded by monies allocated from the Board's capital reserve account; and (iii) \$15,605,000 for the Renovation Project will be funded with the proceeds of the Bonds.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Municipal Assurance Corp. ("MAC") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York or Connecticut insurance law.

Municipal Assurance Corp.

MAC is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of the shareholders or affiliates of AGL, other than MAC, is obligated to pay any debts of MAC or any claims under any insurance policy issued by MAC.

MAC is wholly owned by Municipal Assurance Holdings Inc., which, in turn, is owned 61% by Assured Guaranty Municipal Corp. and 39% by Assured Guaranty Corp.

MAC's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") and "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA"). Each rating of MAC should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of MAC in its sole discretion. In addition, the rating agencies may at any time change MAC's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by MAC. MAC only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by MAC on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On July 14, 2017, KBRA issued a financial guaranty surveillance report in which it affirmed the insurance financial strength rating of “AA+”, with a Stable Outlook, of MAC. MAC can give no assurance as to any further ratings action that KBRA may take.

On June 26, 2017, S&P issued a research update report in which it affirmed MAC’s financial strength rating of “AA” (stable outlook). MAC can give no assurance as to any further ratings action that S&P may take.

For more information regarding MAC’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Capitalization of MAC

As of March 31, 2017, MAC’s policyholders’ surplus and contingency reserve were approximately \$753 million and its unearned premium reserve was approximately \$310 million, in each case, determined in accordance with statutory accounting principles.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to MAC are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (filed by AGL with the SEC on February 24, 2017); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017 (filed by AGL with the SEC on May 5, 2017).

All financial statements of MAC and all other information relating to MAC included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Municipal Assurance Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL’s website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding MAC included herein under the caption “BOND INSURANCE – Municipal Assurance Corp.” or included in a document incorporated by reference herein (collectively, the “MAC Information”) shall be modified or superseded to the extent that any subsequently included MAC Information (either directly or through incorporation by reference) modifies or supersedes such previously included MAC Information. Any MAC Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

MAC makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, MAC has not independently verified, makes no representation regarding, and does not accept

any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding MAC supplied by MAC and presented under the heading “BOND INSURANCE”.

BOOK-ENTRY-ONLY SYSTEM¹

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

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

¹ Source: The Depository Trust Company

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

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

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

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

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

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

THE BOARD WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, OR THE INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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

Discontinuance of Book-Entry-Only System

In the event that the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the 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 Borough of Freehold (the "Borough") located in the County of Monmouth (the "County"), in the state of New Jersey (the "State"). The School District serves students in pre-kindergarten through eighth (8th) grade.

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 Borough of Freehold."

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 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 all fiscal matters.

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

Under the Uniform Services and Consolidation Act, the Executive County Superintendent is required to eliminate non-operating school districts and to recommend consolidation to eliminate districts through the establishment or enlargement of regional school districts, subject to voter approval.

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

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

In a Type II school district, the elected board of education develops the budget proposal and, at or after a public hearing, submits it for voter approval unless the board has moved its annual election to November as discussed below. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing body of the Borough must develop the school budget by May 19 of each year. Should the governing body 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 or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters, is filed with the board. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four years.

School districts that opt to move the annual school election to November 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 for the New Cap Law. For school districts that opt to change the annual school election date to November, proposals to spend above the two-percent property tax levy cap would be presented to voters at the annual school election in November.

The Board has chosen to move its election to November and has not exceeded its two-percent property tax levy cap.

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

P.L. 2007, c. 62 was deemed to supersede the prior limitations on the amount school districts could increase their annual current expenses and capital outlay budgets, 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 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 is required to provide an annual audit of the school district's accounts and financial transactions. Beginning with the year ended June 30, 2010, a licensed public school accountant must complete the annual audit no later than five months (5) after the end of the fiscal year. P.L. 2010, c. 49 amended N.J.S.A. 18A:23-1 to provide an additional month for the completion of a school district's audit. Previously the audit was required to be completed within four months. The audit, in conformity with statutory requirements, must be filed with the board of education and the Commissioner. Additionally, the

audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days following receipt of the annual audit by such board of education.

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

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

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 pre-kindergarten (Pre-K) through grade eight (8) school district, the Board can borrow up to 3% of the average equalized valuation of taxable property in the School District. The Board has not exceeded its 3% 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 Education 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 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 years 2011 through 2017 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 Every Student Succeeds Act of 2015, enacted December 10, 2015, is a federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is available under Chapter 1 Aid. Such federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

The Local Bond Law 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 Borough are general full faith and credit obligations.

The authorized bonded indebtedness of the Borough for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3-1/2% of its average equalized valuation basis.

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 Borough may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the Borough may apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the Borough or substantially reduce the ability of the Borough to meet its obligations or to provide essential public improvements and services, or if it makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the Borough 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 Borough may sell short-term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or 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. Generally, bond anticipation notes may not be outstanding for longer than ten (10) years. An additional period may be available following the tenth anniversary date equal to the period from the notes’ maturity to the end of the tenth fiscal year in which the notes mature plus four (4) months in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum required for the first year’s principal payment for a bond issue.

Local Budget Law (N. J. S. A. 40A:4-1 et seq.)

The foundation of the New Jersey local finance system is the annual cash basis budget. The Borough, which operates on a calendar year (January 1 to December 31), must adopt a budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the director of the Division (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 years' budget. Both types of transfers require a 2/3 vote of the full membership of the governing body; however, transfers cannot be made from either the down payment account or the capital improvement fund. Transfers may be made between sub-account line items within the same account at any time during the year, subject to internal review and approval. In a "CAP" budget, no transfers may be made from excluded from "CAP" appropriations to within "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 Borough to levy *ad valorem* taxes upon all taxable real property within the Borough 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 Monmouth 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 and penalties are the highest permitted under New Jersey statutes. If a delinquency is in excess of \$10,000.00 and remains in arrears after December 31st, an additional penalty of 6% shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

Tax Appeals

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

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

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

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

FINANCIAL STATEMENTS

The financial statements of the Board for the fiscal year ended June 30, 2016 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Samuel Klein and Company, Freehold, New Jersey, an independent auditor (the "Board Auditor"), as stated in its report appearing in Appendix B to this Official Statement. See "APPENDIX B – Financial Statements of the Board for the Fiscal Year Ending June 30, 2016". Such Financial Statements are included herein for informational purposes only, and the information contained in the Financial Statements should not be used to modify the description of the Bonds contained herein.

The Board Auditor has not participated in the preparation of this Official Statement except as previously stated.

LITIGATION

To the knowledge of the Board Attorney, Matthew J. Giacobbe, Esq. of Cleary, Giacobbe, Alfieri & Jacobs, LLC, Oakland, 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 Arbitrage 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 may be passed on to the Board for review by the 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

S&P and KBRA (the "Rating Agencies"), have assigned their ratings of "AA/stable outlook" and "AA+/stable outlook", respectively, to the Bonds based upon the issuance of the Insurance Policy by MAC at the time of the delivery of the Bonds. In addition, S&P has assigned an underlying rating on the Bonds of "A+/stable outlook" based upon the creditworthiness of the School District. S&P has also assigned its rating of "A-/negative outlook" to the Bonds based upon the additional security provided by the School Bond Reserve Act.

The inclusion of the Rating Agencies' "stable outlook" and "negative outlook" (the "Outlooks"), respectively, has been provided herein for informational purposes only and is not a part of the "Ratings" described in the preceding paragraph. The Outlooks are only the Rating Agencies respective forward-looking view of the Board, MAC, and the School Bond Reserve Act. The Board has no obligation to treat any change in the Outlooks as an "Event", as defined and described under the Rule or under the provisions of the Board's Continuing Disclosure Agreement, or to notify holders of the Bonds as to any changes to the Outlooks after the date hereof.

The ratings reflect only the views of the Rating Agencies and an explanation of the significance of such ratings may only be obtained from the Rating Agencies at the following addresses: 55 Water Street, New York, New York 10041 and 845 Third Avenue, New York, New York 10022, respectively. 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 Agencies' judgment, circumstances so warrant. Any downward change in, or withdrawal of, such ratings may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITING

The Bonds have been purchased from the Board at a public sale by Roosevelt & Cross, Inc. and Associates (the "Underwriter") at a price of \$15,605,000.00.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the front cover of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investments trusts) at yields higher than the public offering yields set forth on the front cover of this Official Statement, and such yields may be changed, from time to time, by the Underwriter without prior notice.

MUNICIPAL ADVISOR

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

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, 2018, 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 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 and certain financial information and operating data consisting of (1) Board indebtedness; (2) property valuation information; and (3) 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.

Within the five years immediately preceding the date of this Official Statement, the Board previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) audited financial information for the fiscal year ending June 30, 2012; (ii) operating data for the fiscal year ending June 30, 2012; and (iii) adopted budgets for fiscal years ending June 30, 2012, and 2013. Additionally, the Board previously failed to file late filing notices in connection with its untimely filings of: (i) audited financial information; (ii) operating data; (iii) adopted budgets, all as described above, and late filing notices and/or event notices in connection with (a) a bond insurer rating change in 2013; and (b) a program rating change in 2014. Such notices of events and late filings have since been filed with EMMA. The Board appointed Phoenix Advisors, LLC in October of 2014 to serve as continuing disclosure agent.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Joseph Howe, Business Administrator/Board Secretary, at 280 Park Avenue, Freehold, NJ 07728-2195, (732) 761-2105, or to the Municipal 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 such official 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 such official's 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 the 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 BOROUGH OF
FREEHOLD IN THE COUNTY OF MONMOUTH, NEW JERSEY**

By: /s/ Joseph Howe

Joseph Howe, Business Administrator/Board Secretary

Date: July 19, 2017

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APPENDIX A

**CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE SCHOOL
DISTRICT AND THE BOROUGH OF FREEHOLD**

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GENERAL INFORMATION ON THE SCHOOL DISTRICT

The Board of Education of the Borough of Freehold in the County of Monmouth, New Jersey (the “Board” or the “School District”) is a Type II school district servicing pupils from the Borough of Freehold (the “Borough”) from pre-kindergarten through grade 8. Pursuant to law, the Board adopts proposals for the issuance of debt and submits them to the legally registered voters of the School District for approval. The annual budgets are introduced and submitted to the County Superintendent of Schools for review and, if determined to be within the allowable tax levy and spending CAPS and other requirements, the budgets are approved and then finally adopted by the Board and not subject to voter approval. This has been the Board practice since the 2012-2013 school year.

Education

The Board has supervision and control over two elementary schools and one middle school providing education for grades pre-kindergarten through eight.

The Freehold High School, which provides education for students grades nine through twelve, is located in the Borough and is part of the Freehold Regional High School District, which consists of eight municipalities, of which the Borough is a charter member.

The Board is made up of nine-members duly elected by the residents of the Borough. The members are elected for a three-year overlapping term. The Board is reorganized annually at the first meeting held following the annual school election.

All Board meetings are open to the public, and the Board holds meetings on the first and third Mondays of every month, with some exceptions, at which formal action may be taken.

The general mandatory powers and duties of the Board are:

1. Adopt an official seal;
2. Enforce the rules of the State Board of Education;
3. Make, amend and repeal rules, not inconsistent with Title 18A of the New Jersey Statutes or with the rules of the State Board of Education, for its own government and the transactions of its business and for the government and management of the public schools and public school property and the district for the employment, regulation of conduct and discharge of its employees, subject, where applicable, to the provisions of Title II, Civil Service of the Revised Statutes; and
4. Perform all acts and do all things, consistent with law and the rules of the State Board of Education, necessary for the lawful and proper conduct, equipment and maintenance of the public schools of the School District.

Each member of the Board is a resident of the Borough.

School Facilities

The Board operates the following three (3) schools:

| <u>Type and Name of School</u> | <u>Grades</u> | <u>Year of Construction</u> | <u>Total Number of Classrooms</u> | <u>Enrollment as of October 15, 2016</u> |
|------------------------------------|---------------|---------------------------------|---|--|
| Elementary Schools: | | | | |
| Freehold Learning Center | Pre-K - 5 | 1974 | 39 * | 593 |
| Park Avenue | Pre-K - 5 | 1962, 1969, 1997 | 28 | 615 |
| Intermediate School | 6 - 8 | 1957, 1997 | 31 | 469 |

* Open space learning area.

Pupil Enrollment:

The following table presents historical pupil enrollments for the school years 2012-2013 through 2016-2017 and projected enrollments for 2017-2018 through 2021-2022. The current capacity of the existing school buildings is 1,148 full-time pupils.

| <u>School Year</u> | <u>Student Enrollment</u> |
|--------------------|---------------------------|
| 2012 - 2013 | 1,481 * |
| 2013 - 2014 | 1,563 |
| 2014 - 2015 | 1,628 |
| 2015 - 2016 | 1,627 |
| 2016 - 2017 | 1,638 |
| 2017 - 2018 | 1,673 |
| 2018 - 2019 | 1,667 |
| 2019 - 2020 | 1,674 |
| 2020 - 2021 | 1,668 |
| 2021 - 2022 | 1,670 |

* Includes Pre-School.

Employees and Employee Relations

The Board presently employs 237 people made up of the following: Certified Teachers and Staff - 143; Instructional and Non-Instructional Aids - 53; Clerical - 17; Administration - 10; Maintenance and Custodial - 11 and Technology - 3.

The administrative staff, with the exception of the Superintendent and Business Administrator, is represented by the Freehold Borough Administrators' Association. This group is in the second year of a three (3)-year contract.

Custodians, secretarial staff and teachers are represented by the Freehold Borough Teachers Association; the current three (3) year contract expires June 30, 2017. Negotiations are expected to have begun for a new agreement.

BOROUGH OF FREEHOLD BOARD OF EDUCATION
SUMMARY OF REVENUES AND EXPENDITURES
GENERAL FUND
FOR THE FISCAL YEARS ENDED
JUNE 30, 2012 - 2016

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Fund Balances, July 1 | \$ <u>2,500,077.24</u> | \$ <u>1,828,567.93</u> | \$ <u>1,822,595.60</u> | \$ <u>1,936,402.34</u> | \$ <u>899,019.81</u> |
| Revenues: | | | | | |
| State Aid | \$ 11,950,702.85 | \$ 11,649,468.89 | \$ 11,255,182.09 | \$ 11,140,204.42 | \$ 10,231,829.87 |
| Federal Aid | 31,872.21 | 113,111.50 | 56,805.80 | 75,503.02 | 354,307.76 |
| School District Taxes | 10,566,139.00 | 9,725,469.00 | 8,911,720.00 | 8,434,346.00 | 8,268,967.00 |
| Miscellaneous | <u>124,962.55</u> | <u>147,471.70</u> | <u>95,354.24</u> | <u>142,721.22</u> | <u>159,790.90</u> |
| Total Revenues | \$ <u>22,673,676.61</u> | \$ <u>21,635,521.09</u> | \$ <u>20,319,062.13</u> | \$ <u>19,792,774.66</u> | \$ <u>19,014,895.53</u> |
| Expenditures | \$ <u>22,415,547.52</u> | \$ <u>20,964,011.78</u> | \$ <u>20,313,089.80</u> | \$ <u>19,972,058.24</u> | \$ <u>17,977,513.00</u> |
| Adjustments | \$ <u>(100,000.00)</u> | <u> </u> | <u> </u> | \$ <u>65,476.84</u> | <u> </u> |
| Excess (Deficit) of Revenues over Expenditures and Adjustments | \$ <u>158,129.09</u> | \$ <u>671,509.31</u> | \$ <u>5,972.33</u> | \$ <u>(113,806.74)</u> | \$ <u>1,037,382.53</u> |
| Fund Balance/(Deficit), June 30 | \$ <u><u>2,658,206.33</u></u> | \$ <u><u>2,500,077.24</u></u> | \$ <u><u>1,828,567.93</u></u> | \$ <u><u>1,822,595.60</u></u> | \$ <u><u>1,936,402.34</u></u> |

Source: Annual Audits of Borough of Freehold Board of Education, June 30, 2012- 2016.

**BOROUGH OF FREEHOLD BOARD OF EDUCATION
GOVERNMENTAL FUND BUDGET - REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017
(CONTINUED)**

| <u>EXPENDITURES</u> | <u>2017-2018</u> | <u>2016-2017</u> |
|---|-----------------------------|-----------------------------|
| <u>General Fund</u> | | |
| Instruction: | | |
| Regular | \$ 5,561,088.00 | \$ 5,483,245.00 |
| Special | 2,600,780.00 | 2,729,262.00 |
| Basic Skills | 5,296.00 | 7,383.00 |
| Bilingual | 743,477.00 | 732,605.00 |
| School - Sponsored/Other Instructional | 49,785.00 | 49,785.00 |
| School - Sponsored Athletic Instructional | 71,436.00 | 64,299.00 |
| | <u> </u> | <u> </u> |
| Total Instruction | \$ <u>9,031,862.00</u> | \$ <u>9,066,579.00</u> |
| Undistributed: | | |
| Instruction | \$ 1,049,086.00 | \$ 971,401.00 |
| Attendance and Social Work | 40,346.00 | 39,555.00 |
| Health Services | 251,815.00 | 243,720.00 |
| Speech, OT, PT and Related Services | 553,901.00 | 542,659.00 |
| Extra Services | 47,700.00 | 35,361.00 |
| Guidance | 282,382.00 | 277,735.00 |
| Child Study Teams | 637,034.00 | 650,142.00 |
| Improvement of Instructional Services | 390,972.00 | 372,239.00 |
| Educational Media Services - School Library | 90,043.00 | 89,957.00 |
| Instructional Staff Training Services | 90,169.00 | 104,418.00 |
| General Administration | 535,864.00 | 638,819.00 |
| School Administration | 800,085.00 | 809,208.00 |
| Central Services | 460,731.00 | 441,767.00 |
| Administrative Info Technology | 280,456.00 | 293,410.00 |
| Operation and Maintenance of Plant Services | 1,395,632.00 | 1,408,410.00 |
| Student Transportation Services | 808,162.00 | 787,867.00 |
| Personal Services - Employee Benefits | 5,568,690.00 | 4,973,874.00 |
| | <u> </u> | <u> </u> |
| Total Undistributed | \$ <u>13,283,068.00</u> | \$ <u>12,680,542.00</u> |

**BOROUGH OF FREEHOLD BOARD OF EDUCATION
GOVERNMENTAL FUND BUDGET - REVENUES AND EXPENDITURES
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017
(CONTINUED)**

| | 2017-2018 | 2016-2017 |
|---|--------------------------------|--------------------------------|
| <u>EXPENDITURES (CONTINUED)</u> | | |
| Capital Outlay: | | |
| Equipment | | \$ 625,987.00 |
| Facilities Acquisition and Construction Services | \$ <u>22,899.00</u> | <u>52,899.00</u> |
| Total Capital Outlay | \$ <u>22,899.00</u> | \$ <u>678,886.00</u> |
| Total General Fund Expenditures | \$ <u>22,337,829.00</u> | \$ <u>22,426,007.00</u> |
| <u>Special Revenue Fund</u> | | |
| Federal | \$ 2,796,854.00 | \$ 2,572,250.00 |
| State | 313,435.00 | 281,815.00 |
| Local | | <u>25,000.00</u> |
| Total Special Revenue Expenditures | \$ <u>3,110,289.00</u> | \$ <u>2,879,065.00</u> |
| <u>Debt Service Fund</u> | | |
| Interest on Bonds | \$ 48,332.00 | \$ 65,581.00 |
| Principal on Bonds | <u>305,000.00</u> | <u>675,000.00</u> |
| Total Debt Service | \$ <u>353,332.00</u> | \$ <u>740,581.00</u> |
| Total Expenditures | \$ <u><u>25,801,450.00</u></u> | \$ <u><u>26,045,653.00</u></u> |

Source: District records
2017-2018 budget as finally adopted on July 18, 2017
2016-2017 as adopted and revised through April 25, 2016

**BOROUGH OF FREEHOLD BOARD OF EDUCATION
SCHEDULE OF SCHOOL DISTRICT BOND MATURITIES AND
SINKING FUND INSTALLMENTS INCLUDING THE BONDS**

| Year Ending June 30 | Series 2011 Refunding Bond Issue | | School Bonds, Series 2017 | | Total |
|------------------------|-------------------------------------|----------------------|---------------------------|------------------------|-------------------------|
| | Principal | Interest | Principal | Interest | |
| 2018 | \$ 305,000.00 | \$ 48,331.25 | | | \$ 353,331.25 |
| 2019 | 300,000.00 | 41,150.00 | | \$ 670,258.33 | 1,011,408.33 |
| 2020 | 295,000.00 | 31,500.00 | \$ 450,000.00 | 442,875.00 | 1,219,375.00 |
| 2021 | 290,000.00 | 19,800.00 | 480,000.00 | 431,250.00 | 1,221,050.00 |
| 2022 | 280,000.00 | 7,000.00 | 510,000.00 | 418,875.00 | 1,215,875.00 |
| 2023 | | | 810,000.00 | 402,375.00 | 1,212,375.00 |
| 2024 | | | 825,000.00 | 381,937.50 | 1,206,937.50 |
| 2025 | | | 855,000.00 | 360,937.50 | 1,215,937.50 |
| 2026 | | | 875,000.00 | 337,125.00 | 1,212,125.00 |
| 2027 | | | 900,000.00 | 310,500.00 | 1,210,500.00 |
| 2028 | | | 900,000.00 | 283,500.00 | 1,183,500.00 |
| 2029 | | | 900,000.00 | 256,500.00 | 1,156,500.00 |
| 2030 | | | 900,000.00 | 229,500.00 | 1,129,500.00 |
| 2031 | | | 900,000.00 | 202,500.00 | 1,102,500.00 |
| 2032 | | | 900,000.00 | 175,500.00 | 1,075,500.00 |
| 2033 | | | 900,000.00 | 148,500.00 | 1,048,500.00 |
| 2034 | | | 900,000.00 | 121,500.00 | 1,021,500.00 |
| 2035 | | | 900,000.00 | 94,500.00 | 994,500.00 |
| 2036 | | | 900,000.00 | 67,500.00 | 967,500.00 |
| 2037 | | | 900,000.00 | 40,500.00 | 940,500.00 |
| 2038 | | | 900,000.00 | 13,500.00 | 913,500.00 |
| Total | \$ <u>1,470,000.00</u> | \$ <u>147,781.25</u> | \$ <u>15,605,000.00</u> | \$ <u>5,389,633.33</u> | \$ <u>22,612,414.58</u> |

Source: The foregoing financial information has been compiled by the Board Auditor from various documents.

DEBT LIMIT OF THE SCHOOL DISTRICT

The debt limitations of the School District are established by statute (N.J.S.A. 18A:24-19). The School District is permitted to incur debt up to 3% of the average equalized value of its constituent municipality before requiring approval by State regulatory authorities. The following is the School District available borrowing power as of May 31, 2017:

| | | |
|--|----------------------|--------------------------|
| Average Equalized Valuation of Real Property for the Borough of Freehold for 2014, 2015 and 2016 | | \$ <u>990,083,807.00</u> |
| Permitted Debt Limitation (3%) | | \$ 29,702,514.21 |
| Less: | | |
| Serial Bonds Issued and Outstanding | \$ 1,470,000.00 | |
| Bonds and Notes Authorized but Unissued ⁽¹⁾ | <u>15,605,000.00</u> | |
| Total Debt | | <u>17,075,000.00</u> |
| Remaining Limitation of Indebtedness | | \$ <u>12,627,514.21</u> |
| Percentage of Net School Debt to Average Equalized Valuation | | <u>1.725%</u> |

⁽¹⁾ As a result of litigation initiated by the Board, the Commissioner of Education has ordered that an expansion of the existing school facilities take place. This expansion will be combined with other locally desired improvements for a total estimated cost of \$41,251,535.00. Of the total cost of \$41,251,535.00, the State will provide grant funding (for the expansion) of \$25,645,850.00, and the School District will be issuing bonds in the amount of \$15,605,000.00 for the locally required improvements. The School District has the right to issue grant anticipation notes; however, that portion of the debt authorization has not been factored into the net debt of the School District since there is a certification of grant funds available by the State.

GENERAL INFORMATION ON THE BOROUGH OF FREEHOLD

The Borough is located in the western part of Monmouth County in the north central part of New Jersey. It is wholly surrounded by Freehold Township and its neighboring communities include Colts Neck, Marlboro and Manalapan Townships.

The Borough serves as the County Seat, and numerous County offices are located within its boundaries. With the Monmouth County Courthouse and Hall of Records buildings located in the Borough, the need for professional office space is ever increasing.

The Borough presently has several banks and restaurants serving its residents.

The Borough has established a Special Improvement District that is designed to assist in the revitalization and oversee business development in the downtown area of the Borough. The various older homes located on Main Street and several adjacent streets of the Borough have been slowly transformed into professional offices.

The Borough is also the home of the Freehold Raceway that is the oldest daytime harness racing track in the country. The Freehold Raceway also provides, on a year-round basis, simulcasting from other racetracks throughout the country.

The downtown area was a major focus for improvement with the installation of the South Street Pedestrian Crosswalks. The work included brick sidewalks, tree plantings, installation of park benches and handicapped-accessible sidewalks and curbing and was completed in 2006.

The downtown area was also the beneficiary of improvements which included the installation of brick sidewalks and handicapped accessible sidewalks and curbing along both East and West Main Street. Park benches and landscape improvements were included with the completion of this project in 2008.

The Borough continues to annually improve the infrastructure of the Borough with its road program. The road program encompasses those roads which have the strongest need for repair and repaving to be completed on an ongoing rotating basis throughout the Borough. The Borough plans on such road improvements on a six-year cycle updated annually and looks and receives various grant funding sources to assist these projects. The New Jersey Department of Transportation Municipal Aid program has been a resource to help offset some of the costs for the Borough and its residents. In the spring of 2017 the Borough will be starting a project that will improve the Throckmorton Street area. This project will include cleaning up the area and providing a park and parking spaces.

Form of Government

The Borough became an incorporated town in 1919 under an “Act for the Improvement of the Town of Freehold in Monmouth County.” The governing body consists of a Mayor and six Council Members. Council Members serve a three-year term while the Mayor serves for four years. All action is passed by a majority, or when required, a 2/3 vote of the Council. The Mayor votes only in the event of a tie. The Mayor has a veto power over all ordinances passed by the Borough Council. This veto can be overridden by a two-thirds (2/3) vote of the Council.

Transportation

As the County Seat of Monmouth County, the Borough is located at the crossroads of two major State highways, thereby providing easy access to all points in Monmouth County and New Jersey. As a major bus depot for New York commuters, the Borough's location has transportation accessibility to major cities in the greater metropolitan area.

Utilities Serving the Borough

A municipally-owned water utility provides service to over 12,000 consumers throughout the community. In recent years the Borough has upgraded its overall plant and accepted a new well, thereby insuring continued and uninterrupted services for future use.

Natural gas is provided by the New Jersey Natural Gas Company, and electricity is provided by Jersey Central Power and Light.

Manasquan River Regional Sewerage Authority

The Borough, in conjunction with the Townships of Howell, Wall, and Freehold and the Borough of Farmingdale (the "Participating Municipalities"), established the Manasquan River Regional Sewerage Authority (the "Authority") for the purpose of providing a more efficient and economical wastewater sewerage treatment facility. This independent authority began operation of its system in 1985 and, as such, ceased operating its treatment plant in May of that year.

The Participating Municipalities have entered into a service agreement with the Authority. Pursuant to the service agreement, the annual charge shall be computed upon the actual amount of wastewater flow generated by each Participating Municipality. In addition, the service agreement provides for a guaranteed minimum charge from each Participating Municipality. The user fees shall cover the total operating expenses and debt service obligations of the Authority with any deficit being proportionately shared by each Participating Municipality based upon the same formula. The Participating Municipalities are obligated to provide the funds for such payments to the Authority. Furthermore, if such funds are not otherwise available, payment will be made from the levy of ad valorem taxes upon the taxable real property within the Participating Municipalities that have executed the service agreement without limitation as to rate or amount.

The Authority presently has a lease purchase obligation outstanding of which the Borough's share is 18.46% or \$814,224, which is due to the Monmouth County Improvement Authority and is secured by the provisions of the service agreement with the Participating Municipalities. The obligation is not an outright guarantee by the Participating Municipalities and is repaid through the Authority's Budget, which is supported by user fees that are charged to the Participating Municipalities.

Police Protection

The Borough's police department provides twenty-four hour police protection to its residents. The department's thirty (30) man force is supplemented by one (1) special police officer providing maximum manpower coverage throughout the Borough at all times.

Fire Protection

The Borough of Freehold Volunteer Fire Department provides twenty-four (24) hour fire protection for the Borough residents. One of the oldest departments in the county, it has ninety-five (95) members that are divided into one hook and ladder and three engine companies. The department has three (3) fire engines – 1996, 1998 and 2002 purchase dates, one (1) 1991 mini-pumper, a Heavy Rescue Truck, and a 2014 100 foot Sutphen Aerial Tower Truck, thus providing continual protection for all the citizens of the Borough.

First Aid Organization

The Freehold First Aid Squad, one of the charter squads in Monmouth County, consists of volunteer members who are on twenty-four (24) hour call. The squad is supplemented by member Cadet Corp guaranteeing an on-going force to provide emergency and professional service to the residents of the Borough. The squad has its own building to house and service its five vehicles, which, together with extracting equipment, allows the First Aid Squad to respond to any possible emergency within the Borough.

**MUNICIPAL DEBT INCURRING CAPACITY
AS OF DECEMBER 31, 2016**

| | |
|--|--------------------------------|
| 3½% of Average Equalized Valuation Basis | \$ 34,652,933.25 |
| Net Debt Issued and Outstanding and Authorized But Not Issued | <u>9,020,255.47</u> |
| Additional Borrowing Power | <u><u>\$ 25,632,677.78</u></u> |

Source: Annual Debt Statement of the Borough of Freehold as of December 31, 2016.

**REGIONAL HIGH SCHOOL DISTRICT DEBT INCURRING CAPACITY
AS OF DECEMBER 31, 2016**

| | |
|--|--------------------------------|
| 3% of Average Equalized Valuation Basis | \$ 29,702,514.22 |
| Net Debt Issued and Outstanding - \$19,300,000.00 of which 3.19% is Apportioned to Freehold Borough | <u>615,572.26</u> |
| Additional Borrowing Power | <u><u>\$ 29,086,941.96</u></u> |

Source: Annual Debt Statement of the Borough of Freehold as of December 31, 2016.

**OVERLAPPING DEBT
COUNTY OF MONMOUTH, NEW JERSEY
DECEMBER 31, 2016**

| | |
|---|-------------------------------|
| Bonds and Notes of the County Issued and Authorized But Not Issued (Net) | \$ 436,319,190.68 |
| Percentage of Such Debt Chargeable to Freehold Borough | 0.854344% |
| Amount | <u><u>\$ 3,898,535.82</u></u> |

Source: County of Monmouth, Chief Financial Officer.

STATEMENT OF INDEBTEDNESS AS OF DECEMBER 31, 2016

| | <u>Gross Debt</u> | <u>Statutory Deductions</u> | <u>Net Statutory Debt</u> |
|---|-------------------------|-----------------------------|---------------------------|
| Regional School District Debt (Apportionment) (Note 1) | \$ 615,672.26 | \$ 615,672.26 | \$ None |
| Local District School Debt: (Note 2) | | | |
| Bonds Outstanding | 1,470,000.00 | 1,470,000.00 | None |
| Municipal Debt: | | | |
| Issued and Outstanding: | | | |
| General Improvement Bonds and Notes | 8,310,000.00 | 34,456.35 | 8,275,543.65 |
| Water-Sewer Utility Improvement Bonds and Notes | 4,462,000.00 | 4,462,000.00 | None |
| Authorized But Not Issued: | | | |
| General Obligation Bonds | 878,900.00 | 134,188.18 | 744,711.82 |
| Water-Sewer Utility Improvement Bonds | <u>1,350.00</u> | <u>1,350.00</u> | <u>None</u> |
| Gross Debt, Giving Effect to New Authorizations | \$ <u>15,737,922.26</u> | | |
| Total Statutory Deductions | | \$ <u>6,717,666.79</u> | |
| Net Statutory Debt | | | \$ <u>9,020,255.47</u> |
| Average of Equalized Valuation Basis of Real Property with Improvements (2014, 2015 and 2016) | | | \$ 990,083,807.00 |
| Net Debt Expressed as a Percentage of Average Equalized Valuation Basis | | | 0.911% |
| Gross Debt Expressed as a Percentage of Average Equalized Valuation Basis | | | 1.59% |
| Net Debt Expressed as a Percentage of 2016 Net Valuation on Which County Taxes are Apportioned Basis of \$989,718,062.00. | | | 0.911% |
| Per Capita Net Debt Based on 2010 Population Basis of 12,052 | | | \$748.44 |
| Per Capita Gross Debt Based on 2010 Population Basis of 12,052 | | | \$1,305.83 |

Note:

1. This is subject to change as a result of changes in equalized valuation which is the basis for apportioning the school debt among the various municipalities who are members of the School District.
2. Subsequent Event:
As a result of a litigation initiated by the Board, the Commissioner of Education has ordered that an expansion of the existing school facilities take place. This expansion will be combined with other locally desired improvements for a total estimated cost of \$41,251,535.00. Of the total cost of \$41,251,535.00, the State will provide grant funding (for the expansion) of \$25,645,850.00 and the School District will be issuing bonds in the amount of \$15,605,000.00 for the locally required improvements. The School District has the right to issue grant anticipation notes; however, that portion of the debt authorization has not been factored into the net debt of the School District since there is a certification of grant funds available by the State.

The amounts have not been factored into the net debt as of December 31, 2016.

Source: 2016 Annual Debt Statement (*Unaudited*) of the Borough of Freehold

**BOROUGH OF FREEHOLD
EXISTING DEBT MATURITIES
MUNICIPAL DEBT
(AS OF DECEMBER 31, 2016)**

| <u>Year</u> | Present Permanent Debt | |
|-------------|----------------------------|--------------------------------------|
| | <u>General Capital</u> | <u>Water-Sewer Utility Bonds</u> |
| 2017 | \$ 363,000.00 | \$ 275,000.00 |

Source: The foregoing financial information has been compiled from the Annual Audit of the Borough of Freehold, Monmouth County, New Jersey.

SHORT-TERM INDEBTEDNESS OF THE BOROUGH

The Borough has incurred short-term indebtedness that is not included in the Existing Debt Maturities Schedule that is in the form of bond anticipation notes. The bond anticipation notes as of December 31, 2016 total \$7,947,000.00 in the General Capital Fund and \$4,187,000.00 in the Water-Sewer Utility Fund. The bond anticipation notes are issued at various rates and are subject to renewal in 2017. All must be paid off entirely depending on the date of issuance not later than 2019 to 2027.

BOROUGH OF FREEHOLD

CAPITAL BUDGET

In accordance with the Local Budget Law a municipality with a population of greater than 10,000 must adopt a six (6) year capital budget program which is part of the annual budget. The capital budget, when adopted, does not constitute the approval or appropriation of funds but sets forth a plan of the possible capital expenditures that the local unit may contemplate over the next six (6) years.

The following amounts for various improvements were included in the 2017-2022 Capital Budget as adopted and amended:

| | |
|------|-------------------|
| 2017 | \$ 1,050,000.00 * |
| 2018 | 783,000.00 |
| 2019 | 760,000.00 |
| 2020 | 695,000.00 |
| 2021 | 675,000.00 |
| 2022 | 675,000.00 |

* Subsequent to December 31, 2016, the Borough Council, as of the date of this Official Statement, has adopted two (2) improvement authorizations; one for road improvements and the other for water-sewer utility improvements totaling \$2,505,000.00, which are funded consisting of \$108,000.00 from the capital improvement fund and \$2,397,000.00 of bonds and notes authorized.

HISTORICAL DATA OF BOROUGH DEBT

| | Equalized Valuation Ratio to <u>True Value</u> | True Value of Real <u>Property</u> | Gross Debt Issued and Authorized <u>But Not Issued</u> | Net Debt Issued and Authorized <u>But Not Issued</u> | Percentage of Gross Debt to Estimated <u>True Value</u> | <u>Per Capita</u> | |
|------|---|--|---|---|--|-------------------|-----------------|
| | | | | | | <u>Gross Debt</u> | <u>Net Debt</u> |
| 2016 | 99.81% | \$ 1,032,161,092.00 | \$ 15,737,927.26 | \$ 9,020,255.00 | 1.52% | \$ 1,305.83 | \$ 748.44 |
| 2015 | 104.56% | 1,029,213,400.00 | 17,151,404.50 | 9,414,985.86 | 1.67% | 1,423.12 | 781.00 |
| 2014 | 110.37% | 1,050,551,700.00 | 16,130,045.98 | 8,763,952.70 | 1.54% | 1,338.37 | 727.18 |
| 2013 | 109.32% | 1,062,376,800.00 | 16,203,629.07 | 8,440,067.52 | 1.53% | 1,344.48 | 700.30 |
| 2012 | 104.05% | 1,066,853,700.00 | 17,937,093.71 | 11,238,780.55 | 1.68% | 1,488.00 | 932.52 |

Source: Annual Audit Reports and Annual Debt Statement (*Unaudited*) for 2016 of the Borough of Freehold and the State of New Jersey, Division of Taxation Table of Equalized Valuations.

BOROUGH OF FREEHOLD

TEN LARGEST TAXPAYERS AS OF DECEMBER 31, 2016

| <u>Taxpayer</u> | <u>Description</u> | <u>Assessed Valuation</u> | <u>Percent of Total Real Property Assessed Valuation</u> |
|-----------------------------|--------------------|-------------------------------|--|
| Nestle USA | Manufacturing | \$ 23,674,400.00 | 2.30% |
| Freehold Racing Association | Harness Racing | 21,225,300.00 | 2.06% |
| AEW Brookside | Senior Housing | 15,076,000.00 | 1.46% |
| East Coast Post & Coach | Apartments | 6,760,000.00 | 0.66% |
| Park Plaza Shopping Center | Shopping Center | 5,412,400.00 | 0.53% |
| Free Fern Associates | Apartments | 5,330,000.00 | 0.52% |
| E. Main Street LLC | Shopping Center | 4,295,700.00 | 0.42% |
| Spring Terrace Apartments | Apartments | 3,575,000.00 | 0.35% |
| Chiu's Property | Shopping Center | 2,631,000.00 | 0.26% |
| JCP&L | Telephone | 2,626,200.00 | 0.26% |
| | | <u>\$ 90,606,000.00</u> | <u>8.80%</u> |
| Net Valuation Taxable | | <u>1,029,213,400.00</u> | |

Source: Borough of Freehold, Tax Assessor's Office.

LARGEST EMPLOYERS IN THE BOROUGH OF FREEHOLD

| <u>Employer</u> | <u>Business</u> | <u>Estimated No. of Employees</u> |
|--------------------------------------|-----------------|---------------------------------------|
| County of Monmouth | Government | 345 |
| Nestle USA | Manufacturing | 200 |
| Freehold Borough Board of Education | School | 218 |
| Freehold Raceway | Harness Racing | 100 |
| Freehold Regional Board of Education | School | 130 |

Source: Borough of Freehold Board of Education, Board Secretary/Business Administrator.

BOROUGH OF FREEHOLD
REAL PROPERTY CLASSIFICATION
AND ASSESSED VALUATIONS
2012 - 2016

| | <u>2012</u> | | <u>2013</u> | | <u>2014</u> | | <u>2015</u> | | <u>2016</u> | |
|--|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|
| | <u>Assessed Valuation</u> | <u>Percentage</u> | <u>Assessed Valuation</u> | <u>Percentage</u> | <u>Assessed Valuation</u> | <u>Percentage</u> | <u>Assessed Valuation</u> | <u>Percentage</u> | <u>Assessed Valuation</u> | <u>Percentage</u> |
| Residential | \$ 767,610,400 | 71.95% | \$ 764,565,800 | 71.96% | \$ 755,357,200 | 71.90% | \$ 741,225,500 | 72.03% | \$ 739,568,800 | 71.95% |
| Industrial | 25,345,900 | 02.38% | 25,345,900 | 02.39% | 25,345,900 | 02.42% | 25,345,900 | 02.46% | 25,353,000 | 02.47% |
| Commercial | 241,264,600 | 22.61% | 239,840,300 | 22.58% | 237,225,100 | 22.58% | 230,456,500 | 22.39% | 229,822,500 | 22.36% |
| Apartments | 22,388,400 | 02.10% | 22,388,400 | 02.11% | 22,388,400 | 02.13% | 22,065,400 | 02.14% | 22,454,100 | 02.18% |
| Vacant Land | 10,244,400 | 00.96% | 10,236,400 | 00.96% | 10,235,100 | 00.97% | 10,120,100 | 00.98% | 10,627,200 | 01.04% |
| Totals | \$ <u>1,066,853,700</u> | <u>100.00%</u> | \$ <u>1,062,376,800</u> | <u>100.00%</u> | \$ <u>1,050,551,700</u> | <u>100.00%</u> | \$ <u>1,029,213,400</u> | <u>100.00%</u> | \$ <u>1,027,825,600</u> | <u>100.00%</u> |
| Exempt Properties | \$ <u>206,799,500</u> | | \$ <u>207,086,800</u> | | \$ <u>208,299,500</u> | | \$ <u>209,864,800</u> | | \$ <u>205,667,600</u> | |
| Ratio of Assessed Value to True Value used by the County of Monmouth for County Taxes Apportioned and Ratio of Assessed Value to True Value State of New Jersey | 104.05% | | 109.32% | | 110.37% | | 104.56% | | 99.81% | |

Source: Borough of Freehold, Tax Assessor's Office.
County of Monmouth Abstract of Ratables, 2012-2016.
State of New Jersey, Department of Treasury, Division of Taxation
Certificate of the Table of Equalized Valuations.

BOROUGH OF FREEHOLD

STATEMENT OF TAX LEVIES AND COLLECTIONS

| <u>Year</u> | <u>Tax Levy</u> | <u>During Year of Levy</u> | |
|-------------|------------------|----------------------------|-------------------|
| | | <u>Amount</u> | <u>Percentage</u> |
| 2016 | \$ 27,564,905.51 | \$ 26,750,028.93 | 97.04% |
| 2015 | 26,473,749.98 | 25,797,936.07 | 97.45% |
| 2014 | 25,699,245.09 | 25,076,602.83 | 97.58% |
| 2013 | 25,187,171.19 | 24,415,920.83 | 96.94% |
| 2012 | 25,088,345.58 | 24,363,083.32 | 97.11% |

Source: Annual Audit Reports of the Borough of Freehold, 2012-2015 and Annual Financial Statement (*Unaudited*) for 2016.

STATEMENT OF TAX TITLE LIENS AND PROPERTY ACQUIRED FOR TAXES

| <u>Year</u> | <u>Tax Title Liens</u> | <u>Property Acquired for Taxes</u> |
|-------------|------------------------|------------------------------------|
| 2016 | \$ 76,304.12 | \$ 156,300.00 |
| 2015 | 58,773.29 | 156,300.00 |
| 2014 | 50,803.98 | 156,300.00 |
| 2013 | 43,178.18 | 156,300.00 |
| 2012 | 35,783.65 | 156,300.00 |

Source: Annual Audit Reports of the Borough of Freehold, 2012-2015 and Annual Financial Statement (*Unaudited*) for 2016.

STATEMENT OF WATER-SEWER UTILITY LEVIES

| <u>Year</u> | <u>Billing</u> | <u>Collections</u> |
|-------------|-----------------|--------------------|
| 2016 | \$ 5,359,209.38 | \$ 5,437,126.37 |
| 2015 | 5,483,052.67 | 5,409,644.77 |
| 2014 | 5,519,452.66 | 5,556,837.02 |
| 2013 | 6,001,045.82 | 6,001,241.63 |
| 2012 | 5,358,883.62 | 5,308,711.84 |

Source: Annual Audit Reports of the Borough of Freehold, 2012-2015 and Annual Financial Statement (*Unaudited*) for 2016.

BOROUGH OF FREEHOLD

COMPARATIVE SCHEDULE OF FUND BALANCES

| | <u>Year</u> | <u>Balance</u> <u>December 31</u> | <u>Utilized in</u> <u>Budget of</u> <u>Succeeding Year</u> | <u>Percentage of</u> <u>Fund Balance</u> <u>Utilized</u> |
|---------------------------------------|-------------|--------------------------------------|--|--|
| Current Fund | 2016 | \$ 2,004,393.48 | \$ 1,425,000.00 | 71.09% |
| | 2015 | 1,943,912.28 | 1,425,244.00 | 73.32% |
| | 2014 | 1,873,148.11 | 1,357,236.96 | 72.46% |
| | 2013 | 1,612,898.89 | 1,200,963.00 | 74.46% |
| | 2012 | 1,398,614.46 | 1,151,000.00 | 82.30% |
| Water-Sewer Utility Operating Fund | 2016 | \$ 379,457.75 | \$ 350,000.00 | 92.24% |
| | 2015 | 451,169.02 | 450,000.00 | 99.74% |
| | 2014 | 265,069.53 | 255,213.00 | 96.28% |
| | 2013 | 422,278.98 | 195,221.00 | 46.23% |
| | 2012 | 155,263.10 | 155,155.98 | 99.93% |

Source: Annual Audit of Freehold Borough for the year 2012 through 2015, Annual Financial Statement (*Unaudited*) for 2016 and the 2017 Annual Budget.

**ASSESSED VALUATION AND EQUALIZED VALUATION
FOR REAL PROPERTY AND PERSONAL PROPERTY**

| <u>Year</u> | <u>Assessed</u> <u>Valuation</u> <u>Real</u> <u>Property</u> | <u>State</u> <u>Average Ratio</u> <u>Assessed</u> <u>to True</u> <u>Value</u> | <u>Equalized</u> <u>Valuation</u> <u>Real</u> <u>Property</u> | <u>Assessed</u> <u>Valuation</u> <u>Personal</u> <u>Property</u> | <u>Total</u> <u>Equalized</u> <u>Valuation</u> |
|-------------|---|---|--|---|--|
| 2016 | \$ 1,030,140,100 | 99.81% | \$ 1,032,101,092 | \$ None | \$ 1,032,101,092 |
| 2015 | 1,029,213,400 | 104.56% | 984,328,041 | None | 984,328,041 |
| 2014 | 1,050,551,700 | 110.37% | 951,845,338 | None | 951,845,338 |
| 2013 | 1,062,376,800 | 109.32% | 971,804,611 | None | 971,804,611 |
| 2012 | 1,066,853,700 | 104.05% | 1,025,327,919 | None | 1,025,327,919 |

Source: State of New Jersey, Department of Treasury, Division of Taxation, Certificate of the Table Equalized Valuations, 2012-2016

BOROUGH OF FREEHOLD
NET VALUATIONS TAXABLE

| <u>Year</u> | <u>Real and Personal Property Net Valuation Taxable</u> | <u>Net Valuation on Which County Taxes are Apportioned</u> |
|-------------|---|--|
| 2016 | \$ 1,027,825,600 | \$ 989,718,062 |
| 2015 | 1,029,213,400 | 939,635,035 |
| 2014 | 1,050,551,700 | 971,249,860 |
| 2013 | 1,062,376,800 | 1,029,563,181 |
| 2012 | 1,066,853,700 | 1,136,846,368 |

Source: Monmouth County - Annual Abstract of Ratables, 2012-2016.

**TABULATION OF RESIDENTIAL UNITS BASED ON
NUMBER OF UNITS ASSESSED TO ADJUSTED TRUE VALUE**

| <u>Year</u> | <u>Number of Units</u> | <u>Residential Class Assessed Valuation</u> | <u>County Equalized Valuation Ratio to True Value</u> | <u>Estimated True Value</u> | <u>Average Unit Estimated True Value</u> |
|-------------|----------------------------|---|---|---------------------------------|--|
| 2016 | 2,991 | \$ 739,568,800 | \$ 104.56 | \$ 707,315,226 | \$ 236,481 |
| 2015 | 2,959 | 741,225,500 | 110.37 | 671,582,405 | 226,963 |
| 2014 | 2,959 | 755,357,200 | 109.03 | 692,797,579 | 234,132 |
| 2013 | 2,959 | 764,565,800 | 104.05 | 734,806,151 | 248,329 |
| 2012 | 2,959 | 767,610,400 | 94.60 | 811,427,484 | 274,224 |

Source: Borough of Freehold Tax Assessor's Office and the Monmouth County - Annual Abstract of Ratables.

BOROUGH OF FREEHOLD

**FIVE-YEAR COMPARISON OF ANNUAL GENERAL TAX RATES
PER \$100.00 OF ASSESSED VALUATION**

| Year | Borough | | Regional High School | Local School | County | | Total |
|------|-----------|---------|-------------------------|-----------------|----------|------------|----------|
| | Municipal | Library | | | Regular | Open Space | |
| 2016 | \$ 0.944 | 0.032 | \$ 0.320 | \$ 1.098 | \$ 0.247 | \$ 0.014 | \$ 2.655 |
| 2015 | 0.913 | 0.031 | 0.295 | 1.032 | 0.249 | 0.014 | 2.534 |
| 2014 | 0.875 | 0.031 | 0.311 | 0.933 | 0.255 | 0.014 | 2.419 |
| 2013 | 0.851 | 0.032 | 0.321 | 0.862 | 0.262 | 0.015 | 2.343 |
| 2012 | 0.814 | 0.036 | 0.341 | 0.842 | 0.277 | 0.016 | 2.326 |

Source: County of Monmouth, Abstract of Ratables 2012-2016

EMPLOYMENT AND UNEMPLOYMENT COMPARISONS

Annual average employment-related data for the Borough of Freehold was as follows:

| | Unemployment Rate | Total Labor Force | Total Employed | Total Unemployed |
|---------------------|----------------------|----------------------|-------------------|---------------------|
| Freehold Borough | 4.1% | 6,390 | 6,129 | 261 |
| Monmouth County | 4.4% | 331,125 | 316,454 | 14,671 |
| State of New Jersey | 5.0% | 4,448,301 | 4,227,541 | 220,760 |

Source: New Jersey Department of Labor, Division of Labor, Market and Demographic Research - 2016 Annual Average.

PER CAPITA INCOME

| | <u>2009</u> | <u>1999</u> | <u>1989</u> |
|---------|-------------|-------------|-------------|
| Borough | \$ 23,331 | \$ 19,910 | \$ 15,452 |
| County | 40,976 | 31,349 | 20,565 |
| State | 34,858 | 27,006 | 18,714 |

Source: New Jersey Department of Labor

BOROUGH OF FREEHOLD

**POPULATION COMPARISON OF THE BOROUGH OF FREEHOLD
IN RELATION TO SURROUNDING COMMUNITIES, COUNTY,
AND THE STATE OF NEW JERSEY AND PERCENTAGE CHANGES**

| | 2010 | | 2000 | | 1990 | | 1980 | |
|---------------------|-----------|-------|-----------|-------|-----------|-------|-----------|---------|
| Freehold Borough | 12,052 | 9.8 % | 10,976 | 2.2 % | 10,742 | 7.2 % | 10,020 | (5.0) % |
| Freehold Township | 36,184 | 14.1 | 31,537 | 27.6 | 24,710 | 28.7 | 19,202 | 45.6 |
| Manalapan | 38,872 | 16.3 | 33,423 | 25.1 | 26,716 | 41.2 | 18,914 | 34.6 |
| Marlboro | 40,191 | 10.4 | 36,398 | 30.1 | 27,974 | 59.3 | 17,560 | 43.1 |
| Colts Neck | 10,192 | 17.4 | 12,331 | 44.1 | 8,559 | 8.5 | 7,888 | 35.6 |
| Monmouth County | 630,380 | 2.5 | 615,301 | 11.2 | 553,124 | 9.9 | 503,173 | 8.9 |
| State of New Jersey | 8,791,894 | 4.5 | 8,414,350 | 8.6 | 7,748,634 | 5.2 | 7,365,011 | 2.7 |

Source: United States Census and New Jersey Department of Labor and Industry, Division of Planning and Research.

**MIDDLESEX, MONMOUTH AND OCEAN COUNTIES
NON-AGRIULTURAL EMPLOYMENT BY MAJOR CATEGORY
(IN THOUSANDS)**

| | December 31, <u>2016</u> |
|--|-----------------------------|
| Manufacturing | 45.70 |
| Retail Trade | 109.20 |
| Wholesale Trade | 47.00 |
| Natural Resources, Mining and Construction | 38.50 |
| Transportation, Warehousing and Utilities | 41.40 |
| Information | 17.20 |
| Financial Activities | 41.20 |
| Professional and Business Services | 154.80 |
| Education and Health Services | 147.70 |
| Leisure and Hospitality | 84.30 |
| Other Services | 39.90 |
| Gorvernment | <u>122.20</u> |
| | <u><u>889.10</u></u> |

Source: New Jersey Department of Labor and Industry: Division of Planning and Research.

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APPENDIX B

**FINANCIAL STATEMENTS OF THE BOARD FOR THE
FISCAL YEAR ENDING JUNE 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
Freehold Borough Board of Education
County of Monmouth, New Jersey

Report on the Financial Statement

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 Board of Education of the Freehold Borough School District, County of Monmouth, State of New Jersey, as of and for the year ended June 30, 2016 and the related Notes to 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities each major fund and the aggregate remaining fund information of the Board of Education of the Freehold Borough School District, as of June 30, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Freehold Borough School District's basic financial statements. The introductory section, combining statements and related major fund supporting statements and schedules, and statistical section are presented for purposes of additional analysis, as required by the Division of Finance, Department of Education, State of New Jersey, and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance are presented for purposes of additional analysis as required by US Office of Management and Budget *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB's Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively, and the other information such as the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

INDEPENDENT AUDITOR'S REPORT
(CONTINUED)

The accompanying combining statements and the Schedule of Expenditures of Federal Awards and State Financial Assistance are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining statements and Schedule of Expenditures of Federal Awards and State Financial Assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016, on our consideration of the Board of Education of the Freehold Borough School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Freehold Borough School District internal control over financial reporting compliance.

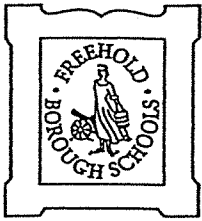


Gerard Stankiewicz
Certified Public Accountant
Licensed Public School Accountant #912



SAMUEL KLEIN AND COMPANY

Freehold, New Jersey
December 1, 2016



Borough of Freehold Public Schools

280 PARK AVENUE
FREEHOLD, NEW JERSEY 07728
<http://www.freeholdboro.k12.nj.us>

December 1, 2016

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

Dear Board Members:

Management's Discussion and Analysis

The following analysis of Freehold Borough Board of Education's financial performance provides a summary of the district's financial integrity. The intent of the analysis is to provide an interpretation of the financial statements. As you know, school districts operate as a non-profit organization. Yet, GASB 34 is instrumental in providing outside entities the opportunity to measure for profit operations. Hence, financial information that is analyzed utilizing GASB 34 for non-profit entities is, in our opinion, irrelevant and misleading. School districts are required to account for asset depreciation even though the need to match revenues with purchased assets are not necessary since all similar purchases are budgeted for in capital outlay and expensed in the operating year.

Fund Financial Statements

School Districts utilize two categories for reporting assets. The first category identified as Governmental Funds records the most activity. Governmental Funds reflects activity within the following sub-groups:

General Fund (Fund 10)

Fund 11 Distributed and Undistributed Instructional Accounts – Asset Producing
Fund 12 Capital Outlay – Asset Producing

Special Revenue (Fund 20)

Fund 20 Grants and Entitlements – Asset Producing

Capital Projects (Fund 30)

Fund 30 Capital Projects/Construction in progress – Asset Producing

Debt Service (Fund 40)

Fund 40 Debt Service payments for Bonds and Interest – Non Asset Producing

The second category identified as Business Type Activities, records assets purchased for the following sub-group:

Enterprise (Fund 60)

Fund 60 Enterprise/Food Service – Asset Producing

Financial Highlights

Key financial highlights for 2016 are as follows:

In total, net position totaled \$2,678,484 which represents a \$808,676 or 43.25% increase in the net position as adjusted of \$1,869,808 from 2015.

General revenues accounted for \$26,096,681 in revenue or 86.39% of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions, and capital grants and contributions accounted for \$4,110,967 or 13.61% of total revenues of \$30,207,648.

Total assets of governmental activities, exclusive of the Capital Projects Fund, increased by \$487,301 as cash and cash equivalents increased by \$601,294, receivables decreased by \$104,329 and current liabilities increased by \$331,280.

The District had \$29,307,589 in expenses; only \$3,947,720 of these expenses was offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes and federal and state aid) of \$26,096,681 were adequate to provide for these programs.

Among major funds, the General Fund had \$22,673,677 in revenues and \$22,415,548 in expenditures. The General Fund's fund balance increased \$158,129 over 2015. The General Fund's fund balance is \$2,658,206. The increase was caused by lower than anticipated expenditure levels.

The Special Revenue Fund had \$3,340,599 in revenue and \$3,343,761 in expenditures.

Using this Comprehensive Annual Financial Report (CAFR)

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

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

Reporting the District as a Whole

Statement of Net Position and the Statement of Activities

This document contains all funds used by the District to provide programs and activities, viewing the District as a whole and reports the culmination of all financial transactions. The report answers the question "How We Did Financially During Fiscal Year 2016". The Statement of Net Position and the Statement of activities provides the summary. The statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's net position and change in those positions. This change in net position is important because they report on whether the District's financial position has improved or diminished.

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

Governmental Activities — All of the District's programs and services are reported here including, instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.

Business-Type Activities — This service is provided on a charge for goods or services basis to recover all the expense of the goods or services provided. The Food Service Enterprise Fund is reported as a business activity.

Reporting the District's Most Significant Funds

Fund Financial Statement

The Analysis of the District's major funds begins on page 24. Fund financial reports provide detailed information about the District's major funds. The District's major governmental funds are the General Fund, Special Revenue Fund, Debt Service Fund and Capital Projects Fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the general fund, special revenue fund, capital projects fund and debt service fund, all of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund, special revenue fund and debt service fund. Budgetary comparison statements have been provided as required supplementary information for the general fund, special revenue fund and debt service fund to demonstrate compliance with this budget

The basic governmental fund financial statements can be found on pages 26-28 of this report.

Proprietary Funds

The District maintains one proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District uses agency funds to account for resources held for student activities and groups and payroll related liabilities. The fiduciary fund financial statements can be found on pages 32-33 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 34 to 73 of this report.

The School District as a Whole

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

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

The Statement of Net Position provides the financial perspective of the District as a whole.

Table 1 provides a comparative summary of the School District's net position for 2016 and 2015.

Table 1 – Comparative Summary of Net Position

| | Governmental Activities | | Business-Type Activities | | Total School District | |
|---|-------------------------|----------------------|--------------------------|-------------------|-----------------------|----------------------|
| | 2015-2016 | 2014-2015 | 2015-2016 | 2014-2015 | 2015-2016 | 2014-2015 |
| Assets | | | | | | |
| Current and other assets | \$ 3,337,861 | \$ 2,917,331 | \$ 383,245 | \$ 311,609 | \$ 3,721,106 | \$ 3,228,940 |
| Capital assets, net | 8,524,587 | 8,334,015 | 66,413 | 56,563 | 8,591,000 | 8,390,578 |
| Total Assets | \$ 11,862,448 | \$ 11,251,346 | \$ 449,658 | \$ 368,172 | \$ 12,312,106 | \$ 11,619,518 |
| Deferred outflows of resources | | | | | | |
| Loss on Defeasance of Bonds | \$ 72,519 | \$ 84,606 | | | \$ 72,519 | \$ 84,606 |
| Pension | 1,549,126 | 852,058 | | | 1,549,126 | 852,058 |
| Total Deferred outflows of resources | \$ 1,621,645 | \$ 936,664 | | | \$ 1,621,645 | \$ 936,664 |
| Liabilities | | | | | | |
| Current and other liabilities | \$ 930,510 | \$ 553,490 | \$ 21,021 | \$ 27,372 | \$ 951,531 | \$ 580,862 |
| Net pension liability | 7,166,568 | 6,254,920 | | | 7,166,568 | 6,254,920 |
| Long-term liabilities outstanding | 2,786,599 | 3,478,133 | | | 2,786,599 | 3,478,133 |
| Total Liabilities | \$ 10,883,677 | \$ 10,286,543 | \$ 21,021 | \$ 27,372 | \$ 10,904,698 | \$ 10,313,915 |
| Deferred inflow of resources | | | | | | |
| Pension | \$ 350,569 | \$ 372,459 | | | \$ 350,569 | \$ 372,459 |
| Net Position | | | | | | |
| Net investment in capital assets | \$ 6,392,287 | \$ 5,498,976 | \$ 66,413 | \$ 56,563 | \$ 6,458,700 | \$ 5,555,539 |
| Restricted | 1,332,286 | 1,250,488 | | | 1,332,286 | 1,250,488 |
| Unrestricted (deficit) | (5,474,726) | (5,220,456) | 362,224 | 284,237 | (5,112,502) | (4,936,219) |
| Total Net Position | \$ 2,249,847 | \$ 1,529,008 | \$ 428,637 | \$ 340,800 | \$ 2,678,484 | \$ 1,869,808 |

The District's combined net position were \$2,678,484 on June 30, 2016, representing an increase of \$808,676, or 43.25% over the net position from the prior year of \$1,869,808 as adjusted for the net pension liability and payment of bonds.

The largest portion of the District's net position is its net investment in capital assets (e.g., land, construction-in-progress, buildings and improvements, and machinery, equipment and vehicles), less any related debt (bonds payable) used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (namely, property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

Capital assets, net increased from the prior year due to the amount of new additions associated with the District's capital projects having exceeded the amount of depreciation of capital assets in the current year.

Long-term liabilities decreased due to the scheduled payment of principal on debt.

Table 2 shows the comparative change in net position from fiscal year 2016 and 2015.

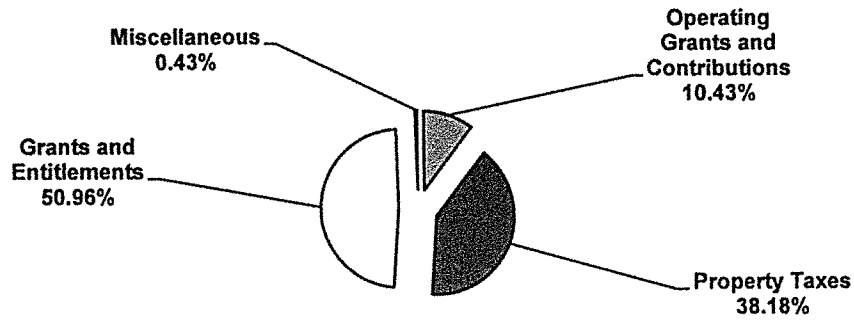
Table 2 – Comparative Change in Net Position

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total School District</u> | |
|---|--------------------------------|---------------------|---------------------------------|-------------------|------------------------------|---------------------|
| | <u>2015-2016</u> | <u>2014-2015</u> | <u>2015-2016</u> | <u>2014-2015</u> | <u>2015-2016</u> | <u>2014-2015</u> |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | | | \$ 163,247 | \$ 143,804 | \$ 163,247 | \$ 143,804 |
| Operating Grants and Contributions | \$ 3,038,795 | \$ 2,520,098 | 908,925 | 803,040 | 3,947,720 | 3,323,138 |
| General Revenue: | | | | | | |
| Property Taxes | 11,123,020 | 10,270,849 | | | 11,123,020 | 10,270,849 |
| Federal and State Aid | 14,848,687 | 13,749,934 | | | 14,848,687 | 13,749,934 |
| Miscellaneous | 124,974 | 147,490 | | | 124,974 | 147,490 |
| Total Revenue | <u>29,135,476</u> | <u>26,688,371</u> | <u>1,072,172</u> | <u>946,844</u> | <u>30,207,648</u> | <u>27,635,215</u> |
| Expenses: | | | | | | |
| Instruction | 16,525,704 | 14,570,912 | | | 16,525,704 | 14,570,912 |
| Tuition | 808,801 | 1,033,465 | | | 808,801 | 1,033,465 |
| Student and Instruction Related Services | 4,509,672 | 1,047,754 | | | 4,509,672 | 1,047,754 |
| School Administration | 855,257 | 3,299,923 | | | 855,257 | 3,299,923 |
| General Administration | 2,290,224 | 3,023,707 | | | 2,290,224 | 3,023,707 |
| Operation and Maintenance of Facilities | 2,220,136 | 2,114,376 | | | 2,220,136 | 2,114,376 |
| Pupil Transportation | 1,006,637 | 779,883 | | | 1,006,637 | 779,883 |
| Interest on Debt | 105,749 | 134,624 | | | 105,749 | 134,624 |
| Business Type Actives | | | 985,409 | 919,418 | 985,409 | 919,418 |
| Total Expenses | <u>28,322,180</u> | <u>26,004,644</u> | <u>985,409</u> | <u>919,418</u> | <u>29,307,589</u> | <u>26,924,062</u> |
| Special and Extraordinary Items, Net | <u>(92,457)</u> | <u>15,983</u> | <u>1,074</u> | | <u>(91,383)</u> | <u>15,983</u> |
| Change in Net Position | <u>\$ 720,839</u> | <u>\$ 699,710</u> | <u>\$ 87,837</u> | <u>\$ 27,426</u> | <u>\$ 808,676</u> | <u>\$ 727,136</u> |
| Net Position - beginning | <u>1,529,008</u> | <u>829,298</u> | <u>340,800</u> | <u>313,374</u> | <u>1,869,808</u> | <u>1,142,672</u> |
| Net Position - ending | <u>\$ 2,249,847</u> | <u>\$ 1,529,008</u> | <u>\$ 428,637</u> | <u>\$ 340,800</u> | <u>\$ 2,678,484</u> | <u>\$ 1,869,808</u> |

Governmental Activities

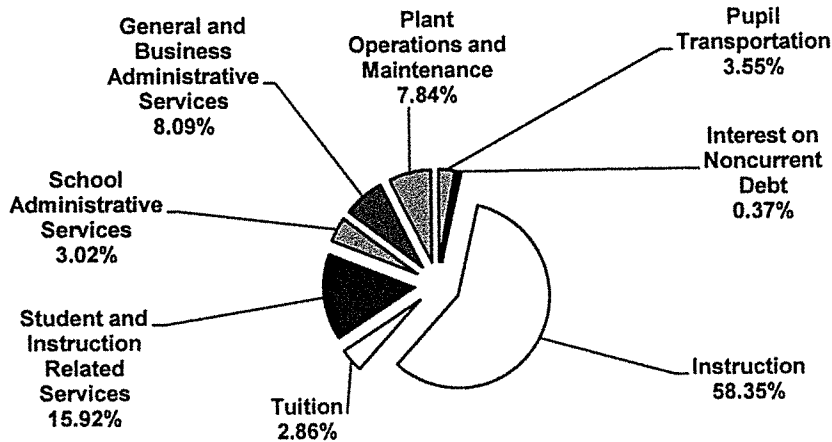
Revenue for Fiscal Year 2016

Total revenues of the Governmental Activities were \$29,135,477. Property taxes as approved made up \$11,123,020, or 38.18% of revenues for governmental activities for the fiscal year 2016. Federal, state and local grants and entitlements and contributions accounted for another \$14,848,687 or 50.96%.



Expenses for Fiscal Year 2016

The total cost of all programs and services was \$28,322,180. Instruction comprises \$16,525,704 or 58.35% of the District's expenses other than capital expenditures.



Expenditures for out-of-district placement of classified students equal about 15.92% of the operating budget. Instructional expenses equal 58.35% of the operating budget. Instructional expenses include teachers' salaries, supplies and textbooks.

Student Support Services include health, social work, child study team and guidance support.

Maintenance and Operations are expenses mandated by the State Department of Education to maintain all building systems. Costs for the maintenance and custodial departments are also included here.

Transportation costs primarily include Special Education students.

General and Business Administrative Services are expenditures associated with the business and financial aspect of the District. Expenditures include payroll, transportation, accounting, accounts payable, benefits processing, technology and personnel departments.

School Administrative Services relates to principals and oversight of the various school buildings.

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

Table 3 – Comparative Statement of Activities

| | Total Cost of Services | | | Net Cost of Services * | | |
|--|------------------------|----------------------|--------------|------------------------|----------------------|--------------|
| | 2015-2016 | 2014-2015 | % Change | 2015-2016 | 2014-2015 | % Change |
| Instruction | \$ 16,525,704 | \$ 14,570,913 | 13.42% | \$ 14,444,522 | \$ 12,865,802 | 12.27% |
| Support Services: | | | | | | |
| Tuition | 808,801 | 1,033,465 | -21.74% | 808,801 | 1,033,465 | -21.74% |
| Pupils and Instructional Staff | 4,509,672 | 1,047,754 | 330.41% | 3,688,561 | 368,696 | 900.43% |
| School Administration | 855,257 | 3,299,923 | -74.08% | 855,257 | 3,299,923 | -74.08% |
| Other Administration | 2,290,224 | 3,023,707 | -24.26% | 2,290,224 | 3,023,707 | -24.26% |
| Operation and Maintenance of Facilities | 2,220,136 | 2,114,376 | 5.00% | 2,220,136 | 2,114,376 | 5.00% |
| Pupil Transportation | 1,006,637 | 779,883 | 29.08% | 1,006,637 | 779,883 | 29.08% |
| Debt Service | 105,749 | 134,624 | -21.45% | (30,753) | (1,305) | 2256.55% |
| Total Expenses | \$ 28,322,180 | \$ 26,004,645 | 8.91% | \$ 25,283,385 | \$ 23,484,547 | 7.66% |

Business-Type Activities

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

Food service revenues exceeded expenses by \$86,762. Charges for services represent \$163,247 of revenue. This represents the amount paid by patrons for daily food service and catering.

Federal and state reimbursements for meals, including payments for free and reduced lunches was \$908,925.

The District's Funds

Information about the District's major funds starts on page 26. These funds are accounted for using the modified accrual basis of accounting. All governmental funds exclusive of capital projects had total revenues of \$26,707,659 and expenditures of \$26,542,921. The net positive change in overall fund balance for the year was most significant in the General Fund.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management. The following schedules present a summary of the revenues of the governmental funds exclusive of the capital projects fund for the fiscal years ended June 30, 2016 and June 30, 2015, and the amount and percentage of total and increases/decreases in relation to prior year revenues.

| Revenue | 2015-2016 | | 2014-2015 | | Increase/ (Decrease) from 2014-2015 to 2015-2016 |
|-----------------|----------------------|---------------------|----------------------|---------------------|---|
| | Amount | Percent of Total | Amount | Percent of Total | |
| Local Sources | \$ 11,281,046 | 42.24% | \$ 10,478,881 | 42.41% | \$ 802,165 |
| State Sources | 12,409,447 | 46.46% | 12,100,225 | 48.97% | 309,222 |
| Federal Sources | 3,017,166 | 11.30% | 2,129,142 | 8.62% | 888,024 |
| Total | \$ 26,707,659 | 100.00% | \$ 24,708,248 | 100.00% | \$ 1,999,411 |

The increase in Local Sources is primarily attributed to an increase in the local tax levy. The increase in State Sources is attributed to an increase of the TPAF on-behalf pension contributions and increases in other state aid. However, the increase in Federal Sources is attributed to increases in the Title I, Title II, IDEA and a Pre-School Expansion Grant.

The following schedule presents a summary of general fund expenditures for the fiscal years ended June 30, 2016 and June 30, 2015 and the amount and percent of the total and increase/(decrease) in relation to prior year expenditures, exclusive of the Capital Project Fund.

| Expenditures | 2015-2016 | | 2014-2015 | | Increase/(Decrease) from 2014-2015 to 2015-2016 |
|----------------------------|----------------------|---------------------|----------------------|---------------------|---|
| | Amount | Percent of Total | Amount | Percent of Total | |
| Current Expense: | | | | | |
| Instruction | \$ 10,712,519 | 40.35% | \$ 9,627,230 | 39.91% | \$ 1,085,289 |
| Undistributed Expenditures | 14,363,744 | 54.12% | 13,485,059 | 55.90% | 878,685 |
| Capital Outlay | 683,046 | 2.58% | 240,771 | 1.00% | 442,275 |
| Debt Service | 783,612 | 2.95% | 771,231 | 3.19% | 12,381 |
| Total | \$ 26,542,921 | 100.00% | \$ 24,124,291 | 100.00% | \$ 2,418,630 |

The increase in Current Expense – Instruction is attributed to increased costs of salaries of teachers and the increased cost of other instructional programs.

The increase in Undistributed Expenses relates to higher administrative and benefits costs.

Debt Service relates to the principal and interest payments on the 1996 Series Bonds and 2011 Series Refunding Bonds, all of which were for building improvements and renovations.

General Fund Budgeting Highlights

The Freehold Borough School District's budget is prepared according to New Jersey law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The district uses four major funds: the General Fund, where the district records its budget for day to day operation; the Special Revenue Fund, where the district records budgeted monies from the State and Federal Governments; the Debt Service Fund, where they record expenses for noncurrent debt and interest payments; and its Proprietary Fund where the district records its operational expenses for its food service program. The most significant budgeted fund and the fund that attracts the most attention is the General Fund.

During the course of the fiscal year 2015, the District amended its General Fund budget as needed. These transfers are approved by the Board of Education and the Executive County Superintendent of Schools. Transfers that occurred during the year were necessitated by:

- Staffing changes based on student needs
- Mid-year salary adjustments as previously agreed upon
- Additional Special Education Students
- Changes in appropriations to prevent budget overruns

In creating its budget the District uses program based budgeting as defined by the State's Chart of Accounts. The budgeting program and purchase order encumbrance system are designed to control budgets and insure fiscal integrity in the district's fiscal program.

The District's final budget for the General Fund anticipated that revenues and expenditures would equal.

Revenue

Miscellaneous revenues of \$124,963 exceeded the anticipated amount of \$55,000 by \$69,963 due primarily to refunds from prior year expenditures.

Expenditures

- Regular programs – instruction in total final budget exceeded the original by \$88,977 or 1.65%. Actual expenditures of \$5,457,672 represented 99.18% of budget. This was caused additional expenditures for teachers' grades 1-8.
- Total instructional expenditures final budget exceeded the original by \$123,877 or 1.43%. Actual total instructional expenditures of \$8,631,337.15 or 98.19%. The increase in the budget was caused by additional need for preschool disability full-time.
- Undistributed – general administration final budget exceeded the original by \$52,252.04, or 10.05% due to the need for additional communications and legal expenditures.
- Undistributed – required maintenance final budget exceeded original by \$195,373.12, or 52.91%. The increase was due to unanticipated maintenance acquired throughout the year.
- Undistributed – student transportation final budget exceeded original by \$107,914.10, or 17.93%. The increase was due to the need for unanticipated transportation for special education students.
- Undistributed – unallocated benefits final budget was lower than the original by \$278,268.10, or 5.78%. The decrease was due attributed to favorable results in several benefit categories.
- Total undistributed expenditures in total were lower by \$84,156.16, or .067%. Expenditures net of on behalf payments were \$10,987,943.62, or 89.56% of final budget. This was aided by favorable operations of plant and overall benefits.

Capital Assets

At the end of the fiscal year 2016, the School District had \$51,208,318 invested in land, buildings, furniture and equipment and vehicles. Table 4 shows fiscal 2016 balances compared to 2015.

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

| | Governmental Activities | | Business-Type Activities | | Total School District | |
|------------------------|-------------------------|---------------------|--------------------------|------------------|-----------------------|---------------------|
| | 2015-2016 | 2014-2015 | 2015-2016 | 2014-2015 | 2015-2016 | 2014-2015 |
| Land | \$ 110,050 | \$ 110,050 | | | \$ 110,050 | \$ 110,050 |
| Construction in Progre | 284,246 | | | | 284,246 | - |
| Infrastructure | 15,136 | 15,461 | | | 15,136 | 15,461 |
| Site and Site | | | | | | |
| Improvements | 250,954 | 281,328 | | | 250,954 | 281,328 |
| Building and Building | | | | | | |
| Improvements | 7,460,525 | 7,632,222 | \$ 6,274 | \$ 6,274 | 7,466,799 | 7,638,496 |
| Machinery and | | | | | | |
| Equipment | 403,676 | 294,954 | 60,139 | 50,289 | 463,815 | 345,243 |
| Total Capital | | | | | | |
| Assets - Net of | | | | | | |
| Depreciations | <u>\$ 8,524,587</u> | <u>\$ 8,334,015</u> | <u>\$ 66,413</u> | <u>\$ 56,563</u> | <u>\$ 8,591,000</u> | <u>\$ 8,390,578</u> |

Refer to Notes to Financial Statements (Note 6) for more detailed information.

Overall capital assets (net) increased from fiscal year 2015 to fiscal year 2016. The increase in capital assets is primarily due to fixed asset additions in excess of annual depreciation.

Debt Administration

At the end of the fiscal year 2016 and 2015, the School District had outstanding debt as follows:

Table 5 – Debt Administration

| | June 30, | |
|----------------------|---------------------|---------------------|
| | 2016 | 2015 |
| Capital Leases | \$ 2,773 | \$ 40,189 |
| Compensated Absences | 581,689 | 558,488 |
| Serial Bonds | <u>2,145,000</u> | <u>2,835,000</u> |
| Totals | <u>\$ 2,729,462</u> | <u>\$ 3,433,677</u> |

Refer to Notes to Financial Statements (Note 7) for more detailed information.

For the Future

Continued negative growth in per pupil state aid has caused the burden of funding a growing school district to rest with the local taxpayers. What is more is that going into FY 2017, taxpayers in Freehold Borough are paying \$1,762,704.00 more than their established fair share in supporting the local school budget. The Board has no remaining banked cap available, and has taken every tax dollar available by law to provide as close to a thorough and efficient education to students as possible. Despite this there are still high percentages of classes out of compliance with class size rules imposed under NJAC 6A:13-3.1(b). Absent relief in the form of equitable distribution of state aid, class size will continue to increase with rising enrollment. The Board continues to be a zealous advocate for its students by regularly engaging with legislators and state officials for a solution to these issues.

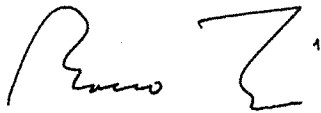
The district's fund balance remains at the statutory 2% level and it has been able to fund capital projects through the use of Capital Reserve Funds.

The district has exercised its option under State Law to move the annual election of board members from April to the General Election in November. The movement of the election has enabled the district to save the cost of holding the April Election which amount to nearly \$5,000. In addition, since the district has kept the annual increase below the maximum permitted the vote on the annual district budget is not held.

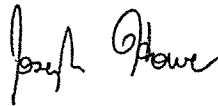
Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional information, you may contact the School Business Administrator/Board Secretary at Freehold Borough Board of Education, 280 Park Avenue, Freehold, NJ 07728.

Respectfully submitted,



Rocco Tomazic, Ed. D.
Superintendent of Schools



Joseph Howe
Business Administrator/Board Secretary

BASIC FINANCIAL STATEMENTS

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BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
STATEMENT OF NET POSITION
JUNE 30, 2016

| | <u>Governmental</u> <u>Activities</u> | <u>Business-Type</u> <u>Activities</u> | <u>Total</u> |
|---|--|---|-------------------------|
| <u>ASSETS</u> | | | |
| Cash and Cash Equivalents | \$ 1,570,656.51 | \$ 306,459.16 | \$ 1,877,115.67 |
| Receivables - Net | 434,918.35 | 61,603.85 | 496,522.20 |
| Inventory | | 15,181.90 | 15,181.90 |
| Restricted Cash and Cash Equivalents: | | | |
| Capital Reserve Account | 1,332,286.43 | | 1,332,286.43 |
| Capital Assets, Net | <u>8,524,587.08</u> | <u>66,412.65</u> | <u>8,590,999.73</u> |
| Total Assets | <u>\$ 11,862,448.37</u> | <u>\$ 449,657.56</u> | <u>\$ 12,312,105.93</u> |
| <u>DEFERRED OUTFLOW OF RESOURCES</u> | | | |
| Unamortized Loss on Defeasance of Debt | \$ 72,519.46 | | \$ 72,519.46 |
| Pension | <u>1,549,126.00</u> | | <u>1,549,126.00</u> |
| | <u>\$ 1,621,645.46</u> | | <u>\$ 1,621,645.46</u> |
| <u>LIABILITIES</u> | | | |
| Accounts Payable | \$ 742,951.91 | \$ 21,020.56 | \$ 763,972.47 |
| Interfund Payable | 2,264.78 | | 2,264.78 |
| Intergovernmental Accounts Payable | 11,736.79 | | 11,736.79 |
| Unearned Revenue | 148,564.37 | | 148,564.37 |
| Accrued Interest on Bonds Payable | 25,082.81 | | 25,082.81 |
| Net Pension Liability | 7,166,568.00 | | 7,166,568.00 |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 812,943.02 | | 812,943.02 |
| Due Beyond One Year | <u>1,973,565.67</u> | | <u>1,973,565.67</u> |
| Total Liabilities | <u>\$ 10,883,677.35</u> | <u>\$ 21,020.56</u> | <u>\$ 10,904,697.91</u> |
| <u>DEFERRED INFLOW OF RESOURCES</u> | | | |
| Pension | <u>\$ 350,569.00</u> | | <u>\$ 350,569.00</u> |
| <u>NET POSITION</u> | | | |
| Invested in Capital Assets | \$ 6,392,287.07 | \$ 66,412.65 | \$ 6,458,699.72 |
| Restricted for: | | | |
| Capital Projects | 1,332,286.43 | | 1,332,286.43 |
| Unrestricted (Deficit) | <u>(5,474,726.02)</u> | <u>362,224.35</u> | <u>(5,112,501.67)</u> |
| Total Net Position | <u>\$ 2,249,847.48</u> | <u>\$ 428,637.00</u> | <u>\$ 2,678,484.48</u> |

See accompanying notes to financial statements.

**BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | <u>Net (Expense) Revenue and Change in Net Position</u> | | | |
|--|------------------|---|---|------------------------------------|-------------------------------------|--------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| Governmental Activities: | | | | | | |
| Instruction: | | | | | | |
| Regular | \$ 11,489,638.24 | | \$ 2,081,182.49 | \$ (9,408,455.75) | | \$ (9,408,455.75) |
| Special Education | 3,804,409.85 | | | (3,804,409.85) | | (3,804,409.85) |
| Other Special Instruction | 1,055,484.71 | | | (1,055,484.71) | | (1,055,484.71) |
| Other Instruction | 176,171.45 | | | (176,171.45) | | (176,171.45) |
| Support Services: | | | | | | |
| Tuition | 808,800.72 | | | (808,800.72) | | (808,800.72) |
| Student and Instruction Related Services | 4,509,671.77 | | 821,110.80 | (3,688,560.97) | | (3,688,560.97) |
| School Administrative Services | 855,257.42 | | | (855,257.42) | | (855,257.42) |
| Other Administrative Services | 2,290,223.78 | | | (2,290,223.78) | | (2,290,223.78) |
| Plant Operations and Maintenance | 2,220,136.04 | | | (2,220,136.04) | | (2,220,136.04) |
| Pupil Transportation | 1,006,637.00 | | | (1,006,637.00) | | (1,006,637.00) |
| Interest on noncurrent debt | 105,749.50 | | 136,502.00 | 30,752.50 | | 30,752.50 |
| Total Governmental Activities | \$ 28,322,180.48 | | \$ 3,038,795.29 | \$ (25,283,385.19) | | \$ (25,283,385.19) |
| Business-Type Activities: | | | | | | |
| Food Service | \$ 985,408.83 | \$ 163,246.98 | \$ 908,924.79 | | \$ 86,762.94 | \$ 86,762.94 |
| Total Primary Government | \$ 29,307,589.31 | \$ 163,246.98 | \$ 3,947,720.08 | \$ (25,283,385.19) | \$ 86,762.94 | \$ (25,196,622.25) |
| | | <u>General Revenues</u> | | | | |
| | | Taxes: | | | | |
| | | General Purposes | | \$ 10,566,139.00 | | \$ 10,566,139.00 |
| | | Debt Service | | 556,881.00 | | 556,881.00 |
| | | Federal and State Aid not Restricted | | 14,848,687.24 | | 14,848,687.24 |
| | | Miscellaneous Income | | 124,973.99 | | 124,973.99 |
| | | | | 26,096,681.23 | | 26,096,681.23 |
| | | Excess/(Deficit) | | 813,296.04 | 86,762.94 | 900,058.98 |
| | | Special and Extraordinary Revenue/(Expense) | | (92,456.90) | 1,074.02 | (91,382.88) |
| | | Change in Net Position | | \$ 720,839.14 | \$ 87,836.96 | \$ 808,676.10 |
| | | Net Position - Beginning | | 1,529,008.34 | 340,800.04 | 1,869,808.38 |
| | | Net Position - Ending | | \$ 2,249,847.48 | \$ 428,637.00 | \$ 2,678,484.48 |

See accompanying notes to financial statements.

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Capital Projects Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------------|-------------------------------------|--------------------------------------|----------------------------------|---|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,631,866.03 | | \$ 89,582.88 | \$ 348.73 | \$ 1,721,797.64 |
| Intergovernmental Accounts Receivable | 104,835.00 | \$ 330,083.35 | | | 434,918.35 |
| Interfund Receivable | | | | 11.44 | 11.44 |
| Capital Reserve Account | <u>1,242,714.99</u> | | | | <u>1,242,714.99</u> |
| Total Assets | <u>\$ 2,979,416.02</u> | <u>\$ 330,083.35</u> | <u>\$ 89,582.88</u> | <u>\$ 360.17</u> | <u>\$ 3,399,442.42</u> |
| LIABILITIES AND FUND BALANCE | | | | | |
| Liabilities: | | | | | |
| Cash and Cash Equivalents - Overdraft | | \$ 61,569.69 | | | \$ 61,569.69 |
| Accounts Payable | \$ 264,450.27 | 180,888.64 | | | 445,338.91 |
| Interfund Payable | 2,264.78 | | \$ 11.44 | | 2,276.22 |
| Intergovernmental Accounts Payable - Federal | | 3,255.87 | | | 3,255.87 |
| State | | 8,480.92 | | | 8,480.92 |
| Unearned Revenue | <u>54,494.64</u> | <u>94,069.73</u> | | | <u>148,564.37</u> |
| Total Liabilities | <u>\$ 321,209.69</u> | <u>\$ 348,264.85</u> | <u>\$ 11.44</u> | | <u>\$ 669,485.98</u> |
| Fund Balances: | | | | | |
| Restricted: | | | | | |
| Capital Reserve Account | \$ 1,242,714.99 | | | | 1,242,714.99 |
| Legal Reserve | 130,270.44 | | | | 130,270.44 |
| Maintenance Reserve | 540,902.68 | | | | 540,902.68 |
| Debt Service Fund | | | | \$ 360.17 | 360.17 |
| Capital Projects Fund | | | \$ 89,571.44 | | 89,571.44 |
| Excess Surplus - Designated for Subsequent Year's Expenditures | 554,034.38 | | | | 554,034.38 |
| Assigned - Designated for Subsequent Year's Expenditures | 14,614.76 | | | | 14,614.76 |
| Assigned for Other Purposes | 175,669.08 | | | | 175,669.08 |
| Unassigned, Reported in: Special Revenue Fund (Deficit) | | <u>\$ (18,181.50)</u> | | | <u>(18,181.50)</u> |
| Total Fund Balances | <u>\$ 2,658,206.33</u> | <u>\$ (18,181.50)</u> | <u>\$ 89,571.44</u> | <u>\$ 360.17</u> | <u>\$ 2,729,956.44</u> |
| Total Liabilities and Fund Balance | <u>\$ 2,979,416.02</u> | <u>\$ 330,083.35</u> | <u>\$ 89,582.88</u> | <u>\$ 360.17</u> | <u>\$ 3,399,442.42</u> |

Total Fund Balance above \$ 2,729,956.44

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

| | |
|--|------------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of capital assets is \$18,456,719.08 and the accumulated depreciation is \$9,932,132. (see Note 7) | 8,524,587.08 |
| Deferred loss on defeasance of debt, unamortized (see Note 8D) | 72,519.46 |
| Noncurrent liabilities, including bonds, loans and leases payable are not payable in the current period and therefore are not reported as liabilities in the funds (see Note 8). | (2,786,508.69) |
| Certain liabilities are not due and payable in the current period, and therefore, are not reported in funds: | |
| Accrued Interest Payable (Accrued interest is a current liability that will be paid from the debt service fund. Therefore, the liability reduces the restricted for debt service net position balance.) | (25,082.81) |
| Accrued Pension Liability (Accrued pension is a current liability that will be paid from the general fund, attributed to the fiscal year ending June 30, 2015, however will be raised in the budget for the fiscal year ending June 30, 2016. | 900,944.00 |
| Net pension liability is not due and payable in the current period and therefore is not reported as a liability in the funds. (see Note 9) | <u>(7,166,568.00)</u> |
| Net position of governmental activities (A-1) | <u>\$ 2,249,847.48</u> |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | <u>General</u> <u>Fund</u> | <u>Special</u> <u>Revenue</u> <u>Fund</u> | <u>Capital</u> <u>Projects</u> <u>Fund</u> | <u>Debt</u> <u>Service</u> <u>Fund</u> | <u>Total</u> <u>Government</u> <u>Funds</u> |
|--|-------------------------------|---|--|--|---|
| Revenues | | | | | |
| Local sources: | | | | | |
| Local tax levy | \$ 10,566,139.00 | | | \$ 556,881.00 | \$ 11,123,020.00 |
| Interest income | | | \$ 11.44 | | 11.44 |
| Miscellaneous | <u>124,962.55</u> | <u>\$ 33,063.18</u> | | | <u>158,025.73</u> |
| Total - Local Sources | 10,691,101.55 | \$ 33,063.18 | 11.44 | 556,881.00 | 11,281,057.17 |
| State Sources | 11,950,702.85 | 322,242.08 | | 136,502.00 | 12,409,446.93 |
| Federal Sources | <u>31,872.21</u> | <u>2,985,294.21</u> | | | <u>3,017,166.42</u> |
| Total Revenues | <u>\$ 22,673,676.61</u> | <u>\$ 3,340,599.47</u> | <u>\$ 11.44</u> | <u>\$ 693,383.00</u> | <u>\$ 26,707,670.52</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Regular Instruction | \$ 5,457,672.97 | \$ 2,081,182.49 | | | \$ 7,538,855.46 |
| Special Education Instruction | 2,397,490.27 | | | | 2,397,490.27 |
| Other Special Instruction | 665,152.92 | | | | 665,152.92 |
| Other Instruction | 111,020.99 | | | | 111,020.99 |
| Support Services and Undistributed Costs: | | | | | |
| Tuition | 808,800.72 | | | | 808,800.72 |
| Student and Instruction Related Services | 2,132,929.02 | 821,110.80 | | | 2,954,039.82 |
| School Administrative Services | 538,972.25 | | | | 538,972.25 |
| Other Administrative Services | 1,443,269.64 | | | | 1,443,269.64 |
| Plant Operations and Maintenance | 1,399,101.24 | | | | 1,399,101.24 |
| Pupil Transportation | 634,369.72 | | | | 634,369.72 |
| Unallocated Benefits | 6,146,381.64 | 438,808.34 | | | 6,585,189.98 |
| Debt Service: | | | | | |
| Principal | | | | \$ 690,000.00 | 690,000.00 |
| Interest | | | | 93,612.50 | 93,612.50 |
| Capital Outlay | <u>680,386.14</u> | <u>2,659.84</u> | | | <u>683,045.98</u> |
| Total Expenditures | <u>\$ 22,415,547.52</u> | <u>\$ 3,343,761.47</u> | | <u>\$ 783,612.50</u> | <u>\$ 26,542,921.49</u> |
| Excess/(Deficiency) of Revenues Over/(Under) Expenditures | <u>\$ 258,129.09</u> | <u>\$ (3,162.00)</u> | <u>\$ 11.44</u> | <u>\$ (90,229.50)</u> | <u>\$ 164,749.03</u> |
| Other Financing Sources/(Uses): | | | | | |
| Transfers In/(Out) | <u>(100,000.00)</u> | | <u>\$ (90,241.44)</u> | <u>\$ 90,241.44</u> | <u>(100,000.00)</u> |
| Total Other Financing Sources/(Uses) | <u>(100,000.00)</u> | | <u>\$ (90,241.44)</u> | <u>\$ 90,241.44</u> | <u>(100,000.00)</u> |
| Net Change in Fund Balances | \$ 158,129.09 | \$ (3,162.00) | \$ (90,230.00) | \$ 11.94 | \$ 64,749.03 |
| Fund Balance/(Deficit) July 1 | <u>2,500,077.24</u> | <u>(15,019.50)</u> | <u>\$ 179,801.44</u> | <u>348.23</u> | <u>2,665,207.41</u> |
| Fund Balance/(Deficit) June 30 | <u>\$ 2,658,206.33</u> | <u>\$ (18,181.50)</u> | <u>\$ 89,571.44</u> | <u>\$ 360.17</u> | <u>\$ 2,729,956.44</u> |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | | |
|--|---------------|--------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 64,749.03 |
| <p>Amounts Reported for Governmental Activities in the Statement of Activities (A-2) are different because:</p> | | |
| <p>Capital outlays and related costs 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 depreciated expense or amortized expense. This is the amount by which capital outlays exceeded depreciation in the period.</p> | | |
| Capital outlay | \$ 683,045.98 | |
| Depreciation expense | (500,017.00) | |
| Gain on fixed assets | 7,543.10 | 190,572.08 |
| <p>Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces noncurrent liabilities in the statement of net position and is not reported in the statement of activities.</p> | | |
| | | 690,000.00 |
| <p>Repayment of lease principal is an expenditure in the governmental funds, but the payment reduces noncurrent debt in the statement of net position is not reported in the statement of activities.</p> | | |
| | | 17,416.34 |
| <p>Governmental funds report the effect of premiums and similar items when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This represents the following related to the premiums on bonds.</p> | | |
| Amortization of premium | | 7,409.27 |
| <p>Governmental funds report the effect of defeasances and similar items when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This represents the following related to the deferred loss of refunding.</p> | | |
| Amortization of deferred loss | | (12,086.58) |
| <p>In the statement of activities, interest on noncurrent debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The change in accrued interest is an item in the reconciliation.</p> | | |
| | | 1,800.00 |
| <p>Net pension obligation related to PERS which is attributable to June 30, 2015 reported in governmental funds; however, it is reported in the statement of activities.</p> | | |
| | | (215,820.00) |
| <p>In the statement of activities, certain operating expenses, e.g. compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation; when the paid amount exceeds the earned amount, the difference is an addition to the reconciliation.</p> | | |
| | | (23,201.00) |
| Change in Net Position of Governmental Activities (A-2) | \$ | 720,839.14 |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Business-Type Activities - <u>Enterprise Fund</u> |
|------------------------------------|--|
| | <u>Food Service</u> <u>Total Enterprise</u> |
| <u>ASSETS</u> | |
| Current assets: | |
| Cash and Cash Equivalents | \$ 306,459.16 |
| Accounts Receivable: | |
| State | 849.67 |
| Federal | 60,754.18 |
| Inventory | <u>15,181.90</u> |
| Total Current Assets | \$ <u>383,244.91</u> |
| Noncurrent Assets: | |
| Furniture, Machinery and Equipment | \$ 233,526.69 |
| Less: Accumulated Depreciation | <u>167,114.04</u> |
| Total Noncurrent Assets | \$ <u>66,412.65</u> |
| Total Assets | \$ <u><u>449,657.56</u></u> |
| <u>LIABILITIES</u> | |
| Current Liabilities: | |
| Accounts Payable | \$ <u>21,020.56</u> |
| Total Liabilities | \$ <u><u>21,020.56</u></u> |
| <u>NET POSITION</u> | |
| Invested in Capital Assets | \$ 66,412.65 |
| Unrestricted | <u>362,224.35</u> |
| Total Net Position | \$ <u><u>428,637.00</u></u> |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN FUND NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | <u>Business Type Activities - Enterprise Fund</u> |
|--|---|
| | <u>Food Service Total Enterprise</u> |
| Operating Revenues: | |
| Local Sources: | |
| Daily Sales - Reimbursable Programs | \$ 156,580.35 |
| Miscellaneous | 6,666.63 |
| | <u>163,246.98</u> |
| Total Operating Revenues | \$ <u>163,246.98</u> |
| Operating Expenses: | |
| Cost of Sales - Reimbursable | \$ 405,872.63 |
| Cost of Sales - Non-Reimbursable | 32,732.00 |
| Salaries | 330,710.72 |
| Employee Benefit | 26,537.60 |
| General Supplies | 36,848.96 |
| Insurance | 36,240.81 |
| Uniforms | 1,250.29 |
| Management Fee | 39,210.00 |
| Purchased Services | 78,472.11 |
| Depreciation | (2,466.29) |
| | <u>985,408.83</u> |
| Total Operating Expenses | \$ <u>985,408.83</u> |
| Operating Income/(Loss) | \$ <u>(822,161.85)</u> |
| Nonoperating Revenues: | |
| State Sources: | |
| State School Lunch Program | \$ 11,867.43 |
| Federal Sources: | |
| National School Lunch Program | 606,927.15 |
| School Breakfast Program | 182,428.64 |
| Summer Program | 25,304.95 |
| After School Snack Program | 25,344.48 |
| Food Distribution Program | 57,052.14 |
| | <u>908,924.79</u> |
| Total Nonoperating Revenues | \$ <u>908,924.79</u> |
| Income/(Loss) before Contributions and Transfers | \$ 86,762.94 |
| Contributed Capital | 1,074.02 |
| Change in Net Position | \$ 87,836.96 |
| Total Net Position - Beginning | <u>340,800.04</u> |
| Total Net Position - Ending | <u><u>428,637.00</u></u> |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Business Type Activities Enterprise Funds |
|---|--|
| | <u>Food Service Total Enterprise</u> |
| <u>Cash Flows from Operating Activities</u> | |
| Receipts from Customers | \$ 163,246.98 |
| Payments to Employees | (330,710.72) |
| Payments for Employee Benefits | (26,537.60) |
| Payments to Suppliers | (540,421.21) |
| Payments for Management Fee | <u>(39,210.00)</u> |
| Net Cash Provided by/(Used for) Operating Activities | \$ <u>(773,632.55)</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | |
| State Sources | \$ 11,846.09 |
| Federal Sources | <u>839,759.34</u> |
| Net Cash Provided by/(Used for) Noncapital Financing Activities | \$ <u>851,605.43</u> |
| <u>Cash Flows from Capital and Related Financing Activities:</u> | |
| Purchases of Capital Assets | (7,383.52) |
| Contributed Capital | <u>\$ 1,074.02</u> |
| Net Cash Used for Capital and Related Financing Activities | \$ <u>(6,309.50)</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | \$ 71,663.38 |
| Balances - Beginning of Year | <u>234,795.78</u> |
| Balances - End of Year | <u>\$ 306,459.16</u> |
| Reconciliation of Operating Income/(Loss) to Net Cash <u>Provided/(Used) by Operating Activities</u> | |
| Operating Gain/(Loss) | <u>\$ (822,161.85)</u> |
| Adjustments to Reconcile Operating Loss to Cash Provided/ (Used) by Operating Activities: | |
| Depreciation | \$ (2,466.29) |
| Federal Commodities | 57,052.14 |
| Change in Assets and Liabilities: | |
| Decrease in Inventory | 294.57 |
| Decrease in Accounts Payable | <u>(6,351.12)</u> |
| Total Adjustments | \$ <u>48,529.30</u> |
| Net Cash Provided/(Used) by Operating Activities | \$ <u><u>(773,632.55)</u></u> |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
COMBINING STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

| | <u>Trust</u> | <u>Private Purpose</u> | <u>Agency Fund</u> | <u>Fiduciary Funds</u> |
|-------------------------------------|----------------------|-------------------------|---------------------|------------------------|
| | <u>Unemployment</u> | <u>Scholarship Fund</u> | <u>Student</u> | <u>Total</u> |
| | <u>Compensation</u> | <u>Scholarship Fund</u> | <u>Activity</u> | |
| | | | <u>Payroll</u> | |
| <u>ASSETS</u> | | | | |
| Cash and Cash Equivalents | \$ 470,370.01 | \$ 640.44 | \$ 9,169.42 | \$ 513,710.85 |
| Accounts Receivable - State | 3,119.59 | | | 3,119.59 |
| Intrafund Receivable - General Fund | | | 2,264.78 | 2,264.78 |
| Total Assets | <u>\$ 473,489.60</u> | <u>\$ 640.44</u> | <u>\$ 11,434.20</u> | <u>\$ 519,095.22</u> |
| <u>LIABILITIES</u> | | | | |
| Payable to Student Groups | | | \$ 33,530.98 | \$ 33,530.98 |
| Payroll Deductions and Withholdings | | | \$ 11,434.20 | \$ 11,434.20 |
| Total Liabilities | | | <u>\$ 33,530.98</u> | <u>\$ 44,965.18</u> |
| <u>NET POSITION</u> | | | | |
| Held in Trust for Unemployment | \$ 473,489.60 | \$ 640.44 | | \$ 473,489.60 |
| Claims and Other Purposes | | | | 640.44 |
| Reserved for Scholarships | | | | |
| Total Net Position | <u>\$ 473,489.60</u> | <u>\$ 640.44</u> | | <u>\$ 474,130.04</u> |

See accompanying notes to financial statements

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
COMBINING STATEMENT OF CHANGE IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | <u>Trust</u> | | |
|--|---|---|--------------------------------------|
| | <u>Unemployment Compensation Trust Fund</u> | <u>Private Purpose Scholarship Fund</u> | <u>Fiduciary Funds Total</u> |
| <u>Additions</u> | | | |
| Contributions: | | | |
| Plan Members | \$ 72,548.66 | \$ 57.20 | \$ 72,605.86 |
| Due from State | <u>3,119.59</u> | | <u>3,119.59</u> |
| Total Additions | \$ <u>75,668.25</u> | \$ <u>57.20</u> | \$ <u>75,725.45</u> |
| <u>Deductions</u> | | | |
| Quarterly Contribution Reports | \$ 19,109.60 | | \$ 19,109.60 |
| Unemployment Claims | 11,439.81 | | 11,439.81 |
| Scholarships Awarded | | \$ 200.00 | 200.00 |
| Total Deductions | \$ <u>30,549.41</u> | \$ <u>200.00</u> | \$ <u>30,749.41</u> |
| Change in Net Position | \$ 45,118.84 | \$ (142.80) | \$ 44,976.04 |
| Total Net Position - Beginning of the Year | <u>428,370.76</u> | <u>783.24</u> | <u>429,154.00</u> |
| Total Net Position - End of the Year | \$ <u><u>473,489.60</u></u> | \$ <u><u>640.44</u></u> | \$ <u><u>474,130.04</u></u> |

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

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BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Borough of Freehold School District (the "District") is a Type II district located in the County of Monmouth, State of New Jersey. As a Type II district, the District functions independently through a Board of Education (the "Board"). The Board is comprised of nine (9) members elected to three-year staggered terms. The purpose of the District is to educate students in grades K-8. The District had an approximate enrollment at June 30, 2016 of 1677 students.

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service and student related activities of the District.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

A. Basis of Presentation

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

1. Government-Wide Financial 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 primary government, except for fiduciary funds.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Basis of Presentation (Continued)

1. Government-Wide Financial Statements (Continued)

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

2. Fund Financial Statements

During the 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.

Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

B. Fund Accounting

The District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

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 noninstructional equipment that are classified in the Capital Outlay subfund.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

1. Governmental Funds (Continued)

General Fund (Continued)

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 capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. 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 the proceeds of specific revenue from State and Federal Government, (other than major capital projects, Debt Service or the Enterprise Funds) and local appropriations that are legally restricted to expenditures for specified purposes.

Capital Projects Fund – The Capital Projects Fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (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.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs. This fund is not applicable in this fiscal year.

2. Proprietary Fund Type

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

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

2. Proprietary Fund Type (Continued)

Enterprise Fund – The Enterprise Fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the District is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges; or, where the District has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The District's Enterprise Fund is comprised of the Food Service Fund.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their statement of net position. Their reported fund equity (net position) is segregated into contributed capital and unreserved retained earnings, if applicable. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position.

Depreciation of all exhaustive capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives of the equipment used in the operations of the Enterprise Funds are approximately 10 years.

3. Fiduciary Funds

Trust and Agency Funds – The Trust and Agency Funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governments and/or other funds.

Expendable Trust Fund – An Expendable Trust Fund is accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable Trust Funds account for assets where both the principal and interest may be spent. The Expendable Trust Fund includes the Unemployment Compensation Insurance Fund.

Agency Funds – Agency Funds are 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. Agency Funds include payroll and student activities funds.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

4. Noncurrent Debt

Noncurrent liabilities expected to be financed from governmental funds are accounted for in the General Noncurrent Debt, not in the governmental funds. This includes the outstanding principal balance on capital leases.

C. Measurement Focus

1. Government-Wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the Statement of Net Position.

2. Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement, all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Fund equity (i.e., net position) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

The modified accrual basis of accounting is used for measuring financial position and operating results of all governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction 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. State equalization monies are recognized as revenue during the period in which they are appropriated. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for principal and interest on general noncurrent debt which are recorded when due.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Ad Valorem (Property) Taxes are susceptible to accrual and 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 moneys under the established payment schedule and the unpaid amount is considered to be an "accounts receivable".

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types and nonexpendable trust funds. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred.

E. Budgets/Budgetary Control

Annual appropriated budgets are prepared in the winter of each year for the general, special revenue and debt service funds. The budgets are approved by the District, submitted to the County office for review approval and if determined to be within the allowable tax levy cap and within the allowable appropriation cap, become effective upon the holding of a public hearing and final adoption by the District. Budgets are prepared using the modified accrual basis of accounting, except for the special revenue fund as described later. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year subject to the limitation of N.J.A.C. 6A:23A-2.3 (et seq.). The Board of Education made a material supplemental budgetary appropriation of fund balance during the fiscal year.

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 accounting principles generally accepted in the United States of America (GAAP) with the exception of the legally mandated revenue recognition of the last state aid payment for budgetary purposes only and the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgets/Budgetary Control (Continued)

The following presents a reconciliation of the general fund revenue and special revenue fund revenue from the budgetary basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General, Special Revenue and Debt Service Funds to the GAAP basis of accounting as presented in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types.

| | <u>General Fund</u> | <u>Special Revenue Fund</u> |
|---|-------------------------|---------------------------------|
| Sources/inflows of resources: | | |
| Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules. | \$ 22,673,626.61 | \$ 3,343,761.47 |
| Difference - budget to GAAP: | | |
| Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized. | | |
| June 30, 2015 | None | 3,750.00 |
| June 30, 2016 | None | (3,750.00) |
| State aid payments recognized for GAAP statements in the current year, previously recognized for budgetary purposes. | 961,136.50 | 15,019.50 |
| State aid payments recognized for budgetary purposes, not recognized for GAAP statements. | <u>(961,086.50)</u> | <u>(18,181.50)</u> |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds. | <u>\$ 22,673,676.61</u> | <u>\$ 3,340,599.47</u> |
| Uses/outflows of resources: | | |
| Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule. | \$ 22,415,547.52 | \$ 3,343,761.47 |
| Differences - budget to GAAP: | | |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year supplies are received for financial reporting purposes. | | |
| June 30, 2015 | None | 3,750.00 |
| June 30, 2016 | <u>None</u> | <u>(3,750.00)</u> |
| Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds. | <u>\$ 22,415,547.52</u> | <u>\$ 3,343,761.47</u> |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Encumbrances

Under encumbrance accounting purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds, other than the special revenue fund, are reported as reservations 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, 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.

G. Assets, Liabilities and Equity

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Cash equivalents are defined as short-term, highly liquid securities that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with original maturities of three (3) months or less meet this definition. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

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

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

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

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

2. Inventories and Prepaid Expenses

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

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. Prepaid expenses in the Enterprise Fund represent payments made to vendors for services that will benefit periods beyond June 30, 2016.

3. Allowance for Uncollectible Accounts

No allowance for uncollectible accounts has been recorded as all amounts are considered collectible.

4. Tuition Receivable

Tuition charges were established by the Board of Education based on estimated costs. The charges are subject to adjustment when the final costs have been determined.

5. Tuition Payable

Tuition charges for the fiscal years 2014-2015 and 2015-2016 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

6. Current Interfund Receivables/Payables

Current interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District and that are due within one year.

7. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$2,000.00. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

7. Capital Assets (Continued)

All reported capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method under the half year convention over the following useful lives:

| <u>Asset Class</u> | <u>Estimated Lives</u> |
|-------------------------------|------------------------|
| School Buildings | 40 years |
| Building Improvements | 20 years |
| Electrical/Plumbing | 30 years |
| Vehicles | 8 years |
| Office and Computer Equipment | 5-10 years |
| Instructional Equipment | 10 years |
| Grounds Equipment | 15 years |
| Food Service Equipment | 7-20 years |

8. Deferred Outflows/Inflows of Resources

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

9. Compensated Absences

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

The entire sick leave and vacation leave liabilities are reported on the government-wide financial statements.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

9. Compensated Absences (Continued)

For governmental fund financial statements, the current portion of unpaid compensated absences is in the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

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

10. Accrued Liabilities and Noncurrent Obligations

All payables, accrued liabilities and noncurrent obligations are reported in the government-wide financial statements.

In general, 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 governmental funds. However, the noncurrent portion of capital leases, compensated absences and loans payable that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable, available financial resources.

11. Deferred Loss on Refunding of Debt

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

12. Net Position

GASB Statement Number 68, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* became effective for financial statements for periods beginning after December 15, 2011 and established standards for reporting deferred outflows of resources, deferred inflows of resources and net position. The adoption of this statement resulted in a change in the presentation of the statement of net position to what is now referred to as the statement of net position and the term "net assets" is changed to "net position" throughout the financial statements. Net Position represents the difference between assets, deferred outflows, deferred inflows and liabilities in the government-wide financial statements. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any noncurrent debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

13. Unearned Revenue

Unearned revenue in all funds represent program revenues that have been received but not yet earned.

14. Fund Equity

Contributed capital represents the amount of fund capital contributed to the proprietary funds from other funds. Reserves represent those portions of fund equity not available for appropriation for expenditure or legally segregated for a specific future use. Designated fund balances represent plans for future use of financial resources.

15. Fund Balance

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54") established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under GASB 54, fund balances in the governmental funds financial statements are reported under the modified accrual basis of accounting and classified into the following five (5) categories, as defined below:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Assets included in this fund balance category include prepaid assets, inventories, noncurrent receivables and corpus of any permanent funds.
- b. Restricted – includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers or through enabling legislation.
- c. Committed – includes amounts that can be used only for the specific purposes imposed by a formal action of the government's highest level of decision-making authority. The District's highest level of decision-making authority is the Board of Education (the "Board") and formal action is taken by resolution of the Board at publicly held meetings. Once committed, amounts cannot be used for other purposes unless the Board revised or changes the specified use by taking the same action (resolution) taken to originally commit these funds.
- d. Assigned – amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Interest is expressed by either the Board or Business Administrator, to whom the Board has delegated the authority to assign amounts to be used for specific purposes, including the encumbering of funds.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

15. Fund Balance (Continued)

- e. Unassigned – includes all spendable amounts not contained in the other classifications in the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a position unassigned fund balance amount. In the other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. For the unrestricted fund balance, the District first spends committed funds, then assigned funds, and finally, unassigned funds.

16. Proprietary Funds Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 fund, (the Food Service) are charges to customers for sales of food service. 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 nonoperating revenues and expenses.

17. Non-Monetary Transactions

Commodities received under the Federal Food Distribution Program are received by the district and are recorded as nonoperating revenue when received in the food service enterprise fund at market value. The use of the commodities is included in cost of sales.

18. Allocation of 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. Employee benefits, including the employer's share of social security, workers compensation, and medical and dental benefits, were allocated based on salaries of that program. Depreciation expense, where practicable, is specifically identified by function and is included in the direct expense column of the Statement of Activities. Depreciation expense that could not be attributed to a specific function is reported separately on the Statement of Activities. No expenses were allocated as "Indirect Expenses".

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

19. On-Behalf Payments

Revenues and expenditures of the general fund include payments made by the State of New Jersey social security and post-retirement medical pension contributions for the certified teachers and other members of the New Jersey Teachers Pension and Annuity Fund. The amounts are not required to be included in the District's annual budget.

20. Extraordinary and Special Items

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

21. 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 by state and local governments for pensions. 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 interperiod 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 nonemployer 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 nonemployer 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 nonemployer 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.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Assets, Liabilities and Equity (Continued)

21. Accounting and Financial Reporting for Pensions (Continued)

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 nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer 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. 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 nonemployer 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.

H. Other Accounting Standards

The District is currently reviewing the following for applicability and potential impact on the financial statements:

- *GASB Statement No. 74. Financial Reporting for Postemployment Benefit Other Than Pension Plans.*

Effective Date: The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged. The District does not expect this Statement to impact its financial statements.

- *GASB Statement No. 75. Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Effective Date: The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged. The District does not expect this Statement to impact its financial statements.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Other Accounting Standards (Continued)

- *GASB Statement No. 76. The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*

Effective Date: The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged. The District does not expect this Statement to impact its financial statements.

- *GASB Statement No. 77. Tax Abatement Disclosures.*

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The District does not expect this Statement to impact its financial statements.

- *GASB Statement No. 78. Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.*

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The District does not expect this Statement to impact its financial statements.

- *GASB Statement No. 82. Pension Issues – an amendment of GASB Statements No. 67, No. 38 and No. 73*

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement data of the pension liability is on or after June 15, 2017. Earlier application is encouraged. The District does not expect this statement to impact its financial statements

I. Subsequent Events

Management has reviewed and evaluated all events and transactions from June 30, 2016 through December 1, 2016, the date that the financial statements are issued for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents includes petty cash, change funds, amounts in deposits, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The District classifies certificates of deposit that have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

Deposits

New Jersey statutes require that school districts deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. School districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

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

As of June 30, 2016, cash and cash equivalents (Deposits) of the District consisted of the following:

| | <u>Cash and Cash Equivalents</u> |
|--|----------------------------------|
| Checking Accounts (Operating) | \$ <u>4,335,649.85</u> |
| Reconciliation: | |
| Governmental Funds | \$ 3,389,571.71 |
| Enterprise Funds | 306,309.16 |
| Fiduciary Funds | <u>639,768.98</u> |
| | \$ <u>4,335,649.85</u> |
| Allocation of Cash and Cash Equivalents | |
| Unrestricted | \$ 3,299,988.83 |
| Restricted | <u>1,035,661.02</u> |
| | \$ <u>4,335,649.85</u> |

Included in the balance is \$1,242,713.99 allocated to the General Fund Capital Reserve Account.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Risk Analysis – All of the balances were covered by either federal depository insurance or Government Unit Deposit Protection Act (“GUDPA”) and are considered to have minimal custodial risk.

Investments

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

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

There were no securities that would be classified as investments as of June 30, 2016.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

5. INTERGOVERNMENTAL ACCOUNTS RECEIVABLE

Intergovernmental Accounts Receivable at June 30, 2016 consisted of Federal Sources, State Sources, State Aid, and transportation. All receivables are considered collectible in full. A summary of the principal items of intergovernmental accounts receivable follows:

| | <u>Government Fund</u> <u>Financial Statements</u> | <u>Business Type</u> <u>Activities</u> |
|--|---|---|
| General Fund: | | |
| State Aid: | | |
| Extraordinary Aid | \$ 102,803.00 | |
| Non-Public Transportation - Cost Reimbursement | <u>2,032.00</u> | |
| | <u>\$ 104,835.00</u> | |
| Special Revenue Fund: | | |
| Federal Aid: | | |
| Title I Part A | \$ 158,907.09 | |
| Title II Part A | 17,296.32 | |
| Title III Part A | 6,826.73 | |
| IDEA Part B | 16,584.16 | |
| 21st Century Grant | 31,473.43 | |
| Preschool Expansion | <u>91,594.70</u> | |
| Total Federal Aid | <u>\$ 322,682.43</u> | |
| Local - MOESC | <u>\$ 7,400.92</u> | |
| | <u>\$ 330,083.35</u> | |
| | <u>\$ 434,918.35</u> | |
| Proprietary Fund: | | |
| Enterprise Fund | | |
| State Sources: | | |
| Lunch | | <u>\$ 849.67</u> |
| Federal Sources: | | |
| Breakfast | | \$ 15,044.04 |
| Lunch | | 44,471.98 |
| Snack | | <u>1,238.16</u> |
| | | <u>\$ 60,754.18</u> |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

6. INVENTORY

The value of federal donated commodities as reflected on Schedule A of \$57,052.14 (required by the Single Audit Law of 1984) is the difference between market value and cost of the commodities at the date of the purchase and has been included as an item of nonoperating revenue in the financial statements. For the year ended June 30, 2016, the federal donated commodities food inventory of \$3,398.15 was included in the year end food and supplies amount of \$15,181.90.

7. CAPITAL ASSETS, NET

The following schedule is a summarization of the changes in capital assets by source for the fiscal year ended June 30, 2016:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>(Transfer) Retirements</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------------|-----------------------------------|---------------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 110,050.00 | | | \$ 110,050.00 |
| Construction in Progress | | \$ 284,246.08 | | 284,246.08 |
| Total capital assets not being depreciated | <u>110,050.00</u> | <u>284,246.08</u> | | <u>394,296.08</u> |
| Capital assets being depreciated: | | | | |
| Infrastructure | \$ 16,275.00 | | | 16,275.00 |
| Site Improvements | 834,524.00 | | | 834,524.00 |
| Building and building improvements | 15,025,958.00 | \$ 188,948.00 | | 15,214,906.00 |
| Machinery and equipment | 1,779,323.00 | 217,395.00 | | 1,996,718.00 |
| Totals at historical cost | <u>17,656,080.00</u> | <u>406,343.00</u> | | <u>18,062,423.00</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | \$ (814.00) | \$ (325.00) | | (1,139.00) |
| Site Improvements | (553,196.00) | (30,374.00) | | (583,570.00) |
| Building and building improvements | (7,393,736.00) | (360,645.00) | | (7,754,381.00) |
| Machinery and equipment | (1,484,369.00) | (108,673.00) | | (1,593,042.00) |
| Total accumulated depreciation | <u>(9,432,115.00)</u> | <u>(500,017.00)</u> | | <u>(9,932,132.00)</u> |
| Total capital assets being depreciated net of accumulated depreciation | <u>\$ 8,223,965.00</u> | <u>\$ (93,674.00)</u> | \$ | <u>\$ 8,130,291.00</u> |
| Governmental activities capital assets, net | <u>\$ 8,334,015.00</u> | <u>\$ 190,572.08</u> | \$ | <u>\$ 8,524,587.08</u> |
| Allocation of Additions: | | | | |
| General Fund | | \$ 680,386.14 | | |
| Special Revenue Fund | | 2,659.84 | | |
| Other contribution | | 7,543.10 | | |
| | | <u>\$ 690,589.08</u> | | |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

7. CAPITAL ASSETS, NET (CONTINUED)

| | <u>Beginning</u> <u>Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending</u> <u>Balance</u> |
|--|------------------------------------|-----------------------------|-----------------------------|---------------------------------|
| <u>Business-Type Activities:</u> | | | | |
| Furniture, machinery and equipment | \$ 201,810.17 | \$ 7,383.52 | | \$ 209,193.69 |
| Building improvements | <u>24,333.00</u> | <u> </u> | <u> </u> | <u>24,333.00</u> |
| Totals at historical cost | <u>\$ 226,143.17</u> | <u>7,383.52</u> | <u> </u> | <u>\$ 233,526.69</u> |
| Less accumulated depreciation for: | | | | |
| Furniture, machinery and equipment | \$ (151,521.74) | \$ (11,380.52) | 13,846.81 | \$ (149,055.45) |
| Building improvements | <u>(18,058.59)</u> | <u> </u> | <u> </u> | <u>(18,058.59)</u> |
| Total accumulated depreciation | <u>\$ (169,580.33)</u> | <u>\$ (11,380.52)</u> | <u>13,846.81</u> | <u>\$ (167,114.04)</u> |
| Business type activities capital assets, net | <u>\$ 56,562.84</u> | <u>\$ (3,997.00)</u> | <u>13,846.81</u> | <u>\$ 66,412.65</u> |

Depreciation expense was charged to Governmental Activities functions as follows:

| | |
|--|----------------------|
| Regular Instruction | \$ 213,182.79 |
| Special Education Instruction | 67,795.92 |
| Other Instruction | 21,948.55 |
| Support Services and Undistributed Cost: | |
| Student and Instruction Related Services | 83,533.95 |
| School Administrative Services | 15,240.99 |
| General and Business Administrative Services | 40,812.59 |
| Plant Operations and Maintenance | 39,563.60 |
| Pupil Transportation | <u>17,938.62</u> |
| | <u>\$ 500,017.00</u> |

Net Investment in Capital Assets

Prior Period Adjustment – Net investment in capital assets for the prior year June 30, 2015 was adjusted to correct for a liability that should have not been factored into the balance. This is consistent with the June 30, 2016 presentation.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

8. NONCURRENT DEBT

During the fiscal year ended June 30, 2016 the following changes occurred in liabilities:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> | <u>Noncurrent Portion</u> |
|-----------------------------------|------------------------------|---------------------|------------------------|---------------------------|--|-------------------------------|
| <u>Governmental Activities:</u> | | | | | | |
| Bonds Payable - | | | | | | |
| General | | | | | | |
| Obligation Debt | \$ 2,835,000.00 | | \$ (690,000.00) | \$ 2,145,000.00 | \$ 675,000.00 | \$ 1,470,000.00 |
| Add - Premium on Sale of Bonds | 44,455.67 | | (7,409.27) | 37,046.40 | 7,409.27 | 29,637.13 |
| | <u>2,879,455.67</u> | | <u>(697,409.27)</u> | <u>2,182,046.40</u> | <u>682,409.27</u> | <u>1,499,637.13</u> |
| Compensated | | | | | | |
| Absences Payable | \$ 558,488.22 | \$ 23,201.00 | | \$ 581,689.22 | \$ 116,337.84 | \$ 465,351.38 |
| Capital Leases | 40,189.41 | | (17,416.34) | 22,773.07 | 14,195.91 | 8,577.16 |
| | <u>\$ 598,677.63</u> | <u>23,201.00</u> | <u>(17,416.34)</u> | <u>\$ 604,462.29</u> | <u>\$ 130,533.75</u> | <u>\$ 473,928.54</u> |
| | <u>\$ 3,478,133.30</u> | <u>\$ 23,201.00</u> | <u>\$ (714,825.61)</u> | <u>\$ 2,786,508.69</u> | <u>\$ 812,943.02</u> | <u>\$ 1,973,565.67</u> |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

8. NONCURRENT DEBT (CONTINUED)

A. Bonds Payable Currently Outstanding

Bonds are authorized in accordance with State law by the voters of the municipality through referendums or in the case of refunding in accordance with Local Finance Board requirements. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the District are general obligation bonds. As of June 30, 2016, the District had the following serial bonds outstanding.

General Serial Bonds:

\$5,885,000.00 General Obligation Bonds, Series 1996 - Annual maturity of \$435,000.00 on December 1, 2016 at an interest rate of 5.25%. The Bonds are not subject to redemption prior to maturity. \$ 435,000.00

\$2,485,000.00 School District Refunding Bonds Series 2011 - These bonds were issued to refinance \$2,339,000.00 of General Obligation Bonds Series 2001. Annual maturities of \$240,000.00 to \$305,000.00 through August 15, 2021 with interest rates ranging from 2.0% to 5.0%. The bonds are not subject redemption prior to maturity. 1,710,000.00

\$ 2,145,000.00

The Bonds are general obligations of the Board and are secured by a pledge of the full faith and credit of the Board for the payment of the principal thereof and the interest thereon and, unless paid from other sources, the Bonds are payable from ad valorem taxes to be levied on all taxable real property in the school district, without limitation as to rate or amount. The Bonds are additionally secured by the provisions of the New Jersey School Bond Reserve Act.

The District, in conjunction with the issuance of the Bonds, has agreed to undertake and provide certain information to Bondholders on a continuing basis. The Securities and Exchange Commission ("SEC") Rule 15c2-12(b)(5) "Continuing Disclosure" requirements, which the District has adopted, requires that various financial information about the District and the Municipality be provided annually to various information repositories. This has been complied with for the year ended June 30, 2015.

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

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

8. NONCURRENT DEBT (CONTINUED)

A. Bonds Payable Currently Outstanding (continued)

Principal and interest due on serial bonds outstanding is as follows:

| Year Ending June 30 | 1996 Issue | | Refunding Bonds 2011 Issue | |
|------------------------|----------------------|---------------------|-------------------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 435,000.00 | \$ 11,418.75 | \$ 240,000.00 | 54,162.50 |
| 2018 | | | 305,000.00 | 48,331.25 |
| 2019 | | | 300,000.00 | 41,150.00 |
| 2020 | | | 295,000.00 | 31,500.00 |
| 2021 | | | 290,000.00 | 19,800.00 |
| | <u>435,000.00</u> | <u>11,418.75</u> | <u>1,430,000.00</u> | <u>194,943.75</u> |
| 2022 | | | 280,000.00 | 7,000.00 |
| | | | <u>280,000.00</u> | <u>7,000.00</u> |
| Total | <u>\$ 435,000.00</u> | <u>\$ 11,418.75</u> | <u>\$ 1,710,000.00</u> | <u>\$ 201,943.75</u> |

| Year Ending June 30 | Grand Total | | |
|------------------------|------------------------|----------------------|------------------------|
| | Principal | Interest | Total |
| 2017 | \$ 675,000.00 | \$ 65,581.25 | \$ 740,581.25 |
| 2018 | 305,000.00 | 48,331.25 | 353,331.25 |
| 2019 | 300,000.00 | 41,150.00 | 341,150.00 |
| 2020 | 295,000.00 | 31,500.00 | 326,500.00 |
| 2021 | 290,000.00 | 19,800.00 | 309,800.00 |
| | <u>1,865,000.00</u> | <u>206,362.50</u> | <u>2,071,362.50</u> |
| 2022 | 280,000.00 | 7,000.00 | 287,000.00 |
| | <u>280,000.00</u> | <u>7,000.00</u> | <u>287,000.00</u> |
| | <u>\$ 2,145,000.00</u> | <u>\$ 213,362.50</u> | <u>\$ 2,358,362.50</u> |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

8. NONCURRENT DEBT (CONTINUED)

B. Bonds and Notes Authorized But Not Issued

- i. As of June 30, 2016 there were no bonds and notes authorized but not issued.
- ii. Expansion of Facilities – Refer to Note 19-D

C. Capital Lease Obligations Payable

The District is leasing various equipment. The following is a schedule of the future minimum lease payments under the two (2) capital leases, and the present value of the net minimum lease payments at June 30, 2016:

| <u>Year</u> | <u>Copiers With Interest</u> |
|------------------------|----------------------------------|
| 2017 | \$ 15,164.64 |
| 2018 | <u>8,758.28</u> |
| | \$ 23,922.92 |
| Less: Interest Portion | <u>1,149.85</u> |
| | <u><u>\$ 22,773.07</u></u> |

D. Defeasance

As a result of the accounting requirement in accordance with GASB #23/#65, Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities, the recording of the transaction related to the new vs. old debt and related costs resulted in an accounting loss which in conjunction with the premium will be amortized over the remaining life of the bond issue.

Unamortized Loss on Defeasance

| | <u>Loss</u> | <u>Beginning Balance</u> | <u>Amortization</u> | <u>Ending Balance</u> |
|-----------------------------|-------------------|------------------------------|---------------------|---------------------------|
| 2011 Series Refunding Bonds | \$ <u>138,952</u> | <u>84,606</u> | \$ <u>12,087</u> | \$ <u>72,519</u> |

E. Compensated Absences

Refer to Notes to Financial Statements – Note 11 for further detail.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS

Basic Financial Statements

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 that 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 in January 1955 under the provisions of N.J.S.A.18A:66 to provide coverage including post-retirement health care to substantially all full time public school employees in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for health care coverage. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 61 and 62, respectively, with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively, with an annual benefit generally determined to be 1/60th of the average annual during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

Public Employees' Retirement System (PERS): The Public Employees' Retirement System was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school board or public agency provided the employee is not a member of another State-administered retirement system. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 61 and 62, respectively with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be 1/60th of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Funding Policy: The contribution policy is set by New Jersey Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for TPAF and PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased in over the next seven years that will bring the total pension contribution rate to 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate in both the 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 the TPAF.

During the year ended June 30, 2016 for TPAF, which is a cost sharing plan with special funding situations, the annual pension costs equals annual required contribution. For PERS, which is a cost sharing multi-employer pension plan, the annual pension costs differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

| Fiscal Year Ended June 30 | Three-Year Trend Information for PERS | | | Percentage of APC Contributed | Employee Contribution |
|------------------------------|---------------------------------------|------------|-------------------------|-------------------------------------|--------------------------|
| | Annual Pension Cost | | Net Cost to District | | |
| | Normal | Accrued | | | |
| 2016 | \$ 46,469 | \$ 214,065 | \$ 260,534 | 100% | \$ 164,856 |
| 2015 | 45,850 | 212,092 | 257,942 | 100% | 160,552 |
| 2014 | 69,181 | 187,409 | 256,590 | 100% | 145,039 |

Three-Year Trend Information for TPAF (Paid on-behalf of the District)

| Fiscal Year Ended June 30 | Pension Paid on-behalf of District | | Employee Contribution | TPAF FICA |
|------------------------------|------------------------------------|-----------------------|--------------------------|--------------|
| | APC Contributed | Total On-Behalf of | | |
| 2016 | 100% | \$ 688,661 | \$ 664,290 | \$ 693,903 |
| 2015 | 100% | 436,588 | 630,103 | 648,095 |
| 2014 | 100% | 356,554 | 573,838 | 639,657 |

During the fiscal year ended June 30, 2016 the State of New Jersey contributed \$688,661 to the TPAF on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$693,903 during the year ended June 30, 2016 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 general-purpose financial statements, and the combining and individual fund and account group statements and schedules as a revenue and expenditure in accordance with GASB 24.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Funding Policy: (Continued)

Legislation enacted during 1993 provided early retirement incentives for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in the 1994 fiscal year. The early retirement incentives included: (a) an additional five years of service credit for employees at least age 50 with a minimum of 25 years of service; (b) free health benefits for employees at least 60 years old with at least 20 years of service; and (c) an additional \$500 per month for two years for employees at least age 60 with 10 but less than 20 years of service. The Board assumed the increased cost for the early retirement as it affected their district.

District-Wide Financial Statements

Public Employees Retirement System (PERS)

The information for PERS was abstracted from State of New Jersey Public Employees' Retirement System Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of June 30, 2015 and 2014 Independent Auditor's Report dated November 13, 2016.

At June 30, 2016 and June 30, 2015, the District reported a liability of \$7,166,568 and \$6,254,920, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 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.

| | June 30, | |
|------------------------------|----------------|----------------|
| | 2015 | 2014 |
| District Proportionate Share | 0.0319265844 % | 0.0334081536 % |
| Difference - (Decrease) | (0.0014815692) | |

For the year ended June 30, 2016, the District recognized pension expense of \$490,303. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Changes of Assumptions | \$ 769,665 | |
| Difference between expected and actual experience | 170,977 | |
| Net difference between projected and actual earnings on pension plan investments | | \$ 115,230 |
| Changes in proportion | 310,871 | 235,339 |
| District contributions subsequent to the measurement date | 297,613 | |
| Total | \$ 1,549,126 | \$ 350,569 |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

The \$297,613 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, 2016, the plan measurement date is June 30, 2015) will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ended</u> <u>June 30</u> | <u>Amount</u> |
|-------------------------------------|---------------|
| 2016 | \$ 150,267 |
| 2017 | 150,267 |
| 2018 | 150,267 |
| 2019 | 239,324 |
| 2020 | 135,289 |

Additional Information:

Collective balances at June 30, 2015 and 2014 are as follows:

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|--|----------------------|----------------------|
| Collective deferred outflows of resources | \$ 5,823,297,595 | \$ 1,452,705,538 |
| Collective deferred inflows of resources | 1,215,190,347 | 2,146,719,012 |
| Collective net pension liability (Local Group) | 22,447,996,119 | 20,127,103,950 |
| Collective net pension liability | 46,170,131,656 | 38,849,838,953 |
| District's proportion (Local Group) | 0.0319265844 % | 0.0334081536 % |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which rolled forward to June 30, 2015. The total pension liability for the July 1, 2014 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 | 3.04 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, 2014 valuation were based on the results of an actuarial experience study. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

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. The RP-2000 Disabled Mortality Table (setback three years for males and setback one year for females) are used to value disabled retirees.

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return (7.90% at June 30, 2015) 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. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 are summarized in the following table:

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Long-Term Rate of Return (Continued)

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| Cash | 5.00 % | 1.04 % |
| U.S. Treasuries | 1.75 | 1.64 |
| Investment Grade Credit | 10.00 | 1.79 |
| Mortgages | 2.10 | 1.62 |
| High Yield Bonds | 2.00 | 4.03 |
| Inflation Indexed Bonds | 1.50 | 3.25 |
| Broad U.S. Equities | 27.25 | 8.52 |
| Developed Foreign Markets | 12.00 | 6.88 |
| Emerging Market Equities | 6.40 | 10.00 |
| Private Equity | 9.25 | 12.41 |
| Hedge Funds/Absolute Returns | 12.00 | 4.72 |
| Real Estate (Property) | 2.00 | 6.83 |
| Commodities | 1.00 | 5.32 |
| Global Debt ex US | 3.50 | -0.40 |
| REIT | <u>4.25</u> | 5.12 |
| | <u>100.00 %</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, 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 3.80% and 4.29% as of June 30, 2015 and 2014, 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.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

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, 2015 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, 2015 | | |
|---|----|---------------|--------------|--------------|
| | | 1% Decrease | At Current | 1% Increase |
| | | <u>3.90%</u> | <u>4.90%</u> | <u>5.90%</u> |
| District's proportionate share of the pension liability | \$ | 8,907,553 | 7,166,878 | 5,707,509 |

| | | June 30, 2014 | | |
|---|----|---------------|--------------|--------------|
| | | 1% Decrease | At Current | 1% Increase |
| | | <u>4.39%</u> | <u>5.39%</u> | <u>6.39%</u> |
| District's proportionate share of the pension liability | \$ | 7,868,902 | 6,254,920 | 4,899,586 |

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)

Data for the TPAF was abstracted from the State of New Jersey Teachers' Pension and Annuity Fund Schedules of Employer and Nonemployer Allocations and Schedules of Pension Amounts by Employer and Nonemployer as of June 30, 2015 and 2014 Independent Auditor's Reports dated July 28, 2016 and November 13, 2015, respectively.

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.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (Continued)

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 | \$ - |
| State's proportionate share associated with the District | <u>51,040,248.00</u> |
| | <u>\$ 51,040,248.00</u> |

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014. 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, 2015, the proportion of the TPAF net pension liability associated with the District was .0807544290%.

For the year ended June 30, 2016 and June 30, 2015, the District recognized on-behalf pension expense and revenue of \$2,202,568 and \$2,423,942, respectively, for contributions provided by the State.

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

| | |
|---------------------------|----------------------------|
| Inflation | 2.50 Percent |
| Salary Increases: | |
| 2012-2021 | Varies based on experience |
| Thereafter | Varies based on experience |
| Investment Rate of Return | 7.90 Percent |

Mortality Rates

Mortality rates were based on the RP-2000 Health Annuitant Mortality 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 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (Continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return (7.90% at June 30, 2015) 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. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2015 are summarized in the table as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------------|--------------------------|---|
| US Cash | 5.00 % | 0.53 % |
| US Government Bonds | 1.75 | 1.39 |
| US Credit Bonds | 13.50 | 2.72 |
| US Mortgages | 2.10 | 2.54 |
| US Inflation-Indexed Bonds | 1.50 | 1.47 |
| US High Yield Bonds | 2.00 | 4.57 |
| US Equity Market | 27.25 | 5.63 |
| Foreign-Developed Equity | 12.00 | 6.22 |
| Emerging Markets Equity | 6.40 | 8.46 |
| Private Real Estate Property | 4.25 | 3.97 |
| Timber | 1.00 | 4.09 |
| Farmland | 1.00 | 4.61 |
| Private Equity | 9.25 | 9.15 |
| Commodities | 1.00 | 3.58 |
| Hedge Funds - MultiStrategy | 4.00 | 4.59 |
| Hedge Funds - Equity Hedge | 4.00 | 5.68 |
| Hedge Funds - Distressed | 4.00 | 4.30 |
| | <u>100.00 %</u> | |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

9. PENSION PLANS (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.13% and 4.68% as of June 30, 2015 and 2014, 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 3.80% and 4.29% as of June 30, 2015 and 2014, 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.

10. POST-RETIREMENT BENEFITS

Chapter 384 of Public Laws 1987 and Chapter 6 of Public Laws 1990 required TPAF and PERS, respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 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, 2015, there were 107,314 retirees eligible for post-retirement medical benefits and the state contributed \$1.25 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a prefunding 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 free 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 \$214.10 million toward Chapter 126 benefits for 19,056 eligible retired members in fiscal year 2015.

The State will set the contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents the 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 SHBP Fund for PERS retirees' post-retirement benefits on behalf of the District was not determined or made available by the State of New Jersey.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

10. POST-RETIREMENT BENEFITS (CONTINUED)

The State will set the contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents the 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 SHBP Fund for PERS retirees' post-retirement benefits on behalf of the District was not determined or made available by the State of New Jersey.

Three-Year Trend Information for TPAF Medical (Paid on-behalf of the District)

| Fiscal Year Ended | <u>June 30,</u> | <u>Post-Retirement Medical</u> |
|-------------------|-----------------|--------------------------------|
| 2016 | | \$ 820,004 |
| 2015 | | 693,085 |
| 2014 | | 584,615 |

11. COMPENSATED ABSENCES

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

District employees are granted vacation and sick leave in varying amounts in accordance with various employment agreements under the District's personnel policies. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and begin vesting with the employee after fifteen years of service.

The liability for vested compensated absences of the governmental fund types is recorded in the Statement of Net Position. The current portion of the compensated absence balance of the governmental funds is reported separately on the Statement of Net Position.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees.

12. DEFERRED COMPENSATION

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

- AXA Equitable
- Lincoln National Life
- Legend Employee Benefit
- SBP Commerce
- Great American Life Insurance Company
- Security Benefit Life Insurance Company
- IDS Financial Services
- AIG

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

13. RISK MANAGEMENT

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

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

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

| <u>Fiscal Year</u> <u>Ended June 30</u> | <u>District</u> <u>Contributions</u> | <u>Employee</u> <u>Contributions</u> | <u>Amount</u> <u>Reimbursed</u> | <u>Ending Balance</u> <u>(Deficit)</u> |
|--|---|---|------------------------------------|---|
| 2016 | \$ None | 75,668.25 | 30,549.41 | \$ 473,489.60 |
| 2015 | None | 59,247.78 | 36,771.34 | 428,370.76 |
| 2014 | None | 94,450.54 | 65,290.27 | 405,894.32 |

Health Benefits: The District has elected to provide health insurance to its employees based on a monthly per employee premium basis (a traditional plan).

14. INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances remained on the balance sheet at June 30, 2016 which will be liquidated in the normal course of business in the ensuing year.

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|-----------------------|-------------------|----------------|
| Governmental Funds: | | |
| Debt Service Fund | \$ 11.44 | |
| Capital Projects Fund | | \$ 11.44 |

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

15. DEFICIT FUND BALANCES – SPECIAL REVENUE FUND

The District has a deficit fund balance of \$18,181.50 in the Special Revenue Fund as of June 30, 2016 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the last state aid payment as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the last two (2) state aid payments in the subsequent fiscal year, the school district cannot recognize the last state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the last state aid payment, the Special Revenue Fund balance deficit does not alone indicate that the district is facing financial difficulties.

Pursuant to N.J.S.A. 18A:22-44.2 any negative unreserved, undesignated general fund balance that is reported as a direct result from a delay in the payment of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The District deficit in the GAAP funds statements of \$18,181.50 in the Special Revenue Fund is equal to the last state aid payment in Special Revenue Fund.

16. FUND BALANCE APPROPRIATED

General Fund – Of the \$2,658,206.33 General Fund fund balance at June 30, 2016, \$175,669.08 is assigned – for other purposes (encumbrances); \$1,242,714.99 is Restricted for Capital Reserve account; \$540,902.68 is Restricted for Maintenance Reserve; \$130,270.44 is Restricted for Legal Reserve; \$554,034.38 assigned – excess surplus designated for subsequent years' expenditures, and \$14,614.76 is assigned ARRA/SEMI – designated for subsequent year's expenditures.

Debt Service Fund – All of the \$360.17 fund balance at June 30, 2016 is restricted for Debt Service.

Capital Projects Fund – All of the \$89,571.44 Fund Balance at June 30, 2016, is restricted for Debt Service.

17. CALCULATION OF EXCESS SURPLUS

In accordance with N.J.S.A. 18A:7F-7 as amended by P.L. 2004 c73 (S1701), the designation for Reserved Fund Balance - Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve General Fund fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. There was excess surplus at June 30, 2016 on the budgetary basis of accounting (refer to Note 18) as a result of fiscal year 2015-2016 school year of \$548,066.59 and for fiscal year 2014-2015 of \$554,034.38.

BOROUGH OF FREEHOLD SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2016

18. RECONCILIATION OF FUND BALANCES – GENERAL FUND

The Unreserved General fund balance is presented on a GAAP basis and a reconciliation to the budgetary basis is as follows:

| | <u>Unassigned - Fund Balance</u> | <u>Reserve for Excess Surplus</u> | <u>Legal Reserves</u> |
|--|--------------------------------------|---------------------------------------|---------------------------|
| Balance on a budgetary basis as per general fund budgetary comparison (Schedule C-1) | \$ 404,259.59 | \$ 548,066.59 | \$ 139,030.76 |
| Less: Allocation of State aid payment of \$961,086.50 not recognized on a GAAP basis | <u>404,259.59</u> | <u>548,066.59</u> | <u>8,760.32</u> |
| Balances on a GAAP basis on the governmental fund balance sheet (Schedule B-1) | <u>None</u> | <u>None</u> | <u>\$ 130,270.44</u> |

19. CONTINGENT LIABILITIES

- A. **Grant Programs** – The school district participates in federally and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The school district is potentially liable for expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.
- B. **Pending Litigation** – As of the date of this report, the management has represented that there was no litigation pending which, in the event of an adverse or unfavorable outcome, would materially impair the financial position of the District.
- C. **Commitments** - The District has contractual commitments at June 30, 2016 to various vendors, which are recorded in the general fund as fund balance assigned for other purposes in the amount of \$175,669.08.
- D. **Expansion of School Facilities** – On August 4, 2016 the NJ Commissioner of Education issued an order granting the Board authorization to issue bonds for the renovations and capital projects as presented in the September and December 2014 referendum, and issuing a Section 40 Regular Operating District (ROD) grant for one hundred percent of the costs associated with the portion deemed additions. Pursuant to the School Development Authority (SDA) the final grant and project amount won't be struck until the project is put out to public bid.

20. ECONOMIC DEPENDENCY

The District receives a substantial amount of its support from federal and state governments. A significant reduction in the level of support, if this were to occur, could have an effect on the District's programs and activities.

**BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|--|-------------------------|---------------------|-------------------------|-------------------------|-----------------------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax levy | \$ 10,566,139.00 | | \$ 10,566,139.00 | \$ 10,566,139.00 | |
| Miscellaneous | 55,000.00 | | 55,000.00 | 124,962.55 | \$ 69,962.55 |
| Total - local sources | 10,621,139.00 | | 10,621,139.00 | 10,691,101.55 | 69,962.55 |
| State sources: | | | | | |
| Categorical Special Education Aid | 821,499.00 | | 821,499.00 | 821,499.00 | |
| Categorical Transportation Aid | 44,314.00 | | 44,314.00 | 44,314.00 | |
| Categorical Security Aid | 194,487.00 | | 194,487.00 | 194,487.00 | |
| Equalization Aid | 8,115,888.00 | | 8,115,888.00 | 8,115,888.00 | |
| Underadequacy Aid | 435,142.00 | | 435,142.00 | 435,142.00 | |
| PARCC Readiness Aid | 15,960.00 | | 15,960.00 | 15,960.00 | |
| Per Pupil Growth Aid | 15,960.00 | | 15,960.00 | 15,960.00 | |
| Extraordinary aid | 100,000.00 | | 100,000.00 | 102,803.00 | 2,803.00 |
| Nonpublic transportation - cost reimbursement | | | | 2,032.00 | 2,032.00 |
| On behalf - TPAF - pension contributions (non budgeted) | | | | 688,661.00 | 688,661.00 |
| On behalf - TPAF - post retirement medical (non budgeted) | | | | 820,004.00 | 820,004.00 |
| Reimbursed TPAF social security contributions (non budgeted) | | | | 693,902.85 | 693,902.85 |
| Total - state sources | 9,743,250.00 | | 9,743,250.00 | 11,950,652.85 | 2,207,402.85 |
| Federal sources: | | | | | |
| Medical assistance program | 45,015.00 | | 45,015.00 | 31,872.21 | (13,142.79) |
| Total - federal sources | 45,015.00 | | 45,015.00 | 31,872.21 | (13,142.79) |
| Total revenues | \$ 20,409,404.00 | | \$ 20,409,404.00 | \$ 22,673,626.61 | \$ 2,264,222.61 |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|------------------------|---------------------|------------------------|------------------------|-----------------------------|
| EXPENDITURES: | | | | | |
| CURRENT EXPENSE: | | | | | |
| Regular programs - instruction: | | | | | |
| Salaries of teachers: | | | | | |
| Preschool | \$ 1,600.00 | \$ (1,600.00) | | | |
| Kindergarten | 477,046.00 | (6,400.00) | \$ 470,646.00 | \$ 470,646.00 | |
| Grades 1 - 5 | 2,679,484.00 | 47,352.00 | 2,726,836.00 | 2,724,602.66 | \$ 2,233.34 |
| Grades 6 - 8 | 1,489,229.00 | 44,439.00 | 1,533,668.00 | 1,526,380.94 | 7,287.06 |
| | <u>4,647,359.00</u> | <u>83,791.00</u> | <u>4,731,150.00</u> | <u>4,721,629.60</u> | <u>9,520.40</u> |
| Home instruction: | | | | | |
| Salaries of teachers | 10,000.00 | | 10,000.00 | 1,294.50 | 8,705.50 |
| Purchased professional - educational services | 10,000.00 | | 10,000.00 | 391.02 | 9,608.98 |
| | <u>20,000.00</u> | | <u>20,000.00</u> | <u>1,685.52</u> | <u>18,314.48</u> |
| Total home instruction | | | | | |
| Regular programs - undistributed instruction: | | | | | |
| Other salaries for instruction | 280,485.00 | (15,903.00) | 264,582.00 | 264,581.95 | 0.05 |
| Purchased professional - educational services | 77,220.00 | (12,698.00) | 64,522.00 | 63,523.57 | 998.43 |
| Other purchased services (400-500 series) | 83,711.00 | 16,883.00 | 100,594.00 | 97,710.93 | 2,883.07 |
| General supplies | 223,828.00 | 83,053.00 | 306,881.00 | 299,332.97 | 7,548.03 |
| Textbooks | 75,184.00 | (66,149.00) | 9,035.00 | 3,814.58 | 5,220.42 |
| Other objects | 6,400.00 | | 6,400.00 | 5,393.85 | 1,006.15 |
| | <u>746,828.00</u> | <u>5,186.00</u> | <u>752,014.00</u> | <u>734,357.85</u> | <u>17,656.15</u> |
| Total regular programs - instruction | | | | | |
| Total regular programs - instruction | <u>\$ 5,414,187.00</u> | <u>\$ 88,977.00</u> | <u>\$ 5,503,164.00</u> | <u>\$ 5,457,672.97</u> | <u>\$ 45,491.03</u> |

**BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|------------------------|---------------------|------------------------|------------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Special education instruction: | | | | | |
| Learning and/or language disabilities: | | | | | |
| Salaries of teachers | \$ 160,171.00 | \$ (42,300.00) | \$ 117,871.00 | \$ 116,399.00 | \$ 1,472.00 |
| Other salaries for instruction | 171,915.00 | (94,595.00) | 77,320.00 | 75,785.00 | 1,535.00 |
| General supplies | 1,200.00 | 85.00 | 1,285.00 | 1,279.19 | 5.81 |
| Textbooks | 1,000.00 | | 1,000.00 | 1,000.00 | 1,000.00 |
| Other objects | 400.00 | | 400.00 | | 400.00 |
| Total learning and/or language disabilities | <u>334,686.00</u> | <u>(136,810.00)</u> | <u>197,876.00</u> | <u>193,463.19</u> | <u>4,412.81</u> |
| Behavioral disabilities: | | | | | |
| Salaries of teachers | 59,042.00 | | 59,042.00 | 57,802.00 | 1,240.00 |
| Other salaries for instruction | 51,225.00 | 28,735.00 | 79,960.00 | 78,818.70 | 1,141.30 |
| Purchased Professional - Educational Services | 15,000.00 | | 15,000.00 | 11,687.50 | 3,312.50 |
| General supplies | 500.00 | 110.00 | 610.00 | 606.33 | 3.67 |
| Textbooks | 500.00 | | 500.00 | 500.00 | 500.00 |
| Other Objects | 800.00 | (110.00) | 690.00 | | 690.00 |
| Total behavioral disabilities | <u>127,067.00</u> | <u>28,735.00</u> | <u>155,802.00</u> | <u>148,914.53</u> | <u>6,887.47</u> |
| Multiple disabilities: | | | | | |
| Salaries of teachers | 260,908.00 | (4,000.00) | 256,908.00 | 249,788.00 | 7,120.00 |
| Other salaries for instruction | 205,215.00 | 25,665.00 | 230,880.00 | 216,641.53 | 14,238.47 |
| General supplies | 1,600.00 | | 1,600.00 | 896.28 | 703.72 |
| Other Objects | 1,600.00 | (600.00) | 1,000.00 | | 1,000.00 |
| Total multiple disabilities | <u>469,323.00</u> | <u>21,065.00</u> | <u>490,388.00</u> | <u>467,325.81</u> | <u>23,062.19</u> |
| Resource room/resource center: | | | | | |
| Salaries of teachers | 1,156,641.00 | (97,367.00) | 1,059,274.00 | 1,059,271.08 | 2.92 |
| Other salaries for instruction | 69,950.00 | 152,665.00 | 222,615.00 | 209,488.23 | 13,126.77 |
| Other purchased services (400-500 series) | | 430.00 | 430.00 | 352.21 | 77.79 |
| General supplies | 2,550.00 | | 2,550.00 | 2,317.77 | 232.23 |
| Textbooks | 4,500.00 | | 4,500.00 | 450.86 | 4,049.14 |
| Total resource room/resource center | <u>\$ 1,233,641.00</u> | <u>\$ 55,728.00</u> | <u>\$ 1,289,369.00</u> | <u>\$ 1,271,880.15</u> | <u>\$ 17,488.85</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|---------------------|---------------------|---------------------|---------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Special education instruction (continued): | | | | | |
| Preschool disabilities - part-time: | | | | | |
| Salaries of teachers | \$ 160,085.00 | \$ (160,085.00) | | | |
| Other salaries for instruction | 169,290.00 | (169,290.00) | | | |
| General supplies | 1,500.00 | (1,500.00) | | | |
| Total Preschool disabilities - part-time | <u>330,875.00</u> | <u>(330,875.00)</u> | | | |
| Preschool disabilities - full-time: | | | | | |
| Salaries of teachers | | 160,436.00 | \$ 160,436.00 | \$ 157,895.00 | \$ 2,541.00 |
| Other salaries for instruction | | 187,984.00 | 187,984.00 | 151,376.93 | 36,607.07 |
| General supplies | | 1,500.00 | 1,500.00 | 934.66 | 565.34 |
| Other objects | | 600.00 | 600.00 | 425.00 | 175.00 |
| Total Preschool disabilities - full-time | | <u>350,520.00</u> | <u>350,520.00</u> | <u>310,631.59</u> | <u>39,888.41</u> |
| Early childhood: | | | | | |
| Salaries special ed. home instruction | 5,000.00 | | 5,000.00 | 2,275.00 | 2,725.00 |
| Purchased Professional - Educational Services | 8,000.00 | | 8,000.00 | 3,000.00 | 5,000.00 |
| Total early childhood | 13,000.00 | | 13,000.00 | 5,275.00 | 7,725.00 |
| Total special education - instruction | <u>2,508,592.00</u> | <u>(11,637.00)</u> | <u>2,496,955.00</u> | <u>2,397,490.27</u> | <u>99,464.73</u> |
| Other instructional programs: | | | | | |
| Basic skills/remedial - instruction: | | | | | |
| Salaries of teachers | 4,800.00 | (3,480.00) | 1,320.00 | | 1,320.00 |
| Other Purchased Services | 190.00 | (190.00) | | | |
| General supplies | 3,919.00 | 490.00 | 4,409.00 | 4,011.53 | 397.47 |
| Total basic skills/remedial - instruction | <u>8,909.00</u> | <u>(3,180.00)</u> | <u>5,729.00</u> | <u>4,011.53</u> | <u>1,717.47</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|---------------------|---------------------|----------------------|----------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Other instructional programs (continued): | | | | | |
| Bilingual education - instruction: | | | | | |
| Salaries of teachers | \$ 629,100.00 | \$ 34,597.00 | \$ 663,697.00 | \$ 655,854.64 | \$ 7,842.36 |
| Other purchased services | | 390.00 | 390.00 | 216.24 | 173.76 |
| General supplies | 5,400.00 | | 5,400.00 | 4,358.17 | 1,041.83 |
| Textbooks | 4,000.00 | | 4,000.00 | 712.34 | 3,287.66 |
| Total bilingual education - instruction | <u>638,500.00</u> | <u>\$ 34,987.00</u> | <u>\$ 673,487.00</u> | <u>\$ 661,141.39</u> | <u>\$ 12,345.61</u> |
| School sponsored co/extracurricular activities - instruction: | | | | | |
| Salaries | 41,360.00 | 1,795.00 | 43,155.00 | 43,155.00 | |
| Purchased services (300-500 series) | 250.00 | 2,870.00 | 3,120.00 | 3,120.00 | |
| Supplies and materials | 1,400.00 | (316.00) | 1,084.00 | 1,078.68 | 5.32 |
| Other Objects | 6,775.00 | (1,823.00) | 4,952.00 | 4,915.00 | 37.00 |
| Total school sponsored co/extracurricular activities - inst. | <u>49,785.00</u> | <u>2,526.00</u> | <u>52,311.00</u> | <u>52,268.68</u> | <u>42.32</u> |
| School sponsored athletic - instruction: | | | | | |
| Salaries | 34,200.00 | 282.00 | 34,482.00 | 34,480.58 | 1.42 |
| Supplies and Materials | 5,000.00 | 11,457.00 | 16,457.00 | 16,456.73 | 0.27 |
| Other objects | 1,350.00 | 35.00 | 1,385.00 | 1,385.00 | |
| Transfer to cover deficit | 6,000.00 | 430.00 | 6,430.00 | 6,430.00 | |
| Total school sponsored athletic - instruction | <u>46,550.00</u> | <u>12,204.00</u> | <u>58,754.00</u> | <u>58,752.31</u> | <u>1.69</u> |
| Total other instructional programs | <u>743,744.00</u> | <u>46,537.00</u> | <u>790,281.00</u> | <u>776,173.91</u> | <u>14,107.09</u> |
| Total instructional programs | <u>8,666,523.00</u> | <u>123,877.00</u> | <u>8,790,400.00</u> | <u>8,631,337.15</u> | <u>159,062.85</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|--|--------------------|---------------------|-------------------|-------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures: | | | | | |
| Instruction: | | | | | |
| Tuition to other LEAs within the state - regular | \$ 14,060.00 | | \$ 14,060.00 | \$ 2,822.26 | \$ 11,237.74 |
| Tuition to other LEAs within the state - special | 127,013.00 | \$ 205,650.00 | 332,663.00 | 327,428.61 | 5,234.39 |
| Tuition to private school for the disabled - state | 827,129.00 | (214,250.00) | 612,879.00 | 478,549.85 | 134,329.15 |
| Total undistributed expenditures - instruction | <u>968,202.00</u> | <u>(8,600.00)</u> | <u>959,602.00</u> | <u>808,800.72</u> | <u>150,801.28</u> |
| Attendance and social work: | | | | | |
| Salaries | 38,742.00 | | 38,742.00 | 38,741.00 | 1.00 |
| Total attendance and social work | <u>38,742.00</u> | | <u>38,742.00</u> | <u>38,741.00</u> | <u>1.00</u> |
| Health services: | | | | | |
| Salaries | 186,119.00 | 31,674.00 | \$ 217,793.00 | 186,348.21 | 31,444.79 |
| Purchased professional - technical services | 24,750.00 | | 24,750.00 | 7,675.00 | 17,075.00 |
| Other purchased services | 2,500.00 | | 2,500.00 | 831.12 | 1,668.88 |
| Supplies and materials | 3,860.00 | 200.00 | 4,060.00 | 2,941.83 | 1,118.17 |
| Total health services | <u>217,229.00</u> | <u>31,874.00</u> | <u>249,103.00</u> | <u>197,796.16</u> | <u>51,306.84</u> |
| Other support services - students - related services: | | | | | |
| Salaries | 367,516.00 | | 367,516.00 | 351,925.66 | 15,590.34 |
| Purchased professional - educational services | 164,460.00 | (1,000.00) | 163,460.00 | 126,609.00 | 36,851.00 |
| Supplies and materials | 2,000.00 | 1,000.00 | 3,000.00 | 2,363.75 | 636.25 |
| Total other support service - student - related services | <u>533,976.00</u> | | <u>533,976.00</u> | <u>480,898.41</u> | <u>53,077.59</u> |

**BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|--|--------------------|---------------------|-------------------|-------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Other support services - students - extraordinary services: | | | | | |
| Salaries | \$ 24,150.00 | \$ (24,150.00) | | | |
| Purchased professional - extraordinary services | 42,000.00 | | \$ 42,000.00 | | \$ 42,000.00 |
| Supplies and materials | 5,700.00 | | 5,700.00 | 1,974.39 | 3,725.61 |
| Total other support service - student - extraordinary services | <u>71,850.00</u> | <u>(24,150.00)</u> | <u>47,700.00</u> | <u>1,974.39</u> | <u>45,725.61</u> |
| Other support services - students - regular: | | | | | |
| Salaries of other professional staff | 158,566.00 | | 158,566.00 | 158,566.00 | |
| Salaries of secretarial/clerical assistants | 72,445.00 | | 72,445.00 | 63,558.90 | 8,886.10 |
| Other Purchased services (400-500 series) | 29,140.00 | 4,494.74 | 33,634.74 | 29,101.24 | 4,533.50 |
| Supplies and materials | 5,535.00 | (869.74) | 4,665.26 | 4,486.70 | 178.56 |
| Other objects | 2,115.00 | (500.00) | 1,615.00 | 353.00 | 1,262.00 |
| Total other support services - students - regular | <u>267,801.00</u> | <u>3,125.00</u> | <u>270,926.00</u> | <u>256,065.84</u> | <u>14,860.16</u> |
| Other support services - students - special: | | | | | |
| Salaries of other professional staff | 435,808.00 | 10,840.00 | 446,648.00 | 440,056.52 | 6,591.48 |
| Salaries of secretarial and clerical assistants | 121,223.00 | (7,755.00) | 113,468.00 | 102,748.75 | 10,719.25 |
| Purchased professional - educational services | 69,900.00 | 335.00 | 70,235.00 | 67,625.00 | 2,610.00 |
| Other purchased professional and technical services | 11,480.00 | | 11,480.00 | 10,990.81 | 489.19 |
| Other purchased services | 2,000.00 | (275.00) | 1,725.00 | 459.53 | 1,265.47 |
| Misc Purchased services (400-500 series) | 2,928.00 | | 2,928.00 | 2,928.00 | |
| Supplies and materials | 13,500.00 | | 13,500.00 | 9,507.49 | 3,992.51 |
| Other objects | 1,100.00 | | 1,100.00 | 1,070.00 | 30.00 |
| Total other support services - students - special | <u>657,939.00</u> | <u>3,145.00</u> | <u>661,084.00</u> | <u>632,458.10</u> | <u>28,625.90</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|---------------------|---------------------|---------------------|---------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Improvement of instructional services: | | | | | |
| Salaries of supervisors of instruction | \$ 209,430.00 | \$ 6,115.00 | \$ 215,545.00 | \$ 215,545.00 | |
| Salaries of other professional and clerical assistants | 28,350.00 | 350.00 | 28,700.00 | 27,400.00 | 1,300.00 |
| Salaries of secretarial and clerical assistants | 48,402.00 | | 48,402.00 | 48,391.00 | 11.00 |
| Salaries of Facilitators, Math Coaches and Literacy Coaches | 61,812.00 | | 61,812.00 | 61,812.00 | |
| Purchased professional - educational services | 1,250.00 | | 1,250.00 | 3,033.61 | 1,250.00 |
| Other Purchased Services | 4,493.00 | | 4,493.00 | 3,930.07 | 1,459.39 |
| Supplies and materials | 6,052.00 | | 6,052.00 | 2,809.00 | 2,121.93 |
| Other objects | 3,198.00 | | 3,198.00 | 2,809.00 | 389.00 |
| Total improvement of instructional services | 362,987.00 | 6,465.00 | 369,452.00 | 362,920.68 | 6,531.32 |
| Educational media service/school library: | | | | | |
| Salaries | 76,635.00 | | 76,635.00 | 76,634.00 | 1.00 |
| Purchased professional and technical services | 2,190.00 | | 2,190.00 | 2,040.00 | 150.00 |
| Other purchased services (400-500 series) | | 125.00 | 125.00 | 62.63 | 62.37 |
| Supplies and materials | 8,540.00 | (125.00) | 8,415.00 | 5,597.62 | 2,817.38 |
| Total educational media service/school library | \$ 87,365.00 | \$ (125.00) | \$ 87,365.00 | \$ 84,334.25 | \$ 3,030.75 |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|--------------------|---------------------|-------------------|-------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Instructional staff training services: | | | | | |
| Salaries of supervisors of instruction | \$ 49,410.00 | \$ 6,938.00 | \$ 56,348.00 | \$ 56,343.24 | \$ 4.76 |
| Salaries of other staff | 12,680.00 | (7,100.00) | 5,580.00 | 1,200.00 | 4,380.00 |
| Purchased Professional - Educational Services | 4,000.00 | 6,750.00 | 10,750.00 | 8,050.00 | 2,700.00 |
| Other purchased services (400-500) | 18,218.00 | 1,950.00 | 20,168.00 | 9,216.95 | 10,951.05 |
| Supplies and materials | 6,278.00 | (600.00) | 5,678.00 | 2,930.00 | 2,748.00 |
| Other objects | 110.00 | | 110.00 | | 110.00 |
| Total instructional staff training services | <u>90,696.00</u> | <u>7,938.00</u> | <u>98,634.00</u> | <u>77,740.19</u> | <u>20,893.81</u> |
| Support services - general administration: | | | | | |
| Salaries | 262,004.00 | (7,752.00) | 254,252.00 | 241,311.00 | 12,941.00 |
| Legal services | 40,000.00 | 26,307.80 | 66,307.80 | 58,529.86 | 7,777.94 |
| Audit fees | 35,000.00 | | 35,000.00 | 33,300.00 | 1,700.00 |
| Architect fees | 5,000.00 | 1,100.00 | 6,100.00 | 2,530.00 | 3,570.00 |
| Other purchased professional services | 4,200.00 | (4,200.00) | 800.00 | 800.00 | |
| Purchased Technical Services | 800.00 | | 800.00 | 800.00 | |
| Communications/telephone | 85,200.00 | 31,749.24 | 116,949.24 | 111,501.44 | 5,447.80 |
| Travel | | | | | |
| BOE - other purchased services | 2,500.00 | 950.00 | 3,450.00 | 3,449.28 | 0.72 |
| Other purchased services (400-500) | 58,320.00 | 12,663.00 | 70,983.00 | 69,725.12 | 1,257.88 |
| General supplies | 9,340.00 | (1,554.00) | 7,786.00 | 7,631.26 | 154.74 |
| BOE In-house training/meeting supplies | 500.00 | (500.00) | 740.00 | 726.45 | 13.55 |
| Miscellaneous expenditures | 3,100.00 | (2,360.00) | 9468.00 | 9,467.84 | 0.16 |
| BOE membership dues and fees | 13,620.00 | (4,152.00) | | | |
| Total support services - general administration | <u>519,584.00</u> | <u>52,252.04</u> | <u>571,836.04</u> | <u>538,972.25</u> | <u>32,863.79</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|--------------------|---------------------|-------------------|-------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Support services - school administration: | | | | | |
| Salaries of principals/assistant principals | \$ 457,423.00 | \$ 11,624.00 | \$ 469,047.00 | \$ 450,840.00 | \$ 18,207.00 |
| Salaries of secretarial and clerical assistants | 269,440.00 | 1,702.00 | 271,142.00 | 263,416.76 | 7,725.24 |
| Other purchased services (400-500 series) | 13,809.00 | 1,375.00 | 15,184.00 | 11,720.86 | 3,463.14 |
| Supplies and materials | 27,480.00 | (8,576.00) | 18,904.00 | 17,573.83 | 1,330.17 |
| Other objects | 4,200.00 | 225.00 | 4,425.00 | 3,965.00 | 460.00 |
| | <u>772,352.00</u> | <u>6,350.00</u> | <u>778,702.00</u> | <u>747,516.45</u> | <u>31,185.55</u> |
| Total support services - school administration | | | | | |
| Central services: | | | | | |
| Salaries | \$ 368,070.00 | (7,825.50) | \$ 360,244.50 | 360,244.15 | 0.35 |
| Purchased technical services | 35,000.00 | 17,438.00 | 52,438.00 | 52,104.26 | 333.74 |
| Miscellaneous purchased services (400-500 series) | 9,576.00 | 569.30 | 10,145.30 | 8,441.54 | 1,703.76 |
| Supplies and materials | 13,220.00 | (5,804.00) | 7,416.00 | 7,412.68 | 3.32 |
| Miscellaneous expenditures | 7,256.00 | 179.20 | 7,435.20 | 5,821.08 | 1,614.12 |
| | <u>433,122.00</u> | <u>4,557.00</u> | <u>437,679.00</u> | <u>434,023.71</u> | <u>3,655.29</u> |
| Total central services | | | | | |
| Admin. info. Technology: | | | | | |
| Salaries | 228,875.00 | 5,673.00 | 234,548.00 | 233,895.77 | 652.23 |
| Purchased technical services | 26,000.00 | (100.00) | 25,900.00 | 24,019.10 | 1,880.90 |
| Other purchased services (400-500 series) | 5,500.00 | (130.00) | 5,370.00 | 1,652.82 | 3,717.18 |
| Supplies and Materials | 2,930.00 | | 2,930.00 | 2,161.79 | 768.21 |
| | <u>263,305.00</u> | <u>5,443.00</u> | <u>268,748.00</u> | <u>261,729.48</u> | <u>7,018.52</u> |
| Total admin. info. Technology | | | | | |

**BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|---------------------|---------------------|---------------------|-------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Required maintenance for school facilities: | | | | | |
| Salaries | \$ 155,642.00 | \$ 560.00 | \$ 156,202.00 | \$ 129,257.41 | \$ 26,944.59 |
| Cleaning, repair and maintenance services | 180,600.00 | 192,751.12 | 373,351.12 | 323,411.71 | 49,939.41 |
| General supplies | 30,500.00 | | 30,500.00 | 20,499.21 | 10,000.79 |
| Other objects | 2,000.00 | 2,062.00 | 4,062.00 | 3,411.63 | 650.37 |
| Total required maintenance for school facilities | 368,742.00 | 195,373.12 | 564,115.12 | 476,579.96 | 87,535.16 |
| Other operation and maintenance of plant: | | | | | |
| Salaries | 448,097.00 | 7,790.00 | 455,887.00 | 425,920.88 | 29,966.12 |
| Purchased professional and technical services | 3,200.00 | 500.00 | 3,700.00 | 2,500.00 | 1,200.00 |
| Cleaning, repair and maintenance services | 33,000.00 | 11,095.00 | 44,095.00 | 36,880.86 | 7,214.14 |
| Rental of land & bldg. other than lease per agreement | 22,950.00 | | 22,950.00 | 20,542.00 | 2,408.00 |
| Insurance | 84,750.00 | | 84,750.00 | 67,634.50 | 17,115.50 |
| Miscellaneous purchased services | 1,130.00 | | 1,130.00 | 153.20 | 976.80 |
| General supplies | 81,000.00 | (775.00) | 80,225.00 | 69,195.41 | 11,029.59 |
| Energy (natural gas) | 98,600.00 | | 98,600.00 | 50,066.26 | 48,533.74 |
| Energy (heat and electricity) | 282,000.00 | (58,990.00) | 223,010.00 | 184,627.67 | 38,382.33 |
| Total other operation and maintenance of plant | 1,054,727.00 | (40,380.00) | 1,014,347.00 | 857,520.78 | 156,826.22 |
| Care and upkeep of grounds: | | | | | |
| Salaries | 38,220.00 | (1,305.00) | 36,915.00 | 34,622.22 | 2,292.78 |
| Equipment Repairs | 1,700.00 | 1,700.00 | 1,700.00 | 1,502.97 | 197.03 |
| Cleaning, repair and maintenance services | 17,000.00 | 5,943.00 | 22,943.00 | 7,636.22 | 15,306.78 |
| General supplies | 11,000.00 | (500.00) | 10,500.00 | 5,563.45 | 4,936.55 |
| Total care and upkeep of grounds | 66,220.00 | 5,838.00 | 72,058.00 | 49,324.86 | 22,733.14 |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|---------------------|---------------------|---------------------|---------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Security: | | | | | |
| Salaries | \$ | 2,610.00 | \$ 2,610.00 | 2,610.00 | |
| Purchased professional services | | 5,700.00 | 5,700.00 | 5,700.00 | |
| General supplies | \$ | (2,630.00) | 7,370.00 | 7,365.64 | \$ 4.36 |
| Total security | <u>10,000.00</u> | <u>5,680.00</u> | <u>15,680.00</u> | <u>15,675.64</u> | <u>4.36</u> |
| Total operation and maintenance of plant | <u>1,499,689.00</u> | <u>166,511.12</u> | <u>1,666,200.12</u> | <u>1,399,101.24</u> | <u>267,098.88</u> |
| Student transportation: | | | | | |
| Contracted services - aid in lieu of payments - nonpublic schools | \$ 8,840.00 | | 8,840.00 | 3,879.70 | 4,960.30 |
| Contracted services - aid in lieu of payments - charter schools | 884.00 | | 884.00 | | 884.00 |
| Contracted services - Vendors (other than between home & school) | 33,240.00 | | 33,240.00 | 21,650.00 | 11,590.00 |
| Contracted services - Joint Agreements (between home & school) | 44,880.00 | (11,940.00) | 32,940.00 | 32,940.00 | |
| Contracted services (special education students) - vendors | 11,900.00 | (1,400.00) | 10,500.00 | 9,400.00 | 1,100.00 |
| Contracted services (special education students) - joint agreements | 178,850.00 | 104,604.10 | 283,454.10 | 258,564.10 | 24,890.00 |
| Contracted Services - Reg Ed - ESC & CTSA | 45,000.00 | (6,405.00) | 38,595.00 | 31,819.79 | 6,775.21 |
| Contracted services (special education students) - ESC & CTSA | 278,000.00 | 23,055.00 | 301,055.00 | 276,116.13 | 24,938.87 |
| Total student transportation | <u>601,594.00</u> | <u>107,914.10</u> | <u>709,508.10</u> | <u>634,369.72</u> | <u>75,138.38</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|--|-------------------------|----------------------|-------------------------|-------------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CURRENT EXPENSE (CONTINUED): | | | | | |
| Undistributed expenditures (continued): | | | | | |
| Unallocated benefits: | | | | | |
| Disability | \$ 38,550.00 | | \$ 38,550.00 | 32,885.89 | \$ 5,664.11 |
| Social security contribution | 285,000.00 | | 285,000.00 | 281,398.59 | 3,601.41 |
| Other retirement contributions - regular | 350,000.00 | \$ (48,250.00) | 301,750.00 | 276,001.30 | 25,748.70 |
| Unemployment compensation | 147,961.00 | (99,314.10) | 48,646.90 | 519.00 | 48,127.90 |
| Workmen's compensation | 150,000.00 | 437.00 | 150,437.00 | 150,436.84 | 0.16 |
| Health benefits | 3,750,000.00 | (138,818.00) | 3,611,182.00 | 3,149,582.02 | 461,599.98 |
| Tuition reimbursement | 25,000.00 | 7,277.00 | 32,277.00 | 32,277.00 | |
| Other employee benefits | 52,000.00 | | 52,000.00 | 20,713.15 | 31,286.85 |
| Total unallocated benefits | <u>4,798,511.00</u> | <u>(278,668.10)</u> | <u>4,519,842.90</u> | <u>3,943,813.79</u> | <u>576,029.11</u> |
| Total personal services - employee benefits | <u>4,798,511.00</u> | <u>(278,668.10)</u> | <u>4,519,842.90</u> | <u>3,943,813.79</u> | <u>576,029.11</u> |
| On behalf - TPAF - pension contributions (non budgeted) | | | | 688,661.00 | (688,661.00) |
| On behalf - TPAF - post retirement medical (non budgeted) | | | | 820,004.00 | (820,004.00) |
| Reimbursed TPAF social security contributions (non budgeted) | | | | 693,902.85 | (693,902.85) |
| Total on behalf - Contributions | | | | <u>2,202,567.85</u> | <u>(2,202,567.85)</u> |
| Total undistributed expenditures | <u>12,184,944.00</u> | <u>84,156.16</u> | <u>12,269,100.16</u> | <u>13,103,824.23</u> | <u>(834,724.07)</u> |
| TOTAL EXPENDITURES - CURRENT EXPENSE | <u>\$ 20,851,467.00</u> | <u>\$ 208,033.16</u> | <u>\$ 21,059,500.16</u> | <u>\$ 21,735,161.38</u> | <u>\$ (675,661.22)</u> |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|--|--------------------|---------------------|-------------------|-------------------|-----------------------------|
| EXPENDITURES (CONTINUED): | | | | | |
| CAPITAL OUTLAY: | | | | | |
| Equipment: | | | | | |
| Undistributed expenditures: | | | | | |
| Instructional Equipment | \$ 621,261.62 | | \$ 621,261.62 | 466,444.39 | \$ 154,817.23 |
| Maintenance Equipment | 8,751.10 | | 8,751.10 | 8,751.00 | 0.10 |
| Security Equipment | 7,760.00 | | 7,760.00 | 7,760.00 | |
| Total undistributed expenditure equipment | | <u>637,772.72</u> | <u>637,772.72</u> | <u>482,955.39</u> | <u>154,817.33</u> |
| Facilities Acquisition and Construction Services: | | | | | |
| Architect Services | 4,680.00 | | 4,680.00 | 4,680.00 | |
| Other Professional Services | 170,000.00 | | 170,000.00 | 169,851.75 | 148.25 |
| Assessment for Debt Service on SDA Funding | \$ 22,899.00 | | 22,899.00 | 22,899.00 | |
| Total facilities acquisition and construction services | | <u>174,680.00</u> | <u>197,579.00</u> | <u>197,430.75</u> | <u>148.25</u> |
| | <u>22,899.00</u> | <u>812,452.72</u> | <u>835,351.72</u> | <u>680,386.14</u> | <u>154,965.58</u> |
| TOTAL EXPENDITURES - CAPITAL OUTLAY | <u>22,899.00</u> | <u>812,452.72</u> | <u>835,351.72</u> | <u>680,386.14</u> | <u>154,965.58</u> |
| TOTAL GENERAL FUND EXPENDITURES | \$ 20,874,366.00 | \$ 1,020,485.88 | \$ 21,894,851.88 | \$ 22,415,547.52 | \$ (520,695.64) |
| Excess/(deficiency) of revenues over/(under) expenditures | \$ (464,962.00) | \$ (1,020,485.88) | \$ (1,485,447.88) | \$ 258,079.09 | \$ 1,743,526.97 |
| Other financing sources/(uses): | | | | | |
| Operating Transfers in/(out): | | | | (100,000.00) | (100,000.00) |
| Transfer out - PY Accounts Receivable - State Aid | | | | (100,000.00) | (100,000.00) |
| Total other financing sources/(uses) | | | | <u>158,079.09</u> | <u>1,643,526.97</u> |
| Excess/(deficiency) of revenues and other financing sources over/(under) expenditures and other financing sources/(uses) | \$ (464,962.00) | \$ (1,020,485.88) | \$ (1,485,447.88) | \$ 158,079.09 | \$ 1,643,526.97 |

BOARD OF EDUCATION
BOROUGH OF FREEHOLD SCHOOL DISTRICT
COUNTY OF MONMOUTH
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|------------------------|--------------------------|------------------------|------------------------|-----------------------------|
| Fund balance, July 1 | \$ 3,461,213.74 | | \$ 3,461,213.74 | 3,461,213.74 | |
| Fund balance, June 30 | \$ <u>2,996,251.74</u> | \$ <u>(1,020,485.88)</u> | \$ <u>1,975,765.86</u> | \$ <u>3,619,292.83</u> | \$ <u>1,643,526.97</u> |
| Detail of: | | | | | |
| Fund balance appropriated | \$ 414,962.00 | | | | |
| Withdrawal from Maintenance Reserve | 50,000.00 | | | | |
| | \$ <u>464,962.00</u> | | | | |
| Detail of budget transfers: | | | | | |
| Reserve for prior year-end encumbrances | \$ 137,729.92 | | | | |
| Withdrawal for Maintenance Reserve | 49,014.00 | | | | |
| Withdrawal for Capital Reserve | 807,772.72 | | | | |
| Withdrawal for Legal Reserve | 25,969.24 | | | | |
| | \$ <u>1,020,485.88</u> | | | | |
| Reconciliation of fund balance: | | | | | |
| Committed for year-end encumbrances | | | | \$ 175,669.08 | |
| Assigned-Reserve for excess surplus - designated for subsequent year's expenditures | | | | 554,034.38 | |
| Assigned-ARRA/SEMI - designated for subsequent year end expenditures | | | | 14,614.76 | |
| Restricted: | | | | | |
| Legal Reserve | | | | 139,030.76 | |
| Maintenance reserve | | | | 540,902.68 | |
| Capital reserve | | | | 1,242,714.99 | |
| Reserve for Excess Surplus | | | | 548,066.59 | |
| Unassigned | | | | 404,259.59 | |
| | | | | \$ <u>3,619,292.83</u> | |
| Reconciliation to governmental funds statements (GAAP): | | | | (961,086.50) | |
| Last State Aid Payment not recognized on GAAP basis | | | | | |
| Fund balance per governmental funds (GAAP) | | | | \$ <u>2,658,206.33</u> | |

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APPENDIX C

FORM OF APPROVING LEGAL OPINION

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_____, 2017

The Board of Education of the
Borough of Freehold in the
County of Monmouth, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the Borough of Freehold in the County of Monmouth, New Jersey (the "Board of Education") in connection with the issuance by the Board of Education of \$15,605,000 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 7G of the New Jersey Statutes (N.J.S.A. 18A:7G-12 et seq.), (ii) the approval by the New Jersey Office of Administrative Law Judge by an order directing the issuance of bonds pursuant to N.J.S.A. 18A:7G-12 (3 OAI DKT. NO. EDU 8980-15 dated December 16, 2015) and the Commissioner of Education's Ruling (#291-16 dated August 4, 2016), and (iii) a resolution duly adopted by the Board of Education on June 19, 2017. 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,

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL ASSURANCE CORP.

AN ASSURED GUARANTY COMPANY

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

MUNICIPAL ASSURANCE CORP. ("MAC"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of MAC, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which MAC shall have received Notice of Nonpayment, MAC will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by MAC, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in MAC. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by MAC is incomplete, it shall be deemed not to have been received by MAC for purposes of the preceding sentence and MAC shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, MAC shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by MAC hereunder. Payment by MAC to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of MAC under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless MAC shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to MAC which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

MAC may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to MAC pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to MAC and shall not be deemed received until received by both and (b) all payments required to be made by MAC under this Policy may be made directly by MAC or by the Insurer's Fiscal Agent on behalf of MAC. The Insurer's Fiscal Agent is the agent of MAC only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of MAC to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, MAC agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to MAC to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of MAC, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, MUNICIPAL ASSURANCE CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

MUNICIPAL ASSURANCE CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Ltd.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100

Form 500NY (5/13) (MAC)