

OFFICIAL STATEMENT DATED NOVEMBER 14, 2017

In the opinion of Parker McCay P.A., Mount Laurel, New Jersey, Bond Counsel to the School District (as hereinafter defined), assuming continuing compliance by the School District with certain tax covenants described herein, under existing law, interest on the Bonds (as hereinafter defined) is not included for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and is not a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax imposed on individuals and corporations pursuant to Section 55 of the Code. In the case of certain corporations that own the Bonds, the interest thereon is not excludable in computing the alternative minimum tax as a result of the inclusion of interest on the Bonds in "adjusted current earnings". In addition, interest on the Bonds may be subject to the branch profits tax imposed on certain foreign corporations and to the tax on "excess net passive income" imposed on S corporations. Interest on the Bonds and any gain from the sale thereof is not included in the gross income of the owners thereof under the New Jersey Gross Income Tax Act as presently enacted and construed. See "TAX MATTERS" herein.

\$4,725,000
THE BOARD OF EDUCATION OF THE TOWNSHIP OF HARRISON,
IN THE COUNTY OF GLOUCESTER, NEW JERSEY
SCHOOL BONDS, SERIES 2017
(Bank Qualified) (Callable)

Dated: Date of Delivery

Due: September 1, as shown below

The \$4,725,000 School Bonds, Series 2017 ("Bonds"), of The Board of Education of the Township of Harrison, in the County of Gloucester, New Jersey ("Board" when referring to the governing body, and "School District" when referring to the legal entity governed by the Board), shall be issued in fully registered book-entry-only form without coupons. Principal of and interest on the Bonds will be paid to DTC by TD Bank, National Association, Cherry Hill, New Jersey, as paying agent. Interest on the Bonds is payable semiannually on March 1 and September 1, commencing September 1, 2018, in each year until maturity or earlier redemption. The Bonds are subject to redemption prior to their stated maturity dates as set forth herein.

Upon initial issuance, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Bonds. So long as Cede & Co. is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made directly to DTC or its nominee, Cede & Co., which will remit such payments to the DTC Participants (as herein defined) which will, in turn, remit such payments to the Beneficial Owners (as herein defined) of the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds purchased. For so long as any purchaser is a Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a DTC participant to receive payment of the principal of and interest on such Bond.

The Bonds are issued pursuant to: (i) Chapter 24 of Title 18A of the New Jersey Statutes, as amended and supplemented; and (ii) a resolution duly adopted by the Board on September 25, 2017. The Bonds are authorized by a proposal adopted by the Board on June 20, 2016 and approved by the legal voters of the School District at a special election held on September 27, 2016 (collectively, the "Proposals"). The Bonds are being issued to provide funds which will be used to: (i) permanently finance the School District's outstanding Temporary Notes at maturity, issued to pay preliminary costs associated with the capital improvements set forth in the proposals; (ii) permanently finance the remaining costs of the capital improvements set forth in the Proposals; and (iii) pay certain costs and expenses incidental to the issuance and delivery of the Bonds.

The Bonds are general obligations of the School District and the full faith and credit of the School District are irrevocably pledged for the payment of the principal of and interest on the Bonds. Payment of the principal of and interest on the Bonds, if not paid from other sources, are payable from *ad valorem* taxes to be levied upon all taxable real property within the School District without limitation as to rate or amount. The Bonds are also entitled to the benefits of and are secured under the provisions of the New Jersey School Bond Reserve Act, P.L. 1980, c.72, as amended.

MATURITIES, 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>
2018	\$200,000	2.000%	1.080%	415522ET4	2026	\$400,000	2.250%	2.150%	415522FB2
2019	200,000	2.000	1.230	415522EU1	2027	400,000	2.375	2.300	415522FC0
2020	200,000	2.000	1.400	415522EV9	2028	400,000	2.375	2.400	415522FD8
2021	200,000	2.000	1.550	415522EW7	2029	400,000	3.000	2.500	415522FE6
2022	200,000	2.000	1.700	415522EX5	2030	400,000	3.000	2.600	415522FF3
2023	200,000	2.000	1.800	415522EY3	2031	400,000	3.000	2.680	415522FG1
2024	400,000	2.000	1.900	415522EZ0	2032	325,000	3.000	2.730	415522FH9
2025	400,000	2.125	2.000	415522FA4					

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

The Bonds are offered when, as and if issued, subject to the prior approval of legality by the law firm of Parker McCay P.A., Mount Laurel, New Jersey, Bond Counsel, and certain other conditions described herein. Certain legal matters will be passed upon for the School District by its solicitor, Robert Muccilli, Esquire, of the law firm Capehart & Scatchard, P.A., Mount Laurel, New Jersey. Phoenix Advisors, LLC, Bordentown, New Jersey, has acted as Municipal Advisor to the School District in connection with the issuance of the Bonds. It is anticipated that the Bonds in definitive form will be available for delivery through DTC in New York, New York on or about November 29, 2017.

ROOSEVELT & CROSS, INC. AND ASSOCIATES

**THE BOARD OF EDUCATION OF THE TOWNSHIP OF HARRISON,
IN THE COUNTY OF GLOUCESTER, NEW JERSEY**

Board of Education

Barbara Beske	Board President
Joseph Schwab	Board Vice President
Walter Bright	Board Member
Cristie Clark	Board Member
Kristin DeSimone	Board Member
Stephan Houpt	Board Member
Stacey Muscarella	Board Member
Mark Sterling	Board Member
Shannon Williams	Board Member

Superintendent of Schools

Dr. Margaret Peretti

Business Administrator/Board Secretary

Robert E. Scharlé

Auditor

**Inverso & Stewart, LLC
Marlton, New Jersey**

Solicitor

**Capehart Scatchard, P.A.
Mount Laurel, New Jersey**

Bond Counsel

**Parker McCay P.A.
Mount Laurel, New Jersey**

Municipal Advisor

**Phoenix Advisors, LLC
Bordentown, New Jersey**

The information which is set forth herein has been provided by The Board of Education of the Township of Harrison, County of Gloucester, New Jersey ("Board" when referring to the governing body and "School District" when referring to the legal entity governed by the Board), The Depository Trust Company ("DTC") and by other sources which are believed to be reliable by the School District, but the information provided by such sources is not guaranteed as to accuracy or completeness by the School District. Certain general and financial information concerning the School District is contained in Appendices "A" and "B" to this Official Statement. Such information has been furnished by the School District.

Where the Constitution or statutes of the State of New Jersey are referred to, reference should be made to such Constitution or statutes for a complete statement of the matters referred to therein. This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

No dealer, broker, salesperson or other person has been authorized by the School District or by the Underwriter to give any information or to make any representations other than those contained in this Official Statement in connection with the offering of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. 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 by any person in any jurisdiction in which it is unlawful for such offer, solicitation or sale. The information set forth herein has been obtained from the School District and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create an implication that there has been no change in the affairs of the School District since the date hereof.

References in this Official Statement to laws, rules, regulations, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by references 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 obtained from the School District during normal business hours.

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, will not be listed on any stock nor other securities exchange and neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, other than the School District, will have passed upon the accuracy or adequacy of this Official Statement.

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, salesman 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 School District or any underwriter.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCOUNTED AT ANY TIME.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices must be considered in its entirety.

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OFFICIAL STATEMENT
RELATING TO
\$4,725,000
THE BOARD OF EDUCATION OF THE TOWNSHIP OF HARRISON,
IN THE COUNTY OF GLOUCESTER, NEW JERSEY
SCHOOL BONDS, SERIES 2017
(Bank Qualified) (Callable)

INTRODUCTION

This Official Statement, including the cover page hereof and the Appendices attached hereto, sets forth certain information relating to The Board of Education of the Township of Harrison, in the County of Gloucester, New Jersey ("Board" when referring to the governing body and "School District" when referring to the legal entity governed by the Board), and the issuance of \$4,725,000, aggregate principal amount of its School Bonds, Series 2017 ("Bonds").

The information contained herein relating to the School District including, *inter alia*, existing facilities, enrollment and other data was furnished by the School District unless otherwise indicated.

AUTHORIZATION FOR THE BONDS

The School District is issuing the Bonds pursuant to: (i) Chapter 24 of Title 18A of the New Jersey ("State") Statutes, as amended and supplemented; and (ii) a resolution duly adopted by the Board on September 25, 2017. The Bonds are authorized by a proposal adopted by the Board on June 20, 2016 and approved by the legal voters of the School District at a special election held on September 27, 2016.

PURPOSE OF THE BOND ISSUE

The Bonds are being issued to currently refund the \$3,000,000 Temporary Notes of 2017, Series A, due December 15, 2017 which were issued to provide funds for the project as detailed below, and to provide an additional \$1,725,000 to fund: (i) the repair and/or replacement of the roof at Harrison Township Elementary School; (ii) various capital improvements and equipment at Harrison Township Elementary School; and (iii) the costs of issuance with respect to the Bonds (collectively, the "Project").

The School District is authorized to expend an amount not to exceed \$5,326,577 for the Project. However, since construction bids for the Project came in below the original estimate, it is expected the Board will only need to issue \$4,725,000 in Bonds to fund the Project. The Board also expects to receive 40% debt service aid on the eligible costs of the Project.

THE BONDS

Description

The Bonds will be issued in the aggregate principal amount of \$4,725,000, will be dated their date of delivery and bear interest from that date. Interest on the Bonds will be payable semiannually each year on March 1 and September 1 ("Interest Payment Dates"), commencing September 1, 2018. The Bonds will mature on September 1 in the years and in the principal amounts, all as shown on the cover page of this Official Statement.

The Bonds will be issued in fully registered book-entry-only form without coupons in the principal denominations of \$5,000 or any integral multiple thereof or the necessary odd denominations. The principal of the Bonds will be payable to the registered owners at maturity upon presentation and surrender of the Bonds at the office of TD Bank, National Association, Cherry Hill, New Jersey, as paying agent ("Paying Agent"). Interest on each Bond shall be payable on each Interest Payment Date of such Bond to the registered owner of record thereof appearing on the registration books kept by the School District for such purpose at the principal office of the School District, as of the close of business on the fifteenth (15th) day of the calendar month immediately proceeding an Interest Payment Date ("Record Date").

So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made directly to Cede & Co., as nominee for DTC. Disbursements of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners (as hereinafter defined) of the Bonds is the responsibility of the DTC Participants and not the School District or the Paying Agent. See "THE BONDS--Book-Entry-Only System" herein.

Book-Entry-Only System¹

The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, and other payments on the Bonds to DTC Participants or Beneficial Owners, 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 School District. Accordingly, the School District does not make any representations as to the completeness or accuracy of such information.

The 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 issue, 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

¹ Source: The Depository Trust Company

meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the 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 School District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the School District believes to be reliable, but neither the School District nor the Underwriter (as hereinafter defined) take any responsibility for the accuracy thereof.

NEITHER THE SCHOOL DISTRICT NOR ITS PAYING AGENT WILL HAVE THE RESPONSIBILITY OR OBLIGATION TO THE 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 THE 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 HEADING "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 would 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 principal corporate trust office of the 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 Paying Agent together with the duly executed assignment in form satisfactory to the Paying Agent; and (iii) for every exchange or registration of transfer of the Bonds, the School District or 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.

Redemption Provisions

The Bonds maturing on and after September 1, 2028 are subject to redemption prior to maturity at the option of the School District on any date on or after September 1, 2027, upon notice as set forth below, in whole or in part (and, if in part, such maturities as the School District shall determine and within any such maturity by lot) at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, plus accrued interest to the redemption date.

Notice of Redemption

Notice of redemption shall be given by mailing first class mail in a sealed envelope with postage pre-paid not less than thirty (30) days nor more than sixty (60) days prior to the redemption date to the owner of every Bond of which all or a portion is to be redeemed at his or her last known address, if any, appearing on the registration books of the School District. So long as the Bonds are issued in book-entry-only form, all notices of redemption will be sent only to DTC and not be sent to the Beneficial Owners of the Bonds. Failure of an owner of the Bonds to receive such notice or of DTC to advise any Participant or any failure of a Participant to notify any Beneficial Owner of the Bonds shall not affect the validity of any proceedings for the redemption of Bonds. Such notice shall specify: (i) the series and maturity of the Bonds to be redeemed; (ii) the redemption date and the place or places where amounts that are due and payable upon such redemption will be payable; (iii) if less than all of the Bonds are to be redeemed, the letters and numbers or other distinguishing marks of the Bonds to be redeemed; (iv) in the case of a Bond to be redeemed in part only, the portion of the principal amount thereof to be redeemed; (v) that on the redemption date there shall become due and payable with respect to each Bond or portion thereof to be redeemed the redemption price; and (vi) that from and after the redemption date interest on such Bonds or portion thereof to be redeemed shall cease to accrue and be payable.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Taxing Power

The Bonds are general obligations of the School District and the full faith, credit and taxing power of the School District are irrevocably pledged for the payment of the principal of and interest on the Bonds. The Bonds are payable, if payment is not provided in any other manner, from *ad*

valorem taxes to be levied upon all taxable real property located 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 or equitable principles affecting the enforcement of creditors' rights generally ("Creditors' Rights Limitations").

In accordance with Section 56 of the School Bond Law, *N.J.S.A.* 18A:24-56, the Bonds shall be liens upon the real estate situated in the School District, the personal estates of the inhabitants of the School District and the property of the School District, and such estates and property shall be liable for the payment of the Bonds.

New Jersey School Bond Reserve Act

The Bonds will be secured under the provisions of the New Jersey School Bond Reserve Act of 1980, Chapter 56 of Title 18A of the New Jersey Statutes, as amended and supplemented, *N.J.S.A.* 18A:56-1 *et seq.* ("School Bond Reserve Act"). Pursuant to the School Bond Reserve Act, there shall be a reserve comprised of two accounts, one in an amount equal to at least one and one-half percent (1.5%) of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued before July 1, 2003 ("Old Reserve Account") and another in an amount equal to at least one percent (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 ("New Reserve Account", together with the Old Reserve Account, the "School Bond Reserve"). The amount to be held within the State Fund ("Fund") for the Support of Free Public Schools as the School Bond Reserve pledged by law to secure payments of principal and interest due on such bonds in the event of the inability of the issuer to make payment shall be determined on June 30 of each fiscal year by the State Treasurer and shall be funded in the amount determined by the State Treasurer on September 15 of the ensuing fiscal year. If the Old Reserve Account exceeds the amount determined to be required, the State Treasurer may transfer the excess to the New Reserve Account. The School Bond Reserve is required to 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. The amount of the School Bond Reserve may not exceed the moneys available in the Fund. If a county, municipality or school district is unable to meet payment of principal of or interest on any of its bonds issued for school purposes, it shall certify such liability to the Commissioner of Education ("Commissioner") and the Director of the Division of Local Government Services ("Director") at least ten (10) days prior to the date any such payment is due. If the Commissioner and Director approve the certification, they shall certify the same to the trustees of the Fund. The trustees of the Fund will purchase such bonds at par value or will pay to the Bondholders the interest due or to become due within the limit of funds available in either account of the School Bond Reserve in accordance with the provisions of the School Bond Reserve Act. Payment by the trustees of the Fund on behalf of any county, municipality or school district shall be deducted from the appropriation or apportionment of State aid which may otherwise be payable to the district, county or municipality, and shall not obligate the State or entitle the school district, county or municipality to the payment of any additional appropriation or apportionment. To date, there has been no occasion to call upon this Fund.

GENERAL INFORMATION REGARDING NEW JERSEY SCHOOL DISTRICTS

State's Role in Public Education

The Constitution of the State of New Jersey ("State") provides that the maintenance of and the support of a thorough and efficient system of public schools for the instruction of all children between 5 and 18 years of age is a legislative responsibility. Below is a summary of the role of the State.

The responsibilities of the State with respect to the general supervision and control of public education have been delegated to the State Department of Education ("Department") which is a part of the executive branch of the State government. The Department is governed by the State Board of Education ("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 are binding upon school districts, to acquire land and other property and decide appeals from decisions of the Commissioner on matters of school law or State Board regulations.

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, for a five (5) year, salaried term. The Commissioner 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's consent is required for authorization to sell school bonds that exceed the statutory debt limits, and the Commissioner also may set the amount to be raised by taxation in a school district in a fiscal year, if a school budget has not been approved by the voters of the school district or by a board of school estimate, as the case may be, or by the governing body of the municipality.

An Executive County Superintendent of Schools ("County Superintendent") is appointed in each county in the State by the Commissioner with the approval of the State Board. The County Superintendent is the local representative of the Commissioner and is responsible for the daily supervision of the school districts in the county.

Structure of New Jersey School Districts

State school districts are generally coterminous with the boundaries of the municipalities they serve. They are characterized by the manner in which the governing body takes office. Type I school districts, most commonly found in cities, have a board of education appointed by the mayor or chief executive officer of the municipality. In Type II districts, the board of education is elected by the voters of the school district. Almost all regional and consolidated school districts operate as Type II school districts. The School District is a Type II school district.

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

STATE AID TO SCHOOL DISTRICTS

General

In 1973, the State Supreme Court ("Supreme Court") ruled that the existing method of financing school costs primarily through property taxation was unconstitutional. Pursuant to the Supreme Court's ruling, the State Legislature enacted the Public School Education Act of 1975 (P.L. 1975, c. 212) ("Act"), which required funding of the State's school aid through the State Gross Income Tax Act (P.L. 1976, c. 47). The Act also intended to provide property tax relief. A new formula (N.J.S.A. 18A:7A-1 et seq.), which took into account a local school district's ability to pay for its operating costs, was made available commencing July 1, 1976.

On June 5, 1990, the Supreme Court ruled in *Abbott v. Burke*, that the school aid formula described above did not distribute funds fairly. The Supreme Court found that poorer urban districts were significantly disadvantaged under the then funding formula because revenues were derived primarily from property taxes. The Supreme Court found that wealthy districts were able to spend more, yet tax less for educational purposes. In urban areas, on the other hand, the Supreme Court found the opposite to be true.

The Quality Education Act of 1990

The Legislative response to *Abbott v. Burke* was the passage of the Quality Education Act of 1990 ("Quality Education Act"), (P.L. 1990, c. 52), which was signed into law on July 3, 1990. This law established a new formula for the distribution of state aid for public education commencing with the 1991-92 fiscal year. The law provided a formula that took into account property value and personal income to determine a district's capacity to raise money for public education. A budgetary limitation or "CAP" on expenditures was also provided in the law. The "CAP" was intended to control the growth in local property taxes. The Quality Education Act was amended and revised by Chapter 62 of the Pamphlet Laws of 1991 of the State, effective, March 14, 1991 and further amended by Chapter 7 of the Pamphlet Laws of 1993 effective January 14, 1993.

On July 12, 1994, the Supreme Court declared the school aid formula under the Quality of Education Act of 1990, as amended, unconstitutional on several grounds as it is applied to the 31 special needs districts designated by the State in ongoing litigation commonly known as *Abbott v. Burke II*. No specific remediation was ordered, but the Supreme Court ultimately held that the Legislature and the Governor were required to have a new funding formula in effect by December 31, 1996 so that the new formula would be implemented in the 1997-98 fiscal year.

Comprehensive Educational Improvement and Financing Act of 1996

In keeping with the Supreme Court's deadline, then Governor Christine Todd Whitman signed into law on December 20, 1996, the Comprehensive Educational Improvement and Financing Act of 1996 ("CEIFA" or "Comprehensive Plan"). The Comprehensive Plan affects how public schools are funded by the State, beginning in the 1997-98 fiscal year.

The Comprehensive Plan departs from other funding formulas adopted in the State in defining what constitutes a "thorough and efficient" education, which is what the State Constitution requires every public school student to receive. The Comprehensive Plan further establishes the costs to provide each student with a "thorough and efficient" education.

In defining what constitutes a "thorough" education, the State Board adopted a set of Core Curriculum Content Standards. The purpose of these standards is to provide all students with the knowledge and skills that will enable them to be productive citizens when they graduate from any State high school, regardless of the school's location or socioeconomic condition. The Comprehensive Plan provides state aid assistance in the form of Core Curriculum Standards Aid based on a school district's financial ability to raise sufficient tax revenue for its students to achieve the Core Curriculum Contents Standards.

The definition of an "efficient" education under the Comprehensive Plan determines the cost to provide each student with an education that fulfills the requirements for the Core Curriculum Content Standards. The efficiency standard defines such things as optimal class size, administrator/teachers per student, schools per district, and the types and amount of classroom supplies, services, and materials. The Comprehensive Plan establishes an approximate amount per student to educate each student at various grade levels in the Core Curriculum Content Standards. This amount will be adjusted biennially for inflation by the consumer price index.

In determining how much Core Curriculum Standards Aid a school district will receive, the Comprehensive Plan considers each school district's financial ability to fund such a level of education. This component of the Comprehensive Plan is referred to as the local share requirement, namely, the amount of taxes that a school district can raise relative to other school districts based on property wealth and income levels. The purpose of the Core Curriculum Standards Aid is to provide school districts with adequate State assistance that is proportionate to their ability to pay. The purpose of this type of aid is to ensure that all school districts have the economic ability to provide their students with the ability to achieve the Core Curriculum Content Standards. In addition to the Core Curriculum Standards Aid, the Comprehensive Plan also provides per pupil assistance from the State for special education, early childhood programs, demonstrably effective programs, instructional supplement, bilingual education, county vocational schools and distance learning network.

Another form of aid that is provided by CEIFA is school facilities aid. During the 1997-98 fiscal period, this type of aid was provided to those school districts that qualified for aid under the Quality Education Act. The amount of school facilities aid that the State provided during the 1997-98 fiscal year was determined by the amount budgeted in the approved State budget.

Beginning in the 1998-99 fiscal year, State aid for school facilities consisted of a ratio that divides (i) the amount of debt service or the amount of facilities rent for lease terms that exceed five years required to be budgeted for a fiscal year period into (ii) the costs that are approved by the Department for a proposed building or renovation project. The approved facility costs under the Comprehensive Plan have not yet been determined. The Comprehensive Plan requires the Governor to submit to the legislature criteria for determining approved facilities costs, State support levels and maintenance incentives applicable to the fiscal year.

The Comprehensive Plan also limits the amount school districts can increase their annual current expense and capital outlay budgets. Generally, these budgets can increase by either two and one-half percent (2.5%) or the consumer price index, whichever is greater. Recent amendments to the Comprehensive Plan lowered the budget CAP to two and one-half percent (2.5%) from three percent (3%). Budgets can also increase because of certain adjustments for enrollment increases, certain capital outlay expenditures, pupil transportation costs, and special education costs that

exceed \$40,000 per pupil. Waivers are available from the Commissioner based on increasing enrollments and other fairly narrow grounds or by approval of the voters at the annual school election.

Under the Comprehensive Plan, rent payments made pursuant to a facilities lease purchase agreement for a term that exceeds five years are treated as debt service for accounting purposes. These rent payments will be eligible for aid in an amount determined in the State budget for the respective fiscal year. Rent payments under a facilities lease with a term not exceeding five years and under equipment leases are budgeted in the general fund and are subject to the school district's spending growth limitations under the Comprehensive Plan.

On May 14, 1997, the Supreme Court held that the Comprehensive Plan was unconstitutional as applied to the 31 special needs districts ("Abbott Districts") because: (1) its funding provisions fail to assure that students in such districts will receive a thorough and efficient education; and (2) supplemental programs to increase student performance in such districts have neither been adequately identified nor funded. They recognized the Core Curriculum Standards as a valid means of identifying what is a "thorough and efficient" education under the State Constitution, but found that the State did not adequately determine or provide the adequate funding level to allow those standards to be met in the Abbott Districts. The Comprehensive Plan was not held unconstitutional as applied to the non-Abbott Districts. The School District is not an Abbott District.

The Supreme Court ordered the State: (1) to increase State aid to the Abbott Districts for the 1997-98 school year to a level such that the per-pupil expenditure in such districts is equivalent to the average per-pupil expenditure in wealthy suburban districts; (2) through the Commissioner, to manage the additional spending to assure that it will be used to allow the students to meet the education content standards; and (3) under the supervision of the Superior Court, Chancery Division, to determine a plan to provide supplemental educational and facilities programs in the Abbott Districts.

Provisions for the additional amounts of money were appropriated in the State budgets. The Supreme Court then ruled that the Commissioner and the Department will be responsible for maintaining the educational system in accordance with the orders of the Supreme Court. In response to the order, the State enacted the Educational Facilities Construction and Financing Act discussed below.

Educational Facilities Construction and Financing Act

In response to the Supreme Court's order under CEIFA, then Governor Whitman signed into law on July 18, 2000, the Educational Facilities Construction and Financing Act ("Facilities Act"). The Facilities Act provides for full funding of the qualified costs of school facilities required in the Abbott Districts and for the funding of the qualified costs of school facilities for all other school districts in an amount equal to the ratio between their core curriculum facilities aid and their thorough and efficient budget times one hundred and fifteen percent (115%) or forty percent (40%) of the qualified costs, whichever is greater. In lieu of debt service aid, school districts may elect to receive grants for the State's share of the capital project and authorize bonds only for the local share of the capital project. School districts may receive debt service aid under the same formula for certain capital projects which were begun prior to the effective date of the Facilities Act.

A challenge was made to have the Facilities Act declared unconstitutional because it authorized the issuance of debt paid out of the State's General Fund without voter approval. On August 21, 2002, the Supreme Court upheld the Facilities Act as constitutional advancing the guarantee of a "thorough and efficient" education.

School Funding Reform Act of 2008

On January 7, 2008, the New Jersey Legislature adopted Senate Bill No. 4000 (companion Assembly Bill No. 500) entitled the "School Funding Reform Act of 2008" ("School Funding Reform Act"), which establishes a new system for the funding of public school districts. The intent of the School Funding Reform Act is to create a fair, equitable, and predictable funding formula based on student characteristics, regardless of the community in which a student resides. The legislation was signed into law by Governor Corzine on January 13, 2008.

The School Funding Reform Act maintains the requirements for the establishment and update by the State Board of Education of the core curriculum content standards that define the substance of a thorough education; however it repeals certain sections of the Comprehensive Educational Improvement and Financing Act of 1996, P.L.1996, c.138, which established the State aid formulas that supported school district programs to implement such standards. In addition, the School Funding Reform Act establishes revised formulas for calculating such State aid.

The School Funding Reform Act also establishes two categorical State aid programs. The first categorical aid program will support the cost of providing services to general special education students that is not supported through the adequacy budget. The second categorical aid program will support security costs for school districts. The School Funding Reform Act also includes preschool education State aid, which will fund a significant expansion of early childhood programs. The School Funding Reform Act continues extraordinary special education aid, but with a number of revisions. In addition, the School Funding Reform Act establishes the State aid category of educational adequacy aid for certain school districts that received education opportunity aid in the 2007-2008 school year and are spending below adequacy.

Moreover, the School Funding Reform Act provides a new formula for determining the amount of state aid received by a school district or county vocational school district for transportation aid.

The School Funding Reform Act also addresses issues associated with the funding of charter school students, as well as remaining choice students. The School Funding Reform Act also amends the school construction law, the "Educational Facilities Construction and Financing Act," to establish the category of a "SDA" district, which is a district that received education opportunity aid or preschool expansion aid in the 2007-2008 school year. For these "SDA" districts, the State share for their school facilities projects will remain at one hundred percent (100%) and they will be constructed by the New Jersey Schools Development Authority. The School Funding reform Act also revises numerous sections of law that are related to school funding and school budgeting procedures.

In the New Jersey Supreme Court's most recent decision in *Abbott v. Burke* (decided on May 28, 2009), it was determined that the School Funding Reform Act of 2008 is constitutional as

applied to the State's 31 Abbott Districts. The Court ordered the State to provide school funding to all districts during this and the next two (2) years in accordance with the School Funding Reform Act's funding formula, subject further to mandated review after three years of implementation.

Recent Developments in State Aid

The State provides aid to school districts in accordance with amounts provided annually in the State budget. Such aid includes equalization aid, special education categorical aid, transportation aid, preschool education aid, supplemental core curriculum standards aid, choice aid, education adequacy aid, security aid, adjustment aid and other aid as determined in the discretion of the Commissioner.

The State has reduced debt service aid by fifteen percent (15%) since 2011. As a result of the debt service aid reduction for such years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, for such years, 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 such years' budgets representing fifteen percent (15%) of the school district's proportionate share of such respective years' principal and interest payments on the outstanding EDA bonds issued to fund such grants.

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 No Child Left Behind Act of 2001, 20 U.S.C.A. § 6301 et seq. ("NCLB") is a federal assistance program for which a school district qualifies to receive aid. Under the NCLB, states and local educational agencies have been given flexibility with regard to the use of federal funds for education. Federal aid is generally received in the form of block grants.

SUMMARY OF CERTAIN PROVISIONS OF THE LAWS OF THE STATE OF NEW JERSEY RELATING TO SCHOOL DISTRICTS AND SCHOOL DEBT

Levy and Collection of Taxes

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

School Budgets

On January 17, 2012, Governor Christopher J. Christie signed into law Senate Bill S-3148 which allows a school district to hold its annual school election in either April or on the same day as the General Election in November. The change in election date can be made by resolution of the board of education or the municipality or municipalities that are members of a regional board of education, or by citizen petition. The Board passed a resolution to officially change the date of the School District's annual school election to the first Tuesday in November.

In a Type II school district holding its annual election in November, the elected board of education develops the budget proposal in a timeframe identical to that described above. If the budget is at or below the state cap, voter approval is not required and the budget immediately goes into effect. If the budget exceeds the state mandated cap, the budget becomes temporary and the portion exceeding the cap is then submitted for voter approval in November.

The Commissioner must also review every proposed local school district budget for the then current school year. The Commissioner has the power to increase or decrease individual line items in a budget. Any amendments in the school district's budget must be approved by the board of the school district.

Limitation of Increase in the Net Current Expense Budget

Annual increases in a school district budget are limited by law subject to certain limited exceptions. Specifically, P.L. 2007, c. 62, which became effective April 3, 2007, amended the prior limitations on a school district's ability to increase its net budget under CEIFA by placing a four percent (4%) cap on the amount that can be raised by property taxation in a given year for school district purposes (excluding debt service payments) over the prior budget year's tax levy. Appropriations for the payment of debt service on bonds, notes and lease obligations over five (5) years approved by the Commissioner were not subject to such limitations and were required to be included in full in a school district's budget.

Although P.L. 2007, c. 62 allowed for certain adjustments to the four percent (4%) tax levy cap for increases in enrollment, reductions in state aid and increases in health care costs, the bill also granted to the Commissioner discretion to grant waivers from the cap for increases in special education costs, capital outlay, and tuition charges for sending districts. During the first school budget year following the enactment of P.L. 2007, c. 62 (i.e., for the school year 2007-2008), school districts were permitted to seek voter approval to exceed the four percent (4%) levy cap. Such approval had to be obtained by a simple majority of those voting. After the first year, however, school districts were required to receive approval by at least sixty percent (60%) of the voters to exceed the levy cap. In addition, the Commissioner was given the ability to grant certain extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

Legislation constituting P.L. 2010, c. 44 ("Chapter 44"), was adopted on July 13, 2010 and is applicable to the next local budget year following enactment. Chapter 44 provides limitation on school district spending by limiting the amount a school district can raise for school district purposes through the property tax levy by two percent (2%) over the prior year's tax levy; with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of two percent (2%), certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election. The process for obtaining waivers from the Commissioner for additional increases over the tax levy or spending limitations has been eliminated under Chapter 44.

The restrictions under Chapter 44 solely apply to the property tax levy related to a school district's general fund and are not applicable to a school district's debt service fund. Accordingly, there are no restrictions imposed by Chapter 44 on a local school district's ability to raise funds through its property tax levy for debt service, and nothing contained in Chapter 44 limits the

obligation of a school district to levy ad valorem taxes upon all taxable real property within the district to pay debt service on its bonds or notes.

Uniform System of Bookkeeping

Effective July 1, 1993, the State mandated that all school districts develop and implement accounting practices consistent with generally accepted accounting principles ("GAAP"). In addition, the districts are required to comply with the Uniform Minimum Chart of Accounts (Federal Handbook 2R2) for their internal accounting reporting systems. The School District's financial statements since the above effective date have been prepared in accordance with the GAAP requirements.

Annual Audits

The board of education of each school district annually shall have a licensed public school accountant perform an audit of a school district's accounts and financial transactions. Within five (5) months after the end of the school fiscal year, the Commissioner shall receive certified copies of each school district's audit. In addition, the audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days of its completion.

Bonds and Notes

School district bonds and bond anticipation notes are required to be issued in conformity with the School Bond Law, which establishes debt limits on the issuance of bonds or notes. The debt limits vary depending on the type of school system.

The School District is a Type II school district. All authorizations of debt in a Type II school district not having a board of school estimate require an approving referendum. The Local Finance Board and the Commissioner must approve any proposed authorization of debt that exceeds the combined statutory debt limitations of a Type II district and the municipality or municipalities coterminous therewith. When such obligations are issued, they are issued in the name of the school district.

Prior to final approval, all authorizations of debt must be reported by a supplemental debt statement to the Division of Local Government Services, a State agency having regulatory responsibility for all local debt issuance in the State.

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 in each year subsequent to said third anniversary date.

Refunding Bonds

Notwithstanding the above provisions regarding issuance of debt, including debt limits and voter referendums, school districts may authorize and issue refunding bonds for the purpose of paying any refunded bonds, together with the costs of issuing the bonds.

Debt Limitation

Except as provided below, no additional debt shall be authorized by a school district if the principal amount, when added to the net school debt previously authorized, exceeds a statutory percentage of the average equalized valuation of taxable property in the school district. As a kindergarten through sixth grade school district, the School District can borrow up to two and one-half percent (2.5%) of the average equalized valuation of taxable property in the School District. The School District is within its statutory borrowing capacity.

Exceptions to Debt Limitation

A Type II local school district may also utilize its municipality's remaining statutory borrowing power (i.e., the excess of three and one half percent (3.5%) of the average equalized valuation of taxable property within the municipality over the municipality's net debt). The School District has not utilized any part of the Township's borrowing margin. A school district must obtain approval from the Commissioner and the Local Finance Board before authorizing debt in excess of its limit.

Capital Lease Financing

School districts are permitted to enter into lease purchase agreements: (1) for the acquisition of equipment; (2) for the acquisition of land and school buildings; and (3) for the construction or the improvement of the school buildings. Generally, lease purchase agreements for equipment cannot exceed five years except for certain leases financing energy savings equipment that are payable from the energy savings. Lease purchase agreements for school districts for a term of five (5) years or more must be approved by the Commissioner with the exception of certain energy-saving equipment which may be leased for up to fifteen (15) years if paid from energy savings received by the school district. The Facilities Act repeals the authorization to enter into facilities leases in excess of five (5) years. Lease purchase agreements involving a ground lease of school facilities for a term of five (5) years or less must be approved by the Commissioner. The payment of rent on an equipment lease and on a five year and under facilities lease is treated as a current expense and is within the CAP on the school district's budget. Under CEIFA, lease purchase payments on leases in excess of five years will be treated as debt service payments and, therefore, will revive debt service aid if the school district is entitled and will be outside the school districts spending limitation on the General Fund.

Related Constitutional and Statutory Provisions

In the general election of November 2, 1976, as amended by the general election of November 6, 1984, the following Article 8, Section 1, Paragraph 7, in respect of a state income tax, was added to the State Constitution:

No tax shall be levied on personal incomes of individuals, estates and trusts of this State unless the entire net receipts therefrom shall be received into the treasury, placed in a perpetual fund and be annually appropriated, pursuant to formulas established from time to time by the Legislature, to the several counties, municipalities and school districts of this State exclusively for the purpose of reducing or offsetting property taxes. In no event, however, shall a tax so levied on personal income be levied on payments received under the federal Social Security Act, the federal Railroad Retirement Act, or any federal law which substantially reenacts the provisions of either of those laws.

A progressive state income tax is currently in effect in the State. Interest payable on the Bonds is exempt therefrom.

The State Constitution may only be amended after: (i) approval of a proposed amendment by three-fifths of all of the members of each house of the State Legislature and approval by a majority vote in a statewide referendum; or (ii) approval in two (2) successive legislative years by a majority of all of the members of each house and approval by a majority vote in a statewide referendum. Amendments failing to receive voter approval may not be resubmitted for voter approval before the third succeeding general election after such disaffirmance.

Rights and Remedies of Owners of Bonds

The New Jersey Municipal Finance Commission Act, Chapter 27 of Title 52 of the New Jersey Statutes, as amended and supplemented ("Municipal Finance Commission Act"), provides that when it has been established by court proceeding that a municipality has defaulted for over sixty (60) days in the payment of the principal of or interest on any of its outstanding bonds or notes, the Local Finance Board of the New Jersey Department of Community Affairs (which, pursuant to the Municipal Finance Commission Act, is constituted the Municipal Finance Commission and shall hereinafter be referred to as the "Commission") shall take control of the fiscal affairs of the defaulting municipality.

The Municipal Finance Commission Act provides that the Commission shall remain in control in the municipality until all bonds or notes of the municipality that have become due and all bonds or notes that will become due within one year, and the interest thereon, have been paid, funded or refunded, or the payment thereof in cash shall have been adequately provided for by a cash reserve.

The Municipal Finance Commission Act empowers the Commission to direct the school district coterminous with the municipality to provide for the funding of bonds or notes of the school district and the interest thereon, which the Commission shall have found to be outstanding and unpaid and to be due or become due. The Municipal Finance Commission Act further authorizes the Commission to bring and maintain an appropriate proceeding for the levy or collection of taxes for the payment of principal of or interest on such indebtedness which special tax shall be levied upon all the real and personal property in the school district subject to taxation.

Under Article 6 of the Municipal Finance Commission Act, while the Commission functions in a municipality having a school district coterminous therewith, no judgment, levy, or execution against the school district or its property for the recovery of the amount due on any bonds, notes or

other obligations of the school district in the payment of which it has defaulted, shall be enforced unless otherwise directed by court order. However, Article 6 of the Municipal Finance Commission Act also provides that upon application of any creditor made upon notice to the school district and the Commission, a court may vacate, modify, or restrict any such statutory stay contained therein

Limitation of Remedies Under Federal Bankruptcy Code

The undertakings of the School District should be considered with reference to Chapter 9 of the Bankruptcy Act, 11 U.S.C. Section 901 *et seq.*, as amended by Public Law 94-260, approved May 8, 1976 ("Chapter 9"), the Bankruptcy Reform Act of 1978, effective November 1, 1979, Public Law 100-597, effective November 3, 1988, the Bankruptcy Reform Act of 1994, effective November 22, 1994, and other bankruptcy laws affecting creditors' rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter 9 and permit the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under Chapter 9 shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owed for services or materials actually provided within three (3) months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount or more than one-half in number of the listed creditors. The 1976 Amendments were incorporated into the Bankruptcy Reform Act of 1978 with only minor changes.

Reference should also be made to *N.J.S.A. 52:27-40 et seq.* ("State Bankruptcy Statute"), which provides that a municipality or school district has the power to file a petition in bankruptcy provided the approval of the New Jersey Municipal Finance Commission has been obtained. The powers of the New Jersey Municipal Finance Commission have been vested in the Local Finance Board. The Bankruptcy Act specifically provides that Chapter 9 does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality or school district must follow in order to take advantage of the provisions of the Bankruptcy Act.

THE ABOVE REFERENCES TO CHAPTER 9 AND THE STATE BANKRUPTCY STATUTE ARE NOT TO BE CONSTRUED AS AN INDICATION THAT THE SCHOOL DISTRICT EXPECTS TO RESORT TO THE PROVISIONS OF CHAPTER 9 AND THE STATE BANKRUPTCY STATUTE OR THAT, IF IT DID, SUCH ACTION WOULD BE APPROVED BY THE LOCAL FINANCE BOARD, OR THAT ANY PROPOSED PLAN WOULD INCLUDE A DILUTION OF THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS.

INFORMATION REGARDING THE SCHOOL DISTRICT

General

General information concerning the School District and the Township of Harrison, including statistical, demographic and other relevant data, is set forth in Appendix "A" to this Official Statement.

Financial

Appendix "B" to this Official Statement contains excerpts of the audited financial statement of the School District for the fiscal year ended June 30, 2017. A copy of the audit prepared by Inverso & Stewart, LLC, Marlton, New Jersey, certified public accountants, and containing the financial statements and complete Reports of Audit may be obtained upon request to the office of the Board Secretary.

LITIGATION

Upon delivery of the Bonds, the School District shall furnish an opinion of its solicitor, Robert Muccilli, Esquire, of the law firm Capehart & Scatchard, P.A., Mount Laurel, New Jersey ("Solicitor"), dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the Bonds. In addition, such opinion shall state that there is no litigation of any nature now pending or threatened by or against the School District wherein an adverse judgment or ruling could have a material and adverse impact on the financial condition of the School District or adversely affect the power to levy, collect and enforce the collection of taxes and other revenues for the payment of its bonds, which has not been disclosed in this Official Statement.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Parker McCay P.A., Mount Laurel, New Jersey, Bond Counsel to the School District, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth in Appendix "C" hereto. Certain legal matters will be passed upon for the School District by its Solicitor.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

PREPARATION OF OFFICIAL STATEMENT

The School District hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects and it will confirm the same to the purchasers of the Bonds, by certificates signed by various School District officials.

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

Parker McCay P.A. has not participated in the preparation of this Official Statement, nor has such firm verified the accuracy, completeness or fairness of the information contained herein (except under the heading "TAX MATTERS") and accordingly will express no opinion with respect thereto.

Inverso & Stewart, LLC, only takes responsibility for the financial statements appearing in Appendix "B" hereto.

TAX MATTERS

Federal

In the opinion of Parker McCay, P.A., Mount Laurel, New Jersey, Bond Counsel to the School District, assuming continuing compliance by the School District with the tax covenants described below, under existing law, interest on the Bonds is not included for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and is not a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax imposed on individuals and corporations pursuant to Section 55 of the Code.

The adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the "adjusted current earnings" of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction).

Interest on the Bonds is included in computing a corporation's "adjusted current earnings." Accordingly, a portion of the interest on the Bonds is included in computing such corporation's alternative minimum taxable income for such year.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the "dividend equivalent amount" for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the "dividend equivalent amount" of such corporation.

In addition, passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year, if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

In rendering its opinion, Bond Counsel has relied on the School District's covenants contained in the Resolution and in the Certificate as to Nonarbitrage and Other Tax Matters, that it will comply with the applicable requirements of the Code, relating to, inter alia, the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the School District to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue. Bond Counsel has not undertaken to monitor compliance with such covenants or to advise any party as to

changes in the law after the date of issuance of the Bonds that may affect the tax-exempt status of the interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, certain holders of an interest in a financial asset securitization investment trust, controlled foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals who otherwise qualify for the earned income credit, and to individuals and families that qualify for a premium assistance credit amount under Section 36B of the Code. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds is included in determining the modified adjusted gross income of the taxpayer. Section 36B of the Code provides that the amount of the premium assistance credit amount is in part determined by household income. Section 36B(d) of the Code provides that household income consists of the modified adjusted gross income of the taxpayer and certain other individuals. Modified adjusted gross income means adjusted gross income increased by certain amounts, including interest received or accrued by the taxpayer which is exempt from tax, such as the interest on the Bonds.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. The School District has designated the Bonds as "qualified tax-exempt obligations" for the purposes of Section 265(b)(1) of the Code. Eighty percent (80%) of the interest expense deemed incurred by banks, thrift institutions and other financial institutions to purchase or carry "qualified tax-exempt obligations" is deductible.

Owners of the Bonds should consult their own tax advisors as to the applicability and effect on their federal income taxes of the alternative minimum tax, the branch profits tax and the tax on passive investment income of S corporations, as well as the applicability and effect of any other collateral federal income tax consequences.

New Jersey

Bond Counsel is also of the opinion that interest on the Bonds and any gain from the sale thereof is not included in the gross income of the owners thereof under the New Jersey Gross Income Tax Act, as presently enacted and construed.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the United States Congress and in the states that, if enacted, could alter or amend the Federal and State tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposals might be enacted or whether, if enacted, it would apply to bonds or notes issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and

litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS REGARDING ANY FEDERAL AND STATE INCOME TAX LEGISLATION, WHETHER CURRENTLY PENDING OR PROPOSED, REGULATORY INITIATIVES OR LITIGATION. THE OPINIONS EXPRESSED BY BOND COUNSEL ARE BASED UPON EXISTING LEGISLATION AND REGULATIONS AS INTERPRETED BY RELEVANT JUDICIAL AND REGULATORY AUTHORITIES AS OF THE DATE OF ISSUANCE AND DELIVERY OF THE BONDS AND BOND COUNSEL HAS EXPRESSED NO OPINION AS OF ANY DATE SUBSEQUENT THERETO OR WITH RESPECT TO ANY PENDING LEGISLATION, REGULATORY INITIATIVES OR LITIGATION.

RATING

S&P Global Ratings, acting through Standard & Poor's Financial Services LLC (the "Rating Agency"), has assigned a rating on the Bonds of "AA-" (stable outlook). In addition, the Rating Agency has assigned a rating of "A-" (stable outlook) based upon the additional security on the Bonds provided by the New Jersey School Bond Reserve Act.

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

The Rating Agency's outlook has been provided herein for informational purposes only and is not a part of the rating described in the preceding paragraph. The outlook is only the Rating Agency's forward-looking view of the School District.

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor to the Board with respect to the issuance of the Bonds ("Municipal Advisor"). The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement and the Appendices attached 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.

NO DEFAULT

There is no record of default in the payment of the principal of or interest on the bonds or notes of the School District.

CONTINUING DISCLOSURE

In accordance with the provisions of Rule 15c2-12, as amended, promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934, as amended ("Rule"), the School District will, prior to the issuance of the Bonds, enter into an agreement, substantially in the form set forth in Appendix "D" hereto ("Continuing Disclosure Agreement").

Within the five years immediately preceding the date of this Official Statement, the School District previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements adopted budgets for fiscal years ending December 31, 2012, 2013, and 2014. Additionally, the School District previously failed to file late filing notices in connection with its untimely filings of adopted budgets, all as described above, and late filing notices and/or event notices in connection with (a) certain bond insurer rating changes in 2013 and 2014; and (b) an underlying rating change in 2014. Such notices of events and late filings have since been filed with the MSRB's Electronic Municipal Market Access Dataport ("EMMA"). The School District appointed Phoenix Advisors, LLC in June of 2015 to serve as continuing disclosure agent

LEGALITY FOR INVESTMENT

Applicable laws of the State provide that the Bonds are legal investments for funds held by, *inter alia*, banks, savings banks, trust companies, insurance companies or associations and fiduciaries.

UNDERWRITING

The Bonds have been purchased from the School District at a public sale by Roosevelt & Cross, Inc. & Associates, New York, New York, as underwriter ("Underwriter"), pursuant to a Certificate of Determination and Award, dated November 14, 2017. The Underwriter has purchased the Bonds in accordance with the Notice of Sale. The Bonds are being offered for sale at the yields set forth on the cover of this Official Statement. The Underwriter is obligated to purchase all of the Bonds if any of the Bonds are purchased.

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

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, may be directed to Robert E. Scharlé, Business Administrator/Board Secretary, Harrison Township School District, 120 North Main Street, Mullica Hill, New Jersey 08062, or to the Municipal Advisor, Phoenix Advisors, LLC at 4 West Park Street, Bordentown, New Jersey 08505.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract or agreement with the owners of the Refunding Bonds.

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

This Official Statement has been duly executed and delivered by the School District.

**THE BOARD OF EDUCATION OF THE TOWNSHIP OF
HARRISON, IN THE COUNTY OF GLOUCESTER, NEW
JERSEY**

By: /s/ Robert E. Scharlé

ROBERT E. SCHARLÉ,

Business Administrator/Board Secretary

Dated: November 14, 2017

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APPENDIX A

General Information Relating to the School District and Economic and Demographic Information Relating to the Township of Harrison

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INFORMATION REGARDING THE SCHOOL DISTRICT¹

Type

The School District is a Type II school district that is coterminous with the borders of the Township of Harrison (the “Board”). The School District provides a full range of educational services appropriate to Kindergarten through sixth grade.

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

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

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

Description of Facilities

The Board presently operates the following school facilities:

<u>Facility</u>	<u>Construction Date</u>	<u>Grade Level</u>	<u>Student Enrollment (As of 6/30/17)</u>
Harrison Township Elementary School	1950	Pre-K - 3	792
Pleasant Valley School	2001	4-6	677

Source: Comprehensive Annual Financial Report of the School District

¹ Source: The Board, unless otherwise indicated.

Staff

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

The following table presents the number of full and part-time teaching professionals and support staff of the School District as of June 30, 2017, for each of the past five (5) years.

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Teaching Professionals	141	142	140	140	144
Support Staff	<u>80</u>	<u>80</u>	<u>80</u>	<u>79</u>	<u>81</u>
Total Full & Part Time Employees	<u>221</u>	<u>222</u>	<u>220</u>	<u>219</u>	<u>225</u>

Source: Comprehensive Annual Financial Report of the School District

Pupil Enrollments

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

Pupil Enrollments	
<u>School Year</u>	<u>Enrollment</u>
2016-2017	1,445
2015-2016	1,469
2014-2015	1,500
2013-2014	1,468
2012-2013	1,454

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

Labor Relations

Labor Contract <u>Representing</u>	Date of Contract <u>Expiration</u>
HTEA	6/30/2019
HTASA	6/30/2019

Source: School District

Pensions

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

Fiscal 2017-18 Budget

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

The General Fund budget is the sum of all state aid (exclusive of pension aid and social security aid) and the local tax levy (exclusive of debt service). The Board's General Fund Budget for the 2017-2018 fiscal year is \$19,205,683. The major sources of revenue are \$12,234,206 from the local tax levy and \$6,171,027 from state aid.

Source: Annual User-Friendly Budget of the School District

Budget History

As noted, prior to the Board's budget for its 2012-2013 fiscal year, the Board was required to submit its budget for voter approval. A summary of the last five (5) budget years of the Board is presented below:

<u>Budget Year</u>	<u>Amount Raised in Taxes</u>	<u>Budget Amount</u>	<u>Election Result</u>
2017-2018	\$12,234,206	\$19,205,683	N/A
2016-2017	11,924,880	18,908,436	N/A
2015-2016	11,760,498	18,513,261	N/A
2014-2015	11,349,128	18,515,254	N/A
2013-2014	10,903,379	17,897,072	N/A

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

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Financial Operations

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2012 through June 30, 2016 for the general fund. Beginning with the 1993-94 fiscal year, school districts in the State of New Jersey have begun to prepare their financial statements in accordance with Generally Accepted Accounting Principles in the United States.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
REVENUES					
Local Sources:					
Local Tax Levy	\$11,924,880	\$11,760,498	\$11,349,128	\$10,903,379	\$10,547,712
Other Local Revenue	<u>369,626</u>	<u>284,780</u>	<u>360,457</u>	<u>400,411</u>	<u>397,402</u>
Total revenues-local sources	12,294,506	12,045,278	11,709,585	11,303,790	10,945,114
State Sources	8,505,379	8,161,558	7,914,855	7,761,808	7,966,655
Federal Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>214,056</u>
Total Revenues	\$20,799,885	\$20,206,836	\$19,624,441	\$19,065,598	\$19,125,825
EXPENDITURES					
General Fund:					
Instruction	\$8,562,412	\$8,285,440	\$8,289,900	\$8,129,832	\$8,234,809
Undistributed Expenditures	11,597,502	11,367,089	11,082,855	10,690,547	10,513,207
Capital Outlay	<u>430,450</u>	<u>283,381</u>	<u>0</u>	<u>353,972</u>	<u>217,684</u>
Total Expenditures	\$20,590,364	\$19,935,910	\$19,372,755	\$19,174,352	\$18,965,699
Excess (Deficiency) of Revenues					
Over/(Under) Expenditures	209,521	270,926	251,686	(108,754)	(53,930)
Other Financing Sources (Uses):					
Proceeds of Capital Lease	0	0	0	319,000	0
Transfers in	0	92,327	0	0	0
Transfers out	<u>0</u>	<u>0</u>	<u>(490,356)</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	0	92,327	(490,356)	319,000	0
Net Change in Fund Balance	209,521	363,253	(238,670)	210,246	(53,930)
Fund Balance, July 1	<u>1,399,831</u>	<u>1,036,577</u>	<u>1,275,247</u>	<u>1,065,001</u>	<u>1,118,931</u>
Fund Balance, June 30	<u>\$1,609,352</u>	<u>\$1,399,831</u>	<u>\$1,036,577</u>	<u>\$1,275,247</u>	<u>\$1,065,001</u>

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

Capital Leases

As of June 30, 2017, the Board has a capital lease outstanding with payments due through year ending June 30, 2018, totaling \$65,000.

Source: Comprehensive Annual Financial Report of the School District

Operating Leases

As of June 30, 2017, the Board has operating leases outstanding with payments due through year ending June 30, 2021, totaling \$83,801.

Source: Comprehensive Annual Financial Report of the School District

Short Term Debt

As of June 30, 2017, the Board issued \$3,000,000 in Bond Anticipation Notes to mature on December 15, 2017 which will be paid by Bonds to be issued.

Source: Comprehensive Annual Financial Report of the School District

Long Term Debt

The following table outlines the outstanding long term debt of the Board as of June 30, 2017.

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$755,000	\$179,925	\$934,925
2019	560,000	150,000	710,000
2020	580,000	127,600	707,600
2021	625,000	104,400	729,400
2022	650,000	79,400	729,400
2023	675,000	53,400	728,400
2024	<u>660,000</u>	<u>26,400</u>	<u>686,400</u>
TOTALS	<u>\$4,505,000</u>	<u>\$721,125</u>	<u>\$5,226,125</u>

Source: Comprehensive Annual Financial Report of the School District

Debt Limit of the Board

The debt limitation of the Board is established by the statute (N.J.S.A. 18A:24-19). The Board is permitted to incur debt up to 2.5% of the average equalized valuation for the past three years (See “SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT- Exceptions to School Debt Limitations” herein). The following is a summation of the Board’s debt limitation as of June 30, 2017:

Average Equalized Real Property Valuation (2014, 2015, and 2016)	\$1,458,848,727
School District Debt Analysis	
Permitted Debt Limitation (2.5% of AEVP)	\$36,471,218
Less: Bonds and Notes Authorized and Outstanding	<u>7,505,000</u>
Remaining Limitation of Indebtedness	\$28,966,218
Percentage of Net School Debt to Average Equalized Valuation	0.51%

Source: Comprehensive Annual Financial Report of the School District

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INFORMATION REGARDING THE TOWNSHIP¹

The following material presents certain economic and demographic information of the Township.

General Information

The Township of Harrison, County of Gloucester, New Jersey ("Township") was incorporated in 1844 as Spicer Township; however, the name was changed to Harrison Township in 1845. The Township is located in the southeastern corner of Gloucester County ("County"), New Jersey, approximately 15 miles south of the City of Philadelphia. The Township is bordered by the municipalities of East Greenwich Township, Mantua Township, the Borough of Glassboro, Elk Township, South Harrison Township and Woolwich Township. The Township is primarily a residential community, having experienced significant increased housing construction since the late 1980's.

Form of Government

The Township operates under a Township Committee form of government as defined under N.J.S.A. 40A:63-1. The voters elect five members who, at the reorganization meeting, appoint a member to serve as Mayor. The Mayor is the chief executive officer of the Township. The government is empowered to levy taxes on real property, of which 88.7% of the properties are residential, 2.1% are farmland, 1.5% are vacant land, while the remaining 7.7% are commercial.

Responsibilities for various departments are divided among the members of the governing body. The governing body is responsible, among other things, for passing ordinances, adopting the budget and appointing officials. While the members adopt policy, the Township Administrator is charged with the responsibility of carrying-out the policies and for overseeing the day-to-day operations. The financial affairs of the Township are administered by the Chief Financial Officer, who reports to the Township Committee.

Fire Protection and Emergency Services

The Township is served by two volunteer fire companies organized through a fire district. The fire district budget is funded through a separate tax on real property owners. The two fire companies are equipped with modern firefighting apparatus.

There is twenty-four hour ambulance service provided by the fire district. Equipment is provided from fire district funds.

¹ Source: Official Statement of the Township dated August 18, 2010 (unless otherwise indicated)

Police

The Police Department ("Department") consists of 16 full-time officers, plus the Chief of Police, one fulltime police clerk/special officer, and three part-time special officers who serve to provide public safety to the Township residents. Through the Department, a comprehensive education program is provided in the local schools. One resource officer is stationed at Clearview Regional High School.

Public Works

The Department of Public Works is responsible for the maintenance of the Township's streets, buildings, grounds and all activities at Ella Harris Recreational Facility and Pleasant Valley Recreation Park.

Trash collection and recycling of newspapers, paper, glass and aluminum is serviced by curbside collection through a private company. In addition, from April through November, Township residents can dropoff such items as grass clippings, tree branches and leaves at the Township Recycling Center.

Transportation

Public transportation is provided to all residents by New Jersey Transit. Air travel is also provided by the Philadelphia International Airport, which is located in the City of Philadelphia, Pennsylvania.

Exit 2 of the New Jersey Turnpike is located just outside the northeast corner of the Township and provides for easy access to both metropolitan Philadelphia, Pennsylvania and Wilmington, Delaware. New Jersey State Highway Route 55, which has two interchanges along the eastern side of the Township, provides limited access highway connections to Deptford, New Jersey to the north and to Vineland, New Jersey to the south.

US Route 322 crosses the Township from west to east connecting not only with New Jersey Route 55 and the New Jersey Turnpike, but also with I-295, which runs parallel to the Turnpike, and with the Commodore Barry Bridge, which provides access across the Delaware River and to I-95.

These major highways form the principal elements of the transportation system in the County and are important links between the Township and surrounding communities.

Sewer Utility

The Sewer connection ordinance was adopted in December of 1966 and the Sewer Utility ("Utility") was organized in March of 1975 by ordinance.

The Harrison Township Wastewater Treatment Facility presently provides collection service to an area specified by the approved Wastewater Management Plan with 14 pump stations, gravity lines, force mains, manholes, and currently has approximately 1,989 customers.

In 1999, the Township constructed a 0.8 MGD Wastewater Treatment Plant to accommodate the increasing sewer service area. This replaced a 1969 0.4 MGD plant. The new facility was completed in October 2004. At this time, the upgrades, rehabilitation, reconstruction and replacement regarding certain pumping stations was substantially complete and was needed in order to further provide sewer capacity to the remaining sewer service area.

Water Supply

South Jersey Water Supply Company provides water to approximately 2,521 Township residents. All other residents rely on their own private wells for water usage.

Retirement Systems

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

Pension Information

Employees, who are eligible to participate in a pension plan, are enrolled in the Public Employees' Retirement System ("PERS") or the Police and Firemen's Retirement System ("PFRS"), Department of the State of New Jersey. The State Division of Pensions annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost.

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Township</u>				
2016	6,738	6,479	259	3.8%
2015	6,716	6,391	325	4.8%
2014	6,560	6,188	372	5.7%
2013	6,625	6,138	487	7.4%
2012	6,615	6,058	557	8.4%
<u>County</u>				
2016	150,050	142,467	7,583	5.1%
2015	149,669	140,803	8,866	5.9%
2014	148,176	137,331	10,845	7.3%
2013	150,545	137,147	13,398	8.9%
2012	151,983	136,665	15,318	10.1%
<u>State</u>				
2016	4,524,262	4,299,923	224,315	5.0%
2015	4,543,800	4,288,800	255,000	5.6%
2014	4,513,600	4,209,700	303,900	6.7%
2013	4,528,500	4,157,600	370,800	8.2%
2012	4,585,300	4,158,600	426,800	9.3%

Source: New Jersey Department of Labor, Office of Research and Planning, Division of Labor Market and Demographic Research, Bureau of Labor Force Statistics, Local Area Unemployment Statistics

Income (as of 2015)

	<u>Township</u>	<u>County</u>	<u>State</u>
Median Household Income	\$127,975	\$76,727	\$72,093
Median Family Income	132,936	91,552	88,335
Per Capita Income	48,472	34,025	36,582

Source: US Bureau of the Census, 2015 American Community Survey 5-Year Estimates

Population

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

<u>Year</u>	<u>Township</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2016 Estimate	12,982	4.55%	292,330	1.40%	8,958,013	1.89%
2010	12,417	41.29	288,288	13.20	8,791,894	4.49
2000	8,788	86.38	254,673	10.69	8,414,350	8.85
1990	4,715	31.52	230,082	15.09	7,730,188	4.96
1980	3,585	34.72	199,917	15.77	7,365,001	2.75

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2017</u>	<u>% of Total</u>
	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>
Mullica Realty, LLC	\$25,000,000	1.64%
Inspira Medical Center Woodbury, Inc.	11,496,700	0.75%
Madison/Canuso Richwood Village LLC	7,239,500	0.47%
I Storage, LLC	5,787,100	0.38%
Mantec Associates	5,655,000	0.37%
Woodland Four, LLC	5,273,000	0.34%
Mullica Hill Commons, LLC	3,541,600	0.23%
Verizon New Jersey C/O Duff & Phelp	3,060,097	0.20%
CVS	2,700,000	0.18%
Wawa, Inc.	<u>2,442,900</u>	<u>0.16%</u>
Total	<u>\$72,195,897</u>	<u>4.72%</u>

Source: School District CAFR & Municipal Tax Assessor

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year % of Collection</u>
2016	\$42,157,553	\$41,725,534	98.98%
2015	40,816,188	40,278,469	98.68%
2014	38,802,008	38,206,004	98.46%
2013	37,345,536	36,805,143	98.55%
2012	35,614,967	35,014,258	98.31%

Source: Annual Audit Reports of the Township

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2016	\$227,782	\$385,294	\$613,076	1.45%
2015	199,908	311,880	511,788	1.25%
2014	181,546	508,068	689,614	1.78%
2013	184,469	495,522	679,991	1.82%
2012	177,121	522,586	699,707	1.96%

Source: Annual Audit Reports of the Township

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2016	\$0
2015	0
2014	0
2013	0
2012	0

Source: Annual Audit Reports of the Township

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

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

<u>Year</u>	<u>Municipal</u>	<u>Municipal Open Space</u>	<u>Local School</u>	<u>Regional School</u>	<u>County</u>	<u>Fire District</u>	<u>Total</u>
2017R	\$0.425	\$0.060	\$0.841	\$0.706	\$0.717	\$0.076	\$2.825
2016	0.463	0.060	0.893	0.732	0.759	0.083	2.990
2015	0.444	0.060	0.893	0.696	0.730	0.082	2.905
2014	0.411	0.060	0.878	0.679	0.676	0.083	2.787
2013	0.365	0.060	0.877	0.668	0.661	0.097	2.728

R=Revaluation

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

Source (2017): Gloucester County

Valuation of Property

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2017R	\$1,525,648,100	\$1,513,089,458	100.83%	\$3,060,097	\$1,516,149,555
2016	1,403,109,700	1,498,888,687	93.61	2,882,389	1,501,771,076
2015	1,389,700,900	1,459,923,206	95.19	2,969,606	1,462,892,812
2014	1,366,979,400	1,417,734,287	96.42	2,975,643	1,420,709,930
2013	1,346,561,900	1,371,663,339	98.17	3,369,388	1,375,032,727

R=Revaluation

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

Classification of Ratables

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

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2017R	\$22,815,000	\$1,352,280,900	\$31,697,200	\$118,532,700	\$322,300	\$0	\$1,525,648,100
2016	22,055,200	1,250,162,100	32,832,000	96,665,400	321,700	1,073,300	1,403,109,700
2015	24,430,700	1,229,510,600	32,415,100	95,725,500	321,700	7,297,300	1,389,700,900
2014	25,368,500	1,208,175,300	33,941,800	92,196,500	0	7,297,300	1,366,979,400
2013	25,357,800	1,187,245,000	33,986,200	92,675,600	0	7,297,300	1,346,561,900

R=Revaluation

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

Township Indebtedness as of December 31, 2016

General Purpose Debt

Serial Bonds	\$22,681,000
Bond Anticipation Notes	16,792,283
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$39,473,283

Local School District Debt

Serial Bonds	\$5,245,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>5,326,577</u>
Total:	\$10,571,577

Regional School District Debt

Serial Bonds	\$9,313,642
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$9,313,642

Self-Liquidating Debt

Serial Bonds	\$5,599,000
Bond Anticipation Notes	5,941,410
Bonds and Notes Authorized but Not Issued	21,190
Other Bonds, Notes and Loans	<u>2,506,527</u>
Total:	\$14,068,127

TOTAL GROSS DEBT

\$73,426,629

Less: Statutory Deductions	
General Purpose Debt	\$0
Local School District Debt	10,571,577
Regional School District Debt	9,313,642
Self-Liquidating Debt	<u>14,068,127</u>
Total:	\$33,953,346

TOTAL NET DEBT

\$39,473,283

Source: Annual Debt Statement of the Township

Overlapping Debt (as of December 31, 2016)

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Township Percentage</u>	<u>Township Share</u>
Local School District	\$10,571,577	100.00%	\$10,571,577
Regional School District	18,063,000	51.56%	9,313,942
County	229,844,000	5.81%	<u>13,345,627</u>
Net Indirect Debt			\$33,231,146
Net Direct Debt			<u>39,473,283</u>
Total Net Direct and Indirect Debt			<u>\$72,704,429</u>

Debt Limit

Average Equalized Valuation Basis (2014, 2015, 2016)	\$1,458,848,727
Permitted Debt Limitation (3 1/2%)	51,059,705
Less: Net Debt	<u>39,473,283</u>
Remaining Borrowing Power	<u>\$11,586,422</u>
Percentage of Net Debt to Average Equalized Valuation	2.706%
Gross Debt Per Capita based on 2010 population of 12,417	\$5,913
Net Debt Per Capita based on 2010 population of 12,417	\$3,179

Source: Annual Debt Statement of the Township

APPENDIX B

Financial Statements of the School District

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INDEPENDENT AUDITOR'S REPORT

The Honorable President and Members
of the Board of Education
Harrison Township School District
County of Gloucester
Harrison Township, New Jersey

Report on the Financial Statements

I 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 Harrison Township School District, in the County of Gloucester, State of New Jersey, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 in compliance with audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Harrison Township School District, in the County of Gloucester, State of New Jersey, as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the School District's proportionate share of the net pension liability, and schedule of the School District's contributions, as listed 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. I 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison Township School District's basic financial statements. The introductory section, combining statements and related major fund supporting statements and schedules, statistical section, and schedule of expenditures of federal awards are presented for purposes of additional analysis, as required by the Office of School Finance, Department of Education, State of New Jersey and are not a required part of the basic financial statements. The accompanying schedule of state financial assistance, as required by State of New Jersey Circular 15-08-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

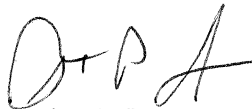
The accompanying combining statements and related major fund supporting statements and schedules and schedules of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records 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 my opinion, the accompanying combining statements and related major fund supporting statements and schedules and schedules 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 introductory and statistical sections listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 12, 2017 on my consideration of the Harrison Township School District's internal control over financial reporting and my 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 my 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 Harrison Township School District's internal control over financial reporting and compliance.

INVERSO & STEWART, LLC
Certified Public Accountants

A handwritten signature in black ink, appearing to read 'R. P. A.', is positioned above the printed name of Robert P. Inverso.

Robert P. Inverso
Certified Public Accountant
Public School Accountant No. CS001095

Marlton, New Jersey
October 12, 2017

INVERSO & STEWART, LLC
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

The Honorable President and Members
 of the Board of Education
 Harrison Township School District
 County of Gloucester
 Harrison Township, New Jersey

I have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Harrison Township School District, in the County of Gloucester, State of New Jersey, as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued my report thereon dated October 12, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Harrison Township School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Harrison Township School District's internal control.

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

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

Compliance and Other Matters

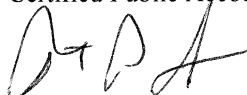
As part of obtaining reasonable assurance about whether the Harrison Township School District's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey, and federal and state awarding agencies and pass-through entities, in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

INVERSO & STEWART, LLC

Certified Public Accountants



Robert P. Inverso

Certified Public Accountant

Public School Accountant No. CS001095

Marlton, New Jersey
October 12, 2017

Required Supplementary Information - Part I

Management's Discussion and Analysis

**Township of Harrison School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017**

As management of the Board of Education of the Township of Harrison, New Jersey (School District), we offer readers of the School District's financial statements this narrative overview and analysis of the School District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

Financial Highlights

- The liabilities of the School District exceeded its assets at the close of the most recent fiscal year by \$370,189 (*net position*).
- Governmental activities have unrestricted deficit net position of \$7,228,364. The accounting treatments in the governmental funds for compensated absences payable, net pension liability, the last two state aid payments, and the state statute that prohibits school districts from maintaining more than 2% of its adopted budget as unrestricted fund balance are primarily responsible for this deficit balance.
- The total net position of the School District decreased \$4,764,134, or a 108.42% decrease from the prior fiscal year-end balance.
- Fund balance of the School District's governmental funds decreased \$4,357,339 resulting in an ending fund balance of \$(2,950,786). This decrease is due to the results of operations in the capital projects fund.
- Business-type activities have unrestricted net position of \$46,922, which may be used to meet the School District's ongoing obligations of the food service operations.
- The School District's long-term obligations increased by \$1,081,013 which is the result of the payment of bond principal, payment of capital lease principal, increase in pension liability, and a slight decrease in compensated absences.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements are comprised of three components: 1) District-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide Financial Statements

The *district-wide financial statements* are designed to provide the reader with a broad overview of the financial activities in a manner similar to a private-sector business. The district-wide financial statements include the statement of net position and the statement of activities.

The *statement of net position* presents information about all of the School District's assets and liabilities. The difference between the assets and liabilities is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the net position of the School District changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flows may be recorded in a future period.

Both of the district-wide financial statements distinguish functions of the School District that are supported from taxes and intergovernmental revenues (*governmental activities*) and other functions that are intended to recover all or most of their costs from user fees and charges (*business-type activities*). Governmental activities consolidate governmental funds including the General Fund, Special Revenue Fund, Capital Projects Fund, and Debt Service Fund. Business-type activities include the Food Service Fund.

Fund Financial Statements

Fund financial statements are designed to demonstrate compliance with finance-related requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives. All of the funds of the School District are divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

Governmental funds account for essentially the same information reported in the governmental activities of the district-wide financial statements. However, unlike the district-wide financial statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating the financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, a reconciliation is provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

The School District maintains four individual governmental funds. The major funds are the General Fund, the Special Revenue Fund, the Capital Projects Fund, and the Debt Service Fund. They are presented separately in the fund financial statements.

The School District adopts an annual appropriated budget for the General Fund, Special Revenue Fund and the Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with budgetary requirements.

Proprietary funds are used to present the same functions as the business-type activities presented in the district-wide financial statements. The School District maintains one type of proprietary fund - the Enterprise Fund. The fund financial statements of the enterprise fund provides the same information as the district-wide financial statements, only in more detail.

The School District's one enterprise fund (Food Service Fund) is considered to be a major fund.

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

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains other supplementary information and schedules required by the New Jersey Audit Program, issued by the New Jersey Department of Education.

District-wide Financial Analysis

The assets of the School District are classified as current assets and capital assets. Cash, investments, receivables, inventories and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the School District. The majority of the current assets are the results of the tax levy and state aid collection process.

Capital assets are used in the operations of the School District. These assets are land, buildings, improvements, equipment and vehicles. Capital assets are discussed in greater detail in the section titled, Capital Assets and Debt Administration, elsewhere in this analysis.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, unearned revenues, and current debt obligations. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets or new resources that become available during fiscal year 2017. Long-term liabilities such as long-term debt obligations and compensated absences payable will be liquidated from resources that will become available after fiscal year 2017.

The liabilities of the primary government activities exceeded assets by \$426,475 with an unrestricted deficit balance of \$7,228,364. The net position of the primary government does not include internal balances.

A net investment of \$9,559,773 in land, improvements, buildings, equipment and vehicles provides the services to the School District's 1,432 public school students. Net position of \$6,602 has been restricted to provide resources for future capital expansion and renovation projects; \$6,721 has been restricted for future debt obligations and \$301,287 has been restricted for maintenance while \$1,255,422 has been restricted for budget appropriation and \$238,943 reserved for year-end encumbrances.

As mentioned earlier, the balance of unrestricted net position is primarily due to the accounting treatment for compensated absences payable, net pension liability, and the last two state aid payments, and state statutes that prohibit school districts from maintaining more than 2% of its adopted budget as unrestricted fund balance.

**Township of Harrison School District
Comparative Summary of Net Position
As of June 30, 2017 and 2016**

	Governmental Activities		Business-Type Activities		District-Wide	
	2017	2016	2017	2016	2017	2016
Assets:						
Current assets	\$ 4,373,324	\$ 1,426,908	\$ 63,767	\$ 56,065	\$ 4,437,091	\$ 1,482,973
Capital assets	<u>14,490,387</u>	<u>14,981,571</u>	<u>9,364</u>	<u>9,554</u>	<u>14,499,751</u>	<u>14,991,125</u>
Total assets	<u>18,863,711</u>	<u>16,408,479</u>	<u>73,131</u>	<u>65,619</u>	<u>18,936,842</u>	<u>16,474,098</u>
Deferred Outflows of Resources	<u>2,576,185</u>	<u>1,193,181</u>			<u>2,576,185</u>	<u>1,193,181</u>
Liabilities:						
Current Liabilities	8,539,372	983,248	16,845	15,959	8,556,217	999,207
Noncurrent Liabilities	<u>13,156,758</u>	<u>12,084,465</u>			<u>13,156,758</u>	<u>12,084,465</u>
Total liabilities	<u>21,696,130</u>	<u>13,067,713</u>	<u>16,845</u>	<u>15,959</u>	<u>21,712,975</u>	<u>13,083,672</u>
Deferred Inflows of Resources	<u>170,241</u>	<u>189,663</u>			<u>170,241</u>	<u>189,663</u>
Net position	<u>\$ (426,475)</u>	<u>\$ 4,344,284</u>	<u>\$ 56,286</u>	<u>\$ 49,660</u>	<u>\$ (370,189)</u>	<u>\$ 4,393,944</u>
Net position consist of:						
Net investment in capital assets	\$ 9,559,773	\$ 9,189,757	\$ 9,364	\$ 9,554	\$ 9,569,137	\$ 9,199,311
Restricted	(2,757,884)	1,638,168			(2,757,884)	1,638,168
Unrestricted	<u>(7,228,364)</u>	<u>(6,483,641)</u>	<u>46,922</u>	<u>40,106</u>	<u>(7,181,442)</u>	<u>(6,443,535)</u>
Net position	<u>\$ (426,475)</u>	<u>\$ 4,344,284</u>	<u>\$ 56,286</u>	<u>\$ 49,660</u>	<u>\$ (370,189)</u>	<u>\$ 4,393,944</u>

Governmental Activities

Key elements of the decrease in net position for governmental activities are as follows:

- The decrease is a result of capital projects.

Business-type Activities

Business-type activities increased the School District's net position slightly. Key elements of the increase in net position for business-type activities are as follows:

- The Food Service Program had a net gain of \$6,626.

Township of Harrison School District
Comparative Schedule of Changes in Net Position
As of and for the Fiscal Year Ended June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		District-Wide	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues						
Charges for services	\$ -	\$ -	\$ 224,953	\$ 242,634	\$ 224,953	\$ 242,634
Operating grants and Contributions	3,063,093	2,836,049	110,317	102,794	3,173,410	2,938,843
Capital grants and Contributions						
General Revenues:						
Property Taxes	12,563,880	12,431,209			12,563,880	12,431,209
Unrestricted State Aid	6,211,573	6,096,241			6,211,573	6,096,241
Tuition	195,845	122,489			195,845	122,489
Other Revenues	173,781	162,291			173,781	162,291
Total Revenues	22,208,172	21,648,279	335,270	345,428	22,543,442	21,993,707
Expenses:						
Governmental Activities:						
Instruction	9,493,873	9,008,770			9,493,873	9,008,770
Tuition	26,915	431,413			26,915	431,413
Related Services	1,819,320	1,596,051			1,819,320	1,596,051
Administrative Services	1,110,126	1,072,631			1,110,126	1,072,631
Operations and Maintenance	6,385,708	2,059,732			6,385,708	2,059,732
Transportation	1,238,284	1,314,412			1,238,284	1,314,412
Central Services	576,657	313,029			576,657	313,029
Interest on long-term Debt	141,210	354,418			141,210	354,418
Other	51,949	25,177			51,949	25,177
Unallocated benefits	6,134,889	5,327,055			6,134,889	5,327,055
Business-Type Activities:						
Food Service Operations			328,644	333,441	328,644	333,441
Total Expenses	26,978,931	21,502,688	328,644	333,441	27,307,575	21,836,129
Increase in net position						
Before transfers	(4,770,759)	145,591	6,626	11,987	(4,764,133)	157,578
Transfers						
Changes in net position	(4,770,759)	145,591	6,626	11,987	(4,764,133)	157,578
Net position, July 1,	4,344,284	4,198,693	49,660	37,673	4,393,944	4,236,366
Net position, June 30,	\$ (426,475)	\$ 4,344,284	\$ 56,286	\$ 49,660	\$ (370,189)	\$ 4,393,944

Financial Analysis of the Governmental Funds

As noted earlier, the School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported a combined ending fund balance of \$(2,950,786), a decrease of \$4,357,339 in comparison with the prior year.

The unreserved fund balance for the School District at the end of the fiscal year includes a deficit unreserved fund balance of \$192,902 in the General Fund, a deficit unreserved fund balance of 4,566,859 in Capital Projects Fund and \$1 in the Debt Service Fund. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) as restricted cash reserved for future capital outlay expenditures \$6,602, 2) appropriated as a revenue source in the subsequent year's budget \$637,160, 3) reserve for encumbrances \$238,943 4) reserved for maintenance \$301,287 or 5) reserved for future budget appropriation in accordance with state statutes \$624,982.

The general fund is the chief operating fund of the School District. As discussed earlier, the balance in the unreserved fund balance is due, primarily, to the accounting treatment of the last two state aid payments and state statutes that prohibit New Jersey school districts from maintaining more than 2% of its adopted budget as unrestricted fund balance.

General Fund Budgetary Highlights

There is no difference between the original budget and the final amended budget.

At the end of the current fiscal year, unreserved fund balance (budgetary basis) of the general fund was \$411,045, while total fund balance (budgetary basis) was \$2,213,299. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance (budgetary basis) and total fund balance (budgetary basis) to total general fund expenditures. Actual (budgetary basis) expenditures of the General Fund including other financing uses amounted to \$20,590,364. Unreserved fund balance (budgetary basis) represents 2.00% of expenditures while total fund balance (budgetary basis) represents 10.75% of that same amount.

Capital Asset and Debt Administration

The School District's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totaled \$14,499,751 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, equipment and vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was \$491,374, or a 3.27% decrease. The decrease is primarily due to depreciation expense.

Township of Harrison School District
Capital Assets (net of accumulated depreciation)
June 30, 2017 and 2016

	Governmental Activities		Business-Type Activities		District-Wide	
	2017	2016	2017	2016	2017	2016
Land	\$ 430,000	\$ 430,000	\$ -	\$ -	\$ 430,000	\$ 430,000
Buildings and Building Improvements	13,207,042	13,838,174			13,207,042	13,838,174
Equipment	853,345	713,397	9,364	9,554	862,709	722,951
Total	<u>\$ 14,490,387</u>	<u>\$ 14,981,571</u>	<u>\$ 9,364</u>	<u>\$ 9,554</u>	<u>\$ 14,499,751</u>	<u>\$ 14,991,125</u>

Additional information on the School District's capital assets can be found in the notes to the basic financial statements (Note 5) of this report.

Long-term debt – During the fiscal year ended June 30, 2017, the School District had \$4,505,000 in serial bonds payable, \$65,000 in capital leases payable and \$471,218 in compensated absences.

State statutes limit the amount of general obligation debt that the District may issue. At the end of the current fiscal year, the legal debt limit was \$36,471,218. The available amount as of June 30, 2017 was \$28,966,218.

Additional information on the School District's long-term obligations can be found in the notes to the basic financial statements (Note 7) of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered and incorporated into the preparation of the School District's budget for the 2017-18 fiscal year.

- For the 2017-18 fiscal year the School District will be receiving a slight decrease in state aid. The local tax levy in the General Fund increased by \$309,326 or 2.59%. The 2017-18 General Fund Budget increased \$385,158 over previous year. The tax rate for 2017 is \$.8411, which is a slight decrease from the previous year.

Requests for Information

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township of Harrison School District Business Administrator, 120 N. Main St., Mullica Hill, New Jersey 08062.

Basic Financial Statements

District-Wide Financial Statements

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 3,955,012.17	\$ 45,249.47	\$ 4,000,261.64
Receivables, net	110,423.07	6,286.99	116,710.06
Inventory		12,230.21	12,230.21
Restricted assets:			
Capital reserve account	6,601.81		6,601.81
Maintenance reserve account	301,287.02		301,287.02
Capital assets, net (Note 5)	14,490,387.00	9,364.00	14,499,751.00
Total assets	18,863,711.07	73,130.67	18,936,841.74
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred outflows of resources from pensions	2,576,185.00		2,576,185.00
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	21,439,896.07	73,130.67	21,513,026.74
LIABILITIES:			
Accounts payable			
Related to pensions	250,014.00		250,014.00
Other	68,770.29	7,085.98	75,856.27
Contracts payable	4,236,504.92		4,236,504.92
Temporary note payable	3,000,000.00		3,000,000.00
Intergovernmental payable:			
State	2,710.21		2,710.21
Unearned revenue	16,125.00	9,758.68	25,883.68
Accrued interest due within one year	62,958.06		62,958.06
Noncurrent liabilities:			
Due within one year	902,290.00		902,290.00
Due beyond one year	13,156,758.07		13,156,758.07
Total liabilities	21,696,130.55	16,844.66	21,712,975.21
DEFERRED INFLOWS OF RESOURCES:			
Deferred Inflows of resources from pensions	170,241.00		170,241.00
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	21,866,371.55	16,844.66	21,883,216.21
NET POSITION:			
Net investment in capital assets	9,559,773.00	9,364.00	9,569,137.00
Restricted for:			
Debt Service	6,721.31		6,721.31
Capital Projects	(4,560,257.61)		(4,560,257.61)
Other purposes	1,795,651.80		1,795,651.80
Unrestricted	(7,228,363.98)	46,922.01	(7,181,441.97)
Total net position	\$ (426,475.48)	\$ 56,286.01	\$ (370,189.47)

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

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
Instruction:							
Regular	\$ 6,533,916.72	\$ -	\$ 58,567.91	\$ -	\$ (6,475,348.81)	\$ -	\$ (6,475,348.81)
Special education	2,046,569.96		279,003.00		(1,767,566.96)		(1,767,566.96)
Other instruction	913,385.98				(913,385.98)		(913,385.98)
Support Services:							
Tuition	26,915.07				(26,915.07)		(26,915.07)
Student & instruction related services	1,819,319.60		120,134.94		(1,699,184.66)		(1,699,184.66)
General administrative services	537,165.06				(537,165.06)		(537,165.06)
School administrative services	572,961.33				(572,961.33)		(572,961.33)
Central services	576,656.53				(576,656.53)		(576,656.53)
Plant operations and maintenance	6,385,707.48				(6,385,707.48)		(6,385,707.48)
Pupil transportation	1,238,284.51				(1,238,284.51)		(1,238,284.51)
Unallocated employee benefits	6,134,889.37		2,300,612.79		(3,834,276.58)		(3,834,276.58)
Transfer to Charter Schools	9,089.00				(9,089.00)		(9,089.00)
Interest and other costs on long-term debt	141,210.10		304,774.00		163,563.90		163,563.90
Unallocated depreciation and amortization	42,860.00				(42,860.00)		(42,860.00)
Total governmental activities	<u>26,978,930.71</u>	<u>-</u>	<u>3,063,092.64</u>	<u>-</u>	<u>(23,915,838.07)</u>	<u>-</u>	<u>(23,915,838.07)</u>
Business-type activities:							
Food service program	328,643.87	224,952.45	110,317.25			6,625.83	6,625.83
Total business-type activities	<u>328,643.87</u>	<u>224,952.45</u>	<u>110,317.25</u>	<u>-</u>	<u>-</u>	<u>6,625.83</u>	<u>6,625.83</u>
Total primary government	<u>27,307,574.58</u>	<u>224,952.45</u>	<u>3,173,409.89</u>	<u>-</u>	<u>(23,915,838.07)</u>	<u>6,625.83</u>	<u>(23,909,212.24)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net					11,924,880.00		11,924,880.00
Taxes levied for debt service					639,000.00		639,000.00
Federal and state aid not restricted					6,211,573.00		6,211,573.00
Tuition charges					195,844.70		195,844.70
Transportation charges					106,015.29		106,015.29
Investment earnings					492.20		492.20
Miscellaneous income					67,273.43		67,273.43
Total general revenues, special items, extraordinary items and transfers					<u>19,145,078.62</u>	<u>-</u>	<u>19,145,078.62</u>
Change in Net Position					(4,770,759.45)	6,625.83	(4,764,133.62)
Net Position - July 1					4,344,283.97	49,660.18	4,393,944.15
Net Position - June 30					<u>\$ (426,475.48)</u>	<u>\$ 56,286.01</u>	<u>\$ (370,189.47)</u>

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

Fund Financial Statements

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Assets:					
Cash and cash equivalents	\$ 1,278,645.36	\$ -	\$ 2,669,645.50	\$ 6,721.31	\$ 3,955,012.17
Receivables, net	88,347.96	16,075.11			104,423.07
Interfund receivable	14,364.90				14,364.90
Restricted cash and cash equivalents	307,888.83				307,888.83
Total assets	<u>1,689,247.05</u>	<u>16,075.11</u>	<u>2,669,645.50</u>	<u>6,721.31</u>	<u>4,381,688.97</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	68,770.29				68,770.29
Contracts payable			4,236,504.92		4,236,504.92
Temporary note payable			3,000,000.00		3,000,000.00
Intergovernmental payable:					
State		2,710.21			2,710.21
Unearned revenues	11,125.00	5,000.00			16,125.00
Interfund payable		8,364.90			8,364.90
Total liabilities	<u>79,895.29</u>	<u>16,075.11</u>	<u>7,236,504.92</u>	<u>-</u>	<u>7,332,475.32</u>
Fund Balances:					
Restricted for:					
Excess surplus	624,981.68				624,981.68
Excess Surplus - Designated for					
Subsequent Year's Expenditures	630,440.00				630,440.00
Capital reserve account	6,601.81				6,601.81
Maintenance reserve account	301,287.02				301,287.02
Assigned to:					
Year-end encumbrances	238,943.10				238,943.10
Designated for subsequent					
year's expenditures				6,720.00	6,720.00
Unassigned	(192,901.85)		(4,566,859.42)	1.31	(4,759,759.96)
Total fund balances	<u>1,609,351.76</u>	<u>-</u>	<u>(4,566,859.42)</u>	<u>6,721.31</u>	<u>(2,950,786.35)</u>
Total liabilities and fund balances	<u>\$ 1,689,247.05</u>	<u>\$ 16,075.11</u>	<u>\$ 2,669,645.50</u>	<u>\$ 6,721.31</u>	

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 the assets is \$30,154,687.00 and the accumulated depreciation is \$15,664,300.00. 14,490,387.00

Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the funds. (62,958.06)

Accounts payable related to the April 1, 2018 required PERS contribution that is not to be liquidated with current financial resources. 250,014.00

The District's proportionate share of net pension assets and liabilities as well as pension-related deferred outflows and deferred inflows of resources are recognized in the government-wide statements and include:

Deferred Outflows of resources from Pensions	2,076,157.00	
Net Pension Liability	(8,657,216.00)	
Deferred Inflows of resources from Pensions	(170,241.00)	(6,751,300.00)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Serial bonds payable	(4,865,614.00)	
Capital leases payable	(65,000.00)	
Compensated absences	(471,218.07)	(5,401,832.07)

Net position of governmental activities \$ (426,475.48)

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

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the Fiscal Year Ended June 30, 2017

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:					
Local sources:					
Local tax levy	\$ 11,924,880.00	\$ -	\$ -	\$ 639,000.00	\$12,563,880.00
Tuition charges	195,844.70				195,844.70
Transportation fees	106,015.29				106,015.29
Capital Reserve - Interest earned	28.32				28.32
Maintenance Reserve - Interest earned	463.88				463.88
Miscellaneous	67,273.43				67,273.43
Total revenues-local sources	12,294,505.62		-	639,000.00	12,933,505.62
State sources	8,505,379.28	51,129.36		304,774.00	8,861,282.64
Federal sources		413,383.00			413,383.00
Total revenues	20,799,884.90	464,512.36	-	943,774.00	22,208,171.26
EXPENDITURES:					
Current expense:					
Regular instruction	5,881,458.66	58,567.91			5,940,026.57
Special education instruction	1,767,566.96	279,003.00			2,046,569.96
Other instruction	913,385.98				913,385.98
Support services and undistributed costs:					
Tuition	26,915.07				26,915.07
Student & instruction related services	1,699,184.66	120,134.94			1,819,319.60
General administrative services	451,444.06				451,444.06
School administrative services	572,961.33				572,961.33
Central services	576,656.53				576,656.53
Plant operations and maintenance	1,690,839.20				1,690,839.20
Pupil transportation	1,238,284.51				1,238,284.51
Unallocated employee benefits	5,332,127.86	6,806.51			5,338,934.37
Capital outlay	430,449.86		4,566,859.42		4,997,309.28
Transfer to Charter School	9,089.00				9,089.00
Debt service:					
Principal				740,000.00	740,000.00
Interest and other charges				203,775.00	203,775.00
Expense of Refunding Bonds					-
Total expenditures	20,590,363.68	464,512.36	4,566,859.42	943,775.00	26,565,510.46
Excess (deficiency) of revenues over (under) expenditures	209,521.22	-	(4,566,859.42)	(1.00)	(4,357,339.20)
Other Financing Sources (Uses):					
Transfers in					-
Transfers out					-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	209,521.22	-	(4,566,859.42)	(1.00)	(4,357,339.20)
Fund balances, July 1	1,399,830.54			6,722.31	1,406,552.85
Fund balances, June 30	\$ 1,609,351.76	\$ -	\$ (4,566,859.42)	\$ 6,721.31	\$ (2,950,786.35)

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

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
for the Fiscal Year Ended June 30, 2017

Total net change in fund balances - governmental funds (from B-2) \$ (4,357,339.20)

Amounts reported for governmental activities in the statement of activities (A-2)
are different because:

Capital outlays are reported in the governmental funds as expenditures.
However, on the statement of activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which depreciation exceeded capital outlay in the current fiscal year.

Depreciation expense	\$ (857,206.00)	
Loss on Disposal of Assets	(21,893.00)	
Capital outlay	387,915.00	(491,184.00)

Repayment of bond principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position and
is reported in the statement of activities. 740,000.00

Governmental funds report the effect of premiums, discounts, and similar items when
debt is first issued, whereas these amounts are amortized in the statement
of activities. This amount is the net effect of these differences. 56,200.00

Repayment of capital lease principal is an expenditure in the governmental funds, but
the repayment reduces long-term liabilities in the statement of net position and
is reported in the statement of activities. 65,000.00

In the statement of activities, interest on long-term debt is accrued, regardless of
when due. In the governmental funds, interest is reported when due. The accrued
interest is an addition in the reconciliation. 6,364.90

Net differences between pension system contributions recognized in the fund statement
of revenues, expenditures and changes in fund balances and the statement of activities. (795,955)

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 a reduction in
the reconciliation (-); when the paid amount exceeds the earned amount
the difference is an addition to the reconciliation (+). 6,153.85

Change in net position of governmental activities \$ (4,770,759.45)

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Net Position
Proprietary Funds
June 30, 2017

	<u>Business-type Activities Enterprise Funds</u>
	<u>2017</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 45,249.47
Accounts receivable	6,286.99
Inventories	<u>12,230.21</u>
Total current assets	<u>63,766.67</u>
Noncurrent assets:	
Equipment	301,299.00
Less accumulated depreciation	<u>(291,935.00)</u>
Total noncurrent assets	<u>9,364.00</u>
Total assets	<u><u>\$ 73,130.67</u></u>
 LIABILITIES:	
Current liabilities:	
Accounts Payable	\$ 7,085.98
Unearned revenue	<u>9,758.68</u>
Total liabilities	<u>16,844.66</u>
 NET ASSETS:	
Invested in capital assets net of related debt	9,364.00
Unrestricted	<u>46,922.01</u>
Total net position	<u><u>\$ 56,286.01</u></u>

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

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
for the Fiscal Year Ended June 30, 2017

	Business-type Activities Enterprise Funds
	<u>2017</u>
Operating revenues:	
Charges for services:	
Daily sales-reimbursable programs	\$ 122,301.15
Daily sales-non-reimbursable programs	<u>102,651.30</u>
Total operating revenue	<u>224,952.45</u>
Operating expenses:	
Salaries	131,187.75
Benefits	10,956.32
Supplies and materials	10,329.64
Depreciation	5,961.00
Management fee	24,096.04
Direct expenses	1,255.30
Repairs and maintenance	8,928.71
Cost of sales - reimbursable programs	104,849.76
Cost of sales - non-reimbursable programs	<u>31,079.35</u>
Total operating expenses	<u>328,643.87</u>
Operating income (loss)	<u>(103,691.42)</u>
Nonoperating revenues (expenses):	
State sources:	
State school lunch program	2,906.34
Federal sources:	
National school lunch program	71,345.04
Milk	1,421.42
U.S.D.A. commodities	<u>34,644.45</u>
Total nonoperating revenues (expenses)	<u>110,317.25</u>
Change in net position	6,625.83
Total net position - July 1	<u>49,660.18</u>
Total net position - June 30	<u><u>\$ 56,286.01</u></u>

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

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
for the Fiscal Year Ended June 30, 2017

	Business-type Activities Enterprise Funds
	<u>2017</u>
Cash flows from operating activities:	
Receipts from customers	\$ 225,962.72
Payments to employees	(142,144.07)
Payments to suppliers	(147,371.06)
Net cash used for operating activities	<u>(63,552.41)</u>
Cash flows from noncapital financing activities:	
State sources	2,914.85
Federal sources	72,478.47
Net cash provided by non-capital financing activities	<u>75,393.32</u>
Cash flows from capital activities:	
Purchases of fixed assets	(5,771.00)
	<u>(5,771.00)</u>
Cash flows from investing activities:	
Interest and dividends	<u> </u>
Net cash provided by investing activities	<u> </u>
Net increase in cash and cash equivalents	6,069.91
Balances - July 1	<u>39,179.56</u>
Balances - June 30	<u>\$ 45,249.47</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (103,691.42)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	5,961.00
Federal commodities	34,644.45
(Increase) decrease in accounts receivable	
(Increase) decrease in inventories	(1,476.71)
Increase (decrease) in accounts payable	
Increase (decrease) in deferred revenue	1,010.27
Total adjustments	<u>40,139.01</u>
Net cash provided by (used for) operating activities	<u>\$ (63,552.41)</u>

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

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	<u>Unemployment Compensation</u>	<u>Flexible Spending Account</u>	<u>Agency Funds</u>
ASSETS:			
Cash and cash equivalents	\$ 127,565.18	\$ 8,890.33	\$ 71,366.66
Accounts Receivable	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>127,565.18</u>	<u>8,890.33</u>	<u>71,366.66</u>
 LIABILITIES:			
Payroll deductions and withholdings	\$ -	\$ -	\$ 29,174.98
Accounts payable	55.19		
Due to student groups			42,191.68
Interfund payable	<u> </u>	<u>6,000.00</u>	<u> </u>
Total liabilities	-	<u>6,000.00</u>	<u>71,366.66</u>
 Net Position:			
Held in trust for unemployment claims	<u>\$ 127,509.99</u>		
Held in trust for claims		<u>\$ 2,890.33</u>	

TOWNSHIP OF HARRISON SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017

	Unemployment Compensation Trust	Flexible Spending Account
ADDITIONS:		
Board contributions	\$	\$ -
Employee contributions	33,424.34	21,240.00
Interest on Investments	427.93	
Net contributions	<u>33,852.27</u>	<u>21,240.00</u>
DEDUCTIONS:		
Flexible Spending Account Claims		18,755.31
Unemployment Claims	<u>22,092.25</u>	
Total deductions	<u>22,092.25</u>	<u>18,755.31</u>
Change in net position	11,760.02	2,484.69
Net position - July 1	<u>115,749.97</u>	<u>405.64</u>
Net position - June 30	<u>\$ 127,509.99</u>	<u>\$ 2,890.33</u>

Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The Township of Harrison School District (District) is a Type II school district located in Gloucester County, New Jersey and covers an area of approximately 20 miles. As a Type II school district, it functions independently through a Board of Education. The Board is comprised of nine members elected to three-year terms. These terms are staggered so that three member's terms expire each year. The purpose of the District is to provide educational services for all of the Township of Harrison's students in grades K through 6. The Township of Harrison School District has an approximate enrollment at June 30, 2017 of 1,432 students.

The primary criteria for including activities within the School District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* is the degree of oversight responsibility maintained by the School District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the School district over which the Board exercises operating control.

Component Units – GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Unit*, provide guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statements No. 14 and No. 39. In addition, GASB Statement No. 61, provides additional guidance for organizations that do not meet the financial accountability criteria for inclusion as component units but that nevertheless should be included because the primary government's management determines that it would be misleading to exclude them. GASB Statement No. 80, *Blending Requirements for Certain Component Units* - an Amendment of GASB Statement No. 14 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criteria requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. There were no additional entities required to be included in the reporting entity under the criteria as described above. Furthermore, the School District is not includable in any other reporting entity on the basis of such criteria.

Basis of Presentation

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

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

Government-wide Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The statement of net position presents the financial condition of the governmental and business-type activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for the business-type activities of the School District. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. The policy of the School District is to not allocate indirect expenses to functions in the statement of activities. 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 and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide Statements (Continued) - The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements - During the fiscal year, the School District segregates transactions related to certain School 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 School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a single column. The fiduciary fund is reported by type. The School 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. There are three categories of funds: governmental, proprietary, and fiduciary.

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 School District's major governmental funds:

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

As required by the New Jersey State Department of Education, the School District includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America 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 which 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.

Special Revenue Fund - The special revenue fund is used to account for and report the proceeds of specific revenues sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Fund - The capital projects fund is used to account and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets, other than those financed by proprietary funds. The financial resources are derived from New Jersey Economic Development Authority grants, temporary notes or serial bonds which 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 and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds - Proprietary funds are used to account for the School District's ongoing activities, which are similar to those in the private sector.

Enterprise Funds – The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the School District is that all costs (expenses, including depreciation) of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges; or, where the School 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 School District's enterprise fund is:

Food Service Fund - This fund accounts for the financial transactions related to the food service operations of the School District.

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 balance sheets. Their reported fund equity (net position) is segregated into investment in capital assets, net of related debt, and unrestricted net position, if applicable. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Depreciation of all exhaustive fixed 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 are as follows:

Equipment	12 Years
Light Trucks and Vehicles	4 Years
Heavy Trucks and Vehicles	6 Years

Fiduciary Funds - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into two classifications: trust funds and agency funds. Agency funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds (i.e. payroll and student activities). They are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has four fiduciary funds; an unemployment compensation trust fund, a flexible spending account, a student activity fund, and a payroll fund.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position.

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.

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements (Continued) – The statement of changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are reported using the economic resources measurement focus.

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

Basis of Accounting

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days after fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include Ad Valorem (property) taxes, grants, entitlements, and donations. Ad Valorem (Property) Taxes are susceptible to accrual, as under New Jersey State Statute, a municipality is required to remit to its school district the entire balance of taxes in the amount voted upon or certified, prior to the end of the school year. The School 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 School District is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". With the exception of restricted formula aids recorded in the special revenue fund, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end; tuition, grants, fees, and rentals.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense. Unused donated commodities are reported as unearned revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgets/Budgetary Control - Annual appropriated budgets are prepared in the spring of each fiscal year for the general, special revenue, and debt service funds. The budgets are submitted to the county office for their approval. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:23A-16.2(f)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23A-13.3.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets/Budgetary Control (Continued) - Formal budgetary integration into the accounting system is employed as a management control device during the fiscal 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 with the exception of the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only and the special revenue fund. 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 budgetary basis. The budgetary basis differs from GAAP in that the 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. The budget, as detailed on Exhibit C-1, Exhibit C-2 and Exhibit I-3, includes all amendments to the adopted budget, if any.

Exhibit C-3 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounting as presented in the general fund budgetary comparison schedule and the special revenue fund budgetary comparison schedule to the GAAP basis of accounting as presented in the statement of revenues, expenditures and changes in fund balances – governmental funds. Note that the School District does not report encumbrances outstanding at year end as expenditures in the general fund since the general fund budget follows modified accrual basis with the exception of the revenue recognition policy for the one or more June state aid payments.

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. Encumbrances are a component of fund balance 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 governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included within committed or assigned fund balance, as appropriate.

Open encumbrances in the special revenue fund, however, for which the School District has received advances of grant awards, and all eligibility and time requirements satisfied are reflected on the balance sheet as unearned grant revenue 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.

Cash, Cash Equivalents and Investments - Cash and cash equivalents, for all funds, 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. Such is the definition of cash and cash equivalents used in the statement of cash flows for the proprietary funds. 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. N.J.S.A. 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

N.J.S.A. 17:9-41et 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 Governmental Unit Deposit Protection Act (GUDPA), a multiple financial institution collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or Federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, 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.

Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Tuition Receivable - Tuition charges were established by the School District based on estimated costs. The charges are subject to adjustment when the final costs are determined.

Tuition Payable - Tuition charges for the fiscal years ended June 30, 2017 and 2016 were based on rates established by the receiving school district. These rates are subject to change when the actual costs have been determined.

Inventories - Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out basis.

The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed, and is not recorded since any amounts are considered immaterial to the basic financial statements.

Inventories recorded in the government-wide financial statements and in the proprietary fund types are recorded as expenditures when consumed rather than when purchased.

Prepaid Expenses - Prepaid expenses recorded on the government-wide financial statements and in the proprietary fund types represent payments made to vendors for services that will benefit periods beyond June 30, 2017.

In the governmental fund types, however, payments for prepaid items are fully recognized as an expenditure in the fiscal year of payment. No asset for the prepayment is created, and no expenditure allocation to future accounting periods is required (*non-allocation method*). This is consistent with the basic governmental concept that only expendable financial resources are reported by a specific fund.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Short-Term Interfund Receivables / Payables - Short-term interfund receivables / payables represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund in the School District and that are due within one year. These amounts are eliminated in the governmental and business-type columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Capital Assets - General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally 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. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and the proprietary fund statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market value as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued) - Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land and Improvements	10-20 years	N/A
Buildings and Improvements	10-50 years	N/A
Furniture and Equipment	5-20 years	12 years
Vehicles	5-10 years	4-6 years

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 School 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 School 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 compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid with expendable available financial resources. In proprietary funds, the entire amount of compensated absences is recorded as a fund liability.

Unearned Revenue - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the School District is eligible to realize the revenue.

Accrued Liabilities and Long-Term Obligations - All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions 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. Bonds are recognized as a liability on the fund financial statements when due.

Net Position - Net position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net position is classified into the following three components:

Net investment in capital assets - This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.

Restricted - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or law or regulations of other governments.

Unrestricted - Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

It is the School District's policy to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance – The School District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School District’s classifications, and policies for determining such classifications, are as follows:

Nonspendable – The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criteria includes items that are not expected to be converted to cash, such as inventories and prepaid amounts. The School District had no nonspendable fund balance at June 30, 2017.

Restricted – This fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed – This fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District’s highest level of decision making authority, which for the School District is the Board of Education. Once committed, amounts cannot be used for any other purpose unless the Board of Education removes, or changes, the specified use by taking the same type of action imposing the commitment.

Assigned – This fund balance classification includes amounts that are constrained by the School District’s *intent* to be used for specific purposes, but are neither restricted nor committed. *Intent* is expressed by either the Board of Education or by the Business Administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes.

Unassigned – This fund balance classification is the residual classification for the General Fund. It 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 positive unassigned fund balance amount. In 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 an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, it is the School District’s policy to spend restricted fund balances first. Likewise, when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the School District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

Operating and Non-Operating Revenues and Expenses - Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for the food service program. Non-operating revenues principally consist of interest income earned on various interest bearing accounts and federal and state subsidy reimbursements for the food service program.

Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. There are no non-operating expenses.

Interfunds – Interfund receivables and payables that arise from transactions between funds are recorded by all funds affected by such transactions in the period in which the transaction is executed.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements - In June 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for financial statements for periods beginning after June 30, 2017. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In March 2016, the GASB issued Statement 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. Furthermore, this Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. Also, this Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions 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 for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In March 2017, the GASB issued Statement 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued) -The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In May 2017, the GASB issued Statement 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In June 2017, the GASB issued Statement 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

2. CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits – Custodial credit risk refers to the risk that, in the event of a bank failure, the School District's deposits might not be recovered. Although the School District does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Unit (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the School district in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings of funds that pass to the School District relative to the happening of a future condition. Such funds are classified as uninsured and uncollateralized. Of the School District's amount on deposit of \$4,782,380 as of June 30, 2017, \$250,000 was insured under FDIC and the remaining balance of \$4,532,380 was collateralized under GUDPA.

3. CAPITAL RESERVE ACCOUNT

A capital reserve account was established by the School District for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the School District's approved Long Range Facilities Plan (LRFP) and updated annually in the Quality Assurance Annual Report (QAAR). Upon submission of the LRFP to the New Jersey Department of Education, a school district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at year end of any unanticipated revenue or unexpended line-item appropriation amounts, or both. A school district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6A:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

3. CAPITAL RESERVE ACCOUNT (Continued)

The activity of the capital reserve for the July 1, 2016 to June 30, 2017 fiscal year is as follows:

Balance – July 1, 2016	\$ 6,573
Increased by:	
Transfer from Capital Projects	
Interest Earned	29
	<u>6,602</u>
Decreased by:	
	<u>-</u>
Balance – June 30, 2017	<u>\$ 6,602</u>

The June 30, 2017 capital reserve balance does not exceed the LRFP balance of local support costs of uncompleted capital projects.

4. ACCOUNTS RECEIVABLE

Receivables at June 30, 2017 consisted of tuition fees charged other governmental units and governmental grants. All receivables are considered collectible in full due to the stable condition of the other governmental units, state programs and the current fiscal year guarantee of federal funds.

Receivables as of year-end for the District's individual major and fiduciary funds, in the aggregate, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Proprietary Funds</u>	<u>Total</u>
State Aid	\$ 75,985	\$ 1,918	\$ -	\$ 148	\$ 78,051
Federal Aid		14,157		6,139	20,296
Tuition fees	3,103				3,103
Other	<u>9,260</u>				<u>9,260</u>
Total	<u>\$ 88,348</u>	<u>\$ 16,075</u>	<u>\$ -</u>	<u>\$ 6,287</u>	<u>\$ 110,710</u>

Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	<u>Balance</u> <u>June 30, 2016</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2017</u>
Governmental Activities:				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 430,000	\$ -	\$ -	\$ 430,000
Construction in progress				
Total capital assets, not being				
Depreciated	<u>430,000</u>			<u>430,000</u>
<i>Capital Assets, being depreciated:</i>				
Site and Site Improvements	1,232,803			1,232,803
Building and Building Improvements	25,172,745			25,172,745
Equipment (Restated)	<u>3,157,258</u>	<u>387,915</u>	<u>(226,034)</u>	<u>3,319,139</u>
Totals at historical cost	<u>29,562,806</u>	<u>387,915</u>	<u>(226,034)</u>	<u>29,724,687</u>
<i>Less Accumulated Depreciation:</i>				
Site and Site Improvements	(1,109,535)	(28,368)		(1,137,903)
Building and Building Improvements	(11,457,839)	(602,764)		(12,060,603)
Equipment (Restated)	<u>(2,443,861)</u>	<u>(226,074)</u>	<u>(204,141)</u>	<u>(2,465,794)</u>
Totals accumulated depreciation	<u>(15,011,235)</u>	<u>(857,206)</u>	<u>(204,141)</u>	<u>(15,664,300)</u>
Total Capital Assets, being depreciated, net	<u>14,551,571</u>	<u>(469,291)</u>	<u>(21,893)</u>	<u>14,060,387</u>
Governmental Activities Capital Assets, Net	<u>\$ 14,981,571</u>	<u>\$ (469,291)</u>	<u>\$ (21,893)</u>	<u>\$ 14,490,387</u>
Business-Type Activities:				
<i>Capital Assets, being depreciated:</i>				
Equipment	\$ 295,528	\$ 5,771	\$ -	\$ 301,299
Less accumulated depreciation	<u>(285,974)</u>	<u>(5,961)</u>		<u>(291,935)</u>
Business-Type Activities Capital Assets, Net	<u>\$ 9,554</u>	<u>\$ (190)</u>	<u>\$ -</u>	<u>\$ 9,364</u>

Depreciation expense in the amount of \$857,206 was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
Instruction	\$ 600,044
General Administration	85,721
Plant Operations and Maintenance	128,581
Unallocated	<u>42,860</u>
Total	<u>\$ 857,206</u>

6. INVENTORY

Inventory in the Food Service Fund at June 30, 2017 consisted of the following:

Food	\$ 10,528
Supplies	<u>1,702</u>
	<u>\$ 12,230</u>

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

7. LONG-TERM OBLIGATIONS

During the fiscal year ended June 30, 2017, the following changes occurred in long-term obligations:

<u>Governmental Activities:</u>	<u>Principal Outstanding July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2017</u>	<u>Amounts Due Within One Year</u>
Serial Bonds Payable	\$ 5,245,000	\$ -	\$ 740,000	\$ 4,505,000	\$ 755,000
Unamortized Premiums	416,814		56,200	360,614	56,200
Capital Leases Payable	130,000		65,000	65,000	65,000
Compensated Absences	477,372	26,215	32,369	471,218	26,090
Net Pension Liability	<u>6,708,849</u>	<u>1,948,367</u>		<u>8,657,216</u>	
Total Governmental Activity	<u>\$ 12,978,035</u>	<u>\$ 1,974,582</u>	<u>\$ 893,569</u>	<u>\$ 14,059,048</u>	<u>\$ 902,290</u>

Bonds Payable - Bonds and loans are authorized in accordance with State law by the voters of the District through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the District are as follows:

2003 General Obligation Bonds dated February 1, 2003 in the amount of \$220,000 due in annual installments through February 1, 2018 bearing an interest rate of 3.875%.

2006 Refunding Bonds dated December 1, 2015 in the amount of \$4,285,000 due in annual installments through March 1, 2024 bearing an interest rate of 4.00%.

Debt Service Requirements

Principal and interest due on bonds outstanding is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 755,000	\$ 179,925	\$ 934,925
2019	560,000	150,000	710,000
2020	580,000	127,600	707,600
2021	625,000	104,400	729,400
2022	650,000	79,400	729,400
2023-2024	<u>1,335,000</u>	<u>79,800</u>	<u>1,414,800</u>
	<u>\$ 4,505,000</u>	<u>\$ 721,125</u>	<u>\$ 5,226,125</u>

As of June 30, 2017 the District had no authorized but not issued bonds.

Compensated Absences

Compensated absences will be paid from the fund from which the employees' salaries are paid.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

7. LONG-TERM OBLIGATIONS (Continued)

Capital Leases

The District is leasing four school buses totaling \$65,000 under capital leases. The following is a schedule of the future minimum lease payments under these capital lease agreements:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 65,000	\$ 870	\$ 65,870
	<u>\$ 65,000</u>	<u>\$ 870</u>	<u>\$ 65,870</u>

8. OPERATING LEASES

At June 30, 2017, the District had operating lease agreements in effect for copiers.

Total operating lease payments made during the year ended June 30, 2017, and 2016 were \$58,511 and \$64,164 respectively. Future minimum lease payments are as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2018	\$ 36,229
June 30, 2019	29,457
June 30, 2020	16,456
June 30, 2021	1,659
Total future minimum lease payments	<u>\$ 83,801</u>

9. PENSION PLANS

Description of Plans – Substantially all of the School District's employees participate in one of the following pension plans which have been established by State statute, and are administered by the New Jersey Division of Pensions and Benefits (Division): the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS). IN addition, several School District employees participate in the Defined Contribution Retirement Program (DCRP), which is a defined contribution pension plan. This plan is administered by Prudential Financial for the Division. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits. P.O. Box 295, Trenton, New Jersey, 08625-0295.

Teachers' Pension and Annuity Fund (TPAF)

Plan Description - The Teachers' Pension and Annuity Fund is a cost-sharing multiple-employer defined benefit pension plan, with a special funding situation, which was established on January 1, 1955, under the provisions of N.J.S.A. 18A:66. The State of New Jersey (the "State") is responsible to fund 100% of the employer contributions, excluding any local employer early retirement incentive (ERI) contributions. The TPAF's designated purpose is to provide retirement, death and disability, and medical benefits to qualified members. Membership in the TPAF is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, who have titles that are unclassified, professional and certified. The TPAF's Board of Trustees is primarily responsible for the administration of the TPAF.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Teachers' Pension and Annuity Fund (TPAF) (Continued)

Vesting and Benefit Provisions – The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death and disability benefits. All benefits vest after ten years of service, except medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

The following represents the membership tiers for TPAF:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 21, 2010
4	Members who were eligible to enroll on or after May 21, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

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

Contributions - The contribution requirements of plan members are determined by N.J.S.A.18A:66 and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, effective October 1, 2011, the active member contribution rate was increased to 6.5%. An additional 1.0% increase is being phased-in over seven years beginning on July 1, 2012. The member contribution rate was 7.20% in State fiscal year 2017. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid.

For fiscal year 2016, the State's pension contribution was less than the actuarial determined amount.

Under current statute, all employer contributions are made by the State of New Jersey on-behalf of the School District and all other related non-contributing employers. No normal or accrued liability contribution by the School District has been required over the several preceding fiscal years. These on-behalf contributions by the State of New Jersey are considered a special funding situation, under the definition of GASB 68, *Accounting and Financial Reporting for Pensions*.

The School District was not required to make any contributions to the pension plan during the fiscal year ended June 30, 2017 because of the 100.00% special funding situation with the State of New Jersey.

Based on the most recent TPAF measurement date of June 30, 2016, the State's contractually required contribution, on-behalf of the School District, to the pension plan for the fiscal year ended June 30, 2017 was \$632,262 and was paid by April 1, 2016. School District employee contributions to the pension plan during the fiscal year ended June 30, 2017 were \$626,899.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Teachers' Pension and Annuity Fund (TPAF) (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Pension and Annuity Fund (TPAF) and additions to/deductions from the TPAF's fiduciary net position have been determined on the same basis as they are reported by the TPAF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At June 30, 2017, the School District was not required to report a liability for its proportionate share of the net pension liability because of a 100% special funding situation by the State of New Jersey.

For the year ended June 30, 2017, the School District recognized pension expense of \$4,692,495 and revenue of \$4,692,495 for support provided by the State. Although the School District does not report net pension liability or deferred outflows or inflows related to the TPAF, the following schedule illustrates the collective net pension liability and deferred items and the State's portion of the net pension liability associated with the School District.

The collective amounts are the total of all New Jersey local governments participating in the TPAF plan.

	<u>06/30/16</u>	<u>06/30/15</u>
Collective deferred outflows of resources	\$ 17,414,701,002	\$ 7,521,378,257
Collective deferred inflows of resources	134,532,594	554,399,005
Collective net pension liability (Non-Employer – State of New Jersey)	79,028,907,033	63,577,864,440
State's portion of the net pension liability that was associated with the School District	62,453,282	50,162,393
State's portion of the net pension liability that was associated with the School District as a percentage of the collective net pension liability	.0793900680%	.0793655108%

Actuarial assumptions – The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation: 2.5%
Salary Increases: Varies based on experience
Investment Rate of Return: 7.65%

Pre-retirement, post-retirement and disabled mortality rates were based on the experience of TPAF members reflecting mortality improvement on a generational basis based on a 60-year average of Social Security data from 1953 to 2013.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) 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.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Teachers' Pension and Annuity Fund (TPAF) (Continued)

Long-Term Expected Rate of Return (Continued) - Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	05.00%	0.39%
Government Bonds	01.50%	1.28%
Credit Bonds	13.00%	2.76%
Mortgages	02.00%	2.38%
Inflation-Indexed Bonds	01.50%	1.41%
High Yield Bonds	02.00%	4.70%
Equity Market	26.00%	5.14%
Foreign-Developed Equity	13.25%	5.91%
Emerging Markets Equity	06.50%	8.16%
Private Real Estate Property	05.25%	3.64%
Timber	01.00%	3.86%
Farmland	01.00%	4.39%
Private Equity	09.00%	8.97%
Commodities	00.50%	2.87%
Hedge Funds – MultiStrategy	05.00%	3.70%
Hedge Funds – Equity Hedge	03.75%	4.72%
Hedge Funds - Distressed	03.75%	3.49%
	100.00%	

Discount rate. The discount rate used to measure the State's total pension liability was 3.22% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, 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 (State of New Jersey) will be made based on the contribution rate in the most recent fiscal year. The state contributed 30% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2029. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2029, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Teachers' Pension and Annuity Fund (TPAF) (Continued)

Sensitivity of the School District's proportionate share of the net pension liability to changes in the discount rate. As previously mentioned, TPAF has a special funding situation where the State pays 100% of the School District's annual required contribution. As such, the proportionate share of the net pension liability as of June 30, 2016, the pension plans measurement date, attributable to the School District is \$0.00, and the State of New Jersey's proportionate share of the net pension liability, attributable to the School District, using a discount rate of 4.13%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.13%) or 1 percentage point higher (5.13%) than the current rate:

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
District's proportionate share of the net pension liability	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the School District	<u>74,583,175</u>	<u>62,453,282</u>	<u>52,547,659</u>
	<u><u>\$ 74,583,175</u></u>	<u><u>\$ 62,453,282</u></u>	<u><u>\$ 52,547,659</u></u>

Detailed information about the pension plan's sensitivity of the collective net pension liability to changes in the discount rate is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report.

Public Employees' Retirement System (PERS)

Plan Description - The Public Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan which was established on January 1, 1955, under the provisions of N.J.S.A. 43:15A. The PERS designated purpose is to provide retirement, death and disability, and medical benefits to certain qualified members. Membership in the PERS is mandatory for substantially all full-time employees of the School District, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund. The PERS's Board of Trustees is primarily responsible for the administration of the PERS.

Vesting and Benefit Provisions - The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 21, 2010
4	Members who were eligible to enroll on or after May 21, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit, and tier 5 before age 65 with 30 or more years of service credit. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age for his/her respective tier. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for their respective tier.

Contributions - The contribution requirements of plan members are determined by N.J.S.A 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, effective October 1, 2011, the active member contribution rate was increased to 6.5%. An additional 1.0% increase is being phased-in over seven years beginning on July 1, 2012. The member contribution rate was 7.20% in State fiscal year 2017. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 336, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The School District's contribution amounts are based on an actuarially determined rate which included the normal cost and unfunded accrued liability.

The School District's contractually required contribution rate for the fiscal year ended June 30, 2017 was 14.04% of the School District's covered payroll. This amount was actuarially determined as the amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, including an additional amount to finance any unfunded accrued liability.

Based on the most recent PERS measurement date of June 30, 2016, the School Districts contractually required contribution to the pension plan for the fiscal year ended June 30, 2017 was \$259,679 and was paid by April 1, 2017. School District employee contributions to the pension plan during the fiscal year ended June 30, 2017 were \$128,241.

The School District is billed annually for its normal contribution plus any accrued liability. The School District's contributions, equal to the required contribution for each fiscal year, were as follows:

<u>Fiscal Year</u>	<u>Normal Contributions</u>	<u>Adjustment</u>	<u>Accrued Liability</u>	<u>Non Contributory Life</u>	<u>Total Liability Paid by District</u>
2017	\$ 40,619	\$ -	\$ 206,716	\$ 12,344	\$ 259,679
2016	43,499	-	200,384	13,058	256,941
2015	40,559	-	187,615	15,454	243,628

Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

At June 30, 2017, the School District reported a liability of \$8,657,216 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The School District's proportion of the of the net pension liability was based on a projection of the School District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

For the year ended June 30, 2017, the School District recognized pension expense of \$795,939. At June 30, 2017, the School District reported a liability of \$8,657,216 for its proportionate share of the PERS net pension liability and deferred outflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 160,998	\$ -
Changes of assumptions	1,793,313	
Net Difference between projected and actual earnings on pension plan investments	330,108	
Changes in proportion	41,752	170,241
District contributions subsequent to the measurement date	250,014	
Total	\$ 2,576,185	\$ 170,241

\$250,014 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, 2017, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net 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:

For the year ended:	Net Deferred Outflows of Resources
2017	\$ 449,029
2018	449,029
2019	556,520
2020	458,453
2021	242,899
Total	\$ 2,155,930

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

The amortization of the above other deferred outflows of resources and deferred inflows of resources related to pensions will be over the following number of years:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Changes of assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
Net Difference between projected and actual earnings on pension plan investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	-	5.00
Changes in proportion		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57

Additional Information

Collective balances at June 30, 2016 and 2015 are as follows:

	<u>6/30/2016</u>	<u>6/30/2015</u>
Collective deferred outflows of resources	\$ 8,685,338,380	\$ 3,578,755,666
Collective deferred inflows of resources	\$ 870,133,595	\$ 993,410,455
Collective net pension liability	\$ 29,617,131,759	\$ 22,447,996,119
District's Proportion	.0292304339%	.0298861806%

Actuarial assumptions – The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate: 3.08%
Salary Increases:
Through 2025: 1.65-4.15% based on age
Thereafter: 2.65-5.15% based on age
Investment Rate of Return: 7.65%

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 3 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) 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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	05.00%	00.87%
U.S. Treasuries	01.50%	01.74%
Investment Grade Credit	08.00%	01.79%
Mortgages	02.00%	01.67%
High Yield Bonds	02.00%	04.56%
Inflation Indexed Bonds	01.50%	03.44%
Broad US Equities	26.00%	08.53%
Developed Foreign Equities	13.25%	06.83%
Emerging Market Equities	06.50%	09.95%
Private Equity	09.00%	12.40%
Hedge Funds/Absolute Ret	12.50%	04.68%
Real Estate (Property)	02.00%	06.91%
Commodities	00.50%	05.45%
Global Debt ex US	05.00%	-0.25%
REIT	05.25%	05.63%
	100.00%	

Discount rate. The discount rate used to measure the State's total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, 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.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

9. PENSION PLANS (CONTINUED)

Public Employees' Retirement System (PERS) (Continued)

Discount rate (Continued) - The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the School District's proportionate share of the net pension liability to changes in the discount rate. The following presents the School District's proportionate share of the net pension liability measured as of June 30, 2016, calculated using the discount rate of 3.98%, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.98%) or 1 percentage point higher (4.98%) than the current rate:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
District's proportionate share of the net pension liability	\$ 10,608,408	\$ 8,657,216	\$ 7,046,338

Pension Plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report.

Defined Contribution Retirement Program (DCRP)

The Defined Contribution Retirement Program is a cost-sharing multiple-employer defined contribution pension plan which was established on July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A.43:15C-1 et. seq), and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. The Defined Contribution Retirement Program Board oversees the DCRP, which is administered for the Divisions of Pensions and Benefits by Prudential Financial. The DCRP provides eligible members, and their beneficiaries, with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N.J.S.A. 43:15C-1 et. seq.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the School District's contribution amounts for each pay period are transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

The School District's contributions, equal to the required contribution for each fiscal year, were as follows:

<u>Year</u>	<u>Employer Liability</u>	<u>Paid by School District</u>
2017	\$ 19,957	\$ 19,957
2016	18,943	18,943
2015	14,824	14,824

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

10. STATE POST-RETIREMENT MEDICAL BENEFITS

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund (TPAF) and the Public Employees' Retirement System (PERS), respectively, to fund post-retirement medical benefits for those state employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of post-retirement medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees. As of June 30, 2016, there were 110,512 retirees receiving post-retirement medical benefits, and the State contributed \$1.37 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid \$231.1 million toward Chapter 126 benefits for 20,045 eligible retired members in Fiscal Year 2016.

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at:

<http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>

11. ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2017, the School District has recognized as revenues and expenditures on-behalf payments made by the state for normal retirement costs, post-retirement medical costs and long term disability insurance related to TPAF, in the fund statements. The amounts recognized as revenues and expenditures in the fund financial statements for normal costs, post-retirement medical costs and long term disability insurance were \$899,263, \$749,291, and \$805, respectively. In addition, \$644,447 on-behalf payments were made by the state for the employer's share of social security contributions for TPAF members, as calculated on their base salaries.

12. 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; employee health and accident claims; and natural disasters. The District has chosen to purchase insurance to transfer risk to outside parties.

Property and Liability Insurance – The District maintains commercial insurance for all risks of loss, including property, liability, employee health, accident insurance and public official surety bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

A complete schedule of insurance coverage can be found in the "Statistical Section" of this report.

New Jersey Unemployment Compensation Insurance - The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Business 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.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

12. RISK MANAGEMENT (Continued)

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 four years:

<u>Fiscal Year</u>	<u>District Contributions</u>	<u>Employee Contributions</u>	<u>Interest Earned</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>				
2016-2017	\$	\$	33,424	\$	428	\$	22,092	\$	127,510
2015-2016	10,000	31,660	283	11,336	115,750				
2014-2015	5,280	30,511	165	50,342	85,143				
2013-2014	10,000	29,852	155	19,306	99,529				
2012-2013	10,000	29,776	291	44,048	78,828				

13. DEFERRED COMPENSATION

The School District offers its employees a choice of various deferred compensation plans created in accordance with Internal Revenue Code Section 403(b) and 457. The plans, available to all permanent School District employees, permit participants to defer a portion of their current salary to future years. Participation in the plans is optional. The deferred compensation is not available to the participants until termination, retirement, death, or an unforeseeable emergency occurs. The plan assets are held in trust for the benefit of the employee and are administered by a third party therefore they are not reflected on the financial statements of the School District.

14. COMPENSATED ABSENCES

The School 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.

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

The liability for vested compensated absences is recorded within those funds as the benefits accrued to the employees. As of June 30, 2017, the liability for compensated absences in the governmental fund was \$471,218.

15. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables/payables are recorded to cover temporary cash shortages and/or timing differences in the respective funds. There are no interfund balances that are not expected to be repaid by June 30, 2018. The following interfund balances were recorded on the various balance sheets as of June 30, 2017:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 14,365	\$ -
Special Revenue		8,365
Fiduciary		6,000
	<u>\$ 14,365</u>	<u>\$ 14,365</u>

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

16. CONTINGENCIES

The School District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School District may be required to reimburse the grantor government.

At June 30, 2017, significant amounts of grant expenditures have not been audited by the granting agency, but the School District believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the School District. Additionally, unearned revenues are recognized in those funds that have received grant monies in advance of future, reimbursable expenditures.

17. TAX ABATEMENTS

As defined by the Governmental Accounting Standards Board (GASB), a tax abatement is an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. School districts are not authorized by New Jersey statute to enter into tax abatement agreements. However, the county or municipality in which the school district is situated may have entered into tax abatement agreements, and that potential must be disclosed in these financial statements. If the county or municipality entered into tax abatement agreements, those agreements will not directly affect the school district's local tax revenue because N.J.S.A. 54:4-75 and N.J.S.A. 54:4-76 require that amounts so forgiven must effectively be recouped from other taxpayers and remitted to the school district.

For a local school district board of education or board of school estimate that has elected to raise their minimum tax levy using the required local share provisions at N.J.S.A. 18A:7F-5(b), the loss of revenue resulting from the municipality or county having entered into a tax abatement agreement is indeterminate due to the complex nature of the calculation of required local share performed by the New Jersey Department of Education based upon district property value and wealth.

The Township of Harrison (Municipality) provides for long-term tax exemptions, as authorized by New Jersey State Statutes. N.J.S.A. 40A:20-1 et seq. sets forth the criteria and mechanism by which property taxes can and are abated. The exemptions provided by the Municipality are for affordable housing and other permitted purposes. Taxes abated include municipal, local school, and county taxes.

The assessed value on these tax exemption properties amounted to \$20,931,700 which would have resulted in 2016 taxes billed in full of \$625,858. A portion of the \$625,858 abatement would have been allocated to the District.

18. DEFICIT UNASSIGNED FUND BALANCE

The School District has a deficit unassigned fund balance of \$192,902, in the General Fund as of June 30, 2017 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, school districts must record the delayed one or more June state aid payments as revenues, for budget purposes only, in the current school budget year. The statute 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 June state aid payments in the subsequent fiscal year, the School District cannot recognize the June state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the June state aid payment, the general and special revenue fund balance deficit does not alone indicate that the School District is facing financial difficulties.

Pursuant to N.J.S.A. 18A:22-44.2 any negative unassigned general fund balance that is reported as a direct result from a delay in the June payments 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 School District deficit in the GAAP funds statements of \$192,902 is equal to or less than the June state aid payment.

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

18. DEFICIT UNASSIGNED FUND BALANCE (CONTINUED)

The School District also has an accumulated deficit of \$4,566,859 in the Capital Projects Fund as of June 30, 2017. This deficit is the result of the School District utilizing temporary financing to fund expenditures for certain capital projects. As the School District permanently finances these appropriations the School District will realize as revenues the proceeds of the financing. This deficit does not indicate that the School District is facing financial difficulties and is a permitted practice under generally accepted accounting principles.

19. DEFICIT UNRESTRICTED NET POSITION

As of June 30, 2017, a deficit of \$7,228,364 existed in the Unrestricted Net position of the Governmental Activities. A reconciliation of Unreserved Fund Balance reported on Exhibit B-1 to Unrestricted Net position reported on Exhibited A-1 as follows:

Balances June 30, 2017	
Fund Balance (Deficit)	
(Exclusive of Capital Projects and Debt Service Funds):	
Fund Balance – Unassigned	\$ (192,902)
Liabilities:	
Accrued Interest Payable	(62,958)
Net Pension Differences	(6,501,286)
Compensated Absences	<u>(471,218)</u>
Unrestricted Net position (Deficit)	\$ <u><u>(7,228,364)</u></u>

20. FUND BALANCES

RESTRICTED

As stated in Note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the School District's fund balance are summarized as follows:

General Fund:

Excess Surplus – In accordance with N.J.S.A. 18A:7F-7, as amended, the designation of restricted fund balance - excess surplus is the result of a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to restrict general fund, fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2017 is \$624,982 presented on the budgetary basis of accounting (Exhibit C-1). Additionally, \$630,440 of excess fund balance generated during the 2015-2016 fiscal year has been restricted and designated for utilization in the 2017-2018 budget.

Capital Reserve – As of June 30, 2017, the balance in the capital reserve account is \$6,602 and is restricted for future capital outlay expenditures for capital projects in the School District's approved Long Range Facilities Plan.

Maintenance Reserve Account – As of June 30, 2017, the balance in the maintenance reserve account is \$301,287. These funds are restricted for the required maintenance of school facilities in accordance with the Educational Facilities Construction and Financing Act (EFCFA) (N.J.S.A. 18A:7G-9) as amended by P.L. 2004, c. 73 (S1701).

**Township of Harrison School District
Notes to Basic Financial Statements
For the Fiscal Year Ended June 30, 2017**

19. FUND BALANCES (CONTINUED)

ASSIGNED

As stated in Note 1, the assigned fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. Specific assignments of the School District's fund balance are summarized as follows:

General Fund:

Other Purposes – At June 30, 2017 the School District has \$238,943 of encumbrances outstanding for purchase orders and contracts signed by the School District, but not completed, as of the close of the fiscal year.

Debt Service Fund:

Designated for Subsequent Year's Expenditures – The School District has appropriated \$6,720 anticipated revenue for the fiscal year ending June 30, 2018.

UNASSIGNED

As stated in Note 1, the unassigned fund balance classification represents fund balance that has not been restricted, committed, or assigned to specific purposes. The School District's unassigned fund balance is summarized as follows:

General Fund – As of June 30, 2017, the unassigned fund balance of the general fund was a deficit of (\$192,902). The deficit is a result of the delay in the recording of the payment of state aid until the following fiscal year (See Note 18).

Capital Projects Fund – As of June 30, 2017, the unassigned fund balance of the capital projects fund was a deficit of (\$4,566,859). The deficit is a result of temporary financing (See Note 18).

Debt Service Fund – As of June 30, 2017, the unassigned fund balance of the debt service fund was \$1.

APPENDIX C

Form of Bond Counsel's Opinion

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November 29, 2017

The Board of Education of the Township of Harrison,
in the County of Gloucester, New Jersey
120 North Main Street
Mullica Hill, New Jersey

**RE: \$4,725,000 THE BOARD OF EDUCATION OF THE TOWNSHIP OF
HARRISON, IN THE COUNTY OF GLOUCESTER, NEW JERSEY,
SCHOOL BONDS, SERIES 2017**

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the authorization, issuance, sale and delivery of the above-referenced obligations ("Bonds") by the Board of Education of the Township of Harrison, County of Gloucester, New Jersey ("Board" when referring to the governing body and "School District" when referring to the legal entity governed by the Board).

The Bonds are being issued pursuant to: (i) Chapter 24 of Title 18A of the New Jersey Statutes, as amended and supplemented ("School Bond Law"); and (ii) a resolution duly adopted by the Board on September 25, 2017 ("Resolution"). The Bonds are authorized by a proposal adopted by the Board on June 20, 2016 ("Proposals") and approved by the voters of the School District at a special election held on September 27, 2016.

The Bonds are dated their date of delivery and mature on September 1 in each of the years and in the respective principal amounts set opposite each such year in the table below and bear interest at the rates per annum below, payable semi-annually on March 1 and September 1, commencing September 1, 2018, in each year until maturity or earlier redemption.

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2018	\$200,000	2.000%	2026	\$400,000	2.250%
2019	200,000	2.000	2027	400,000	2.375
2020	200,000	2.000	2028	400,000	2.375
2021	200,000	2.000	2029	400,000	3.000
2022	200,000	2.000	2030	400,000	3.000
2023	200,000	2.000	2031	400,000	3.000
2024	400,000	2.000	2032	325,000	3.000
2025	400,000	2.125			

The Bonds are issued in fully registered book-entry-only form without coupons and are subject to redemption prior to their stated maturity dates on the terms and conditions set forth therein.

COUNSEL WHEN IT MATTERS.SM

Mount Laurel, New Jersey | Hamilton, New Jersey | Atlantic City, New Jersey



The Bonds are being issued to provide funds which will be used to: (i) permanently finance a portion of the costs of the capital improvements set forth in the Proposal by the repayment of the School District's Temporary Note, Series 2017, at maturity; (ii) permanently finance a portion of the costs of the capital improvements set forth in the Proposal for which obligations have been authorized, but not yet issued; and (iii) pay certain costs and expenses incidental to the issuance and delivery of the Bonds.

As the basis for the opinion set forth below, we have examined such matters of law as we have deemed necessary including, inter alia, the Constitution of the State of New Jersey, the Internal Revenue Code of 1986, as amended ("Code"), and the School Bond Law. We have also examined such documents, certifications and instruments as we have deemed necessary including, without limitation, the Resolution, a certification of the officials of the School District having responsibility for issuing the Bonds given pursuant to the Code ("Non-Arbitrage Certificate"), and the other certifications, opinions and instruments listed in the closing agenda prepared in connection with the settlement for the Bonds.

In rendering the following opinion, we have relied upon the authenticity, truthfulness and completeness of all documents, certifications, instruments and opinions examined.

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

1. The Bonds are legal, valid and binding obligations of the School District enforceable in accordance with the terms thereof, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium or other laws or equitable principles affecting the enforcement of creditors' rights generally ("Creditors' Rights Limitations").

2. For the payment of principal of and interest on the Bonds, the School District has the power and is obligated, to the extent payment is not otherwise provided, to levy ad valorem taxes upon all taxable real property within the School District without limitation as to rate or amount, except to the extent that enforcement thereof may be affected by Creditors' Rights Limitations..

3. Interest on the Bonds will not be includible for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Code and will not constitute a tax preference item for purposes of the alternative minimum tax imposed on individuals and corporations.

The adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the "adjusted current earnings" of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction).

Interest on tax-exempt obligations, including the Bonds, is not excludable in calculating certain corporation's "adjusted current earnings." Accordingly, a portion of the interest on the



Bonds received or accrued by a corporation that owns the Bonds is included in computing such corporation's alternative minimum taxable income for such year.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the "dividend equivalent amount" for the taxable year. Interest on the Bonds received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the "dividend equivalent amount" of such corporation.

In addition, passive "investment" income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

In rendering this opinion, we have assumed continuing compliance by the School District that it will comply with the applicable requirements of the Code, including requirements relating to, inter alia, the use and investment of proceeds of the Bonds and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the School District to comply with such covenants could result in the interest on the Bonds being subject to federal income tax from the date of issue. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the tax-exempt status of the interest on the Bonds.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers including, without limitation, certain holders of an interest in a financial asset securitization investment trust, property and casualty insurance companies, controlled foreign corporations, individual recipients of Social Security or Railroad Retirement benefits, individuals who otherwise qualify for the earned income credit and to individuals and families that qualify for a premium assistance credit amount under Section 36B of the Code. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Bonds will constitute disqualified income for this purpose. The Code also provides that the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Bonds is included in determining the modified adjusted gross income of the taxpayer. Section 36B of the Code provides that the amount of the premium assistance credit amount is in part determined by household income. Section 36B(d) of the Code provides that household income consists of the "modified adjusted gross income" of the taxpayer and certain other individuals. "Modified adjusted gross income" means adjusted gross income increased by certain amounts, including interest received or accrued by the taxpayer which is exempt from tax, such as the interest on the Bonds.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. The School District has designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Eighty percent (80%) of the interest



expense deemed incurred by banks, thrift institutions and other financial institutions to purchase or carry "qualified tax-exempt obligations" is deductible.

Owners of the Bonds should consult their own tax advisers as to the applicability and effect on their federal income taxes of the alternative minimum tax, the branch profits tax and the tax on passive investment income of S corporations, as well as the applicability and effect of any other collateral federal income tax consequences.

4. Interest on the Bonds and any gain from the sale thereof is not included in the gross income of the owners thereof under the New Jersey Gross Income Tax Act, as enacted and construed on the date hereof.

We express no opinion as to any matter not set forth in the numbered paragraphs above including, without limitation, any financial or other information which has been or may be supplied to purchasers of the Bonds.

The opinions expressed in the numbered paragraphs above are being rendered on the basis of federal law and the laws of the State of New Jersey, as presently enacted and construed, and we assume no responsibility to advise any party as to any changes in law or fact subsequent to the date hereof.

This is only an opinion letter and not a warranty or guaranty of the matters discussed above.

This letter is being provided solely for the benefit of the School District and may not be relied upon by any other person, party, firm or organization without our prior written consent.

Very truly yours,

APPENDIX D

Form of Continuing Disclosure Agreement

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CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT ("Disclosure Agreement") is made on this 29th day of November, 2017 by and between the Board of Education of the Township of Harrison, County of Gloucester, New Jersey ("Board" when referring to the governing body and "School District" when referring to the legal entity governed by the Board) and Phoenix Advisors, LLC ("Dissemination Agent"). This Disclosure Agreement is entered into in connection with the issuance and sale by the School District of its School Bonds, Series 2017, in the aggregate principal amount of \$4,725,000 ("Bonds").

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the holders and beneficial owners of the Bonds (collectively, the "Bondholders") and in compliance with the provisions of Rule 15c2-12(b)(5), promulgated by the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934 ("Exchange Act"), as it may be amended and supplemented from time to time, including administrative or judicial interpretations thereof, as it applies to the Bonds ("Rule").

SECTION 2. Definitions. Capitalized terms not otherwise defined herein shall, for purposes of this Disclosure Agreement, have the following meanings:

"Annual Report" shall mean the School District's Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which the School District or the Dissemination Agent is authorized by law or contract to remain closed.

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

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

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

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

"Opinion of Counsel" shall mean a written opinion of counsel expert in federal securities law acceptable to the School District.

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

SECTION 3. Provision of Annual Report.

(a) The School District shall not later than 210 days after the end of its fiscal year (currently June 30) during which any of the Bonds remain outstanding provide to the Dissemination Agent, the School District's Annual Report prepared for the preceding fiscal year of the School District (commencing for the fiscal year ending June 30, 2018). Each Annual Report provided to the Dissemination Agent by the School District shall comply with the requirements of Section 4 of this Disclosure Agreement but may be submitted as a single document or as separate documents comprising a package and may cross-reference other information submitted to the National Repository. Any and all items that must be included in the Annual Report may be incorporated by reference from other information that is available to the public on EMMA, or that has been filed with the SEC.

(b) The Dissemination Agent, promptly (within ten (10) Business Days) after receiving the Annual Report from the School District, shall submit each Annual Report received by it to the National Repository and thereafter shall file a written report with the School District certifying that the Annual Report has been provided pursuant to this Agreement, stating the date it was provided to the National Repository.

(c) If the School District fails to provide the Annual Report to the Dissemination Agent by the dates required in subsection (a) of this Section 3, the Dissemination Agent shall send a notice to the School District advising of such failure. Whether or not such notice is given or received, if the School District thereafter fails to submit the Annual Report to the Dissemination Agent within fifteen (15) Business Days after the Annual Report was due pursuant to the provisions of subsection (a) of this Section 3, the Dissemination Agent shall promptly send a notice to the National Repository in substantially the form attached as Exhibit "A" hereto.

SECTION 4. Contents of Annual Report. Annual Report shall mean: (i) the School District's annual financial statements, substantially in the form set forth in Appendix B to the Official Statement dated November 14, 2017, audited by an independent certified public accountant, provided that the annual audited financial statements of the School District may be submitted separately from the balance of the Annual Report and later than the date required in Section 3(a) hereof for the filing of the Annual Report if the annual audited financial statements are not available by that date, but only if the unaudited financial statements of the School District are included in the Annual Report; and (ii) the general financial information and operating data of the School District consistent with the information set forth in Appendix A to the Official Statement. Each annual audited financial statement will conform to generally accepted accounting principles applicable to governmental units or will be prepared in accordance with the standards of the Governmental Accounting Standards Board and requirements of the New Jersey Department of Education as such principles, standards and requirements exist at the time of the filing of the particular annual audited financial statements.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following listed events ("Listed Events"):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;

- (5) substitution of credit or liquidity providers or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) modifications to the rights of Bondholders, if material;
- (8) Bond calls (excluding mandatory sinking fund redemptions), if material, or tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the 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; and
- (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) The School District shall within ten (10) Business Days of the occurrence of any of the Listed Events, notify the Dissemination Agent in writing to report the event pursuant to subsection (c) of this Section 5. In determining the materiality of a Listed Event specified in clauses (2), (7), (8), (10), (13) or (14) of subsection (a) of this Section 5, the School District may, but shall not be required to, rely conclusively on an Opinion of Counsel.

(c) If the Dissemination Agent has been instructed by the School District to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the National Repository within five (5) Business Days of the receipt of such instruction, with a copy of such notice provided by the Dissemination Agent to the School District.

SECTION 6. Termination of Disclosure Agreement. This Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or when the School District is no longer an Obligated Person (as defined in the Rule) with respect to the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the School District and the Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver (supported by an Opinion of Counsel) is: (a) made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the School District, or type of business conducted; (b) the undertaking, as amended or waived, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver does not materially impair the interests of Bondholders. The School District shall give notice of such amendment or waiver to this Disclosure Agreement to the Dissemination Agent and the Dissemination Agent shall file such notice with the National Repository.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the School District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the School District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, it shall not have any obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. Default and Remedies. In the event of a failure of the School District to comply with any provision of this Disclosure Agreement, the Dissemination Agent or any Bondholder may (and, at the written request of Bondholders of at least twenty-five percent (25%) of the outstanding Bonds and provision of indemnity and security for expenses satisfactory to it, shall) take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the School District to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the School District to comply with this Disclosure Agreement shall be an action to compel performance. A failure of the School District to comply with any provision of this Disclosure Agreement shall not be deemed to be a default under the Bonds.

SECTION 10. Notices. All notices and other communications required or permitted under this Disclosure Agreement shall be in writing and shall be deemed to have been duly given, made and received only when delivered (personally, by recognized national or regional courier service, or by other messenger, for delivery to the intended addressee) or when deposited in the United States mail, registered or certified mail, postage prepaid, return receipt requested, addressed as set forth below:

(i) If to the School District:

The Board of Education of the Township of Harrison,
in the County of Gloucester, New Jersey
120 North Main Street
Mullica Hill, New Jersey 08062
Attention: Robert E. Scharle',
Business Administrator/Board Secretary

(ii) If to the Dissemination Agent:

Phoenix Advisors, LLC
4 West Park Street
Bordentown, New Jersey 08505
Attention: Sherry L. Tracey, Senior Managing Director

Any party may alter the address to which communications are to be sent by giving notice of such change of address in conformity with the provision of this Section 11 for the giving of notice.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the School District, the Dissemination Agent and the Bondholders, and nothing herein contained shall confer any right upon any other person.

SECTION 12. Submission of Information to MSRB. Any Continuing Disclosure Information filed with the MSRB in accordance with this Disclosure Agreement shall be in electronic format as shall be prescribed by the MSRB or such other format as the Rule may require or permit, and shall be accompanied by such identifying information as shall be prescribed by the MSRB or as may otherwise be required by the Rule.

SECTION 13. Compensation. The School District shall pay the Dissemination Agent from time to time reasonable compensation for all services rendered under this Disclosure Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under this Disclosure Agreement.

SECTION 14. Successors and Assigns. All of the covenants, promises and agreements contained in this Disclosure Agreement by or on behalf of the School District or by or on behalf of the Dissemination Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

SECTION 15. Headings for Convenience Only. The descriptive headings in this Disclosure Agreement are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions hereof.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 17. Severability. If any provision of this Disclosure Agreement, or the application of any such provision in any jurisdiction or to any person or circumstance, shall be held invalid or unenforceable, the remaining provisions of this Disclosure Agreement, or the application of such provision as is held invalid or unenforceable in jurisdictions or to persons or circumstances other than those in or as to which it is held invalid or unenforceable, shall not be affected thereby.

SECTION 18. Governing Law. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey.

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IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

**THE BOARD OF EDUCATION OF THE TOWNSHIP
OF HARRISON, IN THE COUNTY OF
GLOUCESTER, NEW JERSEY**

By: _____
ROBERT E. SCHARLÉ,
Business Administrator/Board Secretary

PHOENIX ADVISORS, LLC,
as Dissemination Agent

By: _____
SHERRY L. TRACEY, Senior Managing Director

EXHIBIT A
NOTICE TO THE NATIONAL REPOSITORY OF
FAILURE TO FILE AN ANNUAL REPORT

Name of Issuer: The Board of Education of the Township of Harrison, in the County of Gloucester, New Jersey

Name of Bond Issues Affected: \$4,725,000 The Board of Education of the Township of Harrison, in the County of Gloucester, New Jersey, School Bonds, Series 2017

Date of Issuance of the Affected Bond issue: November 29, 2017

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above named Bond issue as required by Section 3 of the Continuing Disclosure Agreement dated November 29, 2017 between the School District and the Dissemination Agent. [TO BE INCLUDED ONLY IF THE DISSEMINATION AGENT HAS BEEN ADVISED OF THE EXPECTED FILING DATE - The Issuer anticipates that such Annual Report will be filed by _____.]

Dated:

PHOENIX ADVISORS, LLC,
Dissemination Agent

cc: School District

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