

OFFICIAL STATEMENT DATED NOVEMBER 19, 2019

NEW ISSUE – Book-Entry-Only

RATING: Moody's: "A1"
(See "RATING" herein)

In the opinion of Fleishman Daniels Law Offices, LLC, Linwood, New Jersey ("Bond Counsel"), under existing statutes, regulations, rulings and court decisions existing as of the date hereof and assuming continuing compliance by the Borough of Island Heights with certain covenants described herein, interest on the Bonds (as defined below) (i) is not includable in gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax. Bond Counsel expresses no opinion regarding other federal tax consequences arising with respect to the Bonds. Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale of the Bonds are not includable in gross income under the New Jersey Gross Income Tax Act, as enacted and construed on the date hereof. See "TAX MATTERS" herein.

\$2,760,000
BOROUGH OF ISLAND HEIGHTS
in the County of Ocean, State of New Jersey
GENERAL OBLIGATION BONDS, SERIES 2019
CONSISTING OF:
\$340,000 General Improvement Bonds
and
\$2,420,000 Water-Sewer Utility Bonds
(BOOK-ENTRY-ONLY) (CALLABLE) (BANK QUALIFIED)

Dated: Date of Delivery

Due: December 1, as shown on the inside front cover page

The \$2,760,000 aggregate principal amount of General Obligation Bonds, Series 2019, consisting of: (i) \$340,000 General Improvement Bonds (the "General Improvement Bonds"); and (ii) \$2,420,000 Water-Sewer Utility Bonds (the "Water-Sewer Utility Bonds", and together with the General Improvement Bonds, the "Bonds"), are valid and legally binding general obligations of the Borough of Island Heights, in the County of Ocean, State of New Jersey (the "Borough") and are secured by a pledge of the full faith and credit of the Borough for the payment of the principal thereof and interest thereon.

The principal of and interest on the Bonds are payable, if not paid from other sources, from *ad valorem* taxes to be levied upon all the taxable property within the Borough without limitation as to rate or amount. Interest on the Bonds will be payable each June 1 and December 1, commencing June 1, 2020, to and including their respective dates of maturity or earlier redemption. Interest on the Bonds will be credited to the participants of DTC (as hereinafter defined) as listed on the records of DTC as of each next preceding May 15 and November 15 (the "Record Dates" for the payment of interest on the Bonds). The Bonds will be issued in the form of one certificate for the principal amount of Bonds maturing in each year and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as Securities Depository. See "DEPOSITORY TRUST COMPANY INFORMATION-Book-Entry-Only System" herein. Individual purchases of the Bonds will be made in book-entry only form in the principal amount of \$5,000 or any integral multiple of \$1,000 in excess thereof.

The proceeds of the Bonds, along with other available funds of the Borough, will be used to: (i) currently refund the Borough's \$2,077,000 Bond Anticipation Note, dated March 7, 2019 and maturing December 7, 2019; (ii) finance various capital and water-sewer improvements in and by the Borough; and (iii) pay the costs associated with the authorization, sale and issuance of the Bonds.

The Bonds are subject to redemption prior to their stated maturities. See "THE BONDS-Redemption" herein.

The Bonds are not a debt or obligation, legal, moral or otherwise of the State of New Jersey, or any county, municipality or political subdivision thereof other than the Borough.

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

The Bonds are offered when, as and if issued, and delivered to the Underwriter, as defined herein, subject to withdrawal or modification of the offer without notice, to the prior approval of legality by the law firm of Fleishman Daniels Law Offices, LLC, Linwood, New Jersey, Bond Counsel, and certain other conditions described herein. Certain legal matters will be passed upon for the Borough by its Attorney, Steven Zabarsky, Esq., Toms River, New Jersey. Phoenix Advisors, LLC, Bordentown, New Jersey served as Municipal Advisor to the Borough in connection with the Bonds. It is expected that delivery of the Bonds in book-entry only form will be made at DTC in New York, New York on or about December 5, 2019.

BNY Mellon Capital Markets, LLC

\$2,760,000
BOROUGH OF ISLAND HEIGHTS
in the County of Ocean, State of New Jersey
GENERAL OBLIGATION BONDS, SERIES 2019
CONSISTING OF:
\$340,000 General Improvement Bonds
and
\$2,420,000 Water-Sewer Utility Bonds

(BOOK-ENTRY-ONLY) (CALLABLE) (BANK QUALIFIED)

MATURITY SCHEDULE, INTEREST RATES, YIELDS AND CUSIPS*

<u>Year</u>	<u>General Improvement Principal Amount</u>	<u>Water-Sewer Utility Principal Amount</u>	<u>Total Aggregate</u>		<u>Yield</u>	<u>CUSIP*</u>
			<u>Principal Amount</u>	<u>Interest Rate</u>		
2020	\$25,000	\$60,000	\$85,000	4.00%	1.23%	464470CT8
2021	25,000	60,000	85,000	4.00	1.25	464470CU5
2022	25,000	60,000	85,000	4.00	1.27	464470CV3
2023	25,000	60,000	85,000	4.00	1.30	464470CW1
2024	30,000	60,000	90,000	4.00	1.37	464470CX9
2025	30,000	60,000	90,000	4.00	1.44	464470CY7
2026	30,000	60,000	90,000	4.00	1.53	464470CZ4
2027	50,000	80,000	130,000	4.00	1.62	464470DA8
2028	50,000	115,000	165,000	4.00	1.71	464470DB6
2029	50,000	120,000	170,000	4.00	1.81	464470DC4
2030		120,000	120,000	4.00	1.91	464470DD2
2031		120,000	120,000	2.45	2.45	464470DE0
2032		120,000	120,000	2.50	2.50	464470DF7
2033		120,000	120,000	2.60	2.60	464470DG5
2034		115,000	115,000	2.65	2.65	464470DH3
2035		115,000	115,000	2.70	2.70	464470DJ9
2036		115,000	115,000	2.75	2.75	464470DK6
2037		115,000	115,000	2.80	2.80	464470DL4
2038		115,000	115,000	2.85	2.85	464470DM2
2039		105,000	105,000	2.875	2.875	464470DN0
2040		105,000	105,000	3.00	3.00	464470DP5
2041		105,000	105,000	3.00	3.01	464470DQ3
2042		105,000	105,000	3.00	3.02	464470DR1
2043		105,000	105,000	3.00	3.03	464470DS9
2044		105,000	105,000	3.00	3.04	464470DT7

* Registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Borough does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**BOROUGH OF ISLAND HEIGHTS, IN THE
COUNTY OF OCEAN, NEW JERSEY**

MAYOR

Steve Doyle

BOROUGH COUNCIL

Susan Thompson, President
Rolf Weber
Brian Gabriel
Sandra Snow
Lynn Pendleton
Melissa Wudzki

BOROUGH CHIEF FINANCIAL OFFICER

Margaret Gorman

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BOROUGH SOLICITOR

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Toms River, New Jersey

BOROUGH AUDITOR

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Phoenix Advisors, LLC
Bordentown, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Borough to give any information or to make any representations with respect to the Bonds other than those contained in this document, 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 Borough and other sources deemed reliable; however, such information is not to be construed as a representation or warranty by the Underwriter or, as to information from sources other than itself, by the Borough. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this document nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in any of the information herein since the date hereof, or 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.

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

Upon issuance, the Bonds will not be registered under the Securities Act of 1933, as amended, will not be listed on the stock or other securities exchange and neither the Securities and Exchange Commission or any other federal, state, municipal or other governmental entity, other than the Borough, will have passed upon the accuracy or adequacy of the Official Statement.

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

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OFFICIAL STATEMENT
Relating to

\$2,760,000
BOROUGH OF ISLAND HEIGHTS
in the County of Ocean, State of New Jersey
GENERAL OBLIGATION BONDS, SERIES 2019
CONSISTING OF:
\$340,000 General Improvement Bonds
and
\$2,420,000 Water-Sewer Utility Bonds
(BOOK-ENTRY-ONLY) (CALLABLE) (BANK QUALIFIED)

INTRODUCTION

This Official Statement, which includes the cover page, inside front cover page and the appendices attached hereto, has been prepared by the Borough of Island Heights (the “Borough”), in the County of Ocean, in the State of New Jersey (the “State”) in connection with the \$2,760,000 aggregate principal amount of General Obligation Bonds, Series 2019, consisting of: (i) \$340,000 General Improvement Bonds (the “General Improvement Bonds”); and (ii) \$2,420,000 Water-Sewer Utility Bonds (the “Water-Sewer Utility Bonds”, and together with the General Improvement Bonds, the “Bonds”). This Official Statement has been executed by and on behalf of the Borough by the Chief Financial Officer and may be distributed in connection with the sale of the Bonds described herein.

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

All financial and other information presented herein has been provided by the Borough 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 Borough.

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

THE BONDS

General Description

The Bonds shall be dated and shall bear interest from their date of delivery and will mature in each of the years and in the amounts set forth on the inside front cover page hereof. The Bonds shall bear interest, which is payable semiannually on the first (1st) day of June and December in each year (each constituting an “Interest Payment Date”), commencing June 1, 2020, at the interest rates set forth on the inside front cover page hereof. The record dates for payment of the interest on the Bonds shall be May 15 and November 15 next preceding the Interest Payment Dates. The Bonds may be purchased in book-entry only form in the amount of \$5,000 or any integral multiple of \$1,000 in excess thereof, through book-entries made on the books and the records of The Depository Trust Company, New York, New York (“DTC”) and its participants. See “Book-Entry-Only-System”. The Borough will act as the “Bond Registrar/Paying Agent” for the Bonds.

Book-Entry-Only System*

The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners, is based on certain information furnished by DTC to the Borough. Accordingly, the Borough does not make any representations as to the completeness or accuracy of such information.

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

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

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

* Source: The Depository Trust Company

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

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

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

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

Payments of principal or redemption price of and interest with respect to the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Borough 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 nor its nominee or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or Redemption Price of and interest with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borough, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Borough believes to be reliable, but the Borough does not take any responsibility for the accuracy thereof.

NEITHER THE BOROUGH NOR ANY PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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

Discontinuation of Book-Entry-Only System

If the Borough, 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 Bonds at any time, the Borough will attempt to locate another qualified Securities Depository. If the Borough fails to find such a Securities Depository, or if the Borough determines, in its sole discretion, that it is in the best interest of the Borough or that the interest of the Beneficial Owners might be adversely affected if the book-entry-only system of transfer is continued (the Borough undertakes no obligation to make an investigation to determine the occurrence of any events that would permit it to make such determination), the Borough shall notify DTC of the termination of the book-entry only system.

Redemption

The Bonds of this issue maturing on or prior to December 1, 2026, shall not be subject to redemption prior to their respective maturity dates. The Bonds of this issue maturing on or after December 1, 2027 are redeemable at the option of the Borough, in whole or in part, on any date on or after December 1, 2026, upon notice as required herein at par (the “Redemption Price”), plus in each case accrued interest to the date fixed for redemption.

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

AUTHORIZATION AND PURPOSE OF THE BONDS

Authorization

The Bonds are authorized by, and are issued pursuant to, the provisions of the Local Bond Law, N.J.S.A. 40A:2-1 et seq., as amended and supplemented (the “Local Bond Law”), and are authorized by bond ordinances duly adopted by the Borough Council below and published and approved as required by law, and by a resolution duly adopted by the Borough Council on October 22, 2019.

The bond ordinances authorizing the Bonds were published in full or in summary after their final adoption along with the statement that the twenty (20) day period of limitation within which a suit, action or proceeding questioning the validity of such bond ordinances could be commenced began to run from the date of the first publication of such statement. The Local Bond Law provides, that after issuance, all obligations shall be conclusively presumed to be fully authorized and issued by all laws of the State, and all persons shall be estopped from questioning their sale, execution or delivery by the Borough. Such estoppel period has concluded as of the date of this Official Statement.

Purpose of the Bonds

The proceeds of the Bonds, along with other available funds of the Borough, will be used to: (i) currently refund the Borough’s \$2,077,000 Bond Anticipation Note, dated March 7, 2019 and maturing December 7, 2019; (ii) finance various capital and water-sewer improvements in and by the Borough; and (iii) pay the costs associated with the authorization, sale and issuance of the Bonds.

The purposes for which the Bonds are to be issued have been authorized by duly adopted, approved and published bond ordinances of the Borough, which bond ordinances are described in the following tables by ordinance number, description and date of final adoption, and amount to be issued. The bond ordinances are:

General Improvement		
<u>Ordinance No.</u>	<u>Description and Date of Adoption</u>	<u>Funded by Bond Proceeds</u>
2000-02/2005-04	Providing for various capital improvements within the Borough, including repair and replacements of bulkheads, and construction of gazebos and related landscaping, finally adopted May 16, 2000 and amended June 14, 2005.	\$113,100
2007-11	Providing for installation of bulkheads at Long Point and Simpson Avenue, finally adopted on August 21, 2007.	118,500
2016-08	Providing for the Reconstruction of River Avenue, finally adopted on June 28, 2016.	49,000
2018-03	Providing for the reconstruction of Maple Avenue and Lake Avenue (Phase 1), finally adopted on March 27, 2018.	<u>90,400</u>
GENERAL IMPROVEMENT TOTAL:		<u>\$371,000</u>

Water-Sewer Utility		
<u>Ordinance No.</u>	<u>Description and Date of Adoption</u>	<u>Funded by Bond Proceeds</u>
2008-09	Providing for repair and replacement of pumps at Borough pump stations, finally adopted on June 24, 2008.	\$4,000
2009-08/2010-04	Providing for the Replacement of Pump Stations, finally adopted December 8, 2009 and amended April 27, 2010.	83,500

2009-09/2010-05	Providing for Replacement of Water Treatment Plant, finally adopted December 8, 2009 and amended April 27, 2010.	154,000
2016-09	Providing for various water and sewer utility capital improvements within the Borough, including the repair and replacement of water and sewer lines and upgrade of electrical work at various pump stations including replacement of electrical control panels, installation of cellular central station monitory system, alarm monitoring systems at each pump station, transfer switches at each pump station and a trailer mounted generator with lighting to be utilized at each pump station, finally adopted on August 9, 2016.	867,500
2018-12	Providing for various water and sewer utility capital improvements within the Borough, including inspection, repair and replacement of water and sewer lines, and the purchase of a utility truck including plow attachment, finally adopted on July 10, 2018.	700,000
2019-01	Providing for various water and sewer utility capital improvements, including replacement of water lines on Holly Avenue and Lake Drive and connection of Water Mains on Simpson Avenue, Central Avenue, Jaynes Avenue, and Maple Avenue, finally adopted on March 12, 2019.	386,000
2019-10	Providing for various Repairs and Replacements to Municipal Sanitary Sewer System, finally adopted on October 22, 2019.	<u>285,000</u>
WATER-SEWER UTILITY TOTAL:		<u>\$2,480,000</u>
GRAND TOTAL:		<u>\$2,851,000</u>

SECURITY AND SOURCE OF PAYMENT

Taxing Power

The Bonds are valid and binding general obligation bonds of the Borough, and the Borough has pledged its full faith and credit for the payment of the principal of and the interest on the Bonds. The Bonds are direct obligations of the Borough and, unless paid from other sources, the Borough is required by law to levy *ad valorem* taxes upon all the real property taxable within the Borough for the payment of the principal of and the interest on the Bonds without limitation as to rate or amount. Enforcement of a claim for the payment of principal of or interest on bonds or notes of the Borough is subject to applicable provisions of Federal bankruptcy law and to the provisions of statutes, if any, hereafter enacted by the Congress of the United States or the Legislature of the State of New Jersey, providing extension with respect to the payment of principal of or interest on the Bonds or imposing other constraints upon enforcement of such contracts insofar as any such constraints may be constitutionally applied. Under State law, a county, municipality or other political subdivision may file a petition under Federal bankruptcy laws and a plan for readjustment of its debt, but only after first receiving the approval of the State Municipal Finance Commission.

PROVISIONS FOR THE PROTECTION OF GENERAL OBLIGATION DEBT

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, with no annual principal payment greater than 100% of the smallest amount of any prior year's principal amount. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes. All bonds issued by the Borough are general full faith and credit obligations.

Debt Limits

The authorized bonded indebtedness of the Borough for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3½% of its average equalized valuation basis over the past three years. The equalized valuation basis of a municipality is set by statute as the average for the last three preceding years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries, as determined annually by the State Director of Taxation. Certain categories of debt, which include the portion of school debt within a school district's debt limitation and the self-liquidating portion of a utility's debt, are permitted by statute to be deducted for purposes of computing the statutory debt limit. As shown in Appendix "A", the Borough has not exceeded its statutory debt limit as of December 31, 2018.

Exceptions to Debt Limits - Extensions of Credit

The Borough may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the Borough may apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the Borough or substantially reduce the ability of the Borough to meet its obligations or to provide essential public improvements and services, or makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the Borough, without approval of the Local Finance Board, 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).

Short Term Financing

The Borough may sell short-term "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the ordinance, as may be amended and supplemented, creating such capital expenditure. A local unit's bond anticipation notes may be issued for one year periods, with the last date of issuance not to exceed ten years and four months from the original issuance date. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum amount required for the first year's principal payment for a bond issue.

The 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. Every local unit must adopt a budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the Director of the Division ("Director") prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations, among others, for certification.

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

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

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

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

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

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. The maximum amount of delinquent taxes that may be anticipated is limited by a statutory formula, which allows the local unit to anticipate collection at the same rate realized for the collection of delinquent taxes in the previous year. Also, the local unit is required to make an appropriation for a "reserve for uncollected taxes" in accordance with a statutory formula to provide for a tax collection in an amount that does not exceed the percentage of taxes levied and payable in the preceding fiscal year that was received in cash by December 31 of that 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 a local unit. However, with minor exceptions, such appropriations must be included in full in the following year's budget.

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, re-evaluation programs, revision and codification of ordinances, master plan preparation and drainage map preparation for flood control purposes which may be amortized over five years. Of course, 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 major appropriation accounts are prohibited, except for: (i) during the first three (3) months of a current fiscal year, appropriation reserves may be transferred to the immediately preceding fiscal year's budget; and (ii) transfers between major appropriation accounts are permitted during the last two (2) months of a current fiscal year. Such transfers must be approved by two-thirds of the full membership of the governing body of a local governmental unit. Although sub-accounts within an appropriation account are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

Municipal public utilities are supported by the revenues generated by the respective operations of the utilities in addition to the general taxing power upon real property. For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to provide fully for debt service. The regulations regarding anticipation of revenues and deferral of charges apply equally to the budgets of the utilities. Deficits or anticipated deficits in utility operations which cannot be provided for from utility surplus, if any, are required to be raised in the "Current" or operating budget.

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.

Additionally, legislation constituting P.L. 2010, c. 44, was adopted on July 13, 2010, which, among other things, imposes a two percent (2%) cap on the tax levy that municipalities, counties, fire districts and solid waste collection districts may impose, with very limited exceptions and subject to certain adjustments.

Exclusions from the two percent (2%) tax levy cap include: (i) increases required to be raised by taxation for capital expenditures, including debt service as defined by law; (ii) increases in pension contributions and accrued liability for pension contributions in excess of 2.0%; (iii) increases in health care costs equal to that portion of the actual increase in total health care costs for the budget year that is in excess of 2.0% of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the State Health Benefits Program, P.L.1961, c.49 (C.52:14-17.25 *et seq.*), as annually determined by the Division of Pensions and Benefits in the Department of the Treasury; and (iv) and extraordinary costs incurred by a local unit directly related to a declared emergency, as defined by regulation promulgated by the Commissioner of the Department of Community Affairs, in consultation with the Commissioner of Education, as appropriate. The amendments to the tax levy sections of the "Cap Law" (specifically, N.J.S.A. 40A:4-45-46) in 2010 no longer permit municipalities, counties, fire districts and solid waste collection districts to request approval from the Local Finance Board for a waiver to increase the amount to be raised by taxation in excess of the two percent (2%) cap. However, counties, municipalities, fire districts and solid

waste collection districts may request, through a public question submitted to the voters, an increase in the amount to be raised by taxes above the two percent (2%) tax levy cap. Such approval must be achieved by an affirmative vote in excess of fifty percent (50%) of those voting on such public question.

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

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

Tax Assessment and Collection Procedure

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income, where appropriate. Current assessments are the results of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners, but it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values. A revaluation of all property in the Borough was last completed in 2014.

Upon the filing of certified adopted budgets by the local school district, regional school district and the County, the tax rate is struck by the County Board of Taxation based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provisions 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 with the special districts.

Tax bills are mailed annually in June by the Borough’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 are 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 excess of \$1,500.00. These interest and penalties are the highest permitted under New Jersey statutes. If a delinquency is in excess of \$10,000.00 and remains in arrears after December 31st, an additional penalty of 6% shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

Tax Appeals

The New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. Prior to February 1 in each year, the Borough must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Tax Board on or before April 1 in each year 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.

Real Estate Taxes

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. N.J.S.A. 40A:4-29 governs anticipation of delinquent tax collections: “The maximum which may be anticipated is the sum produced by multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year.”

N.J.S.A. 40A:4-41 provides with regard to current taxes that: “Receipts from the collection of taxes levied or to be levied in the municipality, or in the case of a county for general county purposes and payable in the fiscal year shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of such preceding fiscal year.”

This provision and N.J.S.A. 40A:4-40 require that an additional amount (the “reserve for uncollected taxes”) be added to the tax levy required to balance the budget so that when the percentage of the prior year’s tax collection is applied to the combined total, the revenue will at least be equal to the tax levy required to balance the budget.

The 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 units financial procedures and must be filed with the report, together with all recommendations made, and must be published in a local newspaper within 30 days of its submission. The entire annual audit report for the year ended December 31, 2018 for the Borough is on file with the Clerk and is available for review during business hours.

Operation of Utilities

Municipal public utilities are supported by the revenue generated by the respective operations of the utilities in addition to the general taxing power upon real property.

For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to provide fully for debt service. The regulations regarding anticipation of revenues and deferral of charges apply equally to the budgets of the utilities.

Deficits or anticipated deficits in utility operations which cannot be provided for from utility surplus, if any, are required to be raised in the “Current” or operating budget.

TAX MATTERS

Federal Tax Exemption

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met on a continuing basis subsequent to the issuance of the Bonds in order to assure that interest on the Bonds will be excluded from gross income for federal income tax purposes under Section 103 of the Code. Failure of the Borough to comply with such requirements may cause interest on the Bonds to lose the exclusion from gross income for federal income tax purposes, retroactive to the date of issuance of the Bonds. The Borough will make certain representations in its Arbitrage and Tax Certificate, which will be executed on the date of issuance of the Bonds, as to various tax requirements. The Borough has covenanted to comply with the provisions of the Code applicable to the Bonds and has covenanted not to take any action or fail to take any action that would cause interest on the Bonds to lose the exclusion from gross income under Section 103 of the Code. Fleishman Daniels Law Offices, LLC ("Bond Counsel") will rely upon the representations made in the Arbitrage and Tax Certificate and will assume continuing compliance by the Borough with the above covenants in rendering its federal income tax opinions with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes and with respect to the treatment of interest on the Bonds for the purposes of alternative minimum tax.

Assuming the Borough observes its covenants with respect to compliance with the Code, Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, and interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax. Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Original Issue Discount

Certain maturities of the Bonds may be sold at an initial offering price less than the principal amount payable on such Bonds at maturity (the "Discount Bonds"). The difference between the initial public offering price of the Discount Bonds at which a substantial amount of each of the Discount Bonds was sold and the principal amount payable at maturity of each of the Discount Bonds constitutes the original issue discount. Bond Counsel is of the opinion that the appropriate portion of the original issue discount allocable to the original and each subsequent owner of the Discount Bonds will be treated for federal income tax purposes as interest not includable in gross income under Section 103 of the Code to the same extent as stated interest on the Discount Bonds. Under Section 1288 of the Code, the original issue discount on the Discount Bonds accrues on the basis of economic accrual. The basis of an initial purchaser of a Discount Bond acquired at the initial public offering price of the Discount Bonds will be increased by the amount of such accrued discount. Owners of the Discount Bonds should consult their own tax advisors with respect to the determination for federal income tax purposes of the original issue discount properly accruable with respect to the Discount Bonds and the tax accounting treatment of accrued interest.

Original Issue Premium

Certain maturities of the Bonds may be sold at an initial offering price in excess of the amount payable at the maturity date (the "Premium Bonds"). The excess, if any, of the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds such Premium Bonds as inventory, as stock-in-trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is amortizable bond premium, which is not deductible from gross income for federal income tax purposes.

Amortizable bond premium, as it amortizes, will reduce the owner's tax cost of the Premium Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Premium Bonds. Accordingly, an owner of a Premium Bond may have taxable gain from the disposition of the Premium Bond, even though the Premium Bond is sold, or disposed of, for a price equal to the owner's original cost of acquiring the Premium Bond. Bond premium amortizes over the term of the Premium Bonds under the "constant yield method" described in regulations interpreting Section 1272 of the Code. Owners of the Premium Bonds should consult their own tax advisors with respect to the calculation of the amount of bond premium that will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of the Premium Bonds.

Additional Federal Income Tax Consequence of Holding the Bonds

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and certain Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty companies, foreign corporations and certain S corporations.

Bond Counsel expresses no opinion regarding any federal tax consequences other than its opinion with regard to the exclusion of interest on the Bonds from gross income pursuant to Section 103 of the Code and interest on the Bonds not constituting an item of tax preference under Section 57 of the Code. Prospective purchasers of the Bonds should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the Bonds.

Changes in Federal Tax Law Regarding the Bonds

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and may also be considered by the State of New Jersey. Court proceedings may also be filed, the outcome of which could modify the tax treatment of obligations such as the Bonds. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest on the Bonds or the market value or marketability of the Bonds. These adverse effects could result, for example, from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax) or repeal (or reduction in the benefit) of the exclusion of interest on the Bonds from gross income for federal or state income tax purposes for all or certain taxpayers.

State Taxation

Bond Counsel is of the opinion that, based upon existing law as enacted and construed on the date hereof, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. Except as provided above, no opinion is expressed with respect to other State and local tax consequences of owning the Bonds.

THE OPINIONS EXPRESSED BY BOND COUNSEL WITH RESPECT TO THE BONDS ARE BASED UPON EXISTING LAWS AND REGULATIONS AS INTERPRETED BY RELEVANT JUDICIAL AND REGULATORY CHANGES AS OF THE DATE OF ISSUANCE OF THE BONDS, AND BOND COUNSEL HAS EXPRESSED NO OPINION WITH RESPECT TO ANY LEGISLATION, REGULATORY CHANGES OR LITIGATION ENACTED, ADOPTED OR DECIDED SUBSEQUENT THERETO. PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE

FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF OWNERSHIP OF THE BONDS (INCLUDING, BUT NOT LIMITED TO, THOSE LISTED ABOVE) OR REGARDING THE POTENTIAL IMPACT OF ANY PENDING OR PROPOSED FEDERAL OR STATE TAX LEGISLATION, REGULATIONS OR LITIGATION.

BANK QUALIFICATION

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

LEGALITY FOR INVESTMENT

The State and all public officers, municipalities, counties, political subdivisions and public bodies, and agencies thereof, all banks, bankers, trust companies, savings and loan associations, savings banks and institutional building and loan associations, investment companies, and other persons carrying on banking business, all insurance companies, and all executors, administrators, guardians, trustees, and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control in any obligations of the Borough including the Bonds, and such Bonds are authorized security for any and all public deposits.

SECONDARY MARKET DISCLOSURE

The Borough has covenanted for the benefit of bondholders to provide certain financial information and operating data of the Borough to comply with the provisions of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended and supplemented, and as detailed and within the timeframe established in the Continuing Disclosure Certificate (the "Disclosure Certificate") to be executed on behalf of the Borough by its Chief Financial Officer, in the form appearing in Appendix "D" hereto, such Disclosure Certificate to be delivered concurrently with the delivery of the Bonds. This covenant is being made by the Borough to assist the purchaser of the Bonds in complying with the Rule.

Within the five years immediately preceding the date of this Official Statement, the Borough previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) audited financial information for the fiscal year ending December 31, 2014; and (ii) operating data for the fiscal year ending December 31, 2014. Additionally, the Borough previously failed to file late filing notices in connection with its untimely filings of: (i) audited financial information; and (ii) operating data, as described above. Such notices of events and late filings have since been filed with the MSRB's Electronic Municipal Market Access Dataport ("EMMA"). The Borough appointed Phoenix Advisors, LLC in October of 2019 to serve as continuing disclosure agent.

LITIGATION

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

MUNICIPAL BANKRUPTCY

The undertakings of the Borough should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 401, et seq. (the "Bankruptcy Code"), 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.

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

PREPARATION OF OFFICIAL STATEMENT

The Borough hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects and it will confirm to the Underwriter, by certificates signed by the Chief Financial Officer, that to such officer's knowledge such descriptions and statements, as of the date of this Official Statement, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

Antonides and Simone, CPAs, Adelphia, New Jersey assisted in the preparation of information contained in this Official Statement and takes responsibility for the audited financial statements to the extent specified in their Independent Auditor's Report.

The Borough Attorney has not participated in the preparation of the information contained in this Official Statement, nor has he verified the accuracy, completeness, or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto, but has reviewed the section under the caption entitled "LITIGATION" and expresses no opinion or assurance other than that which is specifically set forth therein with respect thereto.

Bond Counsel has participated in the review of this Official Statement but has not 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.

All other information has been obtained from sources which the Borough considers to be reliable and they make no warranty, guaranty or other representation with respect to the accuracy and completeness of such information.

RATING

Moody's Investors Service, Inc. (the "Rating Agency"), has assigned its municipal bond rating of "A1" to the Bonds.

The rating reflects only the view of the Rating Agency at the time such rating is issued and an explanation of the significance of such rating may be obtained from the Rating Agency. Such rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that such rating will continue for any given period of time or will not be revised downward or withdrawn entirely by the Rating Agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds have been purchased from the Borough by BNY Mellon Capital Markets (the "Underwriter") at a purchase price of \$2,857,695.45 (the "Purchase Price") in accordance with the Notice of Sale. The Purchase Price of the Bonds reflects the par amount of the Bonds plus a net original issue premium of \$145,834.75 and less an Underwriter's discount of \$48,139.30. The Bonds are being offered for sale at the yields set forth on the inside front cover page of this Official Statement, which yields may be changed from time to time by the Underwriter without notice.

MUNICIPAL ADVISOR

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

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, the issuance, the sale and the delivery of the Bonds are subject to the approval of Fleishman Daniels Law Offices, LLC, Linwood, New Jersey, Bond Counsel to the Borough, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as Appendix "C". Certain legal matters will be passed on for the Borough by the Borough Attorney.

Bond Counsel has not verified the accuracy, completeness or fairness of the statements contained in this Official Statement and will express no opinion relating thereto.

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

RISK TO HOLDERS OF BONDS

It is understood that the rights of the holders of the Bonds, and the enforceability thereof, may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

CERTIFICATES OF THE BOROUGH

Upon the delivery of the Bonds, the Underwriter shall receive a certificate, in form satisfactory to Bond Counsel and signed by officials of the Borough, stating to the best knowledge of said officials, that this Official Statement, as of its date, did not contain any untrue statement of a material fact, or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and stating, to the best knowledge of said officials, that there has been no material adverse change in the condition, financial or otherwise, of the Borough from that set forth in or contemplated by this Official Statement. In addition, the Underwriter shall also receive certificates in form satisfactory to Bond Counsel evidencing the proper execution and delivery of the Bonds and receipt of payment therefore, and a certificate dated as of the date of the delivery of the Bonds and signed by the officers who signed the Bonds, stating that no litigation is then pending or, to the knowledge of such officers, threatened to restrain or enjoin the issuance or delivery of the Bonds or the levy or collection of taxes to pay the Bonds or the interest thereon, or questioning the validity of the statutes or the proceedings under which the Bonds, are issued, and that neither the corporate existence or boundaries of the Borough, nor the title of any of the said officers to the respective offices, is being contested.

FINANCIAL STATEMENTS

Appendix "B" contains certain audited financial data of the Borough for the Borough's fiscal year ending December 31, 2018. The audited financial data was extracted from the report prepared by Antonides and Simone, CPAs, Adelphia, New Jersey (the "Auditor") to the extent and for the period set forth in their report appearing in Appendix "B" and are included herein in reliance upon the authority of such firm.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including any information additional to that contained herein, may be directed to Margaret Gorman, Chief Financial Officer, Borough of Island Heights, One Wanamaker Municipal Complex, Post Office Box 797, Island Heights, New Jersey, (732) 270-6415 or Phoenix Advisors, LLC, 625 Farnsworth Avenue, Bordentown, New Jersey (609) 291-0130.

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

MISCELLANEOUS

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

**THE BOROUGH OF ISLAND HEIGHTS IN THE
COUNTY OF OCEAN, NEW JERSEY**

By: /s/ Margaret Gorman
Margaret Gorman, Chief Financial Officer

Dated: November 19, 2019

APPENDIX A

GENERAL INFORMATION REGARDING THE BOROUGH

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INFORMATION REGARDING THE BOROUGH¹

The following material presents certain economic and demographic information of the Borough of Island Heights (the “Borough”), in the County of Ocean (the “County”), State of New Jersey (the “State”).

General Information

The Borough was incorporated as a borough by an Act of the State Legislature on May 6, 1887, based on the results of a referendum held on November 18, 1886. Until its incorporation, the Borough was part of Dover Township (which is now known as Toms River Township).

The Borough is located in the northeastern part of the County along the Toms River, which connects with Barnegat Bay.

Form of Government

The Borough is governed under the Small Municipality form of municipal government under the Faulkner Act. The government consists of a mayor and a six-member council, elected in non-partisan elections. The mayor is directly elected to a four-year term of office. Councilmembers served three-year terms of office on a staggered basis, with two seats coming up for election each year.

Education

The Island Heights School District serves public school students in grades K through 6 at Island Heights Elementary School.

Public school students in grades 7 through 12 attend the schools of the Central Regional School District, which also serves students from the municipalities of Berkeley Township, Ocean Gate Borough, Seaside Heights Borough and Seaside Park Borough.

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¹ Source: The Borough, unless otherwise indicated.

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2018	834	803	31	3.7%
2017	839	803	36	4.3%
2016	833	795	38	4.6%
2015	840	794	46	5.5%
2014	857	795	62	7.2%
<u>County</u>				
2018	266,971	255,456	11,515	4.3%
2017	268,234	255,361	12,873	4.8%
2016	267,872	253,889	13,983	5.2%
2015	265,397	248,986	16,411	6.2%
2014	264,480	244,949	19,531	7.4%
<u>State</u>				
2018	4,422,900	4,239,600	183,400	4.1%
2017	4,518,838	4,309,708	209,123	4.6%
2016	4,530,800	4,305,515	225,262	5.0%
2015	4,537,231	4,274,685	262,531	5.8%
2014	4,527,177	4,221,277	305,900	6.8%

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

Income (as of 2017)

	<u>Borough</u>	<u>County</u>	<u>State</u>
Median Household Income	\$82,174	\$65,771	\$76,475
Median Family Income	86,938	82,380	94,337
Per Capita Income	41,623	33,312	39,069

Source: US Bureau of the Census, 2017 American Community Survey 5-Year Estimates

Population

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

<u>Year</u>	<u>Borough</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2018 Estimate	1,674	0.1%	601,651	4.4%	8,908,520	1.3%
2010	1,673	-4.5	576,567	12.8	8,791,894	4.5
2000	1,751	19.1	510,916	17.9	8,414,350	8.9
1990	1,470	-6.7	433,203	25.2	7,730,188	5.0
1980	1,575	12.7	346,038	66.0	7,365,001	2.7

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2019 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
FLM Marine LLC	\$4,950,500	1.34%
Conza Builders	2,706,600	0.73%
Linda Tavares	2,386,600	0.65%
Nelson Properties Partnership	2,147,300	0.58%
Peter M. & Elisa A. Rapaport	1,900,700	0.51%
George & Harriet Prepis	1,847,300	0.50%
Lnda J. Bartlett	1,780,400	0.48%
Henry J. Kelly, Jr.	1,760,300	0.48%
Steven Brick	1,706,400	0.46%
Sal T. & Gina M. LaForgia	1,614,900	0.44%
Total	<u>\$22,801,000</u>	<u>6.17%</u>

Source: Comprehensive Annual Financial Report of the School District and 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>
2018	\$6,650,279	\$6,507,251	97.85%
2017	6,434,154	6,329,634	98.38%
2016	6,459,026	6,303,152	97.59%
2015	6,250,504	6,078,827	97.25%
2014	6,141,168	6,019,877	98.02%

Source: Annual Audit Reports of the Borough

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>
2018	\$21,316	\$126,994	\$148,310	2.23%
2017	18,548	91,220	109,768	1.71%
2016	15,829	133,270	149,099	2.31%
2015	13,131	139,634	152,765	2.44%
2014	10,509	98,533	109,042	1.78%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2018	\$0
2017	0
2016	0
2015	0
2014	0

Source: Annual Audit Reports of the Borough

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

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

<u>Year</u>	<u>Municipal</u>	<u>Local School</u>	<u>Regional School</u>	<u>County</u>	<u>Total</u>
2019r	\$0.537	\$0.615	\$0.337	\$0.402	\$1.891
2018	0.556	0.585	0.354	0.411	1.906
2017	0.546	0.595	0.309	0.395	1.845
2016	0.524	0.565	0.347	0.422	1.858
2015	0.502	0.556	0.332	0.414	1.804

r: Reassessment

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>
2019r	\$369,341,300	\$373,562,557	98.87%	\$203,041	\$373,765,598
2018	347,694,700	355,044,113	97.93	199,075	355,243,188
2017	346,233,200	345,197,607	100.30	197,685	345,395,292
2016	345,430,900	328,106,858	105.28	200,913	328,307,771
2015	344,933,900	349,689,680	98.64	198,355	349,888,035

r: Reassessment

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

Classification of Ratables

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

<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>
2019r	\$11,224,600	\$333,025,700	\$0	\$24,591,600	\$0	\$499,400	\$369,341,300
2018	13,014,400	313,614,800	0	20,576,200	0	489,300	347,694,700
2017	14,671,000	310,496,700	0	20,576,200	0	489,300	346,233,200
2016	16,740,400	307,677,800	0	20,523,400	0	489,300	345,430,900
2015	16,158,700	307,697,700	0	20,588,200	0	489,300	344,933,900

r: Reassessment

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

Financial Operations

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

Summary of Current Fund Budget

<u>Anticipated Revenues</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Fund Balance Utilized	\$214,050	\$225,662	\$252,559	\$532,052	\$449,000
Miscellaneous Revenues	506,933	486,625	403,969	400,151	429,709
Receipts from Delinquent Taxes	103,000	124,000	127,500	81,000	81,000
Amount to be Raised by Taxation	<u>1,734,192</u>	<u>1,811,731</u>	<u>1,891,368</u>	<u>1,935,165</u>	<u>1,985,001</u>
Total Revenue:	<u>\$2,558,175</u>	<u>\$2,648,018</u>	<u>\$2,675,396</u>	<u>\$2,948,367</u>	<u>\$2,944,710</u>
<u>Appropriations</u>					
General Appropriations	\$2,090,599	\$2,170,174	\$2,190,186	\$2,270,898	\$2,403,751
Operations (Excluded from CAPS)	93,925	49,168	38,645	52,200	56,425
Deferred Charges and Statutory Expenditures	12,000	12,000	12,000	0	0
Capital Improvement Fund	10,000	31,000	25,000	41,240	105,000
Municipal Debt Service	199,460	203,721	248,243	422,697	216,436
Reserve for Uncollected Taxes	<u>152,191</u>	<u>181,955</u>	<u>161,322</u>	<u>161,332</u>	<u>163,098</u>
Total Appropriations:	<u>\$2,558,175</u>	<u>\$2,648,018</u>	<u>\$2,675,396</u>	<u>\$2,948,367</u>	<u>\$2,944,710</u>

Source: Annual Adopted Budgets of the Borough

Fund Balance

Current Fund

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

Fund Balance - Current Fund

<u>Year</u>	<u>Balance</u> <u>12/31</u>	<u>Utilized in Budget</u> <u>of Succeeding Year</u>
2018	\$839,542	\$449,000
2017	1,023,294	532,052
2016	643,519	252,559
2015	318,979	225,662
2014	319,534	214,050

Source: Annual Audit Reports of the Borough

Water/Sewer Utility Operating Fund

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

	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2018	\$222,751	\$35,000
2017	181,224	100,500
2016	164,927	150,936
2015	77,844	40,575
2014	28,156	0

Source: Annual Audit Reports of the Borough

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Borough Indebtedness as of December 31, 2018

General Purpose Debt

Serial Bonds	\$864,000
Bond Anticipation Notes	479,000
Bonds and Notes Authorized but Not Issued	204,164
Other Bonds, Notes and Loans	<u>258,652</u>
Total:	\$1,805,816

Local School District Debt

Serial Bonds	\$3,118,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$3,118,000

Regional School District Debt

Serial Bonds	\$51,361
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$51,361

Self-Liquidating Debt

Serial Bonds	\$397,000
Bond Anticipation Notes	868,000
Bonds and Notes Authorized but Not Issued	942,417
Other Bonds, Notes and Loans	<u>3,052,278</u>
Total:	\$5,259,695

TOTAL GROSS DEBT

\$10,234,872

Less: Statutory Deductions

General Purpose Debt \$0

Local School District Debt 3,118,000

Regional School District Debt 51,361

Self-Liquidating Debt 5,259,695

Total: \$8,429,056

TOTAL NET DEBT

\$1,805,816

Source: Annual Debt Statement of the Borough

Overlapping Debt (as of December 31, 2018)²

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Local School District	\$3,118,000	100.00%	\$3,118,000
Regional School District	1,173,000	4.38%	51,361
County	486,423,834	0.35%	<u>1,688,576</u>
Net Indirect Debt			\$4,857,937
Net Direct Debt			<u>1,805,816</u>
Total Net Direct and Indirect Debt			<u>\$6,663,753</u>

Debt Limit

Average Equalized Valuation Basis (2016, 2017, 2018)	\$342,782,859
Permitted Debt Limitation (3 1/2%)	11,997,400
Less: Net Debt	<u>0</u>
Remaining Borrowing Power	<u>\$11,997,400</u>
Percentage of Net Debt to Average Equalized Valuation	0.000%
Gross Debt Per Capita based on 2010 population of 1,673	\$1,894
Net Debt Per Capita based on 2010 population of 1,673	\$0

Source: Annual Debt Statement of the Borough

² Borough percentage of County debt is based on the Borough's share of total equalized valuation in the County.

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APPENDIX B

FINANCIAL DATA OF THE BOROUGH

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Antonides and Simone
CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM E. ANTONIDES, JR., C.P.A., R.M.A., P.S.A.
EDWARD J. SIMONE, C.P.A., R.M.A., P.S.A.
WAYNE M. SIBILIA, C.P.A., R.M.A., P.S.A.

P.O. Box 37
Adelphia, New Jersey 07710
732-681-0980

INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members
of the Borough Council
Borough of Island Heights
County of Ocean
Island Heights, New Jersey

Report on Financial Statements

We have audited the accompanying financial statements - regulatory basis of the various funds and account group of the Borough of Island Heights (the "Borough"), in the County of Ocean, State of New Jersey, as of and for the year ended December 31, 2018, and the related notes to financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with financial reporting provisions of the Division of Local Government Services, Department of Community Affairs, State of New Jersey. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and requirements of audit 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 Borough'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 Borough'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.

Auditor's Responsibility (Continued)

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 Accounting Principles Generally Accepted in the United States of America

As described in Note A of the financial statements, the financial statements are prepared by the Borough on the basis of financial reporting provisions of 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 requirements of the State of New Jersey.

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

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United State of America" 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 and account group of the Borough as of December 31, 2018, or the results of its operations and changes in financial position for the year ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each fund and account group as of December 31, 2018, and their respective results of operations and changes in financial position for the year then ended, in accordance with the financial reporting provisions of the Division of Local Government Services, Department of Community Affairs, State of New Jersey, as described in Note A.

Other Matter

The financial statements of the Borough as of and for the year ended December 31, 2017, were audited by other auditors whose report dated June 27, 2018 expressed an unmodified opinion on those financial statements.

Report on Supplemental and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Borough's basic financial statements. The supplemental schedules are required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Report on Supplemental and Other Information (Continued)

The supplemental schedules are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole, on the basis of accounting described in Note A.

The supplemental information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2019, on our consideration of the Borough's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Borough's internal control over financial reporting and compliance.

Antonides and Simone

Independent Auditors

Edward J. Simone

Certified Public Accountant

Registered Municipal Accountant #477

Adelphia, New Jersey
August, 19, 2019

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A

**COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,
RESERVES AND FUND BALANCE - REGULATORY BASIS**

Sheet 1 of 2

DECEMBER 31, 2018 AND 2017

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Cash	A-4	\$ 2,531,894.38	\$ 2,895,949.19
Cash - Change Fund		50.00	50.00
		<u>2,531,944.38</u>	<u>2,895,999.19</u>
Due from State of New Jersey (Chapter 20, P.L. 1971)	A-4,5	11,439.18	11,375.02
		<u>2,543,383.56</u>	<u>2,907,374.21</u>
Receivables and Other Assets with Full Reserves:			
Delinquent Property Taxes Receivable	A-5	126,993.88	91,219.84
Tax Title Liens Receivable	A-6	21,315.53	18,548.02
Interfunds:			
Animal Control Trust Fund	A-12		.05
Payroll Fund	A-12	3,207.97	3,207.97
General Capital Fund	A-12	2,365.99	
		<u>153,883.37</u>	<u>112,975.88</u>
		<u>2,697,266.93</u>	<u>3,020,350.09</u>
<u>Grant Fund</u>			
Interfund - Current Fund	A-13	44,328.35	47,948.44
Grants Receivable	A-14	49,375.98	45,960.62
		<u>93,704.33</u>	<u>93,909.06</u>
		<u>\$ 2,790,971.26</u>	<u>\$ 3,114,259.15</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A

**COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,
RESERVES AND FUND BALANCE - REGULATORY BASIS**

Sheet 2 of 2

DECEMBER 31, 2018 AND 2017

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Liabilities, Reserves and Fund Balance</u>			
Liabilities:			
Appropriation Reserves	A-3,11	\$ 296,911.25	\$ 291,450.33
Reserve for Encumbrances	A-3,11	168,664.54	184,875.09
Due to State of New Jersey - Various Fees		175.00	100.00
Tax Overpayments			
Prepaid Taxes	A-4,5	100,530.87	547,442.81
Accounts Payable	A-4,10	71,768.15	27,761.71
County Taxes Payable	A-8	4,181.99	9,253.32
Local District School Tax Payable	A-9	452,381.00	436,642.00
Regional High School Tax Payable	A-10	331,312.60	254,462.25
Interfunds:			
General Capital Fund	A-12		24,271.04
Grant Fund	A-13	44,328.35	47,948.44
Utility Capital Fund	A-12	172,000.00	12,000.00
Animal Control Trust Fund	A-12		
Various Reserves:			
Sale of Municipal Assets		6,108.72	
Sandy Spending		15,478.67	15,478.67
Tax Appeals		40,000.00	
FEMA Revenue	A-4		32,394.10
		<u>1,703,841.14</u>	<u>1,884,079.76</u>
Reserve for Receivables and Other Assets		153,883.37	112,975.88
Fund Balance	A-1	839,542.42	1,023,294.45
		<u>2,697,266.93</u>	<u>3,020,350.09</u>
<u>Grant Fund</u>			
Appropriated Reserves	A-15	74,947.91	75,176.74
Reserve for Encumbrances	A-15	14,154.50	10,929.37
Unappropriated Reserves	A-16	4,601.92	7,802.95
		<u>93,704.33</u>	<u>93,909.06</u>
		<u>\$ 2,790,971.26</u>	<u>\$ 3,114,259.15</u>

There were deferred school taxes on December 31, 2018 and 2017 of \$804,999.90 (see Note 11).

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-1

COMPARATIVE STATEMENT OF OPERATIONS AND

Sheet 1 of 2

CHANGE IN FUND BALANCE - REGULATORY BASIS

	<u>Ref.</u>	<u>Year 2018</u>	<u>Year 2017</u>
<u>Revenue and Other Income Realized</u>			
Fund Balance Utilized	A-2	\$ 532,051.70	\$ 252,559.00
Miscellaneous Revenue Anticipated	A-2	455,824.21	436,466.77
Receipts from Delinquent Taxes	A-2	103,635.99	133,270.14
Receipts from Current Taxes	A-2	6,507,250.83	6,329,634.23
Non-Budget Revenues	A-2	45,863.27	70,392.33
Other Credits to Income:			
Unexpended Balance of Appropriation Reserves	A-11	262,031.47	339,994.33
Grant Fund-Cancelled Reserve	A-13	223.80	3,087.96
Interfunds Liquidated			5,510.68
Cancelled Check			1,064.99
Accounts Payable Cancelled			86,819.89
Reserve for Encumbrances Cancelled			7,170.00
Total Income		<u>7,906,881.27</u>	<u>7,665,970.32</u>
<u>Expenditures</u>			
Budget Appropriations within Caps:			
Operations:			
Salaries and Wages		1,013,976.61	984,467.10
Other Expenses		1,075,752.68	996,923.71
Deferred Charges and Statutory Expenditures		181,169.00	208,795.00
Budget Appropriations excluded from Caps:			
Operations:			
Other Expenses		110,313.93	46,086.21
Capital Improvements		41,240.16	25,000.00
Municipal Debt Service		420,066.38	247,511.11
Deferred Charges			12,000.00
	A-3	<u>2,842,518.76</u>	<u>2,520,783.13</u>
County Taxes	A-8	1,432,911.80	1,375,458.19
Local District School Tax	A-9	2,035,557.00	2,061,401.00
Regional High School Tax	A-10	1,230,841.00	1,070,757.00
Prior Year Refunds	A-4	7,340.40	
Grant Fund-Receivables Canceled	A-13	7,046.70	5,236.51
Interfund Advances	A-12	2,365.94	
Total Expenditures		<u>7,558,581.60</u>	<u>7,033,635.83</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-1

COMPARATIVE STATEMENT OF OPERATIONS AND

Sheet 2 of 2

CHANGE IN FUND BALANCE - REGULATORY BASIS

	<u>Ref.</u>	<u>Year 2018</u>	<u>Year 2017</u>
Excess in Revenue		\$ 348,299.67	\$ 632,334.49
Fund Balance January 1	A	<u>1,023,294.45</u>	<u>643,518.96</u>
		1,371,594.12	1,275,853.45
Decreased by:			
Utilization as Anticipated Revenue	A-2	<u>532,051.70</u>	<u>252,559.00</u>
Fund Balance December 31	A	<u>\$ 839,542.42</u>	<u>\$ 1,023,294.45</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

STATEMENT OF REVENUES - REGULATORY BASIS

Exhibit A-2

Sheet 1 of 3

	<u>Ref.</u>	<u>Anticipated Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Fund Balance Anticipated	A-1	\$ 532,051.70	\$ 532,051.70	\$
<u>Miscellaneous Revenues</u>				
Local Aid:				
Fees and Permits	A-7	12,000.00	15,930.00	3,930.00
Fines and Costs, Municipal Court	A-7	22,000.00	13,162.62	(8,837.38)
Interest and Costs on Taxes	A-7	20,000.00	21,485.58	1,485.58
Interest on Investments and Deposits	A-7	2,000.00	8,491.48	6,491.48
Beach Fees	A-7	25,000.00	20,778.00	(4,222.00)
Cable Television Franchise Fees	A-7	29,189.29	29,639.29	450.00
Post Office Lease	A-7	47,127.00	47,127.00	
Antenna Lease	A-7	78,000.00	76,782.73	(1,217.27)
Uniform Construction Code Fees	A-7	15,000.00	14,478.71	(521.29)
State Aid:				
Energy Receipts Tax	A-7	117,407.00	117,407.00	
Special Items:				
Federal and State Programs Offset by Revenues:				
Drunk Driving Enforcement Grant	A-14	1,301.99	1,301.99	
Green Communities Grant	A-14	3,000.00	3,000.00	
ANJEC-Open Space Stewardship	A-14	1,400.00	1,400.00	
CDBG		34,000.00	34,000.00	
Body Armor Fund	A-14	39.95	39.95	
Recycling Tonnage	A-14	3,461.01	3,461.01	
OEM - 966 Equipment Grant	A-14	14,910.98	14,910.98	
Other Special Items:				
Reserve for Insurance Reimbursements	A	32,394.10	32,394.10	
Surplus Capital Fund	A-7,C-1	33.77	33.77	
Total Miscellaneous Revenues	A-1	<u>458,265.09</u>	<u>455,824.21</u>	<u>(2,440.88)</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-2

STATEMENT OF REVENUES - REGULATORY BASIS

Sheet 2 of 3

	<u>Ref.</u>	<u>Anticipated Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Receipts from Delinquent Taxes	A-1,5	\$ <u>81,000.00</u>	\$ <u>103,635.99</u>	\$ <u>22,635.99</u>
Amount to be Raised by Taxes for Support of Municipal Budget - Local Tax for Municipal Purposes	A-2	<u>1,935,164.58</u>	<u>1,969,272.98</u>	<u>34,108.40</u>
Budget Totals		<u>3,006,481.37</u>	<u>3,060,784.88</u>	<u>54,303.51</u>
Non-Budget Revenues	A-1,4	<u> </u>	<u>45,863.27</u>	<u>45,863.27</u>
		\$ <u><u>3,006,481.37</u></u>	\$ <u><u>3,106,648.15</u></u>	\$ <u><u>100,166.78</u></u>
	Ref.	A-3		

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-2

STATEMENT OF REVENUES - REGULATORY BASIS

Sheet 3 of 3

	<u>Ref.</u>	
<u>Analysis of Realized Revenues</u>		
Allocation of Current Tax Collections:		
Revenue from Collections	A-1,5	\$ 6,507,250.83
Allocated to School and County Taxes	A-8,9,10	<u>4,699,309.80</u>
Balance for Support of Municipal Budget		
Appropriations		1,807,941.03
Add: Appropriation "Reserve for Uncollected Taxes"	A-3	<u>161,331.95</u>
 Amount for Support of Municipal Budget		
Appropriations	A-2	<u><u>\$ 1,969,272.98</u></u>
 <u>Analysis of Non-Budget Revenue</u>		
JIF Dividend		\$ 4,980.00
Clerk		236.43
Reimbursements		7,615.78
Rental Fees		700.00
Recycling		472.77
Police Administrative Fees		12,151.63
Polling Place		400.00
Vehicle Sale		8,135.08
Police		150.00
Prior Year Reimbursement		4,932.58
Rebates		579.70
Market Fees		3,740.00
NJ Rebate		<u>1,769.30</u>
	A-4	<u><u>\$ 45,863.27</u></u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Exhibit A-3

Sheet 1 of 7

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended Balance Cancelled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
<u>OPERATIONS WITHIN CAPS</u>					
General Administration					
Other Expenses	\$ 13,000.00	13,000.00	\$ 12,941.72	\$ 58.28	\$
Mayor and Council					
Salaries and Wages	20,362.00	20,362.00	20,362.00		
Other Expenses	2,000.00	2,000.00	363.97	1,636.03	
Municipal Clerk					
Salaries and Wages	41,885.00	38,885.00	35,739.88	3,145.12	
Other Expenses	16,435.00	15,435.00	10,793.88	4,641.12	
Advertising Budget	1,500.00	1,500.00	157.10	1,342.90	
Elections					
Other Expenses	500.00	500.00	261.00	239.00	
Financial Administration					
Salaries and Wages	37,616.00	37,616.00	37,478.12	137.88	
Other Expenses	26,000.00	26,000.00	25,787.78	212.22	
Audit	27,000.00	27,000.00	26,915.00	85.00	
Computerized Data Processing					
Other Expenses	35,000.00	35,000.00	34,474.98	525.02	
Collection of Taxes					
Salaries and Wages	54,090.00	54,090.00	49,707.49	4,382.51	
Other Expenses	4,700.00	4,700.00	3,854.12	845.88	
Assessment of Taxes					
Salaries and Wages	16,092.00	16,092.00	16,091.40	.60	
Other Expenses	1,150.00	1,150.00	951.78	198.22	
Tax Map Revisions	1,500.00	1,500.00	1,500.00		
Cost of Tax Appeals	40,000.00	40,000.00	40,000.00		
Legal Services and Costs					
Advertising and Legal Notices	6,000.00	6,000.00	2,307.95	3,692.05	
Other Expenses	30,000.00	30,000.00	24,009.19	5,990.81	

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Exhibit A-3

Sheet 2 of 7

	Appropriated		Expended		Unexpended Balance Cancelled
	Budget	Budget After Modification	Paid or Charged	Reserved	
Counsel - Labor					
Other Expenses	\$ 5,000.00	\$ 5,000.00	\$ 4,687.50	\$ 312.50	\$
Engineering Services and Costs					
Other Expenses	60,000.00	60,000.00	37,524.09	22,475.91	
Municipal Land Use Law (N.J.S. 40:55D-1)					
Planning Board					
Salaries and Wages	7,300.00	7,300.00	7,300.00		
Other Expenses - Legal	1,500.00	1,500.00	1,500.00		
Other Expenses - Miscellaneous	650.00	650.00	599.54	50.46	
Insurance					
General Liability	18,669.00	18,669.00	18,669.00		
Other Insurance	21,525.00	21,525.00	21,525.00		
Workers Compensation	41,221.00	41,221.00	39,768.44	1,452.56	
Employee Group Insurance	192,182.68	192,182.68	190,073.33	2,109.35	
Police					
Salaries and Wages	603,073.31	603,073.31	482,102.15	120,971.16	
Other Expenses	45,000.00	45,000.00	40,740.05	4,259.95	
Medical Testing	1,500.00	1,500.00	337.00	1,163.00	
Emergency Management Service					
Salaries and Wages	2,964.00	2,964.00	2,963.00	1.00	
Other Expenses	4,825.00	4,825.00	3,654.68	1,170.32	
First Aid					
Other Expenses	1,700.00	1,700.00		1,700.00	
Contribution	4,275.00	4,275.00	2,247.00	2,028.00	
Fire Department					
Other Expenses	3,000.00	3,000.00	2,865.11	134.89	
Contribution	40,000.00	40,000.00	40,000.00		
Municipal Prosecutor					
Other Expenses	6,200.00	6,200.00	4,500.00	1,700.00	

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Exhibit A-3

Sheet 3 of 7

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended Balance Cancelled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
Municipal Court					
Salaries and Wages	\$ 26,970.00	\$ 26,970.00	\$ 21,046.29	\$ 5,923.71	\$
Other Expenses	3,000.00	3,000.00	1,309.00	1,691.00	
Public Defender					
Other Expenses	7,350.00	7,350.00		7,350.00	
Public Buildings, Grounds, Parks, Playgrounds and Beaches					
Salaries and Wages	149,224.30	149,224.30	142,376.70	6,847.60	
Other Expenses	55,000.00	55,000.00	54,741.94	258.06	
Solid Waste Collection					
Contractual	215,000.00	215,000.00	194,305.03	20,694.97	
Other Expenses	250.00	250.00	250.00		
Recycling					
Other Expenses	3,000.00	3,000.00	1,500.00	1,500.00	
Vehicle Maintenance					
Other Expenses	28,500.00	28,500.00	16,776.80	11,723.20	
Shade Trees					
Other Expenses	2,000.00	2,000.00	2,000.00		
Snow Removal					
Salaries and Wages	10,000.00	10,000.00	10,000.00		
Other Expenses	10,000.00	10,000.00	10,000.00		
Board of Health					
Salaries and Wages	300.00	300.00		300.00	
Other Expenses	200.00	200.00		200.00	
Mental Health Program (N.J.S. 40:5-2.9)					
Other Expenses	10.00	10.00		10.00	
Environmental Commission					
Other Expenses	1,000.00	1,000.00	630.00	370.00	
Animal Control					
Other Expenses	2,000.00	2,000.00	150.00	1,850.00	

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Exhibit A-3

Sheet 4 of 7

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended Balance Cancelled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
Senior Advisory Committee					
Other Expenses	\$ 10.00	\$ 10.00	\$	\$ 10.00	\$
Beachfront Maintenance					
Other Expenses	2,000.00	2,000.00	1,640.00	360.00	
Recreation					
Salaries and Wages	1,000.00	1,000.00		1,000.00	
Other Expenses	3,000.00	3,000.00	2,209.09	790.91	
Participation in Free County Library	2,000.00	2,000.00	2,000.00		
Salary Settlements and Adjustments	500.00	500.00		500.00	
Deferred Sick Time	9,500.00	9,500.00	9,500.00		
<u>Uniform Construction Code - Appropriations Offset</u>					
<u>by Dedicated Revenues (N.J.S.A. 5:23-4.17)</u>					
Code Enforcement and Zoning					
Salaries and Wages	21,290.00	21,290.00	11,773.75	9,516.25	
Other Expenses	250.00	250.00	40.00	210.00	
Construction Code Official					
Salaries and Wages	13,138.00	13,138.00	9,853.16	3,284.84	
Other Expenses	100.00	100.00	80.00	20.00	
Fire Official					
Salaries and Wages	5,472.00	5,472.00	5,471.96	.04	
Other Expenses	250.00	250.00	65.00	185.00	
<u>Unclassified</u>					
Utilities:					
Gasoline	15,000.00	15,000.00	12,293.33	2,706.67	
Electricity	26,000.00	30,000.00	28,181.60	1,818.40	
Telephone	14,000.00	14,000.00	13,999.76	.24	
Natural Gas	7,000.00	7,000.00	6,683.60	316.40	
Street Lighting	20,000.00	20,000.00	17,608.76	2,391.24	
Total Operations within Caps	<u>2,089,729.29</u>	<u>2,089,729.29</u>	<u>1,821,239.02</u>	<u>268,490.27</u>	

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-3

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Sheet 5 of 7

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended Balance Cancelled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
Detail:					
Salaries and Wages	\$ 1,016,976.61	\$ 1,013,976.61	\$ 856,765.90	\$ 157,210.71	\$
Other Expenses	<u>1,072,752.68</u>	<u>1,075,752.68</u>	<u>964,473.12</u>	<u>111,279.56</u>	
<u>STATUTORY EXPENDITURES WITHIN CAPS</u>					
Contribution to:					
Public Employees' Retirement System	38,823.00	38,823.00	38,823.00		
Social Security System (O.A.S.I.)	90,000.00	90,000.00	67,802.09	22,197.91	
Police and Firemen's Retirement System	43,146.00	43,146.00	43,146.00		
Unemployment Compensation Insurance	6,000.00	6,000.00	5,781.93	218.07	
Defined Contribution Retirement Program	200.00	200.00		200.00	
PERS- Retro	3,000.00	3,000.00	3,000.00		
Total Statutory Expenditures within Caps	<u>181,169.00</u>	<u>181,169.00</u>	<u>158,553.02</u>	<u>22,615.98</u>	
Total Appropriations within Caps	<u>2,270,898.29</u>	<u>2,270,898.29</u>	<u>1,979,792.04</u>	<u>291,106.25</u>	
<u>OPERATIONS EXCLUDED FROM CAPS</u>					
Shared Services					
South Toms River-Professional Services	20,000.00	20,000.00	15,345.00	4,655.00	
Length of Service Awards Program (LOSAP)	32,200.00	32,200.00	31,050.00	1,150.00	
<u>Public and Private Programs Offset by Revenues</u>					
Body Armor Fund	39.95	39.95	39.95		
Recycling Tonnage Grant	3,461.01	3,461.01	3,461.01		
OEM - 966 Equipment Grant	14,910.98	14,910.98	14,910.98		
2018 GREEN COMMUNITIES	3,000.00	3,000.00	3,000.00		
DDEF	1,301.99	1,301.99	1,301.99		
2018 CDBG HANDICAP ACCESS IMP RIVER RD	34,000.00	34,000.00	34,000.00		
ANJEC-Open Space Stewardship	1,400.00	1,400.00	1,400.00		
966 Equipment Grant					
Total Operations excluded from Caps	<u>110,313.93</u>	<u>110,313.93</u>	<u>104,508.93</u>	<u>5,805.00</u>	

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-3

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Sheet 6 of 7

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended Balance Cancelled</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	
Detail:					
Other Expenses	\$ 110,313.93	\$ 110,313.93	\$ 104,508.93	\$ 5,805.00	\$
<u>CAPITAL IMPROVEMENTS EXCLUDED FROM CAPS</u>					
Capital Improvement Fund	5,000.00	5,000.00	5,000.00		
Deficits in Capital Ordinances	36,240.16	36,240.16	36,240.16		
Total Capital Improvements excluded from Caps	<u>41,240.16</u>	<u>41,240.16</u>	<u>41,240.16</u>		
<u>MUNICIPAL DEBT SERVICE EXCLUDED FROM CAPS</u>					
Payment of Bond Principal	108,000.00	108,000.00	108,000.00		
Payment of Bond Anticipation Notes	200,000.00	200,000.00	197,634.01		2,365.99
Interest on Bonds	30,105.00	30,105.00	30,105.00		
Interest on Notes	13,580.00	13,580.00	13,499.72		80.28
Loan Repayments for Principal and Interest					
Principal	31,661.17	31,661.17	31,661.17		
Interest	5,648.75	5,648.75	5,648.74		.01
Capital Lease Obligations Approved After 7/1/2007					
Principal	33,518.12	33,518.12	33,517.74		.38
Interest	184.00	184.00			184.00
Total Municipal Debt Service excluded from Caps	<u>422,697.04</u>	<u>422,697.04</u>	<u>420,066.38</u>		<u>2,630.66</u>
Total General Appropriations excluded from Caps	<u>574,251.13</u>	<u>574,251.13</u>	<u>565,815.47</u>	5,805.00	<u>2,630.66</u>
Subtotal General Appropriations	2,845,149.42	2,845,149.42	2,545,607.51	296,911.25	2,630.66
Reserve for Uncollected Taxes	<u>161,331.95</u>	<u>161,331.95</u>	<u>161,331.95</u>		
Total General Appropriations	\$ <u>3,006,481.37</u>	\$ <u>3,006,481.37</u>	\$ <u>2,706,939.46</u>	\$ <u>296,911.25</u>	\$ <u>2,630.66</u>
Ref.	A-3	A-3	A-3	A	A-1

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

CURRENT FUND

Exhibit A-3

STATEMENT OF EXPENDITURES - REGULATORY BASIS

Sheet 7 of 7

	<u>Ref.</u>	<u>Appropriated Budget After Modification</u>
Adopted Budget		\$ 2,948,367.44
Appropriation by 40A:4-87		<u>58,113.93</u>
		<u>\$ 3,006,481.37</u>
		<u>Expended Paid or Charged</u>
Disbursements	A-4	\$ 2,278,829.04
Interfund - Grant Fund	A-13	58,113.93
Reserve for:		
Tax Appeals		40,000.00
Encumbrances	A-3	168,664.54
Uncollected Taxes	A-2	<u>161,331.95</u>
		<u>\$ 2,706,939.46</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

TRUST FUND

Exhibit B

**COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,
RESERVES AND FUND BALANCE - REGULATORY BASIS**

DECEMBER 31, 2018 AND 2017

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
<u>Animal Control Trust Fund</u>			
Cash	B-1	\$ <u>635.36</u>	\$ <u>222.26</u>
<u>Other Trust Fund</u>			
Cash	B-1	<u>238,688.36</u>	<u>270,794.04</u>
<u>Length of Service Awards Program Fund</u>			
<u>(LOSAP) - Unaudited</u>			
Funds Held by Trustee	B-4	<u>523,656.58</u>	<u>568,198.89</u>
		<u>\$ 762,980.30</u>	<u>\$ 839,215.19</u>
<u>Liabilities and Reserves</u>			
<u>Animal Control Trust Fund</u>			
Reserve for Animal Control Trust Fund Expenditures	B-2	\$ 635.36	\$ 222.21
Interfund - Current Fund	A,B-1		.05
		<u>635.36</u>	<u>222.26</u>
<u>Other Trust Fund</u>			
Miscellaneous Reserves	B-3	<u>238,688.36</u>	<u>270,794.04</u>
<u>Length of Service Awards Program Fund</u>			
<u>(LOSAP) - Unaudited</u>			
Reserve for Length of Service Awards Program (LOSAP)	B-4	<u>523,656.58</u>	<u>568,198.89</u>
		<u>\$ 762,980.30</u>	<u>\$ 839,215.19</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

GENERAL CAPITAL FUND

Exhibit C

COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,

RESERVES AND FUND BALANCE - REGULATORY BASIS

DECEMBER 31, 2018 AND 2017

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Cash	C-2	\$ 488,878.41	\$ 437,426.51
Deferred Charges to Future Taxation:			
Funded	C-4	1,122,651.95	1,262,313.12
Unfunded	C-5	638,657.94	782,068.11
Interfund - Current Fund			24,271.04
Grants Receivable	C-11	<u>490,481.32</u>	<u>262,811.46</u>
		<u>\$ 2,740,669.62</u>	<u>\$ 2,768,890.24</u>
<u>Liabilities, Reserves and Fund Balance</u>			
Capital Improvement Fund	C-6	\$ 121,317.36	\$ 135,999.36
Improvement Authorizations:			
Funded	C-7	560,400.55	286,374.76
Unfunded	C-7	397,536.41	364,265.89
Reserve for Encumbrances	C-7	26,995.75	19,393.34
General Serial Bonds	C-8	864,000.00	972,000.00
Green Trust Loan Payable	C-9	258,651.95	290,313.12
Bond Anticipation Notes	C-10	479,000.00	679,000.00
Interfund - Current Fund		2,365.99	
Reserve for Benches	C-3	19,166.00	19,166.00
Reserve for Pavers	C-3	3,190.00	2,344.00
Fund Balance	C-1	<u>8,045.61</u>	<u>33.77</u>
		<u>\$ 2,740,669.62</u>	<u>\$ 2,768,890.24</u>

There were bonds and notes authorized but not issued on December 31, 2018 and 2017 of \$204,164.00 and \$149,940.00 respectively (Schedule C-12).

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

GENERAL CAPITAL FUND

Exhibit C-1

STATEMENT OF FUND BALANCE - REGULATORY BASIS

Balance December 31, 2017	<u>Ref.</u> C	\$ 33.77
Increased by:		
Cancelled Improvement Authorizations		<u>8,045.61</u>
		<u>8,079.38</u>
Decreased by:		
Utilized as Current Fund Anticipated Revenue		<u>33.77</u>
Balance December 31, 2018	C	<u><u>\$ 8,045.61</u></u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

WATER=SEWER UTILITY FUND

Exhibit D

**COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,
RESERVES AND FUND BALANCE - REGULATORY BASIS**

Sheet 1 of 2

DECEMBER 31, 2018 AND 2017

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
<u>Assets</u>			
Operating Fund:			
Cash	D-5	\$ 461,646.23	357,039.43
Receivables and Other Assets with Full Reserves:			
Consumer Accounts Receivable	D-7	15,388.79	13,541.41
Total Operating Fund		<u>477,035.02</u>	<u>370,580.84</u>
Capital Fund:			
Cash	D-5	103,593.52	309,453.27
NJ Environmental Infrastructure Loan Receivable	D-6		293,720.00
Fixed Capital	D-8	8,220,914.69	4,163,129.95
Fixed Capital Authorized and Uncompleted	D-9	2,055,768.12	5,993,058.12
Interfund - Current Fund	D-6	172,000.00	12,000.00
Total Capital Fund		<u>10,552,276.33</u>	<u>10,771,361.34</u>
		<u>\$ 11,029,311.35</u>	<u>\$ 11,141,942.18</u>
<u>Liabilities and Fund Balance</u>			
Operating Fund:			
Appropriation Reserves	D-4,10	\$ 56,559.72	\$ 75,160.10
Reserve for Encumbrances	D-4,10	105,679.12	49,611.18
Prepaid Rents	D-5,7	5,885.42	4,005.72
Accounts Payable	D-10	14,040.25	5,000.00
Accrued Interest on Notes and Loans	D-11	56,730.81	42,038.54
		<u>238,895.32</u>	<u>175,815.54</u>
Reserve for Receivables and Other Assets		15,388.79	13,541.41
Fund Balance	D-1	222,750.91	181,223.89
Total Operating Fund		<u>477,035.02</u>	<u>370,580.84</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

WATER=SEWER UTILITY FUND

**COMPARATIVE STATEMENT OF ASSETS, LIABILITIES,
RESERVES AND FUND BALANCE - REGULATORY BASIS**

Exhibit D

Sheet 2 of 2

DECEMBER 31, 2018 AND 2017

	<u>Ref.</u>	<u>2018</u>	<u>2017</u>
Capital Fund:			
Funded	D-14	\$	\$ 514,929.63
Unfunded	D-14	298,845.97	488,315.82
Reserve for Encumbrances	D-14	752,660.97	134,326.50
Capital Improvement Fund	D-12	460.00	35,460.00
Reserve for Amortization	D-13	4,865,430.88	3,538,976.71
Reserve for Deferred Amortization	D-15	152,057.26	1,534,511.04
Bond Anticipation Notes	D-21	868,000.00	766,000.00
Utility Serial Bonds	D-16	397,000.00	448,000.00
NJ Environmental Infrastructure:			
Trust Loan	D-17	105,000.00	115,000.00
Fund Loan	D-18	80,472.51	89,897.72
Trust Loan	D-19	1,665,000.00	1,765,000.00
Fund Loan	D-20	1,201,805.49	1,326,432.60
Fund Balance	D-2	165,543.25	14,511.32
Total Capital Fund		<u>10,552,276.33</u>	<u>10,771,361.34</u>
		\$ <u>11,029,311.35</u>	\$ <u>11,141,942.18</u>

The fixed capital reported is as taken from municipal records and does not necessarily reflect the true condition of such fixed capital.

There were bonds and notes authorized but not issued on December 31, 2018 of \$942,416.67

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

WATER-SEWER UTILITY FUND

Exhibit D-1

**COMPARATIVE STATEMENT OF OPERATIONS AND
CHANGE IN FUND BALANCE - REGULATORY BASIS**

	<u>Ref.</u>	<u>Year 2018</u>	<u>Year 2017</u>
<u>Revenue and Other Income Realized</u>			
Fund Balance Utilized	D-3	\$ 100,500.00	\$ 150,935.88
Rents	D-3	1,058,399.07	1,052,569.49
Miscellaneous Revenue Anticipated	D-3	14,659.68	15,484.93
Water Tower Antenna Lease	D-3	28,551.84	29,705.31
Capital Fund Balance	D-2, 3	14,000.00	
Other Credits to Income:			
Unexpended Balances of Appropriation Reserves	D-10	70,035.56	60,844.48
Account Payable Canceled			
Total Income		<u>1,286,146.15</u>	<u>1,309,540.09</u>
<u>Expenditures</u>			
Budget:			
Operating		645,308.13	735,764.62
Capital Improvements			1,000.00
Debt Service		486,811.00	388,389.24
Deferred Charges and Statutory Expenditures		12,000.00	17,153.39
Prior Year Revenue Adjustment			
Total Expenditures	D-4	<u>1,144,119.13</u>	<u>1,142,307.25</u>
Statutory Excess to Fund Balance		142,027.02	167,232.84
Fund Balance January 1	D	<u>181,223.89</u>	<u>164,926.93</u>
		323,250.91	332,159.77
Decreased by:			
Utilization by Water-Sewer Operating Fund	D-1	<u>100,500.00</u>	<u>150,935.88</u>
Fund Balance December 31	D	<u>\$ 222,750.91</u>	<u>\$ 181,223.89</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

WATER-SEWER UTILITY FUND

Exhibit D-2

STATEMENT OF CAPITAL FUND BALANCE - REGULATORY BASIS

	<u>Ref.</u>		
Balance December 31, 2017	<u>D</u>		\$ 14,511.32
Increased by:			
Funded Improvement Authorization Cancelled			
by Resolution:			
Improvement Authorizations	D-14	\$ 2,700.00	
Deferred Reserve for Amortization	D-14	<u>162,331.93</u>	
			<u>165,031.93</u>
			<u>179,543.25</u>
Decreased by:			
Utilized in Current Year Budget	D-3		<u>14,000.00</u>
Balance December 31, 2018	D		<u>\$ 165,543.25</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

WATER-SEWER UTILITY FUND

Exhibit D-3

STATEMENT OF REVENUES - OPERATING FUND

REGULATORY BASIS

	Anticipated Budget	Realized	Excess or (Deficit)
Fund Balance Anticipated	\$ 100,500.00	\$ 100,500.00	\$
Rents	1,050,000.00	1,058,399.07	8,399.07
Miscellaneous	12,000.00	14,659.68	2,659.68
Water Tower Antenna Lease	28,129.00	28,551.84	422.84
Capital Fund Balance	14,000.00	14,000.00	
	<u>\$ 1,204,629.00</u>	<u>\$ 1,216,110.59</u>	<u>\$ 11,481.59</u>
Ref.	D-4	D-1	

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

WATER-SEWER UTILITY FUND

Exhibit D-4

STATEMENT OF EXPENDITURES - OPERATING FUND - REGULATORY BASIS

	<u>Budget</u>	<u>Budget After Modification</u>	<u>Expended</u>		<u>Unexpended Balance Cancelled</u>
			<u>Paid or Charged</u>	<u>Reserved</u>	
Operating					
Salaries and Wages	\$ 139,500.00	\$ 139,500.00	\$ 95,442.28	\$ 19,057.72	\$ 25,000.00
Other Expenses	281,008.13	281,008.13	270,351.06	657.07	10,000.00
Ocean County Utilities Authority	217,800.00	217,800.00	192,632.99	167.01	25,000.00
Insurance	67,000.00	67,000.00	30,882.07	36,117.93	
Debt Service					
Payment of Bond Principal	51,000.00	51,000.00	51,000.00		
Payment of Bond Anticipation Notes and Capital Notes	70,000.00	70,000.00	70,000.00		
Interest on Bonds	13,803.76	13,803.76	13,803.76		
Interest on Notes	15,320.00	15,320.00	15,320.00		
Infrastructure Loan:					
Principal	19,426.00	19,426.00	19,097.61		328.39
Interest	4,894.00	4,894.00	4,894.00		
New Jersey Infrastructure Trust Loans:					
Principal	224,627.11	224,627.11	224,445.63		181.48
Interest	88,250.00	88,250.00	88,250.00		
Statutory Expenditures					
Contribution to Social Security System	10,000.00	10,000.00	9,734.69	265.31	
Unemployment Compensation Insurance	2,000.00	2,000.00	1,705.32	294.68	
	<u>\$ 1,204,629.00</u>	<u>\$ 1,204,629.00</u>	<u>\$ 1,087,559.41</u>	<u>\$ 56,559.72</u>	<u>\$ 60,509.87</u>
	<u>Ref.</u>				
	D-3	D-1		D	D-1
Disbursements	D-5		\$ 967,188.02		
Reserve for Encumbrances	D		105,679.12		
Accrued Interest on Bonds and Loans	D-11		14,692.27		
			<u>\$ 1,087,559.41</u>		

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

PAYROLL FUND

Exhibit G

COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES

REGULATORY BASIS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Cash	\$ <u>6,762.32</u>	\$ <u>4,454.83</u>
<u>Liabilities</u>		
Payroll Liabilities	\$ 3,554.35	\$ 1,246.86
Interfund - Current Fund	<u>3,207.97</u>	<u>3,207.97</u>
	<u>\$ 6,762.32</u>	<u>\$ 4,454.83</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

GENERAL FIXED ASSETS ACCOUNT GROUP

COMPARATIVE STATEMENT OF ASSETS AND RESERVES

Exhibit H

REGULATORY BASIS

DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Land	\$ 183,483.00	\$ 183,483.00
Buildings and Improvements	1,340,350.00	1,340,350.00
Equipment and Machinery	<u>1,833,989.00</u>	<u>1,833,989.00</u>
	<u>\$ 3,357,822.00</u>	<u>\$ 3,357,822.00</u>
<u>Reserves</u>		
Investment in Fixed Assets	<u>\$ 3,357,822.00</u>	<u>\$ 3,357,822.00</u>

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

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The financial statements of the Borough of Island Heights, County of Ocean, New Jersey (the "Borough"), include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the Borough as required by N.J.S. 40A:5-5. The financial statements of the Borough do not include the operations of the Board of Education, first aid organization or volunteer fire companies which are subject to separate audits.

The Governmental Accounting Standards Board ("GASB") Statement 14 established criteria to be used to determine which component units should be included in the financial statements of the oversight entity. The criteria differ from the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") requirements where certain boards, commissions, and agencies of the Borough, by statute or other directive, report separately on their financial statements. The Borough had no component units during 2018.

B. Descriptions of Funds

The GASB is the recognized standard-setting body for establishing governmental generally accepted accounting and financial reporting principles.

The accounting policies of the Borough conform to the accounting principles applicable to municipalities which have been prescribed by the Division. 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 Borough accounts for its financial transactions through the following separate funds which differs from the fund structure required by generally accepted accounting principles ("GAAP"):

Current Fund - revenues and expenditures for governmental operations of a general nature, including Federal and State grant funds.

Animal Control Trust Fund - animal license revenues and expenditures.

Other Trust Fund - sundry deposits held for satisfactory completion of specific work; receipts and disbursements for dedicated purposes.

General Capital Fund - resources, including Federal and State Grants in aid of construction, and expenditures for the acquisition of general capital facilities, other than those acquired through the Current Fund, including the status of bonds and notes authorized for said purposes.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Descriptions of Funds (Continued)

Water-Sewer Utility Operating Fund - revenues and expenditures necessary to operate municipally-owned water supply and sewer collection systems from user fees.

Water-Sewer Utility Capital Fund - resources, including Federal and State Grants in aid of construction, and expenditures for the acquisition of water-sewer capital facilities, other than those acquired through the Water-Sewer Utility Operating Fund, including the status of bonds and notes authorized for said purposes.

Payroll Fund - receipt and disbursement for payroll costs and payroll taxes.

General Fixed Assets Account Group - used to account for fixed assets used in general government operations.

C. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the Division differ in certain respects from GAAP applicable to local governmental units. The more significant differences are as follows:

A modified accrual basis of accounting is followed with minor exceptions.

Property Taxes and Other Revenues - property taxes and other revenues are recognized on a cash basis. Receivables for property taxes and other items that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the Borough's Current Fund. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Grant Revenues - Federal and State grants, entitlement or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the Borough's budget. Federal and State grant revenues received for purposes of capital projects financed by capital ordinances are recognized when received. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Expenditures - 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, which should be recognized when due.

Encumbrances - contractual orders at December 31, are reported as expenditures through the establishment of a reserve for encumbrances. Encumbrances do not constitute expenditures under GAAP.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Appropriation Reserves - 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.

Deferred Charges - the regulatory basis of accounting utilized by the Borough requires that certain expenditures be deferred, and raised as items of appropriation in budgets of succeeding years. These deferred charges include the two general categories, overexpenditures and emergency appropriations. Overexpenditures occur when expenditures recorded as "paid or charged" exceed available appropriation balances. Emergency appropriations occur when, subsequent to the adoption of a balanced budget, the governing body authorizes the establishment of additional appropriations based on unforeseen circumstances or for other special purposes as defined by statute. Overexpenditures and emergency appropriations are deducted from total expenditures in the calculation of operating results and are established as assets for Deferred Charges on the respective balance sheets. GAAP does not permit the deferral of overexpenditures to succeeding budgets. In addition, GAAP does not recognize expenditures based on the authorization of an appropriation. Instead, the authorization of special purpose expenditures, such as the preparation of tax maps or revaluation of assessable real property, would represent the designation of fund balance. The status of deferred charges at December 31, 2018 is set forth in Note 9.

Compensated Absences - expenditures relating to obligations for unused vested accumulated vacation and sick pay are not recorded until paid. GAAP requires that the amount which would normally be liquidated with expendable available financial resources be recorded as an expenditure in the Current Fund and the remaining obligations be recorded as a long-term obligation. The expenditures in the Water-Sewer Utility Operating Fund would be on a full accrual basis. The compensated absence liability at December 31, 2018 is set forth in Note 4.

Property Acquired for Taxes - is recorded in the Current Fund at the assessed valuation when such property was acquired and fully reserved. GAAP requires such property to be recorded at its market value.

Sale of Municipal Assets - Cash proceeds from the sale of Borough owned property may be reserved until utilized as an item of anticipated revenue in a subsequent year budget. Year end balances of such proceeds are reported as a cash liability in the Current Fund. GAAP requires that revenue be recognized in the accounting period that the terms of sales contracts become legally enforceable.

Interfunds - advances in the Current Fund are reported as interfund receivables with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. GAAP does not require the establishment of an offsetting reserve.

Inventories of Supplies - 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 that the cost of inventories be reflected on the balance sheet until utilized and expended.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

General Fixed Assets - In accordance with the New Jersey Administrative Code, which differs in certain respects from GAAP, the Borough has developed a fixed assets accounting and reporting system. Fixed assets acquired prior to 2000 are based on an inspection and appraisal prepared by an independent firm. All general fixed assets acquired after 2000 are recorded at cost. Capital leases are not reported in the General Fixed Assets Account Group as required by GAAP.

Fixed assets used in governmental operations (general fixed assets) are required to be 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 drainage systems are not capitalized.

GAAP does not require utilization of a general fixed asset account group.

All fixed assets are required to be valued at historical cost or estimated historical cost if actual historical cost is not available.

Depreciation is not recorded in the General Fixed Assets Account Group.

Expenditures for construction in progress are required to be recorded in the Capital Funds until such time as the construction is completed and put into operation.

Fixed assets acquired through grants-in-aid or contributed capital have not been accounted for separately.

Utility Fixed Assets - Accounting for utility fund "fixed capital" remains unchanged.

Property and equipment purchased by the Water-Sewer Utility Fund are recorded in the capital account at cost and are adjusted for disposition and abandonment. The amounts shown do not purport to represent reproduction costs or current value. Contribution in aid of construction are not capitalized. The balance in the Reserve for Amortization and Deferred Reserve for Amortization accounts in the utility capital fund represent charges to operations for the costs of acquisitions of property, equipment and improvements.

Property and equipment of the Water-Sewer Utility Fund are not depreciated. Principal payments for Water-Sewer Utility debt are recorded as expenditures in the Water-Sewer utility Statement of Operations.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Accounting (Continued)

Utility Fixed Assets (Continued)

During 2013 the Borough contracted with an outside vendor in order to establish a fixed asset inventory. There was no change to the Borough's asset inventory during 2018. The estimated historic value of the Borough's fixed assets at 2018 and 2017 are as follows:

	<u>Balance</u> <u>Jan. 1, 2018</u>	<u>Balance</u> <u>Dec. 31, 2018</u>
General Fixed Assets Account Group:		
Land	\$ 183,483	\$ 183,483
Building	1,340,350	1,340,350
Equipment	1,833,989	1,833,989
Water-Sewer Utility Fund:		
Fixed Capital	3,771,262	4,163,130
Fixed Capital Authorized and Uncompleted	<u>5,461,558</u>	<u>5,993,058</u>
	<u>\$ 12,590,642</u>	<u>\$ 13,514,010</u>

D. Financial Statements

The GASB Codification requires the financial statements of a governmental unit to be presented in accordance with GAAP. The Borough presents its financial statements in accordance with another comprehensive basis of accounting as promulgated by the Division which differs from the financial statements required by GAAP. In addition, the Division requires the financial statements to be referenced to the supplementary schedules. This practice differs from GAAP.

E. 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 Borough and approved by the Division in accordance with applicable statutes.

F. Subsequent Events

The Borough has evaluated subsequent events occurring after December 31, 2018 through the date of August 19, 2019, which is the date the financial statements were available to be issued.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 2. CASH AND CASH EQUIVALENTS

A. Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation ("FDIC"), or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

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

The market value of the collateral must equal five percent of the average daily balance of public funds; or

If the public funds deposited exceed 75 percent of the funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

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

At year-end, the carrying amount of the Borough's deposits was \$3,825,336 the bank balance amount was \$3,869,859. Of this amount \$250,000 was covered by federal depository insurance and a collateral pool under New Jersey's Governmental Unit Deposit Protection Act covered \$3,619,859.

B. Investments

a. When authorized by a cash management plan approved pursuant to N.J.S. 40A:5-14, the Borough may use available funds for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Borough:

- (1) Bonds or other obligations of the United States or obligations guaranteed by the United States.
- (2) Government money market mutual funds.
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor.
- (4) Bonds or other obligations of the Borough, or bonds or other obligations of school districts of which the Borough is a part or within which the school district is located.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

B. Investments (Continued)

- a. (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investments, New Jersey Department of the Treasury.
- (6) Municipal investment pools.
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c. 281; or
- (8) Agreements for the repurchase of fully collateralized securities, if:
- (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this section;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c. 236 (C.17:9-41);
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.
- b. Any investment instruments in which the security is not physically held by the Borough shall be covered by a third party custodial agreement, which shall provide for the designation of such investments in the name of the Borough and prevent unauthorized use of such investments.
- c. Investments are further regulated and restricted in accordance with N.J.S. 40A:5-15.1.

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature within one year. Collateralization of Fund investments is generally not required. "Other Than State" participants contribute up to one tenth of one percent per year of the value of the aggregate units owned by them to establish a Reserve Fund, which is supplemented by the proportional interest of "Other Than State" participants in gains on investment transactions realized. The Reserve Fund is available to cover losses of "Other Than State" participants occasioned by the bankruptcy of an issuer of an investment held by the Fund and losses on sales of securities.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

C. Cash Management Plan

In accordance with N.J.S. 40A:5-14, every Borough shall adopt a cash management plan and shall deposit and invest its funds pursuant to that plan. The plan shall be approved annually by majority vote of the governing body and may be modified from time to time in order to reflect changes in federal or state law or regulations. The chief financial officer shall be charged with administering the plan.

When an investment in bonds maturing in more than one year is authorized, the maturity of those bonds shall approximate the prospective use of the funds invested.

The plan also requires a monthly report to the governing body summarizing all investments made or redeemed since the previous report and shall include, at a minimum, the specific detailed information as set forth in the statute.

D. Credit Risk Categories

All bank deposits and investments as of the balance sheet date are classified as to credit risk by the following categories described below:

<u>Depository Account</u>	<u>Book Balance</u>	
	<u>2018</u>	<u>2017</u>
Insured:		
FDIC	\$ 250,000	\$ 500,000
GUDPA	<u>3,619,859</u>	<u>3,784,834</u>
	<u>\$ 3,869,859</u>	<u>\$ 4,284,834</u>

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 Borough does not have a formal policy for custodial credit risk.

State law limits investments as noted above.

During the year, the Borough had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of the year, no such investments were held by the Borough.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

E. Interest Rate Risk

New Jersey municipal units are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 40A:5-15.1 provides a list of permissible investments that may be purchased by New Jersey municipal units. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America; government money market mutual funds; any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress; bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located; bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units; local government investment pools; deposits with the State of New Jersey Cash Management Fund; and agreements for the purchase of fully collateralized securities with certain provisions. The Borough has no investment policy that would further limit its investment choices.

NOTE 3. DEBT

The Local Bond Law governs the issuance of bonds and notes to finance general municipal capital expenditures. Bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Borough are general obligation bonds, backed by the full faith and credit of the Borough. Bond anticipation notes are issued to temporarily finance capital projects, prior to the issuance of serial bonds. The term of the notes cannot exceed one year but the notes may be renewed from time to time for a period not exceeding one year. All such notes must be paid no later than the tenth anniversary of the date of the original note. The State of New Jersey also prescribes that on or before the third anniversary date of the original note a payment of at least equal to the first legally payable installment of the bonds in anticipation of which such notes were issued be paid.

A second legal installment must be paid if the notes are to be renewed beyond the fourth anniversary date of the original issuance and so on. Tax anticipation notes are issued if the cash on hand is not sufficient to carry on normal operations of the Borough at any time during the year. Such notes are authorized by a resolution adopted by the governing body.

A. Long-Term Debt

The Borough's long-term debt is summarized as follows:

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 3. DEBT (CONTINUED)

A. Long-Term Debt (Continued)

General Capital Fund

2.00% to 2.50% General Improvement Bonds, Series 2011 issued November 30, 2011 for \$1,623,000, installment maturities to November 30, 2021. (Term bond due November 30, 2026). \$ 864,000

The bonds mature serially in installments to the year 2021, Debt service requirements during the next five fiscal years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	108,000	27,945
2020	108,000	25,515
2021	108,000	22,950
2022		20,250
2023		20,250
2024-2026	<u>540,000</u>	<u>60,750</u>
	\$ <u>864,000</u>	\$ <u>177,660</u>

Green Trust Loan Program

The Borough has a low interest (2%) loan under the New Jersey Department of Environmental Protection's Green Trust Loan Program. The \$600,000 loan for the River Avenue Boardwalk was finalized on June 27, 2007. The Borough must repay the loan in semi-annual installments over twenty years. Loan payments are due through 2026.

Debt service requirements during the next five fiscal years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 32,298	\$ 5,012
2020	32,947	4,363
2021	33,609	3,701
2022	34,285	3,025
2023	34,974	2,336
2024-2026	<u>90,539</u>	<u>2,735</u>
	\$ <u>258,652</u>	\$ <u>21,172</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 3. DEBT (CONTINUED)

A. Long-Term Debt (Continued)

Water-Sewer Utility Capital Fund

2.00% to 2.50% General Improvement Bonds, Series 2011 issued November 30, 2011 for \$754,000, installment maturities to November 30, 2021. (Term bond due November 30, 2026). \$ 397,000

The bonds mature serially in installments to the year 2021. Debt service requirements during the next five fiscal years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 51,000	12,784
2020	51,000	11,636
2021	51,000	10,425
2022		9,150
2023		9,150
2024-2026	<u>244,000</u>	<u>27,450</u>
	<u>\$ 397,000</u>	<u>\$ 80,595</u>

The Borough has four loans with the New Jersey Infrastructure Program to fund utility upgrades. The New Jersey Infrastructure Fund Loans amounting to \$198,500 and \$2,451,000 are payable semi-annually till 2026 and 2030, respectively, with no interest. The New Jersey Infrastructure Trust Loans amounting to \$205,000 and \$2,275,000 are payable semi-annually commencing in 2008 till 2026 and 2013 till 2030, respectively. Interest rates vary between 4% to 5% for the loan in the amount of \$205,000. The interest rate for the second Trust Loan is 5%. The loan proceeds were received in 2007 for the first Trust and Fund Loans issued. To date the Borough has received partial funding from the Trust and Fund Loans that closed during 2011.

Debt service requirements during the next five fiscal years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 248,799	\$ 87,744
2020	253,546	82,094
2021	258,293	76,194
2022	271,196	70,031
2023	280,804	63,413
2024-2028	1,444,104	204,438
2029-2030	<u>295,536</u>	<u>25,748</u>
	<u>\$ 3,052,278</u>	<u>\$ 609,662</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 3. DEBT (CONTINUED)

B. Short-Term Debt

General Capital Fund

On December 31, 2018, the Borough's outstanding bond anticipation notes were as follows:

General Capital Fund

<u>Ordinance Number</u>	<u>Description</u>	<u>Amount</u>	<u>Interest Rate</u>
00-02, 05-04	Repair and Replacement of the Bulkhead at Wanamaker and Summit Avenue, Construction of Gazebos	\$ 231,142	2.00%
07-11	Installation of Bulkheads at Long Point and Simpson Avenues	118,500	2.00%
13-01	NJDOT Improvements to Cedar Avenue	34,358	2.00%
13-06	Repairs to Simpson Avenue and Boardwalk	<u>95,000</u>	2.00%
		<u>\$ 479,000</u>	

Water-Sewer Capital Fund

<u>Ordinance Number</u>		<u>Amount</u>	<u>Interest Rate</u>
16-09	Various Water and Sewer Improvements	\$ <u>868,000</u>	2.00%

C. Bonds and Notes Authorized but not Issued

At December 31 the Borough had authorized but not issued bonds and notes as follows:

	<u>2018</u>	<u>2017</u>
General Capital Fund	\$ 204,164	\$ 149,940
Water-Sewer Utility Capital Fund	942,417	572,370

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 3. DEBT (CONTINUED)

D. Borrowing Power

New Jersey statutes limit the debt of a Borough to 3.5% of the average of the last three preceding years equalized valuations of the taxable real estate and improvements. The Borough's statutory net debt at December 31, 2018 was .53%. The Borough's remaining borrowing power is 2.97%.

The summary of municipal debt for the last three years and the calculation of statutory net debt is presented in the Supplementary Data section of this report.

E. Summary of Debt Activity

During 2018 and 2017 the following changes occurred in the outstanding debt of the Borough:

	Balance			Balance	Due
	Jan. 1, 2018	Issued	Retired	Dec. 31, 2018	Within
					One Year
General Debt:					
Serial Bonds	\$ 972,000		\$ 108,000	\$ 864,000	\$ 108,000
Bond Anticipation Notes	679,000	479,000	679,000	479,000	479,000
Green Trust Loan	290,313		31,661	258,652	32,298
Water Utility Fund Debt:					
Serial Bonds	448,000		51,000	397,000	51,000
Bond Anticipation Notes	766,000	868,000	766,000	868,000	868,000
NJEIT	3,296,330		244,052	3,052,278	248,799
	<u>\$ 6,451,643</u>	<u>\$ 1,347,000</u>	<u>\$ 1,879,713</u>	<u>\$ 5,918,930</u>	<u>\$ 1,787,097</u>

	Balance			Balance	Due
	Jan. 1, 2017	Issued	Retired	Dec. 31, 2017	Within
					One Year
General Debt:					
Serial Bonds	\$ 1,080,000		\$ 108,000	\$ 972,000	\$ 108,000
Bond Anticipation Notes	609,000	95,000	25,000	679,000	679,000
Green Trust Loan	321,350		31,037	290,313	31,661
Water Utility Fund Debt:					
Serial Bonds	499,000		51,000	448,000	51,000
Bond Anticipation Notes		766,000		766,000	766,000
NJEIT	3,535,636		239,306	3,296,330	244,052
	<u>\$ 6,044,986</u>	<u>\$ 861,000</u>	<u>\$ 454,343</u>	<u>\$ 6,451,643</u>	<u>\$ 1,879,713</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 3. DEBT (CONTINUED)

E. Summary of Debt Activity (Continued)

Summary of Municipal Debt

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>Issued</u>			
General:			
Bonds, Notes and Loans	\$ 1,601,652	\$ 1,941,313	\$ 2,010,350
Water-Sewer Utility:			
Bonds, Notes and Loans	<u>4,317,278</u>	<u>4,510,330</u>	<u>4,034,636</u>
Total Issued	<u>5,918,930</u>	<u>6,451,643</u>	<u>6,044,986</u>
<u>Authorized but not Issued</u>			
General:			
Bonds and Notes	204,164	149,940	264,957
Water-Sewer Utility:			
Bonds and Notes	<u>942,417</u>	<u>572,370</u>	<u>1,350,870</u>
Total Authorized but not Issued	<u>1,146,581</u>	<u>722,310</u>	<u>1,615,827</u>
Net Bonds and Notes Issued and Authorized but not Issued	<u>\$ 7,065,511</u>	<u>\$ 7,173,953</u>	<u>\$ 7,660,813</u>

Summary of Statutory Debt Condition - Annual Debt Statement

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a Statutory Net Debt of .53%

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School Debt	\$ 3,118,000	\$ 3,118,000	\$
Regional School Debt	51,361	51,361	
General Debt	1,805,816		1,805,816
Water-Sewer Utility Debt	<u>5,259,695</u>	<u>5,259,695</u>	
	<u>\$ 10,234,872</u>	<u>\$ 8,429,056</u>	<u>\$ 1,805,816</u>

Net Debt \$1,805,816 divided by Equalized Valuation basis per N.J.S.A. 40A:2-6 as amended \$342,782,859 = .53%.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 3. DEBT (CONTINUED)

E. Summary of Debt Activity (Continued)

Borrowing Power Under N.J.S.A. 40A:2-6

3.5% of Equalized Valuation Basis (Municipal)	\$ 11,997,400
Net Debt	<u>1,805,816</u>
Remaining Borrowing Power	\$ <u>10,191,584</u>

Calculation of Self-Liquidating Purpose - Water-Sewer Utility per N.J.S.A. 40A:2-45

Cash Receipts from Fees, Rents and Other Charges		\$ 1,216,111
Deductions:		
Operating and Maintenance Costs	\$ 717,308	
Debt Service	<u>486,811</u>	
Total Deductions		<u>1,204,119</u>
Excess in Revenue		\$ <u>11,992</u>

NOTE 4. ACCRUED SICK AND VACATION BENEFITS

As discussed in Note 1 and in accordance with accounting principles prescribed by the State of New Jersey, the cash basis of accounting is followed for recording the Borough's liability related to unused vacation and sick pay. The Borough permits certain employees within limits to accumulate unused vacation and sick pay, which may be taken as time off or paid at a later date at an agreed upon rate. The estimated current cost of such unpaid compensation approximates \$70,860 and \$107,413 at December 31, 2018 and 2017, respectively. In accordance with New Jersey accounting principles, this amount is not reported as an expenditure or liability in the accompanying financial statements.

NOTE 5. FUND BALANCES APPROPRIATED

The fund balances at December 31 which have been appropriated and included as anticipated revenue in the proposed municipal budget for the year ending December 31 of the succeeding years are as follows:

	<u>2018</u>	<u>2017</u>
Current Fund	\$ 449,000	\$ 532,052
Water-Sewer Utility Operating Fund	35,000	100,500

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 6. PROPERTY TAXES

Comparison of Tax Rate Information

The following is a three year comparison of certain statistical information relative to property taxes and property tax collections for the current and previous two years:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tax Rate	\$ <u>1.906</u>	\$ <u>1.845</u>	\$ <u>1.858</u>
Apportionment of Tax Rate			
Municipal	.556	.546	.524
County	.411	.395	.422
Regional School	.354	.309	.347
Local School	.585	.595	.565
Assessed Valuation			
2018	\$ 347,893,775		
2017		\$ 346,430,885	
2016			\$ 345,631,813

Comparison of Tax Levies and Collection Currently

		<u>Currently</u>	
<u>Year</u>	<u>Tax Levy</u>	<u>Collection</u>	<u>Percentage of Collection</u>
2018	\$ 6,650,279	\$ 6,507,251	97.85%
2017	6,434,154	6,329,634	98.38%
2016	6,459,026	6,303,152	97.58%

Delinquent Taxes and Tax Title Liens

<u>Year Ended December 31</u>	<u>Amount of Title Liens</u>	<u>Amount of Delinquent Taxes</u>	<u>Total Delinquent</u>	<u>Percentage of Tax Levy</u>
2018	\$ 21,316	\$ 126,994	\$ 148,310	2.23%
2017	18,548	91,220	109,768	1.71%
2016	15,829	133,270	149,099	2.31%

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 7. TAXES AND WATER-SEWER CHARGES COLLECTED IN ADVANCE

Taxes and water-sewer charges collected in advance set forth as cash liabilities in the financial statements, are as follows:

	<u>Balance December 31</u>	
	<u>2018</u>	<u>2017</u>
Prepaid Taxes	\$ 100,531	\$ 547,443
Prepaid Water-Sewer Charges	5,885	4,006

NOTE 8. ASSESSMENT AND COLLECTION OF PROPERTY TAXES

New Jersey statutes require that taxable valuation of real property be prepared by the Borough Tax Assessor as of October 1 in each year and filed with the County Board of Taxation (the "Board") by January 10 of the following year. Upon the filing of certified adopted budgets by the Borough, Regional and Local School Districts, and County, the tax rate is struck by the Board based on the certified amounts in each of the taxing districts for collection to fund the budgets. Pursuant to statute, this process is to be completed on or before May 3, with a completed duplicate of the tax rolls to be delivered to the Borough Tax Collector (the "Collector") on or before May 13th.

Tax bills are prepared then mailed by the Collector of the Borough annually and set forth the final tax for the tax year. The bill contains a credit for preliminary amounts billed previously with the balance payable in equal installments on August 1st and November 1st of the tax year. In addition the property owner receives a preliminary bill for the succeeding year based on one half of the prior year's tax. The preliminary payments are due and payable on February 1st and May 1st. The N.J. Statutes allow a grace period of 10 days for each payment period and the Borough granted this option to taxpayers. Taxes become delinquent if not paid on the installment dates and become subject to interest penalties of 8% or 18% of the amount delinquent. If taxes are delinquent on or after April 1st of the succeeding year, the delinquent amount is subject to "Tax Sale" which places a tax lien on the property allowing the holder to enforce the tax lien by collection or foreclosure. New Jersey property tax laws establish a tax lien on real estate as of January 1st of the current tax year even though the amount due is not known.

NOTE 9. DEFERRED CHARGES TO FUTURE TAXATION FUNDED AND UNFUNDED

Upon the authorization of capital projects, the Borough establishes deferred charges for the cost of the capital projects to be raised by future taxation. Funded deferred charges relate to permanent debt issued, whereas unfunded deferred charges relate to temporary or non-funding of the authorized cost of capital projects. According to the New Jersey Statutes Annotated 40A:2-4, the Borough may levy taxes on all taxable property within the local unit to repay the debt. Annually, the Borough raises the debt requirements for the particular year in the current budget. As funds are raised, the deferred charges are reduced.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS

A. Public Employees' Retirement System (PERS)

Plan Description - The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

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

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

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

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

A. Public Employees' Retirement System (PERS) (Continued)

Contributions - The contribution policy for PERS is set by *N.J.S.A. 15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2017 and 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2013 and will be adjusted by the rate of return on the actuarial value of assts.

Components of Net Pension Liability - At December 31, 2018, the Borough's proportionate share of the PERS net pension liability is valued to be \$847,597. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The Borough's proportion of the net pension liability was based on the Borough's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The Borough's proportion measured as of June 30, 2018, was .00430%, which was an increase of .00011% from its proportion measured as of June 30, 2017.

Collective Balances at December 31, 2018 and December 31, 2017

	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Actuarial Valuation Date (Including Roll Forward)	July 1, 2018	July 1, 2017
Deferred Outflows of Resources	\$ 176,988	\$ 226,153
Deferred Inflows of Resources	485,292	476,350
Net Pension Liability	847,597	975,544
 Borough's Portion of the Plan's Total		
Net Pension Liability	0.00430%	0.00419%

For the year ended December 31, 2018, the Borough had an allocated pension expense of \$27,020.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

A. Public Employees' Retirement System (PERS) (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources - At December 31, 2018, the Borough had deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 16,164	\$ 4,370
Changes of assumptions	139,670	271,016
Net difference between projected and actual earnings on pension plan investments		7,950
Changes in proportion	<u>21,154</u>	<u>201,956</u>
	<u>\$ 176,988</u>	<u>\$ 485,292</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension expense are as follows:

<u>Year Ending December 31</u>	<u>PERS</u>
2019	\$ (30,277)
2020	(44,305)
2021	(94,564)
2022	(86,786)
2023	<u>(52,372)</u>
	<u>\$ (308,304)</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

A. Public Employees' Retirement System (PERS) (Continued)

Pension Expense and Deferred Outflows/Inflows of Resources (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
June 30, 2018	-	5.63
Net Difference between Projected and Actual Earnings on Pension Plan Investments:		
Year of Pension Plan Deferral:		
June 30, 2014	5.00	5.00
June 30, 2015	5.00	5.00
June 30, 2016	5.00	5.00
June 30, 2017	5.00	5.00
June 30, 2018	5.00	5.00
Changes in Proportion and Differences between Township Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48
June 30, 2018	5.63	5.63

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

A. Public Employees' Retirement System (PERS) (Continued)

Actuarial Assumptions - The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Inflation	<u>PERS</u> 2.25%
Salary Increases:	
Through 2026	1.65 - 4.15% Based on Age
Thereafter	2.65 - 5.15% Based on Age
Investment Rate of Return	7.00%
Mortality Rate Table	RP-2000
Period of Actuarial Experience Study upon which Actuarial Assumptions were based	July 1, 2011 - June 30, 2014

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

A. Public Employees' Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
High yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%
	<u>100.00%</u>	

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

A. Public Employees' Retirement System (PERS) (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Township's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Borough's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Borough's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.66%) or 1-percentage-point higher (6.66%) than the current rate:

	<u>Decrease</u> <u>(4.66%)</u>	<u>Discount</u> <u>(5.66%)</u>	<u>Increase</u> <u>(6.66%)</u>
Borough's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability associated with the Borough	\$ 1,065,754	\$ 847,597	\$ 664,575

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

B. Police and Firemen's Retirement System (PFRS)

Plan Description - The State of New Jersey, Police and Firemen's Retirement System (PFRS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PFRS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits which vest after four years of service.

The following represent membership tiers for PFRS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year if creditable service over 25 years but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Basis of Presentation - The schedules of employer and non-employer allocations and the schedules of pension amounts by employer and non-employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PFRS, its participating employers or the State as a non-employer entity. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PFRS or the participating employers, or the State. The amounts presented in the Schedule were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PFRS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

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

Contributions - The contribution policy for PFRS is set by *N.J.S.A. 43:16A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. For fiscal year 2017, the State contributed an amount less than the actuarially determined amount. The Local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PFRS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Borough contributions to PFRS amounted to \$43,146 for 2018.

The employee contributions for PFRS are 10.00% of employees' annual compensation, as defined.

Net Pension Liability and Pension Expense - At December 31, 2018, the Borough's proportionate share of the PFRS net pension liability is valued to be \$950,215. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The Borough's proportion of the net pension liability was based on the Borough's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2018. The Borough's proportion measured as of June 30, 2018, was .00702%, which was an increase of .00214% from its proportion measured as of June 30, 2017.

Collective Balances at December 31, 2018 and December 31, 2017

	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Actuarial Valuation Date	July 1, 2018	July 1, 2017
Deferred Outflows of Resources	\$ 457,848	\$ 264,816
Deferred Inflows of Resources	640,591	632,904
Net Pension Liability	950,215	752,629
Borough's Portion of the Plan's Total		
Net Pension Liability	0.00702%	0.00488%

For the year ended December 31, 2018, the Borough had an allocated pension expense of \$109,973.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

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

Pension Expense and Deferred Outflows/Inflows of Resources - At December 31, 2018, the Borough had deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,667	\$ 3,932
Changes of assumptions	81,563	243,524
Net difference between projected and actual earnings on pension plan investments		5,199
Changes in proportion	<u>366,618</u>	<u>387,936</u>
	\$ <u><u>457,848</u></u>	\$ <u><u>640,591</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense as follows:

<u>Year Ending December 31</u>	<u>PFRS</u>
2019	\$ 3,908
2020	(31,811)
2021	(81,331)
2022	(53,735)
2023	<u>(19,774)</u>
	\$ <u><u>(182,743)</u></u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	
June 30, 2015	-	5.53
June 30, 2016	-	5.58
June 30, 2017	5.59	-
June 30, 2018	5.73	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.17	-
June 30, 2015	5.53	-
June 30, 2016	5.58	-
June 30, 2017	-	5.59
June 30, 2018	-	5.73
Net Difference between Projected and Actual Earnings on Pension Plan Investments:		
Year of Pension Plan Deferral:		
June 30, 2014	5.00	5.00
June 30, 2015	5.00	5.00
June 30, 2016	5.00	5.00
June 30, 2017	5.00	5.00
June 30, 2018	5.00	5.00
Changes in Proportion and Differences between Township Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.17	6.17
June 30, 2015	5.53	5.53
June 30, 2016	5.58	5.58
June 30, 2017	5.59	5.59
June 30, 2018	5.73	5.73

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

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

Special Funding Situation - Under N.J.S.A. 43:16A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed which legally obligated the State 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 local participating employers 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 non-employer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan (except for employer specific financed amounts), there is no net pension liability to report in the financial statements of the local participating employers related to this legislation.

Additionally, the State's proportionate share of the net pension liability attributable to the Borough is \$129,071 as of December 31, 2018. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2017, to the measurement date of June 30, 2018. The State's proportion of the net pension liability associated with the Borough was based on a projection of the Borough's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. The State's proportion measured as of June 30, 2018 was .00702%, which was an increase of .00214% from its proportion measured as of June 30, 2017, which is the same proportion as the Borough's.

Borough's Proportionate Share of the Net Pension Liability	\$ 950,215
State's Proportionate Share of the Net Pension Liability Associated with the Borough	<u>129,071</u>
Total Net Pension Liability	\$ <u><u>1,079,286</u></u>

For the year ended December 31, 2018, the Borough's total allocated pension expense was \$125,261.

Actuarial Assumptions - The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

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

Actuarial Assumptions (Continued)

	<u>PFRS</u>
Inflation	2.25%
Salary Increases:	
Through 2026	2.10 - 8.98% Based on Age
Thereafter	3.10 - 9.98% Based on Age
Investment Rate of Return	7.00%
Mortality Rate Table	RP-2000
Period of Actuarial Experience Study upon which Actuarial Assumptions were based	July 1, 2010 - June 30, 2013

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

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

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2018 are summarized in the following table:

	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
High yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%
	<u>100.00%</u>	

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

B. Police and Firemen’s Retirement System (PFRS)

Discount Rate - The discount rate used to measure the total pension liability was 6.51% as of June 30, 2018. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2062. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2062 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Township’s proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Borough’s proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Borough’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.51%) or 1-percentage-point higher (7.51%) than the current rate:

	<u>Decrease</u> <u>(5.51%)</u>	<u>Discount</u> <u>(6.51%)</u>	<u>Increase</u> <u>(7.51%)</u>
Borough’s Proportionate Share of the Net Pension Liability and the State’s Proportionate Share of the Net Pension Liability associated with the Borough	\$ 1,271,744	\$ 950,215	\$ 685,011

C. Defined Contribution Retirement Program

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

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

There were no Borough employees enrolled in the DCRP for the years ended December 31, 2018, 2017 and 2016.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 10. PENSION OBLIGATIONS (CONTINUED)

C. Defined Contribution Retirement Program (Continued)

Related Party Investments - The Division of Pensions and Benefits does not invest in securities issued by the Borough.

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

General Information about the OPEB Plan

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The Plan provides medical and prescription drug to retirees and their covered dependents of the participating employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A. 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L. 1989.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB Plan (Continued)

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Basis of Presentation

The schedule of employer and nonemployer allocations and the schedule of OPEB amounts by employer and nonemployer (collectively, the Schedules) present amounts that are considered elements of the financial statements of its participating employers or the State as a nonemployer contributing entity. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the participating employers or the State. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Plan to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Allocation Methodology

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. For the special funding situation and the nonspecial funding situation, the total OPEB liabilities for the year ended June 30, 2018 were \$6,338,578,586 and \$9,642,524,641, respectively. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2017 through June 30, 2018. Employer and nonemployer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer and nonemployer may result in immaterial differences.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Net OPEB Liability

The total OPEB liability as of June 30, 2018 was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	2.50%
Salary Increases*:	
Through 2026	1.65% to 8.98%
Thereafter	2.65% to 9.98%

*Salary Increases are based on defined benefit plan that the member is enrolled in and his or her age.

OPEB Obligation and OPEB Expense

The State's proportionate share of the total Other Post-Employment Benefits Obligations, attributable to the Borough's as of June 30, 2018 was \$1,093,388. The Borough's proportionate share was \$1,210,246.

The OPEB Obligation was measured as of June 30, 2018, and the total OPEB Obligation used to calculate the OPEB Obligation was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The State's proportionate share of the OPEB Obligation associated with the Borough was based on projection of the State's long-term contributions to the OPEB plan associated with the Borough relative to the projected contributions by the State associated with all participating Municipalities, actuarially determined. At June 30, 2018, the State proportionate share of the OPEB Obligation attributable to the Borough was 0.007725%, which was a decrease of 0.000853% from its proportion measured as of June 30, 2017.

For the fiscal year ended June 30, 2018, the State of New Jersey recognized an OPEB expense in the amount of \$(1,208) for the State's proportionate share of the OPEB expense attributable to the Borough. This OPEB expense was based on the OPEB plans June 30, 2018 measurement date.

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

OPEB Obligation and OPEB Expense (Continued)

Certain actuarial assumptions used in the June 30, 2017 valuation were based on the results of the pension plans' experience studies for which the members are eligible for coverage under this Plan – the Police and Firemen Retirement System (PFRS) and the Public Employees' Retirement System (PERS). The PFRS and PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013 and July 1, 2011 to June 30, 2014, respectively.

100% of active members are considered to participate in the Plan upon retirement.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long-term trend rate after seven years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount Rate

The discount rate for June 30, 2018 was 3.87%. This represents the municipal bond return rate as chosen by the State. 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the collective net OPEB liability of the participating employers as of June 30, 2018, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	<u>At 1% Decrease (2.875)</u>	<u>At Discount Rate (3.875)</u>	<u>At 1% Increase (4.875)</u>
State of New Jersey's Proportionate Share of Total OPEB Obligation Associated with the Borough	\$ 1,419,939	\$ 1,210,246	\$ 1,042,749
State of New Jersey's Total Nonemployer OPEB Liability	18,381,085,096	15,666,618,141	13,498,373,388

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability as of June 30, 2018, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Healthcare</u> <u>Cost</u> <u>Trend Rate</u>	<u>1%</u> <u>Increase</u>
State of New Jersey's Proportionate Share of Total OPEB Obligation Associated with the Borough	\$ 1,009,539	\$ 1,210,246	\$ 1,469,995
State of New Jersey's Total Nonemployer OPEB Liability	13,068,471,450	15,666,618,141	19,029,066,023

Additional Information - The following is a summary of the collective balances of the local group at June 30, 2018:

	<u>12/31/2018</u>	<u>12/31/2017</u>
Collective Deferred Outflows of Resources	\$ 2,115,007,508	\$ 1,151,561,955
Collective Deferred Inflows of Resources	9,261,653,464	3,414,042,238
Collective Net Pension Liability	15,666,618,141	20,415,788,739
Borough's Portion	0.007725%	0.008578%

The collective amounts reported as a deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending</u> <u>June 30</u>	
2019	\$ (1,049,390,011)
2020	(1,049,390,011)
2021	(1,049,390,011)
2022	(1,050,264,681)
2023	(1,051,678,489)
Thereafter	<u>(1,896,532,753)</u>
	\$ <u>(7,146,645,956)</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflow of resources related to the changes in proportion. These amounts should be recognized (amortized) by each employer over the average remaining service lives of all plan members, which is 8.14 and 8.04 years for the 2018 and 2017 amounts, respectively.

Plan Membership

At June 30, 2017, the Program membership consisted of the following:

	<u>June 30, 2017</u>
Active Plan Members	\$ 61,789
Retirees Currently Receiving Benefits	<u>26,277</u>
	<u>\$ 88,066</u>

Changes in the Total OPEB Liability

The change in the State's Total OPEB liability for the fiscal year ended June 30, 2018 (measurement date June 30, 2017) is as follows:

Service Cost	\$ 896,235,148
Interest on the Total OPEB Liability	764,082,232
Differences Between Expected and Actual Experiences	(3,626,384,047)
Changes of Assumptions	(2,314,240,675)
Contributions from the Employer	(421,194,662)
Contributions from Non-Employer Contributing Entity	(53,548,285)
Net Investment Income	(2,320,422)
Administrative Expenses	8,200,113
Net Change in Total OPEB Liability	<u>(4,749,170,598)</u>
Total OPEB Liability (Beginning)	<u>20,415,788,739</u>
Total OPEB Liability (Ending)	<u>\$ 15,666,618,141</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Special Funding Situation

Under Chapter 330, P.L. 1997, the State shall pay the premium or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989.

Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan, there is no net OPEB liability, deferred outflows of resources or deferred inflows of resources to report in the financial statements of the local participating employers related to this legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net OPEB liability that is associated with the local participating employer.

The participating employer allocations included in the supplemental schedule of employer special funding allocations and the supplemental schedule of special funding amounts by employer for each employer are provided as each employer is required to record in their financial statements, as an expense and corresponding revenue, their proportionate share of the OPEB expense allocated to the State of New Jersey under the special funding situation and include their proportionate share of the collective net OPEB liability in their respective notes to their financial statements. For this purpose, the proportionate share was developed based on eligible plan members subject to the special funding situation. This data takes into account active members from both participating and non-participating employer locations and retired members currently receiving OPEB benefits.

Additionally, the State's proportionate share of the OPEB liability attributable to the Borough is \$1,093,388 as of December 31, 2018. The OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the OPEB liability was determined using update procedures to roll forward the total OPEB liability from an actuarial valuation as of July 1, 2017, to the measurement date of June 30, 2018. The State's proportion of the OPEB liability associated with the Borough was based on a projection of the Borough's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating members, actuarially determined. The State's proportion measured as of June 30, 2018 was 0.017596%, which was a decrease of 0.000367% from its proportion measured as of June 30, 2017, which is the same proportion as the Borough's. At December 31, 2018, the Borough's and the State of New Jersey's proportionate share of the OPEB liability were as follows:

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 11. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Special Funding Situation (Continued)

Borough's Proportionate Share of OPEB Liability	\$ 1,210,246
State of New Jersey's Proportionate Share of OPEB Liability Associated with the Borough	<u>1,093,388</u>
	\$ <u><u>2,303,634</u></u>

At December 31, 2018, the State's proportionate share of the OPEB expense, associated with the Borough, calculated by the plan as of the June 30, 2018 measurement date was \$33,098.

NOTE 12. SCHOOL TAXES

Regional and Local District School Taxes have been raised and liabilities deferred. Section 13 of P.L. 1991, C. 63 required that any Borough that levied school taxes on a school year basis shall defer from the 1991 municipal purposes tax levy at least 25% of the amount allowable to be deferred (which is 50% (fifty percent) of the levy). The remainder of the allowable amount shall be deferred from the levy in each of the next three years (1992-1994). The amounts so deferred shall be regarded as fund balance and shall be used to offset the local property tax levy for local purposes. In 1992 at least 50% of the amount allowable to be deferred from the 1992 tax levy was required to offset the 1993 local property tax levy and the total amount of deferral at December 31, 1993 was 75% of the amount allowable to be deferred based on the 1993 tax levy.

In 1994 Section 13, P.L. 1991, C. 63 was amended to provide municipalities with the option to determine the percentage if any of the amount allowable to be deferred to offset the local property tax levy for local purposes.

	<u>Regional District School Tax</u>		<u>Local District School Tax</u>	
	<u>Balance December 31</u>		<u>Balance December 31</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Balance of Tax	\$ 581,313	\$ 504,462	\$ 1,007,381	\$ 991,642
Deferred	<u>250,000</u>	<u>250,000</u>	<u>555,000</u>	<u>555,000</u>
Tax Payable	\$ <u><u>331,313</u></u>	\$ <u><u>254,462</u></u>	\$ <u><u>452,381</u></u>	\$ <u><u>436,642</u></u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 13. RISK MANAGEMENT

The Borough is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Borough is a member of the Ocean County Municipal Joint Insurance Fund, and the Municipal Excess Liability Fund, public entity risk pools currently operating as a common risk management and insurance programs for municipalities within the state. The Borough pays an actuarially determined annual assessment to Ocean County Municipal Joint Insurance Fund for its insurance coverage and that of the Municipal Excess Liability Fund. Supplemental assessments may be levied to supplement the funds. The Borough has not been notified on any supplemental assessments.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three years.

NOTE 14. CONTINGENT LIABILITIES

State and Federal Financial Assistance

The Borough receives financial assistance from the State of New Jersey and the U.S. government in the form of grants. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the financial assistance agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by grantors. As a result of these audits, costs previously reimbursed could be disallowed and require repayment to the grantor agency. As of December 31, 2018, the Borough estimates that no material liabilities will result from such audits.

Major Tax Assessments

Taxpayers in 2017 with assessments in excess of 1% of the total assessed valuation were as follows:

<u>Owner</u>	<u>Assessed Value</u>	<u>Block/Lot</u>	<u>% of Value</u>
FLM Marine	\$ 4,100,000	38.02/4.01	1.18%

There are actions which have been instituted against the Borough which are either in the discovery stage or whose final outcome cannot be determined at the present time. In the opinion of the administration, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Borough.

It is the opinion of the Borough officials that there is no litigation threatened or pending that would materially affect the financial position of the Borough or adversely affect the Borough's ability to levy, collect and enforce the collection of taxes or other revenue for the payment of its bonds or other obligations.

The Borough officials believe that negligence and other types of liability suits, of which the Borough is aware, appear to be within the stated policy limits and would be deferred by the respective carriers.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 15. INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances remained on the balance sheets at December 31, 2018:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Current Fund	\$ 5,574	\$ 216,328
Grant Fund	44,328	
General Capital Fund		2,366
Water-Sewer Utility Capital Fund	172,000	
Payroll Fund	<u> </u>	<u>3,208</u>
	\$ <u>221,902</u>	\$ <u>221,902</u>

NOTE 16. LENGTH OF SERVICE AWARD PROGRAM (“LOSAP”) - UNAUDITED

The Borough has established a Volunteer Length of Service Award Plan (“LOSAP”) (“Plan”) to ensure retention of the Borough’s volunteer firefighters and volunteer members of emergency service squads. The Plan shall be construed under the laws of the State of New Jersey and is established with the intent that it meets the requirements of a length of service award plan under Section 457(e)11 of the Internal Revenue Code”.

Annual Contributions - The annual contribution to be made by the Borough for each active volunteer member shall be \$1,150 per year of active emergency service, commencing with the year 2002.

Appropriations - Appropriations for the purpose of funding the Borough’s LOSAP shall be included as a separate line item in the Borough’s budget, commencing with the year 2002.

Periodic Increases - Notwithstanding the provisions above, the annual contribution to be made by the Borough for each active volunteer member shall be subject to periodic increases based upon the “consumer price index factor” pursuant to subsection f. of section 3 of P.L. 1997, c. 388 (N.J.S.A. 40A:14-185).

Criteria for Eligibility; Contributions; Points - Any active volunteer member shall be eligible to participate in the LOSAP Plan immediately upon commencement of the member’s performance of active voluntary services in the emergency service organization. Annual contributions shall only be made by the Borough, however, for those active volunteer members who have earned the minimum number of points for performing certain volunteer services on a yearly basis.

Determination as to Eligibility - Each emergency service organization shall provide to the Borough Administrator, acting as the Plan Administrator of LOSAP Plan, a certified list as to the active volunteer members who are initially eligible to participate in the Plan and those who are eligible to participate as each January 1 thereafter. The Plan Administrator shall forward said certified list to the Borough Council for approval, in accordance with the provision of N.J.A.C. 5:30-14.10. The decision of the Borough Council as to such active member’s eligibility shall be binding upon the Plan Administrator, participants, beneficiaries and any and all other persons having an interest hereunder, subject to appropriate judicial review.

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 16. LENGTH OF SERVICE AWARD PROGRAM (“LOSAP”) - UNAUDITED
(CONTINUED)

Terms of Participation - The Plan Administrator shall have the right to require any active volunteer member at the time of his or her becoming a participant to agree, in writing, to be bound by the terms, covenants and conditions of the LOSAP and accompanying trust. Each participant shall furnish to the Plan Administrator all pertinent information required for the administration of the LOSAP. The Plan Administrator shall rely upon all such information furnished.

Vesting - The active volunteer member shall not be permitted to receive a distribution of the fund in his or her LOSAP account until the completion of a five-year vesting period.

Termination of Service - Any participant who terminates service as an active volunteer member shall cease to participate hereunder. A former participant may resume participation immediately upon returning to the service of the emergency service organization as an active volunteer member. Any active volunteer member who terminates service with the emergency service organization, subsequently returns to service and again becomes a participant shall be treated as a new participant for purposes of eligibility unless said participant was fully vested prior to his or her termination from service.

Reporting Requirements - N.J.A.C. 5:30-14.49 requires that the Borough perform a separate review report of the Plan in accordance with the American Institute of Certified Public Accountants Statements for Accounting and Auditing Review Services.

NOTE 17. ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2017 consisted of intergovernmental grants, taxes, sewer rents and other accounts receivable. All receivables are considered collectible in full due to the stable condition of state programs. Accounts receivable as of fiscal year end for the Borough’s individual major and fiduciary funds, in the aggregate, are as follows:

	<u>Current Fund</u>	<u>Grant Fund</u>	<u>General Capital Fund</u>	<u>Utility Operating Fund</u>	<u>Total</u>
Grants Receivable	\$ 148,309	\$ 49,376	\$ 490,481	\$	\$ 539,857
Taxes					148,309
Sewer Rents				15,389	15,389
	<u>\$ 148,309</u>	<u>\$ 49,376</u>	<u>\$ 490,481</u>	<u>\$ 15,389</u>	<u>\$ 703,555</u>

BOROUGH OF ISLAND HEIGHTS - COUNTY OF OCEAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2018

NOTE 18. SUBSEQUENT EVENTS

The Borough has evaluated subsequent events through August 19, 2019, which is the date the financial statements were available to be issued.

The Borough adopted ordinance 2019-01, authorizing various water and sewer utility capital improvements, appropriating \$408,000 therefore and authorizing the issuance of \$386,000 in debt.

The Borough adopted ordinance 2019-02, authorizing various recreation improvements and appropriating \$34,500.

The Borough adopted ordinance 2019-06, authorizing various capital projects and improvements and appropriating \$141,000.

The Borough adopted ordinance 2019-08, authorizing the reconstruction of Lake Avenue, appropriating \$480,000 therefore and authorizing the issuance of \$456,000 in debt.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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FLEISHMAN • DANIELS LAW OFFICES, LLC

A NEW JERSEY LIMITED LIABILITY COMPANY
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Please refer to: 20050-03

John W. Daniels, Esquire
(2002-2016)

December 5, 2019

The Mayor and Borough Council
of the Borough of Island Heights, in the
County of Ocean, New Jersey

BYN Mellon Capital Markets, LLC
240 Greenwich Street
New York, New York 10286

RE: *Borough of Island Heights in the County of Ocean, New Jersey*
\$2,760,000 Aggregate Principal Amount General Obligation Bonds, Series 2019

Ladies and Gentlemen:

This office has served as Bond Counsel in connection with the issuance and sale by the Borough of Island Heights, in the County of Ocean, New Jersey (the "Borough") of \$2,760,000 aggregate principal amount General Obligation Bonds, Series 2019, consisting of \$340,000 General Improvement Bonds (the "GI Bonds") and \$2,420,000 Water and Sewer Utility Bonds (the "Utility Bonds"; and collectively with the GI Bonds being hereinafter referred to as the "Bonds").

The Bonds are authorized to be issued pursuant to (i) the Local Bond Law of the State of New Jersey, N.J.S.A. 40A:2-1, *et seq.* (the "Local Bond Law"); (ii) Resolution No. 2019-205 Determining the Form and Details of the Bonds adopted by the Borough Commission on October 22, 2019 (the "Bond Resolution"); (iii) Resolution No. 2019-206 adopted by the Borough Council on October 22, 2019 (the "Combining Resolution") combining into a single issue of bonds the following bond ordinances heretofore adopted by the Borough Council: Bond Ordinance No. 2000-02, finally adopted on May 16, 2000, as amended by Bond Ordinance No. 2005-04, finally adopted on June 14, 2005; Bond Ordinance No. 2007-11, finally adopted on August 21, 2007; Bond Ordinance No. 2008-09, finally adopted on June 24, 2008; Bond Ordinance No. 2009-08, finally adopted on October 29, 2009, as amended by Bond Ordinance No. 2010-05, finally adopted April 27, 2010; Bond Ordinance No. 2016-08, finally adopted on June 28, 2016; Bond Ordinance No. 2016-09, finally adopted on August 9, 2016; Bond Ordinance No. 2018-03, finally adopted on March 27, 2018; Bond Ordinance No. 2018-12, finally adopted on July 10, 2018; Bond Ordinance No. 2019-01, finally adopted on March 12, 2019; and Bond Ordinance No. 2019-10, finally adopted on October 22, 2019, in all respects duly approved and published as

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The Mayor and Borough Council of the
Borough of Island Heights
BNY Mellon Capital Markets, LLC
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Page 2

required by the law (collectively, the "Bond Ordinances"; and together with the Bond Resolution and the Combining Resolution being collectively referred to as the "Local Proceedings").

The Bonds are being issued: (i) for the purpose of providing funds to permanently finance the costs of certain general capital improvements as described in the Bond Ordinances (the "Projects"); and (ii) to pay the costs of issuance of the Bonds.

The Bonds are issued in fully registered form, without coupons, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearing house for securities transactions. One certificate shall be issued for the principal amount of each maturity. Purchases of the Bonds will be made in book-entry only form, without certificates, in principal denominations of \$5,000 or any multiple of \$1,000 in excess thereof. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Borough as Paying Agent (or a duly appointed Paying Agent) directly to Cede & Co., as nominee for DTC. Disbursal of such payments to the DTC participants is the responsibility of DTC and disbursal of such payments to the beneficial owners of the Bonds is the responsibility of the DTC participants.

The Bonds are dated and shall bear interest from their date of delivery, which interest shall be payable semiannually on the first (1st) day of June and December (each an "Interest Payment Date"), commencing June 1, 2020, in each year until maturity. The Bonds shall mature on December 1 in each of the years, in the principal amounts and at the interest rates as follows:

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The Mayor and Borough Council of the
Borough of Island Heights
BNY Mellon Capital Markets, LLC
December 5, 2019
Page 3

<u>Year</u>	<u>General Improvement Bonds</u>	<u>Water-Sewer Utility Bonds</u>	<u>Combined Maturities</u>
2020	\$25,000	\$60,000	\$85,000
2021	\$25,000	\$60,000	\$85,000
2022	\$25,000	\$60,000	\$85,000
2023	\$25,000	\$60,000	\$85,000
2024	\$30,000	\$60,000	\$90,000
2025	\$30,000	\$60,000	\$90,000
2026	\$30,000	\$60,000	\$90,000
2027	\$50,000	\$80,000	\$130,000
2028	\$50,000	\$115,000	\$165,000
2029	\$50,000	\$120,000	\$170,000
2030		\$120,000	\$120,000
2031		\$120,000	\$120,000
2032		\$120,000	\$120,000
2033		\$120,000	\$120,000
2034		\$115,000	\$115,000
2035		\$115,000	\$115,000
2036		\$115,000	\$115,000
2037		\$115,000	\$115,000
2038		\$115,000	\$115,000
2039		\$105,000	\$105,000
2040		\$105,000	\$105,000
2041		\$105,000	\$105,000
2042		\$105,000	\$105,000
2043		\$105,000	\$105,000
2044		\$105,000	\$105,000

The Bonds of this issue maturing on or after December 1, 2027 are subject to optional redemption, in whole or in part, prior to their stated maturities, on any date on or after December 1, 2026, at par, plus in each case accrued interest to the date fixed for redemption.

We have examined such matters of law, certified copies of the Local Proceedings, including all authorization proceedings for the Bonds, and other documents and proofs relative to the issuance and sale of the Bonds as we have deemed necessary or appropriate for the purposes of the opinions rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As

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to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

We are of the opinion that (i) the Local Proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to the New Jersey Statutes, (ii) the Bonds have been duly authorized, executed and delivered and constitute valid and legally binding obligations of the Borough enforceable in accordance with their terms, and (iii) the Borough has pledged its faith and credit for the payment of the principal of and interest on the Bonds, and, unless paid from other sources, all the taxable property within the Borough is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance and delivery of the Bonds in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of the issuance of the Bonds. On the date hereof, the Borough has covenanted in its Arbitrage and Tax Certificate (the "Tax Certificate") to comply with certain continuing requirements that must be satisfied subsequent to the issuance of the Bonds in order to preserve the tax-exempt status of the Bonds pursuant to the Code. In the event the Borough continuously complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Borough in the Tax Certificate, it is our opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code and is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax.

We are also of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof is not includable in gross income under the New Jersey Gross Income Tax Act, 1976 N.J. Laws c. 47, as enacted and construed on the date hereof.

Except as stated in the preceding two (2) paragraphs, we express no opinion as to any federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

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For purposes of this Opinion, the enforceability (but not the validity) of the documents mentioned herein may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles now or hereafter enacted by any state or by the federal government relating to the enforcement of creditors' rights generally, and the phrase "enforceable in accordance with their respective terms" shall not mean that specific performance would be available as a remedy in every situation (regardless of whether enforcement is considered in proceedings at law or in equity).

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

This Opinion is rendered as of the date hereof and we express no opinion as to any matters not set forth above, including, without limitation, with respect to, and assume no responsibility for, the accuracy, adequacy, or completeness of, the Preliminary Official Statement or the Official Statement prepared in respect of the Bonds, including the appendices thereto, and make no representation that we have independently verified the contents thereof.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (“**Disclosure Certificate**”) is executed and delivered as of this 5th day of December, 2019, by the Borough of Island Heights, County of Ocean, New Jersey (the “**Borough**”) pursuant to Resolution No. 2019-205, entitled “RESOLUTION DETERMINING THE FORM AND OTHER DETAILS OF \$2,851,000 GENERAL OBLIGATION BONDS, SERIES 2019, CONSISTING OF \$371,000 GENERAL IMPROVEMENT BONDS AND \$2,480,000 WATER AND SEWER UTILITY BONDS, OF THE BOROUGH OF ISLAND HEIGHTS, IN THE COUNTY OF OCEAN, NEW JERSEY AND PROVIDING FOR THEIR SALE”, adopted on October 22, 2019 (the “**Bond Resolution**”); Bond Ordinance No. 2000-02, finally adopted on May 16, 2000, as amended by Bond Ordinance No. 2005-04, finally adopted on June 14, 2005; Bond Ordinance No. 2007-11, finally adopted on August 21, 2007; Bond Ordinance No. 2008-09, finally adopted on June 24, 2008; Bond Ordinance No. 2009-08, finally adopted on December 8, 2009, as amended by Bond Ordinance No. 2010-04 finally adopted on April 27, 2010; as amended by Bond Ordinance No. 2010-05, finally adopted December 8, 2009 ; Bond Ordinance No. 2016-08, finally adopted on June 28, 2016; Bond Ordinance No. 2016-09, finally adopted on August 9, 2016; Bond Ordinance No. 2018-03, finally adopted on March 27, 2018; Bond Ordinance No. 2018-12, finally adopted on July 10, 2018; Bond Ordinance No. 2019-01, finally adopted on March 12, 2019; and Bond Ordinance No. 2019-10, finally adopted on October 22, 2019, in connection with the issuance and sale by the Issuer of \$2,760,000 aggregate principal amount General Obligation Bonds, Series 2019, consisting of \$340,000 General Improvement Bonds and \$2,420,000 Water and Sewer Utility Bonds, Series 2019 (the “**Bonds**”).

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Borough for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Underwriter in complying with the Rule (as defined below). The Borough acknowledges it is an "Obligated Person" under the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Resolution which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” shall mean any Annual Report provided by the Borough pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“**Beneficial Owner**” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds, as applicable (including persons holding Bonds, as applicable through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds, as applicable, for federal income tax purposes.

“**Bondholder**” or “**Holder**” or any similar term, when used with reference to a Bond or Bonds, means any person who shall be the registered owner of any outstanding Bond, including holders of beneficial interests in the Bonds.

“**Continuing Disclosure Information**” shall mean, collectively, (i) each Annual Report, (ii) any notice required to be filed by the Borough with EMMA (as defined herein) pursuant to Section 3 of this Disclosure Certificate, and (iii) any notice of a Listed Event required to be filed by the Borough with EMMA pursuant to Section 5 of this Disclosure Certificate.

“Disclosure Representative” shall mean the Chief Financial Officer of the Borough or her designee, or such other person as the Borough shall designate in writing from time to time for the purposes of this Disclosure Certificate.

“Dissemination Agent” shall mean, initially, the Borough or any Dissemination Agent subsequently designated in writing by the Borough which has filed with the Borough a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access system, an internet-based filing system created and maintained by the MSRB (as defined herein) and approved by the SEC (as defined herein) to provide a central location where investors can obtain municipal bond information including disclosure documents. The Borough or the Dissemination Agent shall submit disclosure documents to EMMA as a Portable Document File (PDF file) to www.emma.msrb.org.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (“SEC”) under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

“State” shall mean the State of New Jersey.

“Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the purchase of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The Borough shall provide or cause to be provided to the Dissemination Agent not later than September 15 of each year, commencing September 15, 2020 (for the calendar year ending December 31, 2019), until termination of the Borough’s reporting obligations under this Disclosure Certificate pursuant to the provisions of Section 6 hereof, the Annual Report prepared for the preceding fiscal year of the Borough. Each Annual Report provided to the Dissemination Agent by the Borough shall comply with the requirements of Section 4 of this Disclosure Certificate but may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Borough may be submitted separately from the balance of the Annual Report; and provided, further, that if the audited financial statements of the Borough are not available by such date, the Borough shall include unaudited financial statements with its Annual Report and when such audited financial statements become available to the Borough, the same shall be submitted to the Dissemination Agent no later than thirty (30) days after the receipt of the same by the Borough.

(b) Not later than September 30 of each year (commencing September 30, 2020), the Dissemination Agent shall file with EMMA a copy of the Annual Report pursuant to subsection (a) hereof.

(c) If the Borough does not provide or is unable to provide an Annual Report by the applicable date required in subsection (a) above, such that the Dissemination Agent cannot file the Annual Report with EMMA in accordance with subsection (b) above, the Dissemination Agent shall send a notice of such event to EMMA in substantially the form attached hereto as **Exhibit A**, with copies to the Borough (if the Dissemination Agent is not the Borough).

(d) Each year the Dissemination Agent shall file a report with the Borough (if the Dissemination Agent is not the Borough), certifying that the Annual Report has been provided to EMMA pursuant to this Disclosure Certificate, stating the date it was provided.

(e) If the fiscal year of the Borough changes, the Borough shall give written notice of such change to the Dissemination Agent and the Dissemination Agent shall, within five (5) business days after the receipt thereof from the Borough, forward a notice of such change to EMMA in the manner provided in Section 5(e) hereof.

SECTION 4. Content of Annual Reports. The Borough's Annual Report shall contain or incorporate by reference the following:

(1) The audited financial statements of the Borough (as of December 31 of each year).

The audited financial statements are to be prepared in accordance with generally accepted auditing standards and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division") that demonstrate compliance with the modified accrual basis, with certain exceptions, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP) and the budget laws of the State.

(2) Certain financial information and operating data of the Borough consisting of: (a) Borough indebtedness; (b) the Borough's most current adopted budget; (c) property valuation information; and (d) tax rate, levy and collection data.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Borough is an "Obligated Person" (as defined by the Rule), which have been filed with EMMA or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Borough shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, as applicable:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
7. Modifications to the rights of Bondholders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances of the Bonds;
10. Release, substitution or sale of property securing repayment of the Bonds, if material;
11. Rating changes relating to the Bonds;
12. Bankruptcy, insolvency, receivership or similar event of the Borough;
13. The consummation of a merger, consolidation, or acquisition involving the Borough or the sale of all or substantially all of the assets of the Borough, 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 for the Bonds or the change of name of a trustee for the Bonds, if material;
15. Incurrence of a financial obligation¹ of the Borough, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Borough, any of which affect Bondholders, if material; and

¹ The term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with Rule 15c2-12.

16. Default, event of acceleration, termination event, modification of terms or other similar events under a financial obligation of the Borough, if any such event reflects financial difficulties.

The Borough shall, in a timely manner not in excess of ten (10) business days after the occurrence of any Listed Event, file a notice of the occurrence of such Listed Event with the MSRB in accordance with the provisions of Section 5 of this Disclosure Certificate. In determining the materiality of any of the Listed Events specified in subsection (a) of this Section 5, the Borough may, but shall not be required to, rely conclusively on an opinion of counsel.

(b) Whenever the Borough has or obtains knowledge of the occurrence of any of the Listed Events, the Borough shall, as soon as possible, determine if such event would constitute information material to the Beneficial Owners of the Bonds.

(c) If the Borough determines that the occurrence of a Listed Event would be material to the Beneficial Owners of the Bonds, the Borough shall promptly notify the Dissemination Agent in writing (if the Borough is not the Dissemination Agent) and the Borough shall instruct the Dissemination Agent to report such Listed Event and the Dissemination Agent shall report the occurrence of such Listed Event pursuant to subsection (e) hereof.

(d) If the Borough determines that the occurrence of a Listed Event would not be material to the Beneficial Owners of the Bonds, the Borough shall promptly notify the Dissemination Agent in writing (if the Dissemination Agent is not the Borough) and the Dissemination Agent (if the Dissemination Agent is not the Borough) shall be instructed by the Borough not to report the occurrence.

(e) If the Dissemination Agent has been instructed in writing by the Borough to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with EMMA, with a copy to the Borough (if the Dissemination Agent is not the Borough). Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) hereof need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Beneficial Owner of the affected Bonds pursuant to the Bond Resolution.

SECTION 6. Termination of Reporting Obligation. The Borough's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or when the Borough is no longer an "Obligated Person" (as defined in the Rule). The Borough shall file a notice of the termination of its reporting obligations pursuant to the provisions hereof with the Dissemination Agent, which notice shall be filed with EMMA in accordance with the provisions of Section 5(e) hereof.

SECTION 7. Dissemination Agent: Compensation. The Borough may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Phoenix Advisors, LLC. The Borough shall compensate the Dissemination Agent (which shall be appointed) for the performance of its obligations hereunder in accordance with an agreed upon fee structure.

SECTION 8. Prior Compliance with the Rule. Within the five (5) years immediately preceding the date of this Disclosure Certificate, the Borough previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) audited financial information for the fiscal year ending December 31, 2014 and (ii) operating data for the fiscal year ending December 31, 2014. Additionally, the Borough previously failed to file late filing notices in connection with its filings of: (i) audited financial information and (ii) operating data, as described above. Such notices of events and late filings have been filed with EMMA. The Borough appointed Phoenix Advisors, LLC in October 2019, to serve as Disclosure Representative.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Borough may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver (supported by an opinion of counsel expert in federal securities laws acceptable to the Borough to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof) is (a) made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the obligated person, or type of business conducted; (b) the undertaking, as amended or waived, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) the amendment or waiver does not materially impair the interests of holders, as determined either by parties unaffiliated with the Borough or "Obligated Person," or by approving vote of the Beneficial Owners of the Bonds, as applicable pursuant to the terms of the Bond Resolution at the time of the amendment. The Borough shall give notice of such amendment or waiver to this Disclosure Certificate to the Dissemination Agent, which notice shall be filed in accordance with the provisions of Section 5 hereof. Notwithstanding the above, the addition of or change in the Dissemination Agent shall not be construed to be an amendment under the provisions hereof.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Borough shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borough. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice of such change shall be given in the same manner as a Listed Event under Section 5 hereof, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Borough from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Borough chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Certificate, the Borough shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Default. In the event of a failure of the Borough to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner of the Bonds may, at the Bondholder's or Beneficial Owner's cost and expense, take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Borough to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default on the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Borough to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of the Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and, to the extent permitted by law, the Borough agrees to indemnify and hold the Dissemination Agent (if the Dissemination Agent is not the Borough) and its respective officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. To the extent permitted by law, the Borough further releases the Dissemination Agent from any liability for the disclosure of any information required by the Rule and this Disclosure Certificate. The obligations of the Borough under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Borough, the Dissemination Agent, the Underwriter and the Beneficial Owners of the Bonds, including Bondholders, and shall create no rights in any other person or entity.

SECTION 14. Notices. All notices and submissions required hereunder shall be given to the following, or their successors, by facsimile transmission (with written confirmation of receipt), followed by hard copy sent by certified or registered mail, personal delivery or recognized overnight delivery:

- (a) If to the Borough:
 - Borough of Island Heights
 - 1 Wanamaker Municipal Complex
 - Island Heights, NJ 08732
 - Attn: Margaret Gorman, Chief Financial Officer
 - Telecopy No.: (732) 270-6415
 - Email: cfo@islandheightsboro.com

(b) Copies of all notices to the Disclosure Representative from time to time with respect to the Bonds, initially:

Phoenix Advisors, LLC
625 Farnsworth Avenue
Bordentown, New Jersey 08505
Attn: Anthony Inverso
Telecopy No.: (609) 291-9940
Email: ainverso@muniadvisors.com

Each party shall give notice from time to time to the other parties, in the manner specified herein, of any change of the identity or address of anyone listed herein.

SECTION 15. Counterparts. This Disclosure Certificate may be executed in any number of counterparts which shall be executed by authorized signatories of the Borough and the Dissemination Agent, as applicable, and all of which together shall be regarded for all purposes as one original and shall constitute and be but one and the same.

SECTION 16. Severability. If any one or more of the covenants or agreements in this Disclosure Certificate to be performed on the part of the Borough and the Dissemination Agent should be contrary to law, then such covenant or covenants, agreement or agreements, shall be deemed severable from the remaining covenants and agreements and shall in no way affect the validity of the other provisions of this Disclosure Certificate.

SECTION 17. Governing Law. This Disclosure Certificate shall be construed in accordance with and governed by the Laws of the United States of America and the State of New Jersey, as applicable.

IN WITNESS WHEREOF, THE BOROUGH OF ISLAND HEIGHTS, COUNTY OF OCEAN, has caused this Disclosure Certificate to be executed on its behalf by the Mayor and Chief Financial Officer and its corporate seal to be hereunto affixed, attested by the Municipal Clerk, all as of the day and year first above written.

[SEAL]
Attest:

BOROUGH OF ISLAND HEIGHTS
OCEAN COUNTY, NEW JERSEY

Joseph Kostecki
Borough Clerk

By: _____
Steven Doyle, Mayor

By: _____
Margaret Gorman
Chief Financial Officer

EXHIBIT "A"

NOTICE TO EMMA OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Borough of Island Heights, County of Ocean, New Jersey

Name of Bond Issue: \$2,760,000 General Obligation Bonds, Series 2019

CUSIP No. 464470 CT8

Date of Issuance: December 5, 2019

NOTICE IS HEREBY GIVEN that the above designated Borough has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate for the Bonds dated as of December 5, 2019 executed by the Borough.

Dated: _____, ____

Dissemination Agent
(on behalf of the Borough)

cc: Borough of Island Heights

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