

OFFICIAL STATEMENT DATED JANUARY 23, 2018

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

\$13,600,000

**TOWNSHIP OF READINGTON
IN THE COUNTY OF HUNTERDON,
NEW JERSEY**

BOND ANTICIPATION NOTES, SERIES 2018A**Coupon: 2.00% Yield: 1.52%****CUSIP: 755664JV2****Dated: January 30, 2018****Due: January 29, 2019****\$6,278,000**

**TOWNSHIP OF READINGTON
IN THE COUNTY OF HUNTERDON,
NEW JERSEY**

BOND ANTICIPATION NOTES, SERIES 2018B**Coupon: 1.50% Yield: 1.30%****CUSIP: 755664JW0****Dated: January 30, 2018****Due: May 1, 2018**

The \$13,600,000 Bond Anticipation Notes, Series 2018A (the "2018A Notes"), and \$6,278,000 Bond Anticipation Notes, Series 2018B (the "2018B Notes" and, together with the 2018A Notes, the "Notes") are being issued by the Township of Readington, in the County of Hunterdon, New Jersey (the "Township"). See "AUTHORIZATION AND PURPOSE" herein.

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

The Notes are not subject to redemption prior to their stated maturities. See "DESCRIPTION OF THE NOTES - Redemption" herein.

The Notes will be issued in the form of one certificate for the aggregate principal amount of the Notes of each series and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. The principal of and interest due on the Notes shall be paid on the maturity dates thereof to DTC by the Township, as Paying Agent. Interest on the Notes will be credited to the participants of DTC as listed on its records as of the close of business on one business day prior to the respective maturity date (the "Record Date" for the payment of the interest on the Notes). See "DESCRIPTION OF THE NOTES - Book-Entry-Only System" herein.

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, to obtain information essential to the making of an informed investment decision.

The Notes are offered when, as and if issued, and delivered to the Underwriters (as defined herein), subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey, and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey, is serving as Financial Advisor to the Township in connection with the issuance of the Notes. It is expected that the Notes will be available for delivery through DTC in New York, New York on or about January 30, 2018.

Underwriter for 2018A Notes
See "Underwriters" herein

Underwriter for 2018B Notes
TD Securities (USA) LLC.

**TOWNSHIP OF READINGTON,
IN THE COUNTY OF HUNTERDON, NEW JERSEY**

MAYOR

Benjamin A. Smith

DEPUTY MAYOR

Betty Ann Fort

COMMITTEE MEMBERS

John Albanese
M. Elizabeth Duffy
Jonathan Heller

CHIEF FINANCIAL OFFICER

Thomas J. Carro

TOWNSHIP ADMINISTRATOR/CLERK

Vita Mekovetz

AUDITOR

Lerch, Vinci & Higgins LLP
Fair Lawn, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

ATTORNEY

Sharon A. Dragan, Esq.
Princeton, New Jersey

BOND COUNSEL

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

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

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

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document, as the same may be supplemented or amended by the Township from time to time (collectively, the "Official Statement"), may be treated as a "Final Official Statement" with respect to the Notes described herein that is deemed final as of the date hereof (or of any such supplement or amendment) by the Township.

McManimon, Scotland & Baumann, LLC has not participated in the preparation of the financial or statistical information contained in this Official Statement nor have they verified the accuracy or completeness thereof, and, accordingly, they express no opinion with respect thereto.

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 Notes in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale.

CUSIP is a registered trademark of the American Bankers Association. The CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed on the cover hereof are being provided solely for the convenience of Noteholders only at the time of issuance of the Notes and the Township does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP numbers are subject to being changed after the issuance of the Notes as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Notes.

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**OFFICIAL STATEMENT
OF
THE TOWNSHIP OF READINGTON,
IN THE COUNTY OF HUNTERDON, NEW JERSEY**

**\$13,600,000
BOND ANTICIPATION NOTES, SERIES 2018A**

AND

**\$6,278,000
BOND ANTICIPATION NOTES, SERIES 2018B**

INTRODUCTION

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by the Township of Readington, in the County of Hunterdon, New Jersey (the "Township") in connection with the sale and issuance of its \$13,600,000 Bond Anticipation Notes, Series 2018A (the "2018A Notes"), and \$6,278,000 Bond Anticipation Notes, Series 2018B (the "2018B Notes" and, together with the 2018A Notes, the "Notes"). This Official Statement has been executed by and on behalf of the Township by its Chief Financial Officer, and its distribution and use in connection with the sale of the Notes has been authorized by the Township.

This Official Statement is "deemed final," as of its date, within the meaning of Rule 15c2-12 of the Securities and Exchange Commission.

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

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

DESCRIPTION OF THE NOTES

General Description

The Notes will be dated, will mature and will bear interest payable at maturity as set forth on the cover page hereof. Interest on the Notes is calculated on the basis of a 30-day month and a 360-day year.

The Notes may be purchased in book-entry form in the principal amount of \$5,000 and \$1,000, where necessary, through book-entries made on the books of The Depository Trust Company, New York, New York ("DTC") and its participants. The principal of and interest due on the Notes will be paid to DTC by the Township as paying agent (the "Paying Agent"). Principal of and interest due on the Notes will be credited to the Participants of DTC as listed on the records of DTC as of the close of business one day prior to the maturity date (the "Record Date" for the payment of principal and interest on the Notes). Both the principal of and interest due on the Notes will be payable in lawful money of the United States of America.

Redemption

The Notes are not subject to redemption prior to their stated maturities.

Book-Entry-Only System

The description which follows of the procedures and recordkeeping with respect to beneficial ownership interest in the Notes, payment of principal and interest and other payments on the Notes to Direct and Indirect Participants (each as defined below) or Beneficial Owners (defined below), confirmation and transfer of beneficial ownership interests in the Notes and other related transactions by and between DTC, Direct Participants and Beneficial Owners, is based on certain information furnished by DTC to the Township. DTC will act as securities depository for the Notes. The Notes will be issued as a fully-registered security 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 Note certificate will be issued for the maturity of each series of the Notes, in the aggregate principal amount of such series, and will be deposited with DTC.

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

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of the Notes ("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 Notes 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 the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and its' 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 Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes is credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Township 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 Notes are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, if any, and principal and interest payments on the Notes 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 Township or the paying agent, if any, on the 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, if any, or the Township, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, if any, and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Township or the paying agent, if any, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Township or the paying agent, if any. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered.

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

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

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

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

Discontinuation of Book-Entry Only-System

If the Township, in its sole discretion, determines that DTC is not capable of discharging its duties, or if DTC discontinues providing its services with respect to the Notes at any time, the Township will attempt to locate another qualified securities depository. If the Township fails to find such a securities depository, or if the Township determines, in its sole discretion, that it is in the best interest of the Township or that the interest of the Beneficial Owners might be adversely affected if the book-entry only system of transfer is continued (the Township undertakes no obligation to make an investigation to determine the occurrence of any events that would permit it to make such determination), the Township shall notify DTC of the termination of the book-entry only system.

SECURITY AND SOURCE OF PAYMENT

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

AUTHORIZATION AND PURPOSE

The Notes are authorized and are issued pursuant to the Local Bond Law of the State of New Jersey, N.J.S.A. 40A:2-1 et seq. (the "Local Bond Law") and the bond ordinances set forth below, each duly approved and published as required by law.

2018A Notes

The 2018A Notes are being issued to: (i) currently refund \$6,354,077.81 of the Township's \$12,778,000.00 Bond Anticipation Notes, dated and issued on February 1, 2017 and maturing on February 1, 2018 (the "2017B Prior Notes") together with a principal reduction payment of \$145,922.19; (ii) provide \$7,245,922.19 of new money to fund various capital improvements; and (iii) provide for the costs associated with the authorization, sale and issuance of the 2018A Notes. The 2018A Notes are the most recent in a series of annually issued bond anticipation notes, originally issued to finance the purposes and projects described in the bond ordinances set forth below:

2018A Notes			
Bond Ordinance Number	Description of Improvement and Date of Adoption of Bond Ordinance	Amount of 2017B Prior Notes Being Refunded With the 2018A Notes	Amount of New Money
09-22	Acquisition of property, finally adopted September 8, 2009.	\$660,074.40	\$0.00
09-23	Acquisition of property, finally adopted September 8, 2009.	1,406,411.20	0.00
09-31	Acquisition of COAH Unit, finally adopted December 7, 2009.	66,620.58	0.00
12-29	Acquisition of Property, finally adopted	72,026.45	0.00

2018A Notes			
Bond Ordinance Number	Description of Improvement and Date of Adoption of Bond Ordinance	Amount of 2017B Prior Notes Being Refunded With the 2018A Notes	Amount of New Money
	November 19, 2012		
14-21	Acquisition of Property, finally adopted November 17, 2014.	401,609.00	0.00
15-4	Various capital improvements, finally adopted May 4, 2015.	2,139,218.81	0.00
04-16	Various capital improvements, finally adopted May 2, 2016.	1,608,117.37	0.00
07-17	Various capital improvements, finally adopted April 17, 2017.	0.00	1,666,300.00
08-17	Provide funding to reacquire available sewer capacity previously allocated and reserved for various developers by the State.	0.00	1,400,000.00
09-19	Providing funding to require available sewer capacity previously allocated and reserved for various private developers, finally adopted June 5, 2017.	0.00	3,420,000.00
12-17	Acquisition of properties for affordable housing purposes, finally adopted September 5, 2017.	<u>0.00</u>	<u>754,481.19</u>
TOTAL:		<u>\$6,354,077.81</u>	<u>\$7,245,922.19</u>
GRAND TOTAL 2018A NOTES:			<u>\$13,600,000.00</u>

2018B Notes

The 2018B Notes are being issued to: (i) currently refund \$6,278,000.00 of the Township's 2017B Prior Notes; and (ii) provide for the costs associated with the authorization, sale and issuance of the 2018B Notes. The 2018B Notes are the most recent in a series of annually issued bond anticipation notes, originally issued to finance the purposes and projects described in the bond ordinances set forth below:

2018B Notes			
Bond Ordinance Number	Description of Improvement and Date of Adoption of Bond Ordinance	Amount of 2017B Prior Notes Being Refunded With the 2018B Notes	Amount of New Money
06-04	Acquisition of airport land or interest in land for preservation, finally adopted February 21, 2006.	\$6,278,000.00	\$0.00
TOTAL:		<u>\$6,278,000.00</u>	<u>\$0.00</u>
GRAND TOTAL 2018B NOTES:			<u>\$6,278,000.00</u>

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

The Local Bond Law governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the

statutory period of usefulness of the projects bonded and that bonds be retired in serial installments. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes subject to a number of exceptions. All bonds and notes issued by the Township are general full faith and credit obligations.

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

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

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

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

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

The foundation of the New Jersey local finance system is the annual cash basis budget. The Township, which operates on a calendar year (Jan 1 to Dec 31), must adopt a budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the director of the Division (the “Director”) prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations among others, for certification.

Tax Anticipation Notes are limited in amount by law and must be paid off in full within 120 days of the close of the fiscal year.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the review functions focusing on anticipated revenues serve to protect the solvency of all local units.

The cash basis budgets of local units must be in balance, i.e., the total of anticipated revenues must equal the total of appropriations (N.J.S.A. 40A:4-22). If in any year a local unit's expenditures exceed its realized revenues for that year, then such excess must be raised in the succeeding year's budget.

The Local Budget Law (N.J.S.A. 40A:4-26) provides that no miscellaneous revenues from any source may be included as any anticipated revenue in the budget in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the Director determines that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and certifies that determination to the local unit.

No budget or budget amendment may be adopted unless the Director shall have previously certified his approval of such anticipated revenues except that categorical grants-in-aid contracts may be included for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with the municipality's calendar year. However, grant revenue is generally not realized until received in cash.

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. The maximum amount of delinquent taxes that may be anticipated is limited by a statutory formula, which allows the unit to anticipate collection at the same rate realized for the collection of delinquent taxes in the previous year. Also, the local unit is required to make an appropriation for a "reserve for uncollected taxes" in accordance with a statutory formula to provide for a tax collection in an amount that does not exceed the percentage of taxes levied and payable in the preceding fiscal year that was received in cash by the last day of that fiscal year. The budget also must provide for any cash deficits of the prior year.

Emergency appropriations (those made after the adoption of the budget and the determination of the tax rate) may be authorized by the governing body of the local unit. However, with minor exceptions, such appropriations must be included in full in the following year's budget. When such appropriations exceed 3% of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated quasi-capital projects ("special emergencies") such as ice, snow, and flood damage to streets, roads and bridges, which may be amortized over three years, and tax map preparation, revaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes and contractually required severance liabilities, which may be amortized over five years. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

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

A provision of law known as the New Jersey "Cap Law" (N.J.S.A. 40A:4-45.1 et seq.) imposes limitations on increases in municipal appropriations subject to various exceptions. The payment of debt service is an exception from this limitation. The Cap formula is somewhat complex, but basically, it permits a municipality to increase its overall appropriations by the lesser of 2.5% or the "Index Rate" if the index rate is greater than 2.5%. The "Index Rate" is the rate of annual percentage increase, rounded to the nearest one-

half percent, in the Implicit Price Deflator for State and Local Government purchases of goods and services computed by the U.S. Department of Commerce. Exceptions to the limitations imposed by the Cap Law also exist for other things including capital expenditures; extraordinary expenses approved by the Local Finance Board for implementation of an interlocal services agreement; expenditures mandated as a result of certain emergencies; and certain expenditures for services mandated by law. Counties are also prohibited from increasing their tax levies by more than the lesser of 2.5% or the Index Rate subject to certain exceptions. Municipalities by ordinance approved by a majority of the full membership of the governing body may increase appropriations up to 3.5% over the prior year's appropriation, and counties by resolution approved by a majority of the full membership of the governing body may increase the tax levy up to 3.5% over the prior years' tax levy in years when the Index Rate is 2.5% or less.

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

Neither the tax levy limitation nor the "Cap Law" limits the obligation of the Township to levy *ad valorem* taxes upon all taxable real property within the Township to pay debt service on its bonds or notes.

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing six years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next six years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget if the terms were detailed.

Tax Assessment and Collection Procedure

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

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

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

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum on the first \$1,500.00 of the delinquency and 18% per annum on any amount in excess of \$1,500.00. These

interest and penalties are the highest permitted under New Jersey statutes. If a delinquency is in excess of \$10,000.00 and remains in arrears after December 31st, an additional penalty of 6% shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

Tax Appeals

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

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

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

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

FINANCIAL STATEMENTS

The audited financial statements of the Township for the year ended December 31, 2016 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been prepared by Lerch, Vinci & Higgins LLP, Fair Lawn, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in Appendix B to this Official Statement. *See* "APPENDIX B - Financial Statements of the Township of Readington, in the County of Hunterdon, New Jersey".

LITIGATION

To the knowledge of the Township Attorney, Sharon A. Dragan, Esq., of Mason, Griffin & Pierson, P.C., Princeton, New Jersey (the "Township Attorney"), there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Notes, or the levy or the collection of any taxes to pay the principal of or the interest on the Notes, or in any manner questioning the authority or the proceedings for the issuance of the Notes or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Township or the title of any of the present officers. Except as set forth below, to the knowledge of the Township Attorney, no litigation is presently pending or threatened that, in the opinion of the Township Attorney, would have a material adverse impact on the financial condition of the Township if adversely decided. A certificate to such effect will be executed by the Township Attorney and delivered to the purchaser of the Notes at the closing.

The Township is Plaintiff in a matter captioned Township of Readington v. Solberg Aviation Co., et al., Superior Court of New Jersey Law Division, Docket No. HNT-L-468-06. At issue is whether the taking

by the Township of certain land owned by Solberg Hunterdon Airport was proper under New Jersey's Eminent Domain Act, N.J.S.A. 20:3-35. Neither the bond ordinance authorizing the acquisition nor the issuance of the Notes has been challenged. On May 4, 2015, the Superior Court issued a decision in favor of Defendant, Solberg Aviation Co., invalidating the taking by the Township of such property owned by the Defendant, and re-vesting fee simple ownership to such property in Defendant. The Superior Court further awarded to the Defendant (i) counsel fees and expenses, including expert fees, in connection with the above-captioned action, and (ii) counsel fees and expenses, including expert fees, incurred in connection with prior efforts in 2001 by the Township to condemn the subject property (collectively, the "Defendant Litigation Expenses"), which the Township has paid. The Township has filed an appeal of this decision, which is expected to be considered and decided in 2018. In companion zoning case involving the same parties, the Township has been ordered to pay similar Defendant Litigation Expenses in connection with that matter. If those expenses are ultimately required to be paid by the Township, they will not be current expenses that would have to be paid from the budget. They will instead be bonded in one fashion or another.

Proceeds of the 2018B Notes are being applied to refinance \$6,278,000 of the \$12,778,000 Series 2017B Notes previously issued by the Township on February 1, 2017, maturing February 1, 2018 issued to finance the acquisition of the property described above. The proceeds of the original bond anticipation notes issued on October 5, 2006 to finance the acquisition of the property referred to above have been deposited with the New Jersey Superior Court as required in connection with the eminent domain action, also described above. The Superior Court has retained such funds pending the appeal by the Township of the ruling described above. To the extent the Township loses its appeal and any subsequent appeals, the Court would then return the funds to the Township. Any such result will likely occur after the May 1, 2018 maturity of the 2018B Notes. The 2018B Notes are expected to be permanently financed by the issuance of Bonds prior to the May 1, 2018 maturity date of the Series 2018B Notes since the Series 2018B Notes can no longer be rolled over for an additional year. The implications and uses of any such funds if returned to the Township by the Superior Court will be addressed as part of such Bond issue.

TAX MATTERS

General

Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") provides that interest on obligations such as the Notes is not included in gross income for federal income tax purposes only if certain requirements are met. In its Certificate as to Arbitrage and Compliance with the Code (the "Tax Certificate"), which will be delivered in connection with the issuance of the Notes, the Township will make certain representations, certifications of fact, and statements of reasonable expectation in connection with the issuance of the Notes and certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the Notes from gross income under Section 103(a) of the Code.

In the opinion of Bond Counsel, under existing statutes, regulations, administrative pronouncements and judicial decisions, and in reliance on the representations, certifications of fact, and statements of reasonable expectation made by the Township in the Tax Certificate and assuming compliance by the Township with its ongoing covenants in the Tax Certificate, interest on the Notes is not included in the gross income of the owners thereof for federal income tax purposes pursuant to the Section 103(a) of the Code and is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax.

Certain Federal Tax Consequences Relating to the Notes

Although interest on the Notes is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Notes may otherwise affect the federal income tax liability of the recipient. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Notes, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions and certain recipients of Social Security benefits, are advised to consult their own tax advisors as to the tax consequences of purchasing or holding the Notes.

There can be no assurance that legislation will not be introduced or enacted after the issuance and delivery of the Notes so as to affect adversely the exclusion from gross income for federal income tax purposes of interest on the Notes. Each purchaser of the Notes should consult his or her own advisor regarding any changes in the status of pending or proposed federal tax legislation.

Bank Qualification

The Notes **will not** be designated as qualified under Section 265 of the Code by the Township for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

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

IRS Circular 230 Disclosure

To ensure compliance with requirements imposed by the Internal Revenue Service, any purchaser of the Notes is hereby informed that (i) any U.S. federal tax advice contained in this offering material (including any attachments) is not intended or written by Bond Counsel to the Township to be used, and that it cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer under the Code; (ii) such advice is written to support the promotion or marketing of the transaction(s) or matter(s) addressed by the written advice; and (iii) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

New Jersey Gross Income Tax

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

Future Events

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

EACH PURCHASER OF THE NOTES SHOULD CONSULT HIS OR HER OWN ADVISOR REGARDING ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED FEDERAL OR NEW JERSEY STATE TAX LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, OR COURT DECISIONS.

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

MUNICIPAL BANKRUPTCY

The undertakings of the Township should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 901, et seq., as amended by Public Law 94 260, approved April 8, 1976, and as further amended on November 6, 1978 by the Bankruptcy Reform Act of 1978, effective October 1, 1979, as further amended by Public Law 100-597, effective November 3, 1988, and as further amended and other bankruptcy laws affecting creditor's rights and municipalities in general. The amendments of P.L. 94 260 replace former Chapter IX 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 this chapter 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 material actually provided within three 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., which provides that a municipality has the power to file a petition in bankruptcy provided the approval of the Municipal Finance Commission has been obtained. The powers of the Municipal Finance Commission have been vested in the Local Finance Board. The Bankruptcy Act specifically provides that Chapter IX does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Act.

RATING

The Notes have not been rated.

UNDERWRITERS

2018A Notes

The 2018A Notes have been purchased from the Township, pursuant to the notice of sale dated the date of this Official Statement, by Morgan Stanley & Co. LLC., New York, New York, (the "2018A Underwriter") at a price of \$13,660,656.00.

Morgan Stanley & Co. LLC., an underwriter of the 2018A Notes, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the Municipal Advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2018A Notes.

2018B Notes

The 2018B Notes have been purchased from the Township, pursuant to the notice of sale dated the date of this Official Statement, by TD Securities (USA) LLC., New York, New York, (the “2018B Underwriter”) at a price of \$6,280,071.74.

The 2018A Underwriter and 2018B Underwriter (the “Underwriters”) intend to offer the Notes 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 Underwriters reserve the right to join with dealers and other underwriters in offering the Notes to the public. The Underwriters may offer and sell Notes to certain dealers (including dealers depositing Notes 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 Underwriters without prior notice.

MUNICIPAL ADVISOR

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

APPROVAL OF LEGAL PROCEEDINGS

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

PREPARATION OF OFFICIAL STATEMENT

The Township hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects, and it will confirm same to the purchasers of the Notes by certificates signed by the Mayor and Chief Financial Officer.

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

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

SECONDARY MARKET DISCLOSURE

The Township has covenanted for the benefit of the Noteholders and the beneficial owners of the Notes to provide certain secondary market disclosure information pursuant to Rule 15c2-12 of the Securities and Exchange Commission, as amended and interpreted from time to time (the “Rule”). Specifically, for so long as the Notes remain outstanding (unless the Notes have been wholly defeased), the Township shall provide in a timely manner not in excess of ten business days after the occurrence of the event, to EMMA notice of any of the following events with respect to the Notes:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

If all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided pursuant to the Township's undertaking, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

The Chief Financial Officer shall determine, in consultation with Bond Counsel, the application of the Rule or the exemption from the Rule for each issue of obligations of the Township prior to their offering. Such officer is hereby authorized to enter into additional written contracts or undertakings to implement the Rule and is further authorized to amend such contracts or undertakings or the undertakings set forth in this resolution, provided such amendment is, in the opinion of nationally recognized bond counsel, in compliance with the Rule.

In the event that the Township fails to comply with the Rule requirements or the written contracts or undertakings, the Township shall not be liable for monetary damages, remedy being hereby specifically limited to specific performance of the Rule requirements or the written contracts or undertakings therefor.

The Township previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) its adopted budgets for the fiscal years ending December 31, 2012 and 2013; (ii) annual operating data for the fiscal years ending December 31, 2012; and (iii) annual financial statements for the fiscal years ending December 31, 2012. Additionally, the Township acknowledges that it previously failed to file material event notices and late filing notices in connection with (i) its timely filings of annual financial information; and (ii) certain underlying and insurer rating changes. Such notices of material events

and late filings have been filed with EMMA as of the date of this Official Statement. The Township has retained Phoenix Advisors LLC as dissemination agent for purposes of on-going secondary market disclosure compliance for all outstanding obligations of the Township, including the Notes.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Thomas J. Carro, Chief Financial Officer, at (908) 823-0209 or to the Municipal Advisor, Phoenix Advisors, LLC at 4 West Park Street, Bordentown, New Jersey 08505, (609) 291-0130.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Township and the purchasers or holders of any of the Notes. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of Notes made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Township since the date hereof. The information contained in this Official Statement is not guaranteed as to accuracy or completeness.

TOWNSHIP OF READINGTON, IN THE COUNTY OF HUNTERDON, NEW JERSEY

/s/ *Thomas J. Carro*

Thomas J. Carro
Chief Financial Officer

Dated: January 23, 2018

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APPENDIX A

**Economic and Demographic Information Relating
to the Township of Readington, in the County of Hunterdon, New Jersey**

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INFORMATION REGARDING THE TOWNSHIP¹

The following material presents certain economic and demographic information of the Township of Readington (the “Township”), in the County of Hunterdon (the “County”), State of New Jersey (the “State”).

General Information

The official history of the Township dates back to June 15, 1730 when it was formed by Royal Charter out of portions of Amwell Township. Originally created as Readings or Readings Town, the Township adopted its current name in 1798. During the early Eighteenth Century, Dutch settlers began more modern development in the area, and many of their descendants still live in the Township. The Township is located in County of Hunterdon (“Hunterdon County”) and is situated approximately 50 miles west of City of New York (“New York City”). The Township is an area of approximately 47.8 square miles, making it geographically the largest Township in the County and one of the largest in the State. Surrounding municipalities include Raritan Township, Clinton Township, Tewksbury Township, and Branchburg Township. The population has steadily increased since 1960 due to the accessibility to major employers within New Jersey and the demand for semi-rural lifestyle.

Form of Government

The Township is governed by a Township Committee (the “Committee”). Five Committee members are elected at large and the Committee selects one of its members to serve as Mayor each year. By law, the Committee has responsibility for all legislative matters ranging from the enactment of all ordinances and resolutions to general citizen representation. A number of special advisory boards and committees, as well as input from citizens who attend official meetings, assist the Committee with policy formulation. The governing body meets on the first and third Monday of each month. The meetings are open to the public and public discussion and comments are allowed. Administrative responsibilities of the Township are vested in a full-time Township Administrator (the “Administrator”). Charged with the day-to-day operations of the Township, the Administrator directs all Township services and enforcement of municipal ordinances. Appointed by and serving at the pleasure of the Committee, the Administrator is a professionally trained individual whose basic responsibility is the efficient and economic operation of the Township government.

Transportation

Routes 78, 22, 202, 31 and County Road 523 pass directly through the Township. The Whitehouse Station railway station is located in the Whitehouse Station area of Readington and connects residents to New Jersey Transit’s Raritan Valley Line, which runs from the Borough of High Bridge to Pennsylvania Station in the City of Newark, with connections available to New York City and the Northeast Corridor rail line. Solberg Airport is also located within the Township and services single and twin engine piston aircraft, hot air balloons and business turbines for business and personal travel.

¹ Source: The Township, unless otherwise indicated.

Public Works and Utilities

Other than the Police Department, the largest amount spent in the Township's budget is for the operation and maintenance of roads, streets and central facilities for recycling. The Department of Public Works (the "Department") provides maintenance services to all Township public roads, storm sewers, sanitary sewer distribution lines, traffic and street sign posting, sight distance and road shoulder clearing, street sweeping, pothole patching, chip seal, and snow and ice removal. The Township is responsible for 141 miles of roads. Under the current budget criteria, the Department overlays approximately 2 miles of existing pavement and conducts ten miles of bituminous surface treatment (chip/seal) each year.

The Township continues its Capital Improvement Bonding program where the Department contracts out (or by local work force) drainage and reconstruction upgrades on the main road surface. All major subdivisions are required to install infrastructure improvements before final approval is given. All improvements are Class I standard with full depth of pavement, drainage and necessary curbing. A two year maintenance bond is held on all improvements, after the roads are taken into the system by the Township.

The Township has continually strived to improve the condition and safety of its roadways through a program of various improvements. Specific attention is given to visibility, drainage, grading and widening. The Township also continues to apply for New Jersey Department of Transportation funds as they become available for such types of improvements.

Gas service is provided by Public Service Electric & Gas and Elizabethtown Gas. Jersey Central Power and Light provides the Township's electrical service. Water service is provided by New Jersey American Water, while sewer service is provided by the Readington/Lebanon Sewerage Authority and the Raritan Township Municipal Utilities Authority. Comcast provides cable television to residents while CenturyLink provides local phone service.

Education

The Readington Township Public Schools serve students in grades kindergarten through grade eight. Students in public school for grades 9 - 12 attend the Hunterdon Central Regional High School. Other municipalities that send students to Hunterdon Central Regional High School are Delaware Township, East Amwell Township, Flemington Borough and Raritan Township.

Free Public Library

The Readington Library is located in the former Whitehouse Railroad Station (the "Station). Designed in a style known as Richardson Romanesque, the Station was completed in 1892. As New Jersey's railroads gradually declined in the 1960's and early 1970's, the Station fell into disrepair. Ticket sales were discontinued and the Station locked to prevent vandalism. During 1980, it became evident that New Jersey Transit was interested in leasing the Station to the Committee. Volunteer labor helped restore the building and money to provide materials was raised through the combined efforts of the Committee, the Hunterdon County Library and

various fundraisers sponsored by local service organizations. On December 17, 1981, the Library officially opened for business and has been increasing its collection, patrons and circulation steadily. Since the building was restored and not renovated, the Whitehouse Station has been included on the National Register of Historic Buildings. Also, there is a free public library located in the three bridges section of the Township.

Culture and Recreation

The Township has a number of recreational facilities. The Township is home to eight parks with athletic fields and courts, picnic tables and playgrounds. The Recreation Department provides year-round sports and activities for the residents of the Township. In addition, the Committee established a Historic Preservation Committee and a Museum Committee to protect buildings and artifacts.

Economic Development

The Township's growth is guided by a long-term master plan that was adopted by the Planning Board of January 20, 1990. The plan provides for the comprehensive and rational development of the remaining vacant land of the Township. It also provides a long-term framework and pattern for land use, roads and community facilities. Every six years, the Planning Board and Township Committee must review and update the Township's Master Plan and development regulations as required by the New Jersey Municipal Land Use Law.

The Township previously was home to the global headquarters of Merck & Co., one of the largest pharmaceutical companies in the world. Merck & Co. recently moved their global headquarters out of the Township and relocated their headquarters in Summit, New Jersey in 2015. Given the desirability of the location of the Merck & Co. property, the Township is not concerned about the impact on the tax base.

Toll Brothers is currently constructing a new master-planned community in the Township for adults age 55 and older. The new development will consist of approximately 200 new homes, of which about 130 will be 2,500+ square foot carriage homes and about 73 will be 2,000+ square foot villa homes. Construction is currently underway and several homes have already been sold. Prices start in the low \$500,000. The community will also contain a clubhouse with outdoor swimming pool, putting green and bocce court.

In addition, the headquarters of Quick Chek, a convenience store with over 120 locations in New York and New Jersey, is located in the Township. Readington also benefits from its proximity to major highways and business centers in New Jersey.

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 (the "Division"), is the administrator of the funds

with the benefit and contribution levels set by the State. The Township is enrolled in the Public Employees' Retirement System ("PERS") and the Police and Firemen's Retirement System ("PFRS").

Pension Information²

Employees, who are eligible to participate in a pension plan, are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost.

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:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Township</u>				
2016	8,475	8,164	311	3.7%
2015	8,503	8,160	343	4.0%
2014	8,579	8,171	408	4.8%
2013	8,628	8,153	475	5.5%
2012	8,816	8,236	580	6.6%
<u>County</u>				
2016	65,144	62,693	2,451	3.8%
2015	65,448	62,660	2,788	4.3%
2014	65,784	62,587	3,197	4.9%
2013	66,207	62,335	3,872	5.8%
2012	67,618	62,992	4,626	6.8%
<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

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

Income (as of 2010)

	<u>Township</u>	<u>County</u>	<u>State</u>
Median Household Income	\$120,821	\$100,980	\$69,811
Median Family Income	138,171	121,166	84,904
Per Capita Income	55,493	48,489	34,858

Source: US Bureau of the Census 2010

Population

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

	<u>Township</u>		<u>County</u>		<u>State</u>	
<u>Year</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	16,126	2.04%	128,349	5.21%	8,791,894	4.49%
2000	15,803	17.93	121,989	13.19	8,414,350	8.85
1990	13,400	23.45	107,776	23.37	7,730,188	4.96
1980	10,855	41.19	87,361	25.31	7,365,001	2.75
1970	7,688	25.07	69,718	28.85	7,168,164	18.15

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2017 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Merck & Co	\$126,457,230	4.84%
Federal Insurance Co	55,507,800	2.12%
Lamington River Farms	12,303,270	0.47%
Individual Property Owner #1	9,867,171	0.38%
Toll NJ I LLC	8,880,000	0.34%
Transcontinental Gas Pipeline	8,274,600	0.32%
Whitehouse Mall	6,587,400	0.25%
Somerville Associates	5,700,000	0.22%
Salem Realty II LLC	5,539,700	0.21%
Bishop & Bishop Land Partnership	5,539,700	0.21%
Total	<u>\$244,656,871</u>	<u>9.37%</u>

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

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year % of Collection</u>
2016	\$73,004,964	\$72,209,785	98.91%
2015	72,230,387	71,469,125	98.95%
2014	72,644,899	71,788,251	98.82%
2013	72,657,276	71,689,623	98.67%
2012	71,816,392	70,769,184	98.54%

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	\$108,472	\$702,441	\$810,913	1.11%
2015	105,482	1,114,876	1,220,358	1.69%
2014	102,540	1,226,268	1,328,808	1.83%
2013	98,850	1,289,488	1,388,338	1.91%
2012	95,103	1,007,989	1,103,092	1.54%

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>Total</u>
2017	\$0.553	\$0.020	\$1.122	\$0.715	\$0.458	\$2.868
2016	0.528	0.020	1.112	0.700	0.440	2.800
2015	0.519	0.020	1.101	0.692	0.423	2.755
2014	0.503	0.020	1.078	0.687	0.433	2.721
2013	0.494	0.020	1.085	0.696	0.434	2.729

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

Valuation of Property

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2017	\$2,612,035,548	\$3,216,000,428	81.22%	\$257,705	\$3,216,258,133
2016	2,593,075,355	3,209,648,911	80.79	257,705	3,209,906,616
2015	2,609,123,074	3,097,249,613	84.24	257,705	3,097,507,318
2014	2,658,988,828	3,036,762,024	87.56	4,447,256	3,041,209,280
2013	2,648,719,771	3,088,165,758	85.77	4,355,257	3,092,521,015

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

Classification of Ratables

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

<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>
2017	\$26,021,500	\$2,058,524,200	\$129,917,648	\$342,292,300	\$53,912,800	\$1,367,100	\$2,612,035,548
2016	31,194,600	2,036,191,100	128,032,755	342,902,000	53,386,800	1,368,100	2,593,075,355
2015	35,541,000	2,023,142,400	130,658,674	366,926,100	51,486,800	1,368,100	2,609,123,074
2014	36,540,300	2,007,826,300	132,507,528	429,259,800	51,486,800	1,368,100	2,658,988,828
2013	35,670,602	1,989,936,800	137,535,869	432,721,600	51,486,800	1,368,100	2,648,719,771

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

Financial Operations

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

Summary of Current Fund Budget

<u>Anticipated Revenues</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Fund Balance	\$685,000	\$1,340,200	\$1,190,678	\$1,055,000	\$1,756,000
Miscellaneous Revenues	3,745,373	5,333,601	3,248,673	3,201,329	3,887,328
Receipts from Delinquent Taxes	875,000	915,000	850,000	746,000	700,000
Amount to be Raised by Taxes for Support of Municipal Budget	<u>13,106,241</u>	<u>13,423,115</u>	<u>13,542,704</u>	<u>13,692,799</u>	<u>14,445,980</u>
Total Revenue:	<u>\$18,411,614</u>	<u>\$21,011,916</u>	<u>\$18,832,055</u>	<u>\$18,695,128</u>	<u>\$20,789,308</u>
<u>Appropriations</u>					
General Appropriations	\$13,125,759	\$13,644,774	\$13,789,723	\$14,103,176	\$14,801,012
Operations	115,608	83,139	75,000	110,100	758,600
Deferred Charges and Statutory Expenditures	635,000	2,244,603	550,397	125,448	685,743
Judgments	0	0	0	0	0
Capital Improvement Fund	100,000	250,000	270,000	290,000	235,000
Municipal Debt Service	2,999,247	3,339,400	2,946,935	2,866,404	3,208,953
Reserve for Uncollected Taxes	<u>1,436,000</u>	<u>1,450,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,100,000</u>
Total Appropriations:	<u>\$18,411,614</u>	<u>\$21,011,916</u>	<u>\$18,832,055</u>	<u>\$18,695,128</u>	<u>\$20,789,308</u>

Source: Annual Adopted Budgets of the Township

Fund Balance

Current Fund

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

<u>Fund Balance - Current Fund</u>		
	Balance	Utilized in Budget
<u>Year</u>	<u>December 31</u>	<u>of Succeeding Year</u>
2016	\$2,654,687	\$1,756,000
2015	2,110,057	1,055,000
2014	2,063,915	1,190,678
2013	2,007,178	1,340,200
2012	1,476,073	685,000

Sewer Utility Operating Fund

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

<u>Fund Balance - Sewer Utility Operating Fund</u>		
	Balance	Utilized in Budget
<u>Year</u>	<u>December 31</u>	<u>of Succeeding Year</u>
2016	\$325,019	\$81,390
2015	302,212	57,992
2014	329,712	121,489
2013	283,133	48,058
2012	200,406	0

Source: Annual Audit Reports of the Township

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Township Indebtedness as of December 31, 2016

General Purpose Debt

Serial Bonds	\$25,423,000
Bond Anticipation Notes	25,700,000
Bonds and Notes Authorized but Not Issued	2,491,180
Other Bonds, Notes and Loans	<u>1,474,387</u>
Total:	\$55,088,567

Local School District Debt

Serial Bonds	\$19,410,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$19,410,000

Regional School District Debt

Serial Bonds	\$3,387,945
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$3,387,945

Self-Liquidating Debt

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

TOTAL GROSS DEBT

\$77,886,512

Less: Statutory Deductions	
General Purpose Debt	\$325,011
Local School District Debt	19,410,000
Regional School District Debt	<u>3,387,945</u>
Total:	<u>\$23,122,956</u>

TOTAL NET DEBT

\$54,763,556

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	\$19,410,000	100.00%	\$19,410,000
Regional School District ³	10,025,000	33.79%	3,387,945
County ⁴	75,793,752	15.21%	<u>11,529,019</u>
Net Indirect Debt			\$34,326,964
Net Direct Debt			<u>54,763,556</u>
Total Net Direct and Indirect Debt			<u>\$89,090,519</u>

Debt Limit

Average Equalized Valuation Basis (2014, 2015, 2016)	\$3,114,553,516
Permitted Debt Limitation (3 1/2%)	109,009,373
Less: Net Debt	<u>54,763,556</u>
Remaining Borrowing Power	<u>\$54,245,818</u>
Percentage of Net Debt to Average Equalized Valuation	1.758%
 Gross Debt Per Capita based on 2010 population of 16,126	 \$4,830
Net Debt Per Capita based on 2010 population of 16,126	\$3,396

Source: Annual Debt Statement of the Township

³Township percentage of total regional school district debt based on Township's share of the total equalized valuation in the Regional School District.

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

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APPENDIX B

**Financial Statements of the
Township of Readington, in the County of Hunterdon, New Jersey**

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LERCH, VINCI & HIGGINS, LLP

**CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS**

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SHERYL M. NICOLosi, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the Township Council
Township of Readington
Readington, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements - regulatory basis of the various funds and account group of the Township of Readington, as of December 31, 2016 and 2015, and the related statements of operations and changes in fund balance - regulatory basis, the related statements of revenues - regulatory basis and statements of expenditures - regulatory basis of the various funds for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions and practices that demonstrate compliance with the regulatory basis of accounting and budget laws prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Township of Readington on the basis of the financial accounting and reporting principles and practices that demonstrate compliance with the regulatory basis of accounting and budget laws prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the financial reporting requirements of the State of New Jersey for municipal government entities.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Township of Readington as of December 31, 2016 and 2015, or changes in financial position, or, where applicable, cash flows for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

As discussed in Note 17 of the financial statements, the financial statements – regulatory basis of the Length of Service Awards Program (LOSAP) Trust Fund have not been audited, and we were not required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, to audit nor were we engaged to audit the LOSAP Trust Fund financial statements as part of our audit of the Township's financial statements as of and for the years ended December 31, 2016 and 2015. The LOSAP Trust Fund financial activities are included in the Township's Trust Funds, and represent 39 percent and 41 percent of the assets and liabilities, respectively, of the Township's Trust Funds as of December 31, 2016 and 2015, respectively.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of such adjustments, if any, as might have been determined to be necessary had the LOSAP Trust Fund financial statements been audited as described in the "Basis for Qualified Opinion on Regulatory Basis of Accounting" paragraph above, the financial statements – regulatory basis referred to above present fairly, in all material respects, the financial position – regulatory basis of the various funds and account group of the Township of Readington as of December 31, 2016 and 2015, and the results of operations and changes in fund balance – regulatory basis of such funds, the respective revenues – regulatory basis and expenditures – regulatory basis of the various funds for the years then ended in accordance with the financial reporting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated March 20, 2017 on our consideration of the Township of Readington's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Township of Readington's internal control over financial reporting and compliance.

By/s/

LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Registered Municipal Accountants

Fair Lawn, New Jersey
March 20, 2017

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
CURRENT FUND
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Regular Fund		
Cash	\$ 7,681,988	\$ 7,505,946
Cash - Change Fund	650	650
Due from State - Senior Citizens and Veterans Deductions	<u>58,034</u>	<u>49,146</u>
	<u>7,740,672</u>	<u>7,555,742</u>
Receivables and Other Assets with Full Reserves		
Delinquent Property Taxes Receivable	702,441	1,114,876
Tax Title Liens Receivable	108,472	105,482
Due from General Capital Fund	7	311
Due from Sewer Operating Fund	-	6,884
Revenue Accounts Receivable	<u>8,372</u>	<u>6,383</u>
	<u>819,292</u>	<u>1,233,936</u>
Deferred Charges:		
Overexpenditure of Appropriation	500,743	-
Emergency Authorizations	<u>185,000</u>	<u>-</u>
	<u>685,743</u>	<u>-</u>
Total Regular Fund	<u>9,245,707</u>	<u>8,789,678</u>
Grants Fund		
Grants Receivable	5,000	10,000
Due from Current Fund	<u>21,975</u>	<u>38,101</u>
Total Grants Fund	<u>26,975</u>	<u>48,101</u>
Total Assets	<u>\$ 9,272,682</u>	<u>\$ 8,837,779</u>

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
CURRENT FUND
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
LIABILITIES, RESERVES AND FUND BALANCE		
Liabilities		
Appropriation Reserves	\$ 595,934	\$ 677,374
Encumbrances Payable	409,651	157,003
Reserve for Master Plan	76,514	76,514
Reserve for Sale of Assets	11,873	30,912
Prepaid Taxes	412,759	401,167
Regional School Taxes Payable	3,052,130	3,052,130
County Taxes Payable	61,366	53,005
Miscellaneous Fees Payable	14,961	11,210
Due to Grants Fund	21,975	38,101
Reserve for Tax Sale Premiums	628,200	465,700
Reserve for Tax Appeals	308,002	308,002
Tax Overpayments	<u>178,363</u>	<u>174,567</u>
	5,771,728	5,445,685
Reserve for Receivables	819,292	1,233,936
Fund Balance	<u>2,654,687</u>	<u>2,110,057</u>
Total Regular Fund	<u>9,245,707</u>	<u>8,789,678</u>
Grants Fund		
Encumbrances Payable	358	4,461
Reserve for Grants and Donations - Appropriated	<u>26,617</u>	<u>43,640</u>
Total Grants Fund	<u>26,975</u>	<u>48,101</u>
Total Liabilities, Reserves and Fund Balance	<u>\$ 9,272,682</u>	<u>\$ 8,837,779</u>

TOWNSHIP OF READINGTON
COMPARATIVE STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCE
REGULATORY BASIS - CURRENT FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND OTHER INCOME REALIZED		
Fund Balance Utilized	\$ 1,055,000	\$ 1,190,678
Miscellaneous Revenues	3,343,960	3,481,280
Receipts from Delinquent Taxes	899,452	796,268
Receipts from Current Taxes	72,209,785	71,469,125
Non-Budget Revenues	81,556	112,099
Other Credits to Income:		
Interfunds and Other Receivables Returned	7,188	4,679
Unexpended Balance of Appropriation Reserves	<u>543,004</u>	<u>325,111</u>
Total Income	<u>78,139,945</u>	<u>77,379,240</u>
EXPENDITURES		
Budget Appropriations		
Operations		
Salaries and Wages	6,409,855	6,031,860
Other Expenses	7,128,178	6,584,407
Capital Improvements	290,000	270,000
Municipal Debt Service	2,862,855	2,936,295
Deferred Charges and Statutory		
Expenditures	1,566,569	1,906,920
Regional School District Tax	18,154,962	18,051,369
Local District School Tax	28,820,286	28,731,847
County Tax	11,402,340	11,039,654
County Share of Added and Omitted Taxes	61,366	53,005
Local Open Space Tax	518,667	521,877
Local Open Space Added Taxes	2,803	2,493
Grant Receivables Cancelled	-	131
Refund of Prior Year Revenue	6,677	5,678
Prior Year Senior Citizen Deduction Disallowed	1,500	
Interfunds Established	<u>-</u>	<u>6,884</u>
Total Expenditures	<u>77,226,058</u>	<u>76,142,420</u>
Excess of Revenues over Expenditures	913,887	1,236,820
Adjustments to Income before Fund Balance:		
Expenditures Included Above Which are by Statute		
Deferred Charges to Budget of Succeeding Year	<u>685,743</u>	<u>-</u>
Statutory Excess to Fund Balance	1,599,630	1,236,820
FUND BALANCE, JANUARY 1	<u>2,110,057</u>	<u>2,063,915</u>
	3,709,687	3,300,735
Decreased by:		
Utilization as Anticipated Revenue	<u>1,055,000</u>	<u>1,190,678</u>
FUND BALANCE, DECEMBER 31	<u>\$ 2,654,687</u>	<u>\$ 2,110,057</u>

The Accompanying Notes are an Integral Part of these Financial Statements

TOWNSHIP OF READINGTON
COMPARATIVE STATEMENTS OF REVENUES - REGULATORY BASIS
CURRENT FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>		<u>2015</u>	
	<u>Budget After</u>	<u>Actual</u>	<u>Budget After</u>	<u>Actual</u>
	<u>Modification</u>		<u>Modification</u>	
Fund Balance Anticipated	\$ 1,055,000	\$ 1,055,000	\$ 1,190,678	\$ 1,190,678
Miscellaneous Revenues				
Licenses				
Alcoholic Beverages	18,000	20,381	18,000	\$ 20,381
Fees and Permits				
Other	165,000	173,116	165,000	169,379
Fines and Costs				
Municipal Court	115,000	126,796	105,000	123,383
Interest and Costs on Taxes	231,000	189,683	225,000	272,686
Interest on Investments and Deposits	22,000	34,721	15,000	28,153
Energy Receipts Tax	1,421,711	1,421,711	1,421,711	1,421,711
Garden State Trust Fund	3,962	3,962	3,962	3,962
Uniform Construction Code Fees	516,000	581,237	535,000	573,655
State and Federal Revenues Offset with Appropriations				
Clean Communities Program	\$ 63,116	63,116	55,184	55,184
Drunk Driving Enforcement Fund			16,345	16,345
Body Armor Grant	2,345	2,345	2,436	2,436
Click it or Ticket	4,500	4,500	4,000	4,000
Drive Sober I			2,800	2,800
Drive Sober II			5,000	5,000
Trails Grant NJDEP	4,600	4,600		
Alcohol Education & Rehabilitation	4,774	4,774	4,302	4,302
Sustainable Jersey			10,000	10,000
NJ Historic Commission - Museum			8,000	8,000
NJ Environmental Commission - ANJEC	800	800		
Other Special Items				
Uniform Safety Act	24,000	27,562	25,000	24,903
General Capital Fund Balance	483,744	483,744	325,000	325,000
Housing Trust Fund Balance	40,000	40,000	60,000	60,000
Reserve for Sale of Assets	30,912	30,912		
Sewer Utility Operating Fund Balance			100,000	100,000
Sewer Utility Expansion Trust Fund Balance	130,000	130,000	250,000	250,000
Total Miscellaneous Revenues	3,281,464	3,343,960	3,356,740	3,481,280
Receipts from Delinquent Taxes	746,000	899,452	850,000	796,268

TOWNSHIP OF READINGTON
COMPARATIVE STATEMENTS OF REVENUES - REGULATORY BASIS
CURRENT FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>		<u>2015</u>	
	Budget After <u>Modification</u>	<u>Actual</u>	Budget After <u>Modification</u>	<u>Actual</u>
Amount to be Raised by Taxes for Support of Municipal Budget				
Local Tax For Municipal Purposes Including Reserve for Uncollected Taxes	\$ <u>13,692,799</u>	\$ <u>14,449,361</u>	\$ <u>13,542,704</u>	\$ <u>14,268,880</u>
Total Amount to be Raised by Taxes for Support of Municipal Budget	<u>13,692,799</u>	<u>14,449,361</u>	<u>13,542,704</u>	<u>14,268,880</u>
Total General Revenue	\$ <u>18,775,263</u>	\$ <u>19,747,773</u>	\$ <u>18,940,122</u>	\$ <u>19,737,106</u>

2016 STATEMENT OF EXPENDITURES
CURRENT FUND

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016		2016 Expended		Overexpenditures	Cancelled
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>		
OPERATIONS - WITHIN "CAPS"						
GENERAL GOVERNMENT						
General Administration						
Salaries and Wages	\$ 355,900	\$ 356,400	\$ 356,340	\$ 60		
Other Expenses						
Elections	13,000	13,000	11,532	1,468		
Miscellaneous Other Expenses	102,000	102,000	101,074	926		
Mayor and Committee						
Salaries and Wages	36,500	36,500	34,454	2,046		
Financial Administration			-			
Salaries and Wages	206,300	206,300	197,140	9,160		
Other Expenses	12,000	12,000	9,963	2,037		
Audit Services	38,700	38,700	38,700	-		
Revenue Administration						
Salaries and Wages	84,100	84,100	84,091	9		
Other Expenses	24,000	24,000	20,230	3,770		
Assessment of Taxes						
Salaries and Wages	76,100	76,100	76,013	87		
Other Expenses						
Revision of Tax Map	15,000	15,000	4,123	10,877		
Miscellaneous Other Expenses	7,000	7,000	2,109	4,891		
Legal Service and Costs						
Other Expenses	375,000	560,000	1,060,743		\$ 500,743	
Engineering Services and Costs						
Other Expenses	150,000	150,000	149,619	381		
Museum Committee						
Salaries and Wages	32,300	32,300	16,924	15,376		
Other Expenses	18,000	18,000	14,973	3,027		
Historic Preservation Committee						
Other Expenses	2,500	2,500	4	2,496		
Planning Board						
Salaries and Wages	26,000	26,500	26,470	30		
Other Expenses	3,000	3,000	2,195	805		
Board of Adjustment						
Salaries and Wages	55,625	69,325	69,167	158		
Other Expenses	2,500	4,500	4,063	437		
Environmental Health Commission						
Salaries and Wages	1,080	1,080	1,080	-		
Other Expenses						
Consultants	120,000	130,000	126,842	3,158		
Miscellaneous Other Expenses	4,000	4,000	2,480	1,520		
Insurance						
General Liability	456,900	456,900	446,754	10,146		
Employee Group Insurance	2,031,900	2,031,900	1,924,996	106,904		
Worker's Compensation	233,900	233,900	233,900	-		
PUBLIC SAFETY FUNCTIONS						
Police						
Salaries and Wages	2,861,700	2,861,700	2,825,500	36,200		
Other Expenses	240,000	240,000	235,184	4,816		
Patrol of School Crossings						
Salaries and Wages	27,100	27,100	23,537	3,563		
Emergency Management Services						
Salaries and Wages	14,500	14,650	14,629	21		
Other Expenses	3,500	3,500	794	2,706		

The Accompanying Notes are an Integral Part of these Financial Statements

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016		2016 Expended		Overexpenditures	Cancelled
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>		
OPERATIONS - WITHIN "CAPS" (Cont'd)						
PUBLIC SAFETY FUNCTIONS (Cont'd)						
Fire						
Other Expenses						
Aid to Volunteer Fire Co.	\$ 120,000	\$ 120,000	\$ 120,000	-		
Purchase of Equipment for Volunteer Fire Co.	88,640	88,640	71,172	\$ 17,468		
Training Fire Department Personnel	16,000	16,000	13,842	2,158		
Uniform Fire Safety Act						
Salaries and Wages	56,300	64,800	64,671	129		
Other Expenses	4,000	4,000	554	3,446		
Supplemental Fire Service Program						
Other Expenses	10,000	10,000	7,418	2,582		
Aid to Volunteer Ambulance Companies						
Whitehouse First Aid Organization	30,000	30,000	30,000	-		
Purchase of Equipment for First Aid Organizations	22,160	22,160	14,500	7,660		
Municipal Prosecutors Office						
Other Expenses	37,000	37,000	31,344	5,656		
PUBLIC WORK FUNCTIONS						
Road Repairs and Maintenance						
Salaries and Wages	1,496,800	1,445,950	1,397,971	47,979		
Other Expenses	375,000	375,000	354,878	20,122		
Waste Collection/Recycling						
Salaries and Wages	23,750	23,750	23,750	-		
Other Expenses	700,000	700,000	657,859	42,141		
Snow Removal						
Other Expenses	120,000	120,000	95,025	24,975		
Buildings and Grounds						
Salaries and Wages	238,100	253,900	253,809	91		
Other Expenses	110,000	110,000	109,033	967		
HEALTH AND HUMAN SERVICES						
Board of Health						
Salaries and Wages	44,900	44,900	43,873	1,027		
Other Expenses	23,000	43,000	37,265	5,735		
Animal Control Services						
Other Expenses	5,000	5,000	5,000	-		
Administration of Public Assistance						
Salaries and Wages	117,100	117,100	117,001	99		
Other Expenses	2,000	2,000	977	1,023		
PARK AND RECREATION FUNCTIONS						
Recreation						
Salaries and Wages	93,900	93,900	93,673	227		
Other Expenses	40,000	40,000	34,764	5,236		
Senior Citizens Transportation						
Other Expenses	9,000	9,000		9,000		
Expense of Participation of Free County Library						
Salaries and Wages	154,500	129,500	128,011	1,489		
Other Expenses	8,000	8,000	7,559	441		
Cost of PEOSHA Requirements						
Other Expenses	55,000	55,000	40,149	14,851		

The Accompanying Notes are an Integral Part of these Financial Statements

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 <u>Appropriated</u>		2016 Expended			
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Overexpenditures</u>	<u>Cancelled</u>
OPERATIONS - WITHIN "CAPS" (Continued)						
UNIFORM CONSTRUCTION CODE						
APPROPRIATIONS OFFSET BY						
DEDICATED REVENUES						
(N.J.A.C. 5:23-4-17)						
Construction Code Official						
Salaries and Wages	\$ 328,700	\$ 333,400	\$ 333,298	\$ 102		
Other Expenses	65,000	65,000	56,707	8,293		
UTILITIES						
Fire Hydrant Service	90,000	90,000	81,163	8,837		
Electricity	140,000	140,000	120,467	19,533		
Street Lighting	50,000	50,000	34,558	15,442		
Telephone	75,000	75,000	68,907	6,093		
Fuel Oil	8,500	8,500	8,500	-		
Gasoline	120,000	120,000	81,224	38,776		
Celebration of Public Events						
Other Expenses	8,000	8,000	7,651	349		
Municipal Court						
Salaries and Wages	110,600	110,600	110,573	27		
Other Expenses	18,000	18,000	17,951	49		
Public Defender						
Other Expenses	15,000	15,000	14,549	451	-	-
Contingent	3,000	3,000	1,320	1,680	-	-
Total Operations Within "CAPS"	12,662,055	12,847,055	12,806,589	541,209	500,743	-
Detail:						
Salaries and Wages	6,441,855	6,409,855	6,291,975	117,880		
Other Expenses	6,220,200	6,437,200	6,514,614	423,329	500,743	-
DEFERRED CHARGES AND STATUTORY						
EXPENDITURES - MUNICIPAL						
WITHIN "CAPS"						
Social Security System (O.A.S.I.)	507,000	507,000	463,877	43,123		
Public Employees' Retirement System	395,472	395,472	395,472	-		
Police and Firemen's Retirement System	533,649	533,649	533,649	-		
Unemployment Insurance	5,000	5,000	2,798	2,202	-	-
Total Deferred Charges and Statutory Expenditures - Municipal Within "CAPS"	1,441,121	1,441,121	1,395,796	45,325	-	-
Total General Appropriations for Municipal Purposes Within "CAPS"	14,103,176	14,288,176	14,202,385	586,534	500,743	-

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016		2016 Expended			
	<u>Appropriated</u>					
	<u>Budget</u>	<u>Budget After</u>	<u>Paid or</u>	<u>Reserved</u>	<u>Overexpenditures</u>	<u>Cancelled</u>
		<u>Modification</u>	<u>Charged</u>			
OPERATIONS - EXCLUDED FROM "CAPS"						
Length of Service Awards Program (LOSAP)	\$ 75,000	\$ 75,000	\$ 65,600	\$ 9,400	-	-
Employee Group Health	35,100	35,100	35,100	-	-	-
Total Other Operations Excluded from "CAPS"	110,100	110,100	100,700	9,400	-	-
Public and Private Programs Offset by Revenues						
Clean Communities Program		63,116	63,116	-		
Body Armor Grant		2,345	2,345			
Click it or Ticket		4,500	4,500			
Trails Grant NJDEP		4,600	4,600			
Alcohol Education & Rehabilitation		4,774	4,774	-		
NJ Environmental Commission - ANJEC	-	800	800	-	-	-
Total Public and Private Programs Offset by Revenues	-	80,135	80,135	-	-	-
Total Operations Excluded from "CAPS"	110,100	190,235	180,835	9,400	-	-
Detail:						
Other Expenses	110,100	190,235	180,835	9,400	-	-
CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"						
Capital Improvement Fund	90,000	90,000	90,000			
Road Repairs and Improvements	200,000	200,000	200,000	-	-	-
Total Capital Improvements Excluded from "CAPS"	290,000	290,000	290,000	-	-	-
MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"						
Payment of Bond Principal	1,030,000	1,030,000	1,030,000	-		
Payment of Bond Anticipation Notes	287,254	287,254	287,254	-		
Interest on Bonds	1,013,900	1,013,900	1,013,893	-		\$ 7
Interest on Notes	130,350	130,350	130,325	-		25
Green Trust Loan Program:						
Loan Repayments of Principal and Interest	404,900	404,900	401,383	-	-	3,517
Total Municipal Debt Service Excluded from "CAPS"	2,866,404	2,866,404	2,862,855	-	-	3,549

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2016

	2016		2016 Expended			
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Overexpenditures</u>	<u>Cancelled</u>
DEFERRED CHARGES						
Deferred Charges to Future Taxation - Unfunded						
Ordinance 03-08/05-01	\$ 75,448	\$ 75,448	\$ 75,448	-	-	-
Ordinance 03-18	50,000	50,000	50,000	-	-	-
Total Deferred Charges - Municipal						
Excluded from "CAPS"	125,448	125,448	125,448	-	-	-
Total General Appropriations for						
Municipal Purposes Excluded						
from "CAPS"	3,391,952	3,472,087	3,459,138	\$ 9,400	\$ -	\$ 3,549
Subtotal General Appropriations	17,495,128	17,760,263	17,661,523	595,934	500,743	3,549
Reserve for Uncollected Taxes	1,200,000	1,200,000	1,200,000	-	-	-
Total General Appropriations	\$ 18,695,128	\$ 18,960,263	\$ 18,861,523	\$ 595,934	\$ 500,743	\$ 3,549
Budget as Adopted		\$ 18,695,128				
Added by N.J.S. 40A:4-87		80,135				
		18,775,263				
2016 Emergency Appropriation		185,000				
		\$ 18,960,263				

2015 STATEMENT OF EXPENDITURES
CURRENT FUND

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015		2015 Expended		
	<u>Appropriated</u>				
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Cancelled</u>
OPERATIONS - WITHIN "CAPS"					
GENERAL GOVERNMENT					
General Administration					
Salaries and Wages	\$ 334,900	\$ 334,900	\$ 334,799	\$ 101	
Other Expenses					
Elections	13,000	13,000	10,503	2,497	
Miscellaneous Other Expenses	107,000	107,000	92,713	14,287	
Mayor and Committee					
Salaries and Wages	43,700	43,700	43,700		
Financial Administration					
Salaries and Wages	197,960	197,960	186,794	11,166	
Other Expenses	12,000	12,000	9,778	2,222	
Audit Services	38,000	38,000	38,000	-	
Revenue Administration					
Salaries and Wages	79,500	79,500	78,694	806	
Other Expenses	24,000	24,000	21,097	2,903	
Assessment of Taxes					
Salaries and Wages	71,800	71,800	71,763	37	
Other Expenses					
Revision of Tax Map	15,000	15,000	8,499	6,501	
Miscellaneous Other Expenses	7,000	7,000	5,544	1,456	
Legal Service and Costs					
Other Expenses	375,000	510,000	500,711	9,289	
Engineering Services and Costs					
Other Expenses	125,000	155,000	149,248	5,752	
Museum Committee					
Salaries and Wages	25,600	25,600	20,680	4,920	
Other Expenses	18,000	18,000	12,664	5,336	
Historic Preservation Committee					
Other Expenses	2,500	2,500	29	2,471	
Planning Board					
Salaries and Wages	24,300	24,300	24,300	-	
Other Expenses	4,000	4,000	1,103	2,897	
Board of Adjustment					
Salaries and Wages	50,400	50,400	50,400		
Other Expenses	3,500	3,500	996	2,504	
Environmental Health Commission					
Salaries and Wages	2,550	2,550	2,550	-	
Other Expenses					
Consultants	100,000	125,000	120,063	4,937	
Miscellaneous Other Expenses	4,000	4,000	3,655	345	
Insurance					
General Liability	455,100	455,100	432,642	22,458	
Employee Group Insurance	1,950,000	1,950,000	1,901,617	48,383	
Worker's Compensation	223,740	223,740	223,740	-	
PUBLIC SAFETY FUNCTIONS					
Police					
Salaries and Wages	2,693,950	2,693,950	2,648,695	45,255	
Other Expenses	240,000	240,000	226,919	13,081	
Patrol of School Crossings					
Salaries and Wages	26,100	26,100	25,499	601	
Emergency Management Services					
Salaries and Wages	13,900	13,900	13,867	33	
Other Expenses	3,500	3,500	1,862	1,638	

**TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015		2015 Expended		
	<u>Appropriated</u>				
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Cancelled</u>
OPERATIONS - WITHIN "CAPS" (Cont'd)					
PUBLIC SAFETY FUNCTIONS (Cont'd)					
Fire					
Other Expenses					
Aid to Volunteer Fire Co.	\$ 120,000	\$ 120,000	\$ 120,000	-	
Purchase of Equipment for Volunteer Fire Co.	88,640	88,640	78,009	\$ 10,631	
Training Fire Department Personnel	16,000	16,000	11,871	4,129	
Uniform Fire Safety Act					
Salaries and Wages	67,500	67,500	67,500	-	
Other Expenses	4,000	4,000	2,293	1,707	
Supplemental Fire Service Program					
Other Expenses	10,000	10,000	6,894	3,106	
Aid to Volunteer Ambulance Companies					
Whitehouse First Aid Organization	30,000	30,000	30,000	-	
Purchase of Equipment for First Aid Organizations	22,160	22,160	22,083	77	
Municipal Prosecutors Office					
Other Expenses	37,000	37,000	30,284	6,716	
PUBLIC WORK FUNCTIONS					
Road Repairs and Maintenance					
Salaries and Wages	1,478,400	1,376,900	1,282,354	94,546	
Other Expenses	375,000	375,000	343,443	31,557	
Waste Collection/Recycling					
Salaries and Wages	23,500	23,500	23,500	-	
Other Expenses	700,000	700,000	666,326	33,674	
Snow Removal					
Other Expenses	200,000	200,000	199,792	208	
Buildings and Grounds					
Salaries and Wages	226,100	226,100	224,427	1,673	
Other Expenses	106,700	106,700	84,799	21,901	
HEALTH AND HUMAN SERVICES					
Board of Health					
Salaries and Wages	42,500	42,500	41,420	1,080	
Other Expenses	23,000	23,000	22,822	178	
Animal Control Services					
Other Expenses	15,000	15,000		15,000	
Administration of Public Assistance					
Salaries and Wages	110,700	110,700	110,520	180	
Other Expenses	2,500	2,500	783	1,717	
PARK AND RECREATION FUNCTIONS					
Recreation					
Salaries and Wages	88,600	88,600	87,794	806	
Other Expenses	35,000	35,000	27,960	7,040	
Senior Citizens Transportation					
Other Expenses	9,000	9,000	2,761	6,239	
Expense of Participation of Free County Library					
Salaries and Wages	145,900	145,900	133,685	12,215	
Other Expenses	10,000	10,000	4,827	5,173	
Cost of PEOSHA Requirements					
Other Expenses	55,000	55,000	53,596	1,404	
UNIFORM CONSTRUCTION CODE					
APPROPRIATIONS OFFSET BY DEDICATED REVENUES (N.J.A.C. 5:23-4-17)					
Construction Code Official					
Salaries and Wages	314,500	279,500	271,254	8,246	
Other Expenses	65,000	45,000	40,193	4,807	

The Accompanying Notes are an Integral Part of these Financial Statements

**TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015		2015 Expended		
	<u>Appropriated</u>		<u>Paid or</u>		
	<u>Budget</u>	<u>Budget After</u>	<u>Charged</u>	<u>Reserved</u>	<u>Cancelled</u>
		<u>Modification</u>			
OPERATIONS - WITHIN "CAPS" (Continued)					
UTILITIES					
Fire Hydrant Service	\$ 90,000	\$ 90,000	\$ 78,467	\$ 11,533	
Electricity	150,000	150,000	123,574	26,426	
Street Lighting	50,000	50,000	36,966	13,034	
Telephone	79,000	79,000	69,775	9,225	
Fuel Oil	8,500	-		-	
Gasoline	200,000	175,000	113,425	61,575	
Celebration of Public Events					
Other Expenses	8,000	8,000	6,463	1,537	
Municipal Court					
Salaries and Wages	106,000	106,000	101,017	4,983	
Other Expenses	17,000	17,000	15,325	1,675	
Public Defender					
Other Expenses	15,000	15,000	14,072	928	-
Contingent	3,000	3,000	1,320	1,680	-
Total Operations Within "CAPS"	12,433,200	12,433,200	11,814,718	618,482	-
Detail:					
Salaries and Wages	6,168,360	6,031,860	5,845,212	186,648	
Other Expenses	6,264,840	6,401,340	5,969,506	431,834	-
DEFERRED CHARGES AND STATUTORY					
EXPENDITURES - MUNICIPAL					
WITHIN "CAPS"					
Social Security System (O.A.S.I.)	480,000	480,000	431,330	48,670	
Public Employees' Retirement System	390,912	390,912	390,912	-	
Police and Firemen's Retirement System	480,611	480,611	480,611	-	
Unemployment Insurance	5,000	5,000	2,677	2,323	-
Total Deferred Charges and Statutory					
Expenditures - Municipal Within "CAPS"	1,356,523	1,356,523	1,305,530	50,993	-
Total General Appropriations for Municipal					
Purposes Within "CAPS"	13,789,723	13,789,723	13,120,248	669,475	-

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015		2015 Expended		
	<u>Appropriated</u>		<u>Paid or</u>	<u>Reserved</u>	<u>Cancelled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Charged</u>		
OPERATIONS - EXCLUDED FROM "CAPS"					
Length of Service Award Program (LOSAP)	\$ 75,000	\$ 75,000	\$ 67,200	\$ 7,800	-
Total Other Operations Excluded from "CAPS"	75,000	75,000	67,200	7,800	-
Public and Private Programs Offset by Revenues					
Clean Communities Program		\$ 55,184	\$ 55,184	-	
Drunk Driving Enforcement Fund		16,345	16,345		
Body Armor Grant		2,436	2,436		
Click it or Ticket		4,000	4,000		
Drive Sober I		2,800	2,800	-	
Drive Sober II		5,000	5,000	-	
Alcohol Education & Rehabilitation		4,302	4,302	-	
Sustainable Jersey		10,000	10,000	-	
NJ Historic Commission - Museum	-	8,000	8,000	-	-
Total Public and Private Programs Offset by Revenues	-	108,067	108,067	-	-
Total Operations Excluded from "CAPS"	75,000	183,067	175,267	7,800	-
Detail:					
Other Expenses	75,000	183,067	175,267	7,800	-
CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"					
Capital Improvement Fund	70,000	70,000	70,000		
Road Repairs and Improvements	200,000	200,000	199,901	99	-
Total Capital Improvements Excluded from "CAPS"	270,000	270,000	269,901	99	-
MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"					
Payment of Bond Principal	785,000	785,000	785,000	-	
Payment of Bond Anticipation Notes	425,100	425,100	425,100	-	
Interest on Bonds	806,035	806,035	806,035	-	
Interest on Notes	495,600	495,600	494,637	-	\$ 963
Green Trust Loan Program: Loan Repayments of Principal and Interest	435,200	435,200	425,524	-	9,676
Total Municipal Debt Service Excluded from "CAPS"	2,946,935	2,946,935	2,936,296	-	10,639

TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS - CURRENT FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	2015		2015 Expended		
	<u>Appropriated</u>	<u>Budget After</u>	<u>Paid or</u>	<u>Reserved</u>	<u>Cancelled</u>
	<u>Budget</u>	<u>Modification</u>	<u>Charged</u>		
DEFERRED CHARGES					
Emergency Authorizations	\$ 395,000	\$ 395,000	\$ 395,000	-	
Special Emergency Authorizations - 5 Years (N.J.S. 40A:4-55.1 & 40A:4-55.13)	<u>155,397</u>	<u>155,397</u>	<u>155,396</u>	<u>-</u>	<u>\$ 1</u>
Total Deferred Charges - Municipal Excluded from "CAPS"	<u>550,397</u>	<u>550,397</u>	<u>550,396</u>	<u>-</u>	<u>1</u>
Total General Appropriations for Municipal Purposes Excluded from "CAPS"	<u>3,842,332</u>	<u>3,950,399</u>	<u>3,931,860</u>	<u>\$ 7,899</u>	<u>10,640</u>
Subtotal General Appropriations	17,632,055	17,740,122	17,052,108	677,374	10,640
Reserve for Uncollected Taxes	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>
Total General Appropriations	<u>\$ 18,832,055</u>	<u>\$ 18,940,122</u>	<u>\$ 18,252,108</u>	<u>\$ 677,374</u>	<u>\$ 10,640</u>
Budget as Adopted		\$ 18,832,055			
Added by N.J.S. 40A:4-87		<u>108,067</u>			
		<u>\$ 18,940,122</u>			

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
TRUST FUNDS
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
ANIMAL CONTROL FUND		
Cash	\$ 3,252	\$ 9,448
Total Assets	<u>3,252</u>	<u>9,448</u>
OTHER TRUST FUND		
Cash	2,111,367	1,685,377
Accounts Receivable -Other	<u>400,000</u>	<u>400,000</u>
	<u>2,511,367</u>	<u>2,085,377</u>
LENGTH OF SERVICE AWARDS PROGRAM(LOSAP) FUND (UNAUDITED)		
Investments	1,533,530	1,377,626
Intergovernmental Receivable	<u>69,600</u>	<u>65,600</u>
	<u>1,603,130</u>	<u>1,443,226</u>
Total Assets	<u>\$ 4,117,749</u>	<u>\$ 3,538,051</u>
 LIABILITIES, RESERVES AND FUND BALANCE		
ANIMAL CONTROL FUND		
Due to the State of New Jersey	\$ 278	\$ 650
Prepaid Licenses	2,622	6,508
Reserve for Animal Control Expenditures	<u>352</u>	<u>2,290</u>
	<u>3,252</u>	<u>9,448</u>
OTHER TRUST FUND		
Miscellaneous Reserves	2,504,736	2,085,377
Due to State of New Jersey - Unemployment Compensation	<u>6,631</u>	<u>-</u>
	<u>2,511,367</u>	<u>2,085,377</u>
LENGTH OF SERVICE AWARDS PROGRAM (LOSAP) FUND (UNAUDITED)		
Reserve for LOSAP Benefits	<u>1,603,130</u>	<u>1,443,226</u>
Total Liabilities, Reserves and Fund Balance	<u>\$ 4,117,749</u>	<u>\$ 3,538,051</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**TOWNSHIP OF READINGTON
STATEMENT OF REVENUES - REGULATORY BASIS - OPEN SPACE TRUST FUND**

	<u>2016</u>		<u>2015</u>	
	Budget (Memorandum)	Realized	Budget (Memorandum)	Realized
Amount to be Raised by Taxation	\$ 520,667	\$ 521,470	\$ 521,877	\$ 524,370
	<u>\$ 520,667</u>	<u>\$ 521,470</u>	<u>\$ 521,877</u>	<u>\$ 524,370</u>

EXHIBIT B-2

**STATEMENT OF EXPENDITURES - REGULATORY BASIS - OPEN SPACE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016 Budget (Memorandum)	2016 Paid or Charged	Variance
Reserve for Future Use	\$ 667	1,947	\$ (1,280)
Debt Service			
Payment of Bond Principal	<u>520,000</u>	<u>520,000</u>	<u>-</u>
	<u>\$ 520,667</u>	<u>\$ 521,947</u>	<u>\$ (1,280)</u>

**STATEMENT OF EXPENDITURES - REGULATORY BASIS - OPEN SPACE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015 Budget (Memorandum)	2015 Paid or Charged	Variance
Reserve for Future Use	\$ 1,877		\$ 1,877
Debt Service			
Payment of Bond Principal	260,000	\$ 260,000	
Payment of Bond Anticipation Notes	<u>260,000</u>	<u>260,000</u>	<u>-</u>
	<u>\$ 521,877</u>	<u>\$ 520,000</u>	<u>\$ 1,877</u>

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
GENERAL CAPITAL FUND
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 2,222,415	\$ 2,162,714
Accounts Receivable		21,983
Deferred Charges to Future Taxation:		
Funded	26,897,387	28,813,815
Unfunded	<u>27,866,169</u>	<u>27,740,534</u>
 Total Assets	 <u>\$ 56,985,971</u>	 <u>\$ 58,739,046</u>
 LIABILITIES, RESERVES AND FUND BALANCE		
Serial Bonds Payable	\$ 25,423,000	\$ 26,973,000
Bond Anticipation Notes Payable	25,700,000	24,563,940
Green Acres Loans Payable	1,474,387	1,840,815
Improvement Authorizations		
Funded	2,055,442	2,053,658
Unfunded	968,853	1,149,756
Contracts Payable	128,468	882,445
Due to Current Fund	7	311
Capital Improvement Fund	65,979	60,979
Reserve for Emergency Vehicles	4,240	4,240
Reserve for Road Improvements	152,250	132,250
Reserve for Rescue Squad Loan	-	21,983
Reserve for Green Acres Settlement	502,541	484,000
Fund Balance	<u>510,804</u>	<u>571,669</u>
 Total Liabilities, Reserves and Fund Balance	 <u>\$ 56,985,971</u>	 <u>\$ 58,739,046</u>

There were bonds and notes authorized but not issued at December 31, 2016 and 2015 of \$2,491,180 and \$3,963,612 respectively.

TOWNSHIP OF READINGTON
COMPARATIVE STATEMENTS OF CHANGES IN FUND BALANCE - REGULATORY BASIS
GENERAL CAPITAL FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Fund Balance, January 1	\$ 571,669	\$ 350,516
Increased By:		
Received from Rescue Squad	22,112	23,410
Cash Receipts	48,163	
Premium on Sale of Bonds and Notes	<u>352,604</u>	<u>522,743</u>
	994,548	896,669
Decreased By:		
Amount Anticipated in Current Fund Budget	<u>483,744</u>	<u>325,000</u>
Fund Balance, December 31	<u>\$ 510,804</u>	<u>\$ 571,669</u>

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 400,113	\$ 341,079
	<u>400,113</u>	<u>341,079</u>
Receivables With Full Reserves		
Consumer Accounts Receivable	<u>102,240</u>	<u>104,081</u>
	<u>102,240</u>	<u>104,081</u>
Total Assets	<u>\$ 502,353</u>	<u>\$ 445,160</u>
LIABILITIES, RESERVES AND FUND BALANCE		
Appropriation Reserves	\$ 61,096	\$ 29,835
Accounts Payable	11,588	-
Sewer Overpayments	2,410	2,148
Due to Current Fund	<u>-</u>	<u>6,884</u>
	75,094	38,867
Reserve for Receivables	102,240	104,081
Fund Balance	<u>325,019</u>	<u>302,212</u>
Total Liabilities, Reserves and Fund Balance	<u>\$ 502,353</u>	<u>\$ 445,160</u>

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
SEWER UTILITY EXPANSION TRUST FUND
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash	\$ 389,957	\$ 376,388
Total Assets	<u>\$ 389,957</u>	<u>\$ 376,388</u>
LIABILITIES, RESERVES AND FUND BALANCE		
Reserve for Sewer Expansion	\$ 389,957	\$ 376,388
Total Liabilities, Reserves and Fund Balance	<u>\$ 389,957</u>	<u>\$ 376,388</u>

TOWNSHIP OF READINGTON
COMPARATIVE STATEMENTS OF OPERATIONS AND CHANGES IN OPERATING FUND BALANCE
REGULATORY BASIS - SEWER UTILITY OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
REVENUE AND OTHER INCOME REALIZED		
Fund Balance Utilized	\$ 57,992	\$ 121,489
Rents	1,388,663	1,377,110
Miscellaneous Revenue Anticipated	8,798	8,750
User Fees from Other Contracts	216,160	216,160
Other Credits to Income:		
Reserve for Hook-Ups Cancelled	-	3,720
Sewer Overpayments Cancelled	107	
Unexpended Balance of Appropriation Reserves	<u>71</u>	<u>11,249</u>
Total Revenues	<u>1,671,791</u>	<u>1,738,478</u>
EXPENDITURES		
Operating		
Salaries and Wages	33,000	75,000
Other Expenses	70,000	50,000
Service Fees	1,477,380	1,408,877
Deferred Charges and Statutory Expenditures	10,612	10,612
Surplus (General Budget)	<u>-</u>	<u>100,000</u>
Total Expenditures	<u>1,590,992</u>	<u>1,644,489</u>
Statutory Excess to Fund Balance	80,799	93,989
FUND BALANCE, JANUARY 1	<u>302,212</u>	<u>329,712</u>
	383,011	423,701
Decreased by:		
Utilized by Sewer Operating Budget	<u>57,992</u>	<u>121,489</u>
FUND BALANCE, DECEMBER 31	<u>\$ 325,019</u>	<u>\$ 302,212</u>

TOWNSHIP OF READINGTON
COMPARATIVE STATEMENTS OF REVENUES - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>		<u>2015</u>	
	Anticipated		Anticipated	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Fund Balance Anticipated	\$ 57,992	\$ 57,992	\$ 121,489	\$ 121,489
Rents	1,325,000	1,388,663	1,300,000	1,377,110
User Fees from Other Contracts	200,000	216,160	215,000	216,160
Miscellaneous Charges	<u>8,000</u>	<u>8,798</u>	<u>8,000</u>	<u>8,750</u>
	<u>\$ 1,590,992</u>	<u>\$ 1,671,613</u>	<u>\$ 1,644,489</u>	<u>\$ 1,723,509</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**TOWNSHIP OF READINGTON
STATEMENT OF EXPENDITURES - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2016**

	2016		2016 Expended	
	<u>Appropriated</u>		<u>Paid or</u>	<u>Reserved</u>
	<u>Budget</u>	<u>Budget After</u> <u>Modification</u>	<u>Charged</u>	
OPERATING				
Salaries	\$ 75,000	\$ 33,000	\$ 33,000	-
Other Expenses	70,000	70,000	59,520	\$ 10,480
Service Fees - RLSA	1,235,380	1,235,380	1,235,380	-
Service Fees - RTMUA	200,000	242,000	191,384	50,616
DEFERRED CHARGES AND STATUTORY EXPENDITURES				
Statutory Charges:				
Contribution to:				
Public Employee Retirement System	4,875	4,875	4,875	-
Social Security System (O.A.S.I.)	<u>5,737</u>	<u>5,737</u>	<u>5,737</u>	<u>-</u>
Total Water Utility Appropriations	<u>\$ 1,590,992</u>	<u>\$ 1,590,992</u>	<u>\$ 1,529,896</u>	<u>\$ 61,096</u>

**STATEMENT OF EXPENDITURES - REGULATORY BASIS
SEWER UTILITY OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	2015		2015 Expended	
	<u>Appropriated</u>		<u>Paid or</u>	<u>Reserved</u>
	<u>Budget</u>	<u>Budget After</u> <u>Modification</u>	<u>Charged</u>	
OPERATING				
Salaries	\$ 75,000	\$ 75,000	\$ 75,000	\$ -
Other Expenses	50,000	50,000	49,624	376
Service Fees - RLSA	1,208,877	1,208,877	1,208,877	-
Service Fees - RTMUA	200,000	200,000	170,541	29,459
DEFERRED CHARGES AND STATUTORY EXPENDITURES				
Statutory Charges:				
Contribution to:				
Public Employee Retirement System	4,875	4,875	4,875	-
Social Security System (O.A.S.I.)	<u>5,737</u>	<u>5,737</u>	<u>5,737</u>	<u>-</u>
Surplus (General Budget)	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>-</u>
Total Water Utility Appropriations	<u>\$ 1,644,489</u>	<u>\$ 1,644,489</u>	<u>\$ 1,614,654</u>	<u>\$ 29,835</u>

The Accompanying Notes are an Integral Part of these Financial Statements

**TOWNSHIP OF READINGTON
COMPARATIVE BALANCE SHEETS - REGULATORY BASIS
GENERAL FIXED ASSETS ACCOUNT GROUP
AS OF DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
ASSETS		
General Fixed Assets		
Land and Land Improvements	\$ 29,492,565	\$ 29,492,565
Buildings and Building Improvements	7,168,022	7,147,232
Vehicles and Machinery and Equipment	<u>10,533,478</u>	<u>9,453,300</u>
	<u>\$ 47,194,065</u>	<u>\$ 46,093,097</u>
 LIABILITIES		
Investment in General Fixed Assets	<u>\$ 47,194,065</u>	<u>\$ 46,093,097</u>

NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Township of Readington (the "Township") was incorporated in 1798 and operates under an elected Mayor and Council form of government. The five council members are elected at-large, for staggered terms of three years. The Council elects a Mayor and Deputy Mayor each for a term of one year. The Mayor is the Chief Executive Officer of the Township and as such presides over all public meetings and makes appointments to various boards. The Township Council exercises all legislative powers including final adoption of the municipal budget and bond ordinances and confirmation of the Mayor's appointments, and all executive authority which is not specifically provided to the Mayor, by state law. A Township Administrator is appointed by the Township Council and is responsible for the implementation of the policies of the Mayor and Council, for the administration of all Township affairs and for the day to day operations of the Township. The Township Administrator is the Chief Administrative Officer for the Township. The Township's major operations include public safety, road repair and maintenance, sanitation, fire protection, recreation and parks, health services, and general administrative services.

GASB requires the financial reporting entity to include both the primary government and component units. Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Township is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Township in that the Township approves the budget, the issuance of debt or the levying of taxes. The Township is not includable in any other reporting entity as a component unit.

The financial statements contained herein include only those boards, bodies, officers or commissions as required by NJS 40A:5-5. Accordingly, the financial statements of the Township do not include the volunteer fire companies or rescue squad, which are considered component units under GAAP. Complete financial statements of the above component units can be obtained by contacting the Treasurer of the respective entity.

B. Description of Regulatory Basis of Accounting

The financial statements of the Township of Readington have been prepared on a basis of accounting in conformity with accounting principles and practices prescribed or permitted by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") which is a regulatory basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Township accounts for its financial transactions through separate funds, which differ from the fund structure required by GAAP.

The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB has adopted accounting statements to be used by governmental units when reporting financial position and results of operations in accordance with accounting principles generally accepted in the United States of America. (GAAP). The municipalities in the State of New Jersey do not prepare financial statements in accordance with GAAP and thus do not comply with all of the GASB pronouncements.

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

The Township uses funds, as required by the Division, to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial administration by segregating transactions related to certain Township functions or activities. The Township also uses an account group, which is designed to provide accountability for certain assets that are not recorded in those Funds.

The Township has the following funds and account group:

Current Fund – This fund is used to account for the revenues and expenditures for governmental operations of a general nature and the assets and liabilities related to such activities, including Federal and State grants not accounted for in another fund.

Trust Funds - These funds are used to account for assets held by the government in a trustee capacity. Funds held by the Township as an agent for individuals, private organizations, or other governments are recorded in the Trust Funds.

Animal Control Fund - This fund is used to account for fees collected from dog and cat licenses and expenditures which are regulated by NJS 4:19-15.11.

Other Trust Fund - This fund is established to account for the assets and resources, which are held by the Township as a trustee or agent for individuals, private organizations, other governments and/or other funds. These funds include dedicated fees/proceeds collected, open space taxes, developer deposits, payroll related deposits and funds deposited with the Township as collateral.

Length of Service Awards Program Fund (LOSAP) – This fund is established to account for the tax-deferred income benefits to active volunteer members of emergency service organizations of the Township.

General Capital Fund – This fund is used to account for the receipt and disbursement of funds used and related financial transactions related to the acquisition or improvement of general capital facilities and other capital assets, other than those acquired in the Current Fund.

Sewer Utility Fund - This fund is used to account for the revenues and expenditures for the operation of the Township's sanitary sewerage system and the assets and liabilities relative to such activities.

Sewer Utility Expansion Trust Fund – This fund is used to account for the receipt and disbursement of funds for future sewer utility expansion.

General Fixed Assets Account Group - This account group is used to account for all general fixed assets of the Township. The Township's infrastructure is not reported in the account group.

Comparative Data - Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Township's financial position and operations. However, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

Reclassifications - Certain reclassifications may have been made to the December 31, 2015 balances to conform to the December 31, 2016 presentation.

Financial Statements – Regulatory Basis

The GASB Codification also requires the financial statements of a governmental unit to be presented in the basic financial statements in accordance with GAAP. The Township presents the regulatory basis financial statements listed in the table of contents which are required by the Division and which differ from the basic financial statements required by GAAP. In addition, the Division requires the regulatory basis financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from reporting requirements under GAAP.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the accounting principles and practices prescribed by the Division in accordance with the regulatory basis of accounting. Measurement focus indicates the type of resources being measured. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Township of Readington follows a modified accrual basis of accounting. Under this method of accounting, revenues, except State/Federal Aid, are recognized when received and expenditures are recorded when incurred. The accounting principles and practices prescribed or permitted for municipalities by the Division (“regulatory basis of accounting”) differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. The more significant differences are as follows:

Cash and Investments - Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the government. Investments are reported at cost and are limited by N.J.S.A. 40A:5-15.1 et seq. with the exception of LOSAP Trust Fund investments which are reported at fair value and are limited by N.J.A.C. 5:30-14.19. GAAP requires that all investments be reported at fair value.

Inventories - The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the various balance sheets. GAAP requires inventories to be recorded as assets in proprietary-type funds.

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Property Tax Revenues/Receivables - Real property taxes are assessed locally, based upon the assessed value of the property. The tax bill includes a levy for Municipal, County, and School purposes. The bills are mailed annually in June for that calendar year's levy. Taxes are payable in four quarterly installments on February 1, May 1, August 1, and November 1. The amounts of the first and second installments are determined as one-quarter of the total tax levied against the property for the preceding year. The installment due the third and fourth quarters is determined by taking the current year levy less the amount previously charged for the first and second installments, with the remainder being divided equally. If unpaid on these dates, the amount due becomes delinquent and subject to interest at 8% per annum, or 18% on any delinquency amount in excess of \$1,500. A penalty of up to 6% of the delinquency may be imposed on a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the fiscal year in which the charges become delinquent. The school levy is turned over to the Board of Education as expenditures are incurred, and the balance, if any, must be transferred as of December 31, of each fiscal year. County taxes are paid quarterly on February 15, May 15, August 15 and November 15, to the County by the Township. When unpaid taxes or any municipal lien, or part thereof, on real property, remains in arrears on April first in the year following the calendar year levy when the same became in arrears, the collector in the municipality shall, subject to the provisions of the New Jersey Statutes, enforce the lien by placing the property on a standard tax sale. The Township also has the option when unpaid taxes or any municipal lien, or part thereof, on real property remains in arrears on the 11th day of the eleventh month in the fiscal year when the taxes or lien became in arrears, the collector in the municipality shall, subject to the provisions of the New Jersey Statutes, enforce the lien by placing property on an accelerated tax sale, provided that the sale is conducted and completed no earlier than in the last month of the fiscal year. The Township may institute annual in rem tax foreclosure proceedings to enforce the tax collection or acquisition of title to the property. In accordance with the accounting principles prescribed by the State of New Jersey, current and delinquent taxes are realized as revenue when collected. Since delinquent taxes and liens are fully reserved, no provision has been made to estimate that portion of the tax receivable and tax title liens that are uncollectible. GAAP requires property tax revenues to be recognized in the accounting period when they become susceptible to accrual (i.e., when they are both levied and available), reduced by an allowance for doubtful accounts.

Miscellaneous Revenues/Receivables - Miscellaneous revenues are recognized on a cash basis. Receivables for the miscellaneous items that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the Township's Current Fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual (i.e., when they are both measurable and available).

Utility Revenues/Receivables - Utility charges are levied quarterly based upon a flat service charge and if applicable, an excess consumption or usage charge. Revenues from these sources are recognized on a cash basis. Receivables that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the Township's sewer utility operating fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Grant and Similar Award Revenues/Receivables - Federal and State grants, entitlements or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the Township's budget. GAAP requires such revenues to be recognized as soon as all eligibility requirements imposed by the grantor or provider have been met.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves, which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves. GAAP does not require the establishment of an offsetting reserve for interfunds and, therefore, does not recognize income in the year liquidated.

Deferred Charges – Certain expenditures and other items are required to be deferred to budgets of succeeding years. GAAP requires expenditures and certain other items generally to be recognized when incurred, if measurable.

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

Expenditures – Expenditures are recorded on the "budgetary" basis of accounting. Generally, expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with an encumbrance accounting system. Outstanding encumbrances at December 31, are reported as a cash liability in the financial statements. Unexpended or uncommitted appropriations, at December 31, are reported as expenditures through the establishment of appropriation reserves unless cancelled by the governing body. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, as well as expenditures related to compensated absences and claims and judgements, which are recognized when due.

Encumbrances - Contractual orders outstanding at December 31, are reported as expenditures and liabilities through the establishment of an encumbrance payable. Encumbrances do not constitute expenditures or liabilities under GAAP.

Compensated Absences - Expenditures relating to obligations for unused vested accumulated vacation and sick leave are not recorded until paid; however, municipalities may establish and budget reserve funds subject to NJSA 40A:4-39 for the future payment of compensated absences. GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining obligations are recorded as a long-term obligation in the government-wide financial statements.

Tax Appeals and Other Contingent Losses - Losses arising from tax appeals and other contingent losses are recognized at the time a decision is rendered by an administrative or judicial body; however, municipalities may establish reserves transferred from tax collections or by budget appropriation for future payments of tax appeal losses. GAAP requires such amounts to be recorded when it is probable that a loss has been incurred and the amount of such loss can be reasonably estimated.

General Fixed Assets - In accordance with NJAC 5:30-5.6, Accounting for Governmental Fixed Assets, the Township of Readington has developed a fixed assets accounting and reporting system. Fixed assets are defined by the Township as assets with an initial, individual cost of \$5,000 and an estimated useful life in excess of two years.

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

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

General Fixed Assets (Continued)

General Fixed Assets purchased after December 31, 2016 will be stated as cost. Donated fixed assets are recorded at estimated fair market value at the date of donation.

General Fixed Assets purchased prior to December 31, 2016 are stated as follows:

Land and Buildings	Assessed Value
Machinery and Equipment	Estimated Historical Cost

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the General Capital Fund until such time as the construction is completed and put into operation for general fixed assets.

GAAP requires that capital assets be recorded in proprietary-type funds as well as the government-wide financial statement at historical or estimated historical cost if actual historical cost is not available. In addition, GAAP requires depreciation on capital assets to be recorded in proprietary-type funds as well as in the government-wide financial statements.

Use of Estimates - The preparation of financial statements requires management of the Township to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of accrued revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Budgets and Budgetary Accounting** - An annual budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures. Budget amounts presented in the accompanying financial statements represent amounts adopted by the Township and approved by the State Division of Local Government Services as per N.J.S.A. 40A:4 et seq.

The Township is not required to adopt budgets for the following funds:

Other Trust Fund (Except Open Space Preservation Trust Fund)
General Capital Fund
Sewer Utility Expansion Trust Fund

The governing body is required to introduce and approve the annual budget no later than February 10, of the fiscal year. The budget is required to be adopted no later than March 20, and prior to adoption must be certified by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The Director of the Division of Local Government Services, with the approval of the Local Finance Board may extend the introduction and approval and adoption dates of the municipal budget. The budget is prepared by fund, function, activity and line item (salary or other expense) and includes information on the previous year. The legal level of control for appropriations is exercised at the individual line item level for all operating budgets adopted. The governing body of the municipality may authorize emergency appropriations and the inclusion of certain special items of revenue to the budget after its adoption and determination of the tax rate. During the last two months of the fiscal year, the governing body may, by a 2/3 vote; amend the budget through line item transfers. Management has no authority to amend the budget without the approval of the governing body. Expenditures may not legally exceed budgeted appropriations at the line item level. During 2016 and 2015 the Township Council increased the original budget by \$265,135 and \$108,067, respectively. The 2016 increase was funded by additional aid allotted to the Township of \$80,135 as well as an emergency resolution for \$185,000. The 2015 increase was funded by additional aid allotted to the Township. In addition, the governing body approved several budget transfers during 2016 and 2015.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess Expenditures Over Appropriations

The following is a summary of expenditures in excess of available appropriations. The overexpended appropriations resulted in an unfavorable variance.

<u>2016</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Current Fund			
Legal Services and Costs			
Other Expenses	<u>\$560,000</u>	<u>\$1,060,743</u>	<u>\$500,743</u>

In accordance with the regulatory basis of accounting, the above variances or overexpenditures were recorded as deferred charges on the balance sheet of the respective fund at year end and are required to be funded in the succeeding year's budget. GAAP does not permit the deferral of overexpenditures at year end.

NOTE 3 CASH DEPOSITS AND INVESTMENTS

The Township considers petty cash, change funds, cash in banks, certificates of deposit and deposits with the New Jersey Cash Management Fund as cash and cash equivalents.

A. Cash Deposits

The Township's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Township is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At December 31, 2016 and 2015, the book value of the Township's deposits were \$12,809,742 and \$12,081,602 and bank and brokerage firm balances of the Township's deposits amounted to \$13,004,305 and \$12,083,954, respectively. The Township's deposits which are displayed on the various fund balance sheets as "cash" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2016</u>	<u>2015</u>
Insured	\$ 12,713,507	\$ 11,794,330
Uninsured and Collateralized		
Collateral held by pledging financial institution's trust		
department not in the Township's name	<u>290,798</u>	<u>289,624</u>
	<u>\$ 13,004,305</u>	<u>\$ 12,083,954</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 CASH DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Township does not have a formal policy for custodial credit risk. As of December 31, 2016 and 2015, the Township's bank balances of \$290,798 and \$289,624 were exposed to custodial credit risk as follows:

<u>Depository Account</u>	<u>2016</u>	<u>2015</u>
Uninsured and Collateralized		
Collateral held by pledging financial institution's trust department not in the Township's name	\$ 290,798	\$ 289,624

B. Investments

The Township is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 40A:5-15.1. Investments include bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the Township or bonds or other obligations of the school districts which are a part of the Township or school districts located within the Township, Local Government investment pools, and agreements for the repurchase of fully collateralized securities, if transacted in accordance with NJSA 40A:5-15.1 (8a-8e). In addition, the Township is permitted to invest LOSAP Funds with the types of eligible investments authorized in NJAC 5:30-14.19. LOSAP investments include interest bearing accounts or securities, in which savings banks of New Jersey are authorized to invest their funds, New Jersey Cash Management Fund, fixed and variable individual or group annuity contracts, mutual fund shares or fixed and variable life insurance contracts.

As of December 31, 2016 and 2015, the Township had the following investments:

	<u>Fair Value (Unaudited)</u>	
	<u>2016</u>	<u>2015</u>
Investment:		
U.S. Government Securities		
Length of Service Awards Program	\$ 1,533,530	\$ 1,377,626

Custodial Credit Risk – Investments – For an investment, this is the risk, that in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are held by an outside party. The Township does not have a policy for custodial risk. As of December 31, 2016 and 2015, \$1,533,530 and \$1,377,626 of the Township's investments was exposed to custodial credit risk as follows:

	<u>Fair Value (Unaudited)</u>	
	<u>2016</u>	<u>2015</u>
Uninsured and Uncollateralized	\$ 1,533,530	\$ 1,377,626

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 3 CASH DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Interest Rate Risk – The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – State law limits investments as noted above (N.J.S.A. 40A:5-15.1). The Township does not have an investment policy that would further limit its investment choices. As of December 31, 2016 and 2015, the Township's investment in Lincoln Financial, a subsidiary of Lincoln National Corporation, was rated Baa1 and Baa1 by Moody's Investors Services, respectively.

Concentration of Credit Risk – The Township places no limit in the amount the Township may invest in any one issuer. More than five (5) percent of the Township's investments are in Lincoln Financial. These investments are 100% of the Township's total investments.

The fair value of the above-listed investments were based on quoted market prices.

Interest earned in the General Capital Fund, Animal Control Fund and certain Other Trust Funds are assigned to the Current Fund in accordance with the regulatory basis of accounting.

NOTE 4 TAXES AND UTILITY CHARGES AND FEES RECEIVABLE

Receivables at December 31, 2016 consisted of the following:

	<u>Current</u>	<u>Sewer Utility</u>	<u>Total</u>
<u>2016</u>			
Property Taxes	\$ 702,441		\$ 702,441
Tax Title Liens	108,472		108,472
Utility Charges and Fees	<u>-</u>	<u>\$ 102,240</u>	<u>102,240</u>
	<u>\$ 810,913</u>	<u>\$ 102,240</u>	<u>\$ 913,153</u>

In 2016, the Township collected \$899,452 and \$104,081 from delinquent taxes and utility charges and fees, which represented 74% and 100% of the delinquent tax and sewer charges receivable at December 31, 2015.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 TAXES AND UTILITY CHARGES AND FEES RECEIVABLE (Continued)

Receivables at December 31, 2015 consisted of the following:

	<u>Current</u>	<u>Sewer Utility</u>	<u>Total</u>
<u>2015</u>			
Property Taxes	\$ 1,114,876		\$ 1,114,876
Tax Title Liens	105,482		105,482
Utility Charges and Fees	<u>-</u>	<u>\$ 104,081</u>	<u>104,081</u>
	<u>\$ 1,220,358</u>	<u>\$ 104,081</u>	<u>\$ 1,324,439</u>

In 2015, the Township collected \$796,268 and \$109,388 from delinquent taxes and utility charges and fees, which represented 61% and 100% of the delinquent tax and sewer charges receivable at December 31, 2014.

NOTE 5 DUE TO/FROM OTHER FUNDS

As of December 31, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Current Fund:				
Regular	\$ 7	\$ 21,975	\$ 7,195	\$ 38,101
Grants	21,975		38,101	
General Capital Fund		7		311
Sewer Utility Fund:				
Operating	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,884</u>
Total	<u>\$ 21,982</u>	<u>\$ 21,982</u>	<u>\$ 45,296</u>	<u>\$ 45,296</u>

The above balances are the result of expenditures being paid by one fund on behalf of another and/or revenue earned by one fund and due to another fund.

The Township expects all interfund balances to be liquidated within one year.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 6 DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS

Under the regulatory basis of accounting, certain expenditures are required to be deferred to budgets of succeeding years. At December 31, the following deferred charges are reported on the balance sheets of the following funds:

	<u>Balance December 31,</u>	<u>Budget Appropriation</u>	<u>Balance</u>
<u>2016</u>			
Current Fund			
Overexpenditure of Appropriation	\$ 500,743	\$ 500,743	
Emergency Authorization	<u>185,000</u>	<u>185,000</u>	<u>-</u>
	<u>\$ 685,743</u>	<u>\$ 685,743</u>	<u>\$ -</u>

NOTE 7 FUND BALANCES APPROPRIATED

Under the regulatory basis of accounting, fund balances in the Current Fund and Utility Operating Fund are comprised of cash surplus (fund balance) and non-cash surplus (fund balance). All or part of cash surplus as of December 31 may be anticipated in the subsequent year's budget. The non-cash surplus portion of fund balance may be utilized in the subsequent year's budget with the prior written consent of the Director of the Division of Local Government Services if certain guidelines are met as to its availability. Fund balances at December 31, which were appropriated and included as anticipated revenue in their own respective fund's budget for the succeeding year were as follows:

	<u>2016</u>		<u>2015</u>	
	<u>Fund Balance December 31,</u>	<u>Utilized in Subsequent Year's Budget (A)</u>	<u>Fund Balance December 31,</u>	<u>Utilized in Subsequent Year's Budget</u>
Current Fund				
Cash Surplus	\$ 1,910,910	\$ 1,756,000	\$ 2,060,911	\$ 1,055,000
Non-Cash Surplus	<u>743,777</u>	<u>-</u>	<u>49,146</u>	<u>-</u>
	<u>\$ 2,654,687</u>	<u>\$ 1,756,000</u>	<u>\$ 2,110,057</u>	<u>\$ 1,055,000</u>
Sewer Utility Operating Fund				
Cash Surplus	<u>\$ 325,019</u>	<u>\$ 81,390</u>	<u>\$ 302,212</u>	<u>\$ 57,992</u>
	<u>\$ 325,019</u>	<u>\$ 81,390</u>	<u>\$ 302,212</u>	<u>\$ 57,992</u>

(A) The above fund balance amounts appropriated represents the fund balance anticipated in the 2017 introduced municipal budget. The 2017 municipal budget has not been legally adopted as of the date of audit.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 8 FIXED ASSETS

General Fixed Assets

The following is a summary of changes in the general fixed assets account group for the years ended December 31, 2016 and 2015.

	Balance December 31, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2016</u>
<u>2016</u>				
Land and Land Improvements	\$ 29,492,565	\$ -		\$ 29,492,565
Buildings and Building Improvements	7,147,232	20,790		7,168,022
Machinery and Equipment	<u>9,453,300</u>	<u>1,080,178</u>	<u>\$ -</u>	<u>10,533,478</u>
	<u>\$ 46,093,097</u>	<u>\$ 1,100,968</u>	<u>\$ -</u>	<u>\$ 47,194,065</u>
	Balance December 31, <u>2014</u> (Restated)	<u>Increases</u>	<u>Decreases</u>	Balance, December 31, <u>2015</u>
<u>2015</u>				
Land and Land Improvements	\$ 29,454,565	\$ 38,000		\$ 29,492,565
Buildings and Building Improvements	7,077,492	69,740		7,147,232
Machinery and Equipment	<u>8,084,452</u>	<u>1,399,199</u>	<u>\$ 30,351</u>	<u>9,453,300</u>
	<u>\$ 44,616,509</u>	<u>\$ 1,506,939</u>	<u>\$ 30,351</u>	<u>\$ 46,093,097</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 MUNICIPAL DEBT

The Local Bond Law governs the issuance of bonds and notes used to finance capital expenditures. General obligation bonds have been issued for both general capital and utility capital fund projects. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Township are general obligation bonds, backed by the full faith and credit of the Township. Bond anticipation notes, which are issued to temporarily finance capital projects, must be paid off within ten years and four months or retired by the issuance of bonds.

The Township's debt is summarized as follows:

	<u>2016</u>	<u>2015</u>
Issued		
General		
Bonds, Notes and Loans	\$ 52,597,387	\$ 53,377,755
Less Funds Temporarily Held to Pay Bonds and Notes	<u>325,011</u>	<u>787,018</u>
Net Debt Issued	52,272,376	52,590,737
Authorized But Not Issued		
General		
Bonds and Notes	<u>2,491,180</u>	<u>3,963,612</u>
Net Bonds and Notes Issued and Authorized But Not Issued	<u>\$ 54,763,556</u>	<u>\$ 56,554,349</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 MUNICIPAL DEBT (Continued)

Statutory Net Debt

The statement of debt condition that follows is extracted from the Township's Annual Debt Statement and indicates a statutory net debt of 1.76% and 1.84% at December 31, 2016 and 2015, respectively.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
<u>2016</u>			
General Debt	\$ 55,088,567	\$ 325,011	\$ 54,763,556
Local School Debt	19,410,000	19,410,000	-
Regional School Debt	<u>3,387,945</u>	<u>3,387,945</u>	<u>-</u>
Total	<u>\$ 77,886,512</u>	<u>\$ 23,122,956</u>	<u>\$ 54,763,556</u>

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
<u>2015</u>			
General Debt	\$ 57,341,367	\$ 787,018	\$ 56,554,349
Local School Debt	20,070,000	20,070,000	-
Regional School Debt	<u>4,018,845</u>	<u>4,018,845</u>	<u>-</u>
Total	<u>\$ 81,430,212</u>	<u>\$ 24,875,863</u>	<u>\$ 56,554,349</u>

Statutory Borrowing Power

The Township's remaining borrowing power under N.J.S. 40A:2-6, as amended, at December 31, was as follows:

	<u>2016</u>	<u>2015</u>
3-1/2% of Equalized Valuation Basis (Municipal)	\$ 109,009,373	\$ 107,592,070
Less: Net Debt	<u>54,763,556</u>	<u>56,554,349</u>
Remaining Borrowing Power	<u>\$ 54,245,817</u>	<u>\$ 51,037,721</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt

The Township's long-term debt consisted of the following at December 31:

General Obligation Bonds

The Township levies ad valorem taxes to pay debt service on general obligation bonds. General obligation bonds outstanding at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
\$11,000,000, 2011 General Improvement Bonds, due in annual installments of \$265,000 to \$875,000 through February 1, 2031, interest at 4.2% to 5.0 %	\$ 8,735,000	\$ 9,455,000
\$7,945,000, 2014 Refunding Bonds, due in annual installments of \$725,000 to \$960,000 through July 1, 2025, interest at 4.00% to 5.00%	7,615,000	7,945,000
\$9,573,000, 2015 General Improvement Bonds, due in annual installments of \$550,000 to \$1,000,000 through February 1, 2028, interest at 2.00% to 3.00%	<u>9,073,000</u>	<u>9,573,000</u>
Total	<u>\$ 25,423,000</u>	<u>\$ 26,973,000</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt (Continued)

General Intergovernmental Loans Payable

The Township has entered into various loan agreements with the State of New Jersey for the financing relating to the acquisition of various properties and infrastructure improvements. The Township levies ad valorem taxes to pay debt service on general intergovernmental loans issued. General intergovernmental loans outstanding at December 31 are as follows:

	<u>2016</u>	<u>2015</u>
\$169,347 ,1998 "Rockaway Creek" Loan, due in semi-annual installments of \$5,162 to \$5,213 through 2017, interest at 2.00%	\$ 10,375	\$ 20,545
\$1,000,000 ,2002 "Incentive" Loan, due in semi-annual installments of \$29,984 to \$32,147 through 2020, interest at 2.00%	248,435	307,515
\$2,250,000 ,2001 "Greenway Acquisition" Loan, due in semi-annual installments of \$71,816 to \$73,992 through 2018, interest at 1.00%	291,603	433,109
\$500,000 ,2002 "Summer Road Park" Loan, due in semi-annual installments of \$14,073 to \$15,392 through 2021, interest at 1.00%	147,239	174,969
\$1,271,572 ,2001 "NJ Infrastructure-Dreahook Road " Loan, due in semi-annual installments of \$768 to \$83,120 through 2021, interest at variable rate	392,371	466,671
\$285,829 ,2003 "NJ Infrastructure-2003 " Loan, due in semi-annual installments of \$196 to \$14,599 through 2023, interest at variable rate	103,714	119,984
\$672,696 ,2004 "NJ Infrastructure-2004" Loan, due in semi-annual installments of \$414 to \$44,382 through 2024, interest at variable rate	<u>280,650</u>	<u>318,022</u>
Total	<u>\$ 1,474,387</u>	<u>\$ 1,840,815</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt (Continued)

The Township's principal and interest for long-term debt issued and outstanding as of December 31, 2016 is as follows:

Calendar Year	General				
	Bonds		Loans		Total
	Principal	Interest	Principal	Interest	
2017	\$ 1,615,000	\$ 974,886	\$ 368,842	\$ 29,453	\$ 2,988,181
2018	1,700,000	920,487	368,798	21,905	3,011,190
2019	1,760,000	863,686	220,609	14,915	2,859,210
2020	1,835,000	802,436	219,647	10,063	2,867,146
2021	1,900,000	742,461	161,770	5,610	2,809,841
2022-2026	10,238,000	2,585,643	134,721	3,800	12,962,164
2027-2031	<u>6,375,000</u>	<u>660,391</u>	<u>-</u>	<u>-</u>	<u>7,035,391</u>
Total	<u>\$ 25,423,000</u>	<u>\$ 7,549,990</u>	<u>\$ 1,474,387</u>	<u>\$ 85,746</u>	<u>\$ 34,533,123</u>

Changes in Long-Term Municipal Debt

The Township's long-term capital debt activity for the years ended December 31, 2016 and 2015 were as follows:

	Balance, December 31, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2016</u>	Due Within <u>One Year</u>
<u>2016</u>					
General Capital Fund					
Bonds Payable	\$ 26,973,000		\$ 1,550,000	\$ 25,423,000	\$ 1,615,000
Intergovernmental Loans Payable	<u>1,840,815</u>	<u>-</u>	<u>366,428</u>	<u>1,474,387</u>	<u>368,842</u>
General Capital Fund Long-Term Liabilities	<u>\$ 28,813,815</u>	<u>\$ -</u>	<u>\$ 1,916,428</u>	<u>\$ 26,897,387</u>	<u>\$ 1,983,842</u>

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 MUNICIPAL DEBT (Continued)

A. Long-Term Debt (Continued)

Changes in Long-Term Municipal Debt (Continued)

	Balance, December 31, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2015</u>	Due Within <u>One Year</u>
<u>2015</u>					
General Capital Fund					
Bonds Payable	\$ 18,445,000	\$ 9,573,000	\$ 1,045,000	\$ 26,973,000	\$ 1,550,000
Intergovernmental Loans Payable	<u>2,223,656</u>	<u>-</u>	<u>382,841</u>	<u>1,840,815</u>	<u>366,428</u>
General Capital Fund Long-Term Liabilities	<u>\$ 20,668,656</u>	<u>\$ 9,573,000</u>	<u>\$ 1,427,841</u>	<u>\$ 28,813,815</u>	<u>\$ 1,916,428</u>

B. Short-Term Debt

The Township's short-term debt activity for the years ended December 31, 2016 and 2015 was as follows:

Bond Anticipation Notes

<u>Purpose</u>	<u>Ord.</u>	Rate <u>(%)</u>	Maturity <u>Date</u>	Balance, December 31, <u>2015</u>	Renewed/ <u>Issued</u>	Retired/ <u>Redeemed</u>	Balance, December 31, <u>2016</u>
<u>2016</u>							
Acquisition of Property	06-04	1.00%	2/4/2016	\$ 20,611,073		\$ 20,611,073	
		2.00%	2/2/2017		\$20,336,073		\$ 20,336,073
Acquisition of Property	07-37	1.00%	2/4/2016	217,329		217,329	
		2.00%	2/2/2017		217,330		217,330
Acquisition of Property	09-22	1.00%	2/4/2016	1,447,092		1,447,092	
		2.00%	2/2/2017		660,074		660,074
Acquisition of Property	09-23	1.00%	2/4/2016	1,490,364		1,490,364	
		2.00%	2/2/2017		1,490,364		1,490,364

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 9 MUNICIPAL DEBT (Continued)

B. Short-Term Debt (Continued)

Bond Anticipation Notes (Continued)

<u>Purpose</u>	<u>Ord.</u>	<u>Rate</u> <u>(%)</u>	<u>Maturity</u> <u>Date</u>	Balance, December 31, <u>2015</u>	<u>Renewed/</u> <u>Issued</u>	<u>Retired/</u> <u>Redeemed</u>	Balance, December 31, <u>2016</u>
<u>2016</u>							
Acquisition of Property	09-29	1.00%	2/4/2016	\$ 243,518		\$ 243,518	
		2.00%	2/2/2017		\$ 236,652		\$ 236,652
COAH Property	09-31	1.00%	2/4/2016	74,275		74,275	
		2.00%	2/2/2017		71,029		71,029
Acquisition of Property	12-29	1.00%	2/4/2016	74,169		74,169	
		2.00%	2/2/2017		72,026		72,026
Acquisition of Property	14-21	1.00%	2/4/2016	406,120		406,120	
		2.00%	2/2/2017	-	406,120	-	406,120
Various Improvements	15-4	2.00%	2/2/2017		2,210,332		2,210,332
				-	-	-	-
				<u>\$ 24,563,940</u>	<u>\$ 25,700,000</u>	<u>\$ 24,563,940</u>	<u>\$ 25,700,000</u>

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 9 MUNICIPAL DEBT (Continued)

B. Short-Term Debt (Continued)

Bond Anticipation Notes (Continued)

<u>Purpose</u>	<u>Ord.</u>	<u>Rate</u> <u>(%)</u>	<u>Maturity</u> <u>Date</u>	Balance, December 31, <u>2014</u>	<u>Renewed/</u> <u>Issued</u>	<u>Retired/</u> <u>Redeemed</u>	Balance, December 31, <u>2015</u>
<u>2015</u>							
Acquisition of Property	06-04	1.00%	1/29/2015	\$ 20,877,073		\$ 20,877,073	
		1.00%	8/5/2015		\$ 20,611,073	20,611,073	
		1.00%	2/4/2016		20,611,073		\$ 20,611,073
Acquisition of Property	06-41	1.00%	1/29/2015	539,872		539,872	
		1.00%	8/5/2015		477,873	477,873	
Acquisition of Property	07-37	1.00%	1/29/2015	271,409		271,409	
		1.00%	8/5/2015		217,329	217,329	
		1.00%	2/4/2016		217,329		217,329
Acquisition of Property	07-39	1.00%	1/29/2015	76,593		76,593	
		1.00%	8/5/2015		70,994	70,994	
Acquisition of Property	08-05	1.00%	1/29/2015	1,228,395		1,228,395	
		1.00%	8/5/2015		1,153,395	1,153,395	
Acquisition of Property	08-20	1.00%	1/29/2015	139,161		139,161	
		1.00%	8/5/2015		133,161	133,161	
Acquisition of Property	08-26	1.00%	1/29/2015	763,820		763,820	
		1.00%	8/5/2015		753,820	753,820	
Acquisition of Property	09-15	1.00%	1/29/2015	1,264,250		1,264,250	
		1.00%	8/5/2015		1,188,250	1,188,250	
Acquisition of Property	09-22	1.00%	1/29/2015	1,474,592		1,474,592	
		1.00%	8/5/2015		1,447,092	1,447,092	
		1.00%	2/4/2016		1,447,092		1,447,092

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 9 MUNICIPAL DEBT (Continued)

B. Short-Term Debt (Continued)

Bond Anticipation Notes (Continued)

<u>Purpose</u>	<u>Ord.</u>	<u>Rate</u> <u>(%)</u>	<u>Maturity</u> <u>Date</u>	Balance, December 31, <u>2014</u>	<u>Renewed/</u> <u>Issued</u>	<u>Retired/</u> <u>Redeemed</u>	Balance, December 31, <u>2015</u>
Acquisition of Property	09-23	1.00%	1/29/2015	\$ 1,510,366		\$ 1,510,366	
		1.00%	8/5/2015		\$ 1,490,364	1,490,364	
		1.00%	2/4/2016		1,490,364		\$ 1,490,364
Acquisition of Property	09-29	1.00%	1/29/2015	246,718		246,718	
		1.00%	8/5/2015		243,518	243,518	
		1.00%	2/4/2016		243,518		243,518
COAH Property	09-31	1.00%	1/29/2015	75,275		75,275	
		1.00%	8/5/2015		74,275	74,275	
		1.00%	2/4/2016		74,275		74,275
Sewer Improvements	10-09	1.00%	1/29/2015	105,951		105,951	
		1.00%	8/5/2015		104,451	104,451	
Various Road Improvements	10-13	1.00%	1/29/2015	922,500		922,500	
		1.00%	8/5/2015		868,500	868,500	
Various Improvements	11-09	1.00%	1/29/2015	1,255,900		1,255,900	
		1.00%	8/5/2015		1,031,801	1,031,801	
Various Improvements	12-15	1.00%	1/29/2015	1,022,830		1,022,830	
		1.00%	8/5/2015		1,022,830	1,022,830	
Acquisition of Property	12-29	1.00%	1/29/2015	25,295		25,295	
		1.00%	8/5/2015		74,169	74,169	
		1.00%	2/4/2016		74,169		74,169
Various Improvements	14-11	1.00%	8/5/2015		2,405,685	2,405,685	
Various Sewer Improvements	14-19	1.00%	8/5/2015		400,300	400,300	
Acquisition of Property	14-21	1.00%	8/5/2015		406,120	406,120	
		1.00%	2/4/2016	-	406,120	-	406,120
				<u>\$ 31,800,000</u>	<u>\$ 58,738,940</u>	<u>\$ 65,975,000</u>	<u>\$ 24,563,940</u>

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 9 MUNICIPAL DEBT (Continued)

B. Short-Term Debt (Continued)

Bond Anticipation Notes (Continued)

The purpose of these short-term borrowings was to provide resources for capital construction, acquisitions or improvement projects and other purposes permitted by State Local Bond Law NJSA 40A:2 et. seq. The amounts issued for governmental activities are accounted for in the General Capital Fund.

State law requires that notes are to be issued for a period not exceeding one year and may be renewed from time to time for additional periods, none of which shall exceed one year. All bond anticipation notes, including renewals, shall mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original notes. In addition any note renewed beyond the third anniversary date of the original note, requires one legally payable installment to be paid.

NOTE 10 CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of December 31, the Township had the following commitments with respect to unfinished capital projects:

	<u>Capital Project</u>	<u>Construction Commitment</u>	<u>Estimated Date of Completion</u>
<u>2016</u>			
	Road Resurfacing Project	62,400	2017
<u>2015</u>			
	Acquisition of Single Axle Dump Truck	\$171,713	2016
	KME Custom Heavy Duty Rescue Vehicle	536,589	2016
	Fire Apparatus Equipment	51,747	2016

NOTE 11 OTHER LONG-TERM LIABILITIES

Compensated Absences

Under the existing policies and labor agreements of the Township, employees are allowed to accumulate (with certain restrictions) unused sick leave over the life of their working careers and to redeem such unused leave time in cash (with certain limitations) upon death, retirement or by extended absence immediately preceding retirement.

It is estimated that the current cost of such unpaid compensation and salary related payments would approximate \$438,240 and \$394,239 at December 31, 2016 and 2015, respectively. These amounts which are considered material to the financial statements, are not reported either as an expenditure or liability.

Changes in Other Long-Term Liabilities

Under the regulatory basis of accounting, certain other long-term liabilities which may be considered material to the financial statements are not reported either as an expenditure or a liability. However, under the regulatory basis of accounting, these other long-term liabilities and related information are required to be disclosed in the footnotes to the financial statements in conformity with the disclosure requirements of the Governmental Accounting Standards Board.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 11 OTHER LONG-TERM LIABILITIES (Continued)

Changes in Other Long-Term Liabilities (Continued)

The Township's changes in other long-term liabilities for the years ended December 31, 2016 and 2015 were as follows:

	Balance, December 31, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2016</u>	Due Within <u>One Year</u>
<u>2016</u>					
Compensated Absences	\$ 394,239	\$ 44,001		\$ 438,240	
Net Pension Liability - PERS	8,724,234	1,997,195	\$ 395,472	10,325,957	
Net Pension Liability - PFRS	<u>7,871,220</u>	<u>3,597,685</u>	<u>533,649</u>	<u>10,935,256</u>	<u>-</u>
Total Other Long-Term Liabilities	<u>\$ 16,989,693</u>	<u>\$ 5,638,881</u>	<u>\$ 929,121</u>	<u>\$ 21,699,453</u>	<u>\$ -</u>
	Balance, December 31, <u>2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance, December 31, <u>2015</u>	Due Within <u>One Year</u>
<u>2015</u>					
Compensated Absences	\$ 371,639	\$ 22,600		\$ 394,239	
Net Pension Liability - PERS	8,414,448	693,925	\$ 384,139	8,724,234	
Net Pension Liability - PFRS	<u>8,293,649</u>	<u>58,182</u>	<u>480,611</u>	<u>7,871,220</u>	<u>-</u>
Total Other Long-Term Liabilities	<u>\$ 17,079,736</u>	<u>\$ 774,707</u>	<u>\$ 864,750</u>	<u>\$ 16,989,693</u>	<u>\$ -</u>

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all state and local government employees which includes those Township employees who are eligible for pension coverage.

Police and Firemen's Retirement System (PFRS) – established in July 1944, under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full time county and municipal police or firemen and State firemen appointed after December 31, 1944. Membership is mandatory for such employees with vesting occurring after 10 years of membership. PFRS is a cost-sharing multi-employer defined benefit pension plan.

Public Employees' Retirement System (PERS) – established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement healthcare for those eligible employees whose local employers elected to do so, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and, if applicable, 25 years for post-retirement healthcare coverage. PERS is a cost-sharing multi-employer defined benefit pension plan.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those Township employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership. This provision was extended by Chapter 1, P.L. 2010, effective May 21, 2010, to new employees (Tier 2) of the PFRS and new employees who would otherwise be eligible to participate in PERS and do not work the minimum required hours but earn a base salary of at least \$5,000 are eligible for participation in the DCRP. DCRP is a defined contribution pension plan.

Other Pension Funds

The state established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local governmental employers do not appropriate funds to SACT.

The State also administers the Pensions Adjustment Fund (PAF). Prior to the adoption of pension reform legislation, P.L. 2011, C.78, it provided cost of living increases equal to 60 percent of the change in the average consumer price index, to eligible retirees in some State-sponsored pension systems which includes the CPFPPF. Cost-of-living increases provided under the State's pension adjustment program are currently suspended as a result of the reform legislation. This benefit is funded by the State as benefit allowances become payable.

The cost of living increase for PFRS and PERS are funded directly by each of the respective systems, but are currently suspended as a result of reform legislation.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits and refunds are recognized when due and payable in accordance with the terms of the retirement systems.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290, or at www.state.nj/treasury/doinvest.

Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, which was rolled forward to June 30, 2015, the aggregate funded ratio for all the State administered retirement systems, including CPFPPF, PERS and PFRS is 52.0 percent with an unfunded actuarial accrued liability of \$68.6 billion. The CPFPPF system is 23.8 percent funded with an unfunded actuarial accrued liability of \$ 7.8 million. The aggregate funded ratio and unfunded accrued liability for the local PERS system is 47.9 percent and \$22.4 billion, respectively and the aggregate funded ratio and unfunded accrued liability for local PFRS is 56.3 percent and \$18.1 billion, respectively.

The funded status and funding progress of the retirement systems includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2015 actuarial valuations, the date of the most recent actuarial valuations, the projected unit credit was used as actuarial cost method, and the five year average of market value was used as asset valuation method for pension trust funds. The actuarial assumptions included (a) 7.90% for investment rate of return for all the retirement systems except CPFPPF (3.80%) and (b) changes to projected salary increases 2.15-5.40 percent based on age for PERS and 2.60-10.48 percent based on age for PFRS.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on 10.0% for PFRS 5.50% for DCRP and 7.06 for fiscal year 2016 for PERS of employee's annual compensation for fiscal year 2016.

Annual Pension Cost (APC)

Per the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employees*, for the year ended December 31, 2016 for CPFPPF, which is a cost sharing plan with special funding situations, the annual pension cost differs from the annual required contribution. For PFRS and PERS, which are cost sharing multi-employer defined benefit pension plans, annual pension cost equals contributions made. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the years ended December 31, 2016, 2015 and 2014, the Township, was required to contribute for normal cost pension contributions, accrued liability pension contributions and non-contributory life insurance premiums the following amounts which equaled the required contributions for each respective year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>	<u>PFRS</u>	<u>DCRP</u>
2016	\$ 400,347	\$ 533,649	\$ 2,177
2015	395,787	480,611	1,678
2014	336,610	455,154	2,977

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Under the regulatory basis of accounting, the Township is permitted and has elected to utilize the measurement date of June 30, 2015 and 2014 for the amounts reported at December 31, 2016 and 2015, respectively for the net pension liability and related information. The respective pension information reported is eighteen months prior to the Township's balance sheet dates. GAAP requires the measurement date of the total pension liability and related information to be no earlier than the end of the employer's prior fiscal year.

Public Employees Retirement System (PERS)

At December 31, 2016 and 2015, the Township has a reported liability of \$10,325,957 and \$8,724,234, respectively, for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and 2014, respectively. The Township's proportionate share of the net pension liability was based on a projection of the Township's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2015, the Township's proportionate share was .045999 percent, which was a decrease of .000598 percent from its proportionate share measured as of June 30, 2014 of .046597 percent.

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

For the years ended December 31, 2016 and 2015, the pension system has determined the Township's pension expense to be \$742,613 and \$526,720, respectively, for PERS based on the actuarial valuation which is more than the actual contributions reported in the Township's financial statements of \$395,787 and \$336,610, respectively. The Township has reported at December 31, 2016 and 2015, the Township's deferred outflows of resources and deferred inflows of resources related to PERS pension which are not reported on the Township's financial statements are from the following sources:

	2016		2015	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 246,341		\$ 274,337	
Changes of Assumptions	1,108,925		-	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		\$ 166,022		\$ 519,917
Changes in Proportion and Differences Between Borough Contributions and Proportionate Share of Contributions	<u>338,630</u>	<u>94,917</u>	<u>418,897</u>	<u>-</u>
Total	<u>\$ 1,693,896</u>	<u>\$ 260,939</u>	<u>\$ 693,234</u>	<u>\$ 519,917</u>

At December 31, 2015 the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2016	\$ 269,335
2017	269,335
2018	269,335
2019	399,314
2020	225,638
Thereafter	<u>-</u>
	<u>\$ 1,432,957</u>

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PERS</u>	<u>2016</u>	<u>2015</u>
Inflation Rate	3.04%	3.01%
Salary Increases:		
2012-2021	2.15-4.40% Based on Age	2.15-4.40% Based on Age
Thereafter	3.15-5.40% Based on Age	3.15-5.40% Based on Age
Investment Rate of Return	7.90%	7.90%
Mortality Rate Table	RP-2000	RP-2000

Actuarial Assumptions

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

The actuarial assumptions used in the July 1, 2014 and 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans 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 the pension plans' target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>2016</u>		<u>2015</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%	6.00%	0.80%
U.S. Treasuries	1.75%	1.64%		
Investment Grade Credit	10.00%	1.79%		
Core Bonds			1.00%	2.49%
Intermediate-Term Bonds			11.20%	2.26%
Mortgages	2.10%	1.62%	2.50%	2.17%
High Yield Bonds	2.00%	4.03%	5.50%	4.82%
Inflation-Indexed Bonds	1.50%	3.25%	2.50%	3.51%
Broad US Equities	27.25%	8.52%	25.90%	8.22%
Developed Foreign Equities	12.00%	6.88%	12.70%	8.12%
Emerging Market Equities	6.40%	10.00%	6.50%	9.91%
Private Equity	9.25%	12.41%	8.25%	13.02%
Hedge Funds/Absolute Return	12.00%	4.72%	12.25%	4.92%
Real Estate (Property)	2.00%	6.83%	3.20%	5.80%
Commodities	1.00%	5.32%	2.50%	5.35%
Global Debt ex US	3.50%	-0.40%		
REIT	4.25%	5.12%		

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Year</u>	<u>Discount Rate</u>
2016	4.90%
2015	5.39%

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

Period of Projected Benefit	
Payments for which the Following	
Rates were Applied:	
Long-Term Expected Rate of Return	Through June 30, 2033
Municipal Bond Rate *	From July 1, 2033 and Thereafter

* The municipal bond return rate used is 3.80 and 4.29% as of June 30, 2015 and 2014, respectively. The source is 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.

Sensitivity of Net Pension Liability

The following presents the Township's proportionate share of the PERS net pension liability as of December 31, 2016 calculated using the discount rate of 4.90%, as well as what the Township's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.90 percent) or 1-percentage-point higher (5.90 percent) than the current rate:

	1% Decrease (<u>3.90%</u>)	Current Discount Rate (<u>4.90%</u>)	1% Increase (<u>5.90%</u>)
Township's Proportionate Share of the PERS Net Pension Liability	<u>\$ 12,833,901</u>	<u>\$ 10,325,957</u>	<u>\$ 8,223,315</u>

The sensitivity analysis was based on the proportionate share of the Township's net pension liability at December 31, 2016. A sensitivity analysis specific to the Township's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Police and Firemen's Retirement System (PFRS)

At December 31, 2016 and 2015, the Township has a reported liability of \$10,935,256 and \$7,871,220, respectively, for its proportionate share of the PFRS net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015 and 2014, respectively. The Township's proportionate share of the net pension liability was based on a projection of the Township's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2015, the Township's proportionate share was .065651 percent, which was an increase of .003078 percent from its proportionate share measured as of June 30, 2014 of .062573 percent.

The Township has reported for the years ended December 31, 2016 and 2015, the pension system has determined the Township pension expense to be \$1,022,485 and \$554,005, respectively, for PFRS based on the actuarial valuation which is more than the actual contributions reported in the Township's financial statements of \$480,611 and \$455,154, respectively. The Township has reported at December 31, 2016 and 2015, the Township's deferred outflows of resources and deferred inflows of resources related to PFRS pension which are not reported on the Township's financial statements are from the following sources:

	2016		2015	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience		\$ 94,320		
Changes of Assumptions	\$ 2,018,920		\$ 295,512	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		190,319		\$ 803,232
Changes in Proportion and Differences Between Borough Contributions and Proportionate Share of Contributions	<u>354,471</u>	<u>-</u>	<u>20,940</u>	<u>-</u>
Total	<u>\$ 2,373,391</u>	<u>\$ 284,639</u>	<u>\$ 316,452</u>	<u>\$ 803,232</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to PFRS pension will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Total</u>
2016	\$ 410,188
2017	410,188
2018	410,188
2019	610,996
2020	247,192
Thereafter	<u>-</u>
	<u>\$ 2,088,752</u>

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources
Related to Pensions (Continued)**

Police and Firemen's Retirement System (PFRS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013, which was rolled forward to June 30, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PFRS</u>	<u>2016</u>	<u>2015</u>
Inflation Rate	3.04%	3.01%
Salary Increases:		
2012-2021	2.60-9.48%	3.95-8.62%
	Based on Age	Based on Age
Thereafter	3.60-10.48%	4.95-9.62%
	Based on Age	Based on Age
Investment Rate of Return	7.90%	7.90%
Mortality Rate Table	RP-2000	RP-2000

Assumptions for mortality improvements are based on Society of Actuaries Scale AA and one year using Scale BB.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013. The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2010.

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans 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 the pension plans' target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>2016</u>		<u>2015</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%	6.00%	0.80%
U.S. Treasuries	1.75%	1.64%		
Investment Grade Credit	10.00%	1.79%		
Core Bonds			1.00%	2.49%
Intermediate-Term Bonds			11.20%	2.26%
Mortgages	2.10%	1.62%	2.50%	2.17%
High Yield Bonds	2.00%	4.03%	5.50%	4.82%
Inflation-Indexed Bonds	1.50%	3.25%	2.50%	3.51%
Broad US Equities	27.25%	8.52%	25.90%	8.22%
Developed Foreign Equities	12.00%	6.88%	12.70%	8.12%
Emerging Market Equities	6.40%	10.00%	6.50%	9.91%
Private Equity	9.25%	12.41%	8.25%	13.02%
Hedge Funds/Absolute Return	12.00%	4.72%	12.25%	4.92%
Real Estate (Property)	2.00%	6.83%	3.20%	5.80%
Commodities	1.00%	5.32%	2.50%	5.35%
Global Debt ex US	3.50%	-0.40%		
REIT	4.25%	5.12%		

Discount Rate

The discount rate used to measure the total pension liabilities of the PFRS plan was as follows:

<u>Year</u>	<u>Discount Rate</u>
2016	5.79%
2015	6.32%

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PFRS defined benefit plan:

Period of Projected Benefit	
Payments for which the Following	
Rates were Applied:	
Long-Term Expected Rate of Return	Through June 30, 2045
Municipal Bond Rate *	From July 1, 2045 and Thereafter

* The municipal bond return rate used is 3.80% and 4.29% as of June 30, 2015 and 2014, respectively. The source is 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.

Sensitivity of Net Pension Liability

The following presents the Township's proportionate share of the PFRS net pension liability as of December 31, 2016 calculated using the discount rate of 5.79% as well as what the Township's proportionate share of the PFRS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.79 percent) or 1-percentage-point higher (6.79 percent) than the current rate:

	1% Decrease <u>(4.79%)</u>	Current Discount Rate <u>(5.79%)</u>	1% Increase <u>(6.79%)</u>
Township's Proportionate Share of the PFRS Net Pension Liability	<u>\$ 14,416,139</u>	<u>\$ 10,935,256</u>	<u>\$ 8,096,907</u>

The sensitivity analysis was based on the proportionate share of the Township's net pension liability at December 31, 2016. A sensitivity analysis specific to the Township's net pension liability was not provided by the pension system.

TOWNSHIP OF READINGTON
NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 EMPLOYEE RETIREMENT SYSTEMS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Police and Firemen's Retirement System (PFRS) (Continued)

Special Funding Situation – PFRS

Under N.J.S.A. 43:16A-15, the Township is responsible for their own PFRS contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State to make contributions if certain circumstances occurred. The legislation which legally obligates the State is as follows: Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993 and Chapter 201, P.L. 2001. The amounts contributed on behalf of the Township by the State under this legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Accordingly, the Township's proportionate share percentage determined under GASB Statement No. 68 is zero percent and the State's proportionate share is 100% for PFRS under this legislation.

At December 31, 2016 and 2015, the State's proportionate share of the net pension liability attributable to the Township for the PFRS special funding situation is \$958,985 and \$847,598, respectively. For the years ended December 31, 2016 and 2015, the pension system has determined the State's proportionate share of the pension expense attributable to the Township for the PFRS special funding situation is \$107,395 and \$119,620, respectively, which is more than the actual contributions the State made on behalf of the Township of \$49,920 and \$35,195, respectively. The State's proportionate share attributable to the Township was developed based on actual contributions made to PFRS allocated to employers based upon covered payroll. These on-behalf contributions have not been reported on the Township's financial statements.

Pension Plan Fiduciary Net Position

Detailed information about the PFRS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating municipalities including the Township. The plans are classified as either single employer plans or cost sharing multiple employer defined benefit plans depending on the plan the eligible employee is covered under.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and the Teacher's Pension and Annuity (TPAF) are combined and reported as Pension and Other Employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM of the PERS are combined and reported as Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost sharing multiple-employer plan. The post-retirement benefit programs had a total of 590 state and local participating employers and contributing entities for Fiscal Year 2016.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

The State of New Jersey sponsors and administers the following health benefit program covering substantially all local government employees from local participating employers.

State Health Benefits Program Funds (HBPF) – Local Government (including Prescription Drug Program Fund) – Certain local employers who participate in the State Health Benefits Program provide health insurance coverage to their employees at retirement. Under provisions of P.L. 1997, c.330, the State of New Jersey provides partially funded benefits to local police officers and firefighters who retire with 25 years of service (or on disability) from an employer who does not provide coverage. Retirees who are not eligible for employer paid health coverage at retirement can continue in the program by paying the cost of the insurance for themselves and their covered dependents. Also, local employees are eligible for the PDP coverage after 60 days of employment.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above Fund. The financial reports may be assessed via, the New Jersey, Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

Basis of Accounting

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the State had a \$67.5 billion unfunded actuarial liability for other postemployment benefits (OPEB) which is made up of \$25.9 billion for state active and retired members and \$41.6 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The funded status and funding progress of the OPEB includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 13 POST-RETIREMENT MEDICAL BENEFITS (Continued)

Actuarial Methods and Assumptions

In the July 1, 2015 OPEB actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included an assumed investment rate of return of 4.50 percent.

Post-Retirement Medical Benefits Contribution

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. 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 and participating local governments 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.

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service. The State and participating local governments contributed \$181.9 million for 10,725 eligible retired members for Fiscal Year 2016. This benefit covers the Police and Firemen's Retirement System.

P.L. 1997, c. 330 provides paid post-retirement health benefits to qualified retirees of the Police and Firemen's Retirement System and the Consolidated Police and Firemen's Pension Fund and to dependents of qualified retirees. The State and participating local governments are responsible for 80 percent of the premium for the category of coverage elected by the retiree under the State managed care plan or a health maintenance organization participating in the program, whichever provides the lower charge. The State and participating local governments contributed \$48.3 million in Fiscal Year 2016 to provide benefits under Chapter 330 to qualified retirees.

The State sets the employer contribution rate based on a pay-as-you-go basis rather than the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The Township's contributions to the State Health Benefits Program Fund-Local Government for post-retirement benefits for the years ended December 31, 2016, 2015 and 2014 were \$653,499, \$574,406, and \$518,866, respectively, which equaled the required contributions for each year.

NOTE 14 RISK MANAGEMENT

The Township is exposed to various risks of loss related to general liability, automobile coverage, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; termination of employees and natural disasters. The Township has obtained commercial insurance coverage to guard against these events to minimize the exposure to the Township should they occur.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 14 RISK MANAGEMENT (Continued)

The Township of Readington is a member of the Public Alliance Insurance Coverage (PAIC) and Municipal Excess Liability Joint Insurance Fund (MEL). The joint insurance funds are both an insured and self-administered group of municipalities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and worker's compensation. The Funds are risk-sharing public entity pools. The PAIC and MEL coverage amounts are on file with the Township.

The relationship between the Township and respective insurance funds is governed by a contract and by-laws that have been adopted by resolution of each unit's governing body. The Township is contractually obligated to make all annual and supplementary contributions to the insurance funds, to report claims on a timely basis, to cooperate with the management of the funds, its claims administrator and attorneys in claims investigation and settlement, and to follow risk management procedures as outlined by the funds. Members have a contractual obligation to fund any deficit of the funds attributable to a membership year during which the municipality was a member.

The funds provide its members with risk management services, including the defense of and settlement of claims, and established reasonable and necessary loss reduction and prevention procedures to be followed by the members. Complete financial statements of the funds can be obtained by contacting the respective fund's Treasurer.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage in any of the prior three years.

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

<u>Year Ended</u> <u>December 31</u>	<u>Employer/Employee</u> <u>Contributions</u>	<u>Amount</u> <u>Reimbursed</u>	<u>Ending</u> <u>Balance</u>
2016	\$ 179	\$ 14,979	\$ 46,030
2015	7,171	1,997	60,830
2014	732	10,673	55,488

NOTE 15 CONTINGENT LIABILITIES

The Township is a party defendant in some lawsuits, none of a kind unusual for a municipality of its size and scope of operation. In the opinion of the Township's Attorney, the potential claims against the Township not covered by insurance policies would not materially affect the financial condition of the Township.

Pending Litigation –

1. *Township of Readington v Solberg Aviation, et al*; Superior Court of New Jersey, Law Division, Docket No. HNT-L-468-06; Superior Court of New Jersey, Appellate Division, Docket No. A3964-15T4. This case involves a condemnation claim against Solberg Aviation Company seeking the acquisition of vacant and airport land. The matter was tried and there was a verdict for Solberg Aviation Company, including an award of attorney's fees. The award of attorney's fees was satisfied out of a fund in Court created by the Township in order to satisfy any condemnation award. The balance of the fund in Court, minus the attorney fee payment, remains in an escrow account maintained by the Superior Court of New Jersey. The Township has appealed that decision. It is anticipated that there will not be a decision regarding the appeal for six months to a year. If Solberg Aviation Company prevails and condemnation is not permitted, the Township may have additional exposure for attorney fees incurred by the attorneys for Solberg Aviation Company.

TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 15 CONTINGENT LIABILITIES (Continued)

Pending Litigation (Continued) –

2. *Solberg Aviation Company v Township of Readington*, Superior Court of New Jersey, Law Division, Docket No. HNT-L-435-07; Superior Court of New Jersey, Appellate Division, Docket No. A000106-16T4. This case involves a challenge by Solberg Aviation Company to an ordinance adopted by the Township establishing zoning for the airport and other land owned by Solberg Aviation Company. Summary judgement was awarded to Solberg Aviation Company. Subsequently, an award of attorney's fees in favor of Solberg Aviation Company was entered. Solberg Aviation Company also has a claim for alleged civil rights violations against the Township which has not been resolved. It is not clear at the present whether this particular claim will be covered by insurance. However, any additional attorney fee claims are not anticipated to be large due to the award that has been already entered. The attorney fee award that has already been entered is in the amount of \$379,766.97. The Township has not yet paid this amount and is seeking to stay payment until after it appeals the judgement.

3. 388 Rt. 22 Readington Realty Holdings v. Township of Readington, et al. – Docket No. HNT-L-751-1. This case involves the Township's denial of a request for the allocation of sewerage capacity to Plaintiff for its proposed development project. The Township asserted that it had insufficient capacity to allocate to the Plaintiff because of long-standing contracts made with other developers, as well as its affordable housing needs. Plaintiff's complaint included a claim for a civil rights violation and requested damages and attorneys fees in undisclosed amounts. The plaintiff claimed the Township's sewer ordinance was invalid and that the Township wrongfully denied it sewer capacity. In 2015, the N.J. Supreme Court ruled that the Township's sewer ordinance was valid, but that it was applied arbitrarily and unreasonable as to Plaintiff's request. The case was remanded back to Superior Court with an order that the Township review its existing sewer agreements according to criteria articulated by the Supreme Court to determine if any sewerage capacity could be recalled from those who held it in order to be reallocated for use by others, including the plaintiff. The Supreme Court stated that any person to whom capacity was reallocated must pay for it. The Supreme Court decision led to two years of motions and litigation instituted by other parties from whom capacity the Township had recalled, pursuant to Court order. The Superior Court on February 2, 2017 decided in favor of Plaintiff's civil rights claims. As a result, Plaintiff was determined to be entitled to attorneys fees. At this time, Plaintiff is also claiming damages in an undisclosed amount and the amount of attorneys fees being sought is currently unknown. The Township is evaluating whether or not it will appeal the civil rights decision above; if so, it will defend the matter aggressively.

At this time, the Township is not able to evaluate the outcome or estimate the potential loss until further discovery is done and information is provided from all parties involved. It is probable that the damages may be material.

Pending Tax Appeals - Certain tax appeal cases were pending in the New Jersey Tax Court at December 31, 2016 and 2015. Amounts claimed have not yet been determined. The Township is vigorously defending its assessments in each case. Under the accounting principles prescribed by the Division of Local Government Services, Department of community Affairs, State of New Jersey, the Township does not recognize a liability, if any, until these cases have been adjudicated. The Township expects such amounts, if any, could be immaterial. As of December 31, 2016 and 2015, the Township reserved \$308,002 and \$308,002, respectively in the Current Fund for tax appeals pending in the New Jersey Tax Court. Funding of any ultimate liability would be provided for in succeeding years' budget or from fund balance.

Federal and State Awards - The Township 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 Township may be required to reimburse the grantor government. As of December 31, 2016 and 2015, significant amounts of grant expenditure have not been audited by the various grantor agencies but the Township believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on the overall financial position of the Township.

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 16 FEDERAL ARBITRAGE REGULATIONS

The Township is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At December 31, 2016 and 2015, the Township has not estimated its estimated arbitrage earnings due to the IRS, if any.

NOTE 17 LENGTH OF SERVICE AWARDS PROGRAM (LOSAP)-UNAUDITED

The Township of Readington Length of Service Awards Program (the Plan) was created by a Township ordinance adopted on May 3, 1999 pursuant to 457 (e)(11)(13) of the Internal Service Code of 1986, as amended, except for provisions added by reason of the Length of Service Awards Program as enacted into federal law in 1997. The voters of the Township of Readington approved the adoption of the Plan at the general election held on November 2, 1999.

The first year of eligibility for entrance into the Plan was calendar year 2002. The tax deferred income benefits for emergency services volunteers, consisting of the volunteer fire companies and the rescue squad, come from contributions made solely by the Township on behalf of those volunteers who meet the criteria of a plan created by the governing body.

If an active member meets the year of active service requirement, a LOSAP must provide a benefit between the minimum contribution of \$100 and a maximum contribution of \$1,150 per year. While the maximum amount is established by statute, it is subject to periodic increases that are related to the consumer price index (N.J.S.A. 40A:14-185(f)). The Division of Local Government Services issues the permitted maximum increase annually.

The Township of Readington has contributed \$800 and \$800 for 2016 and 2015, respectively, for each eligible volunteer member into the Plan. The total Township contributions were \$69,600 and \$65,600 for 2016 and 2015, respectively.

In accordance with the amendments to Section 457 of the Internal Revenue Code and the State Deferred Revenue Regulations, the Township has placed the amounts deferred, including earnings, in a trust for the exclusive benefit of the plan participants and their beneficiaries.

Lincoln Financial Group is the administrator of the plan. The Township's practical involvement in administering the plan is essentially limited to verifying the eligibility of each participant and remitting the funds to the plan administrator.

Vesting and Benefits

A volunteer is eligible to receive a distribution of funds upon completing 5 (five) cumulative years as an active member of the volunteer organization. Certain restrictions and tax implications may result in the event of a withdrawal of funds from the Plan.

If a volunteer member does not vest and terminates their association with the emergency service organization, the funds are returned to the sponsoring agency's surplus.

**TOWNSHIP OF READINGTON
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

NOTE 17 LENGTH OF SERVICE AWARDS PROGRAM (LOSAP)-UNAUDITED (Continued)

Reporting Requirements

The New Jersey Administrative Code NJAC 5:30-14.49 requires that the Township perform a separate review report of the plan in accordance with the American Institute of Certified Public Accountants (AICPA) Statements on Standards for Accounting and Auditing Review Services. Since a review does not constitute an audit, the financial statements pertaining to the Plan are presented as unaudited in this report as part of the Township's Trust Fund.

NOTE 18 SUBSEQUENT EVENTS

Bond Anticipation Notes

On February 1, 2017 the Township issued bond anticipation notes in the amounts of \$14,184,000 and \$12,778,000 to temporarily finance expenditures related to various capital projects. The terms and conditions of the bond anticipation notes are as follows:

- Series 2017A in the amount of \$14,184,000 have been awarded to J.P. Morgan Securities, LLC at an interest rate of 1.25%. These notes are dated February 1, 2017 and will mature on April 28, 2017.
- Series 2017B in the amount of \$12,778,000 have been awarded to J.P Morgan Securities, LLC at an interest rate of 2.25%. These notes are dated February 1, 2017 and will mature on February 1, 2018.

Debt Authorized

On February 21, 2017 the Township adopted a resolution authorizing the issuance of \$14,184,000 General Improvement Bonds, Series 2017.

NOTE 19 RESTATEMENT

The General Fixed Assets Account Group has been restated based on an independent appraisal for December 31, 2016. The total of the General Fixed Assets Account Group at December 31, 2014 has been restated from \$66,384,438 to \$44,616,509.

APPENDIX C

Form of Approving Legal Opinions of Bond Counsel

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_____, 2018

Township Committee of the
Township of Readington, in the
County of Hunterdon, New Jersey

Dear Committee Members:

We have acted as bond counsel to the Township of Readington, in the County of Hunterdon, New Jersey (the "Township") in connection with the issuance by the Township of a \$13,600,000 Bond Anticipation Note, Series 2018A dated the date hereof (the "Note"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to our satisfaction, and have undertaken such research and analyses as we have deemed necessary.

The Note is issued pursuant to the Local Bond Law of the State of New Jersey and the bond ordinances of the Township listed in the Certificate of Determination and Award dated the date hereof, each in all respects duly approved, and published as required by law. The Note is a temporary obligation issued in anticipation of the issuance of bonds.

In our opinion, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws or application by a court of competent jurisdiction of legal or equitable principles relating to the enforcement of creditors' rights, the Note is a valid and legally binding obligation of the Township, payable in the first instance from the proceeds of the sale of the bonds in anticipation of which the Note is issued, but, if not so paid, payable ultimately from *ad valorem* taxes that may be levied upon all the taxable real property within the Township without limitation as to rate or amount.

On the date hereof, the Township has covenanted in its Arbitrage and Tax Certificate (the "Certificate") to comply with certain continuing requirements that must be satisfied subsequent to the issuance of the Note in order to preserve the tax-exempt status of the Note pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to Section 103 of the Code, failure to comply with these requirements could cause interest on the Note to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Note. In the event that the Township continuously complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Township in the Certificate, it is our opinion that, under existing law, interest on the Note is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code. Interest on the Note is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax ("AMT"); however, during tax years beginning before January 1, 2018, interest on the Note held by a corporation (other than an S corporation, regulated investment company or real estate investment trust) may be indirectly subject to federal AMT because of its inclusion in the adjusted current earnings of a corporate holder. We express no opinion regarding other federal tax consequences arising with respect to the Note. Further, in our opinion, based upon existing law, interest on the Note and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. These opinions are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

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

Very truly yours,

_____, 2018

Township Committee of the
Township of Readington, in the
County of Hunterdon, New Jersey

Dear Committee Members:

We have acted as bond counsel to the Township of Readington, in the County of Hunterdon, New Jersey (the "Township") in connection with the issuance by the Township of a \$6,278,000 Bond Anticipation Note, Series 2018B dated the date hereof (the "Note"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to our satisfaction, and have undertaken such research and analyses as we have deemed necessary.

The Note is issued pursuant to the Local Bond Law of the State of New Jersey and the bond ordinance of the Township listed in the Certificate of Determination and Award dated the date hereof, in all respects duly approved, and published as required by law. The Note is a temporary obligation issued in anticipation of the issuance of bonds.

In our opinion, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws or application by a court of competent jurisdiction of legal or equitable principles relating to the enforcement of creditors' rights, the Note is a valid and legally binding obligation of the Township, payable in the first instance from the proceeds of the sale of the bonds in anticipation of which the Note is issued, but, if not so paid, payable ultimately from *ad valorem* taxes that may be levied upon all the taxable real property within the Township without limitation as to rate or amount.

On the date hereof, the Township has covenanted in its Arbitrage and Tax Certificate (the "Certificate") to comply with certain continuing requirements that must be satisfied subsequent to the issuance of the Note in order to preserve the tax-exempt status of the Note pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to Section 103 of the Code, failure to comply with these requirements could cause interest on the Note to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Note. In the event that the Township continuously complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Township in the Certificate, it is our opinion that, under existing law, interest on the Note is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code. Interest on the Note is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax ("AMT"); however, during tax years beginning before January 1, 2018, interest on the Note held by a corporation (other than an S corporation, regulated investment company or real estate investment trust) may be indirectly subject to federal AMT because of its inclusion in the adjusted current earnings of a corporate holder. We express no opinion regarding other federal tax consequences arising with respect to the Note. Further, in our opinion, based upon existing law, interest on the Note and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. These opinions are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

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

Very truly yours,