

NEW ISSUE**NOT RATED**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Borough, under existing statutes and court decisions, and assuming compliance with certain tax covenants described herein, (i) interest on Notes is excluded from 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 Notes is not treated as a preference item in calculating the alternative minimum tax that may be imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Borough, under existing statutes, interest on the Notes is excluded from gross income under the New Jersey Gross Income Tax Act. See “Tax Matters” herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the Notes for certain noteholders.

**THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

\$29,175,000 BOND ANTICIPATION NOTES

Dated: November 2, 2017
Maturing: November 2, 2018
Interest Rate: 2.50%
Reoffered to Yield: 1.15%
CUSIP: 861648EV1

The \$29,175,000 Bond Anticipation Notes (the “Notes”) of The Borough of Stone Harbor, in the County of Cape May, New Jersey (the “Borough”) are payable as to principal and interest at maturity upon presentation and surrender at the office of the Chief Financial Officer of the Borough (the “Paying Agent”).

The Notes, along with other available funds of the Borough, are being issued to: (i) refund outstanding bond anticipation notes of the Borough; (ii) finance various improvements in and by the Borough; and (iii) pay the costs of issuance of the Notes. The Notes are not subject to redemption prior to maturity.

The Notes are valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the Borough without limitation as to rate or amount; provided, however, that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See “Noteholders’ Remedies in the Event of Default” and “Municipal Bankruptcy” herein.

The Notes are offered when, as and if issued and received by the purchaser and to approval of legality and validity by Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel to the Borough. Phoenix Advisors, LLC, Bordentown, New Jersey, has served as municipal advisor in connection with the issuance of the Notes. It is anticipated that the Notes in definitive form will be available for delivery on or about November 2, 2017.

Jefferies

Dated: October 24, 2017

**THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

MAYOR

Judith Davies-Dunhour

BOROUGH COUNCIL

Karen M. Lane, Council President
Mantura Gallagher
Charles Krafczek
Joan T. Kramar
Ray Parzych
Joselyn O. Rich

BOROUGH CLERK

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MUNICIPAL ADVISOR

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Bordentown, New Jersey

No dealer, broker, salesperson or other person has been authorized by the Borough to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Borough. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Borough since the date hereof.

The information which is set forth herein has been provided by the Borough and by other sources, but the information provided by such other sources is not guaranteed as to accuracy or completeness by the Borough. References in this Official Statement to the State of New Jersey statutes, 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 or exceptions to statements made herein. Copies of such above-mentioned documents may be inspected at the offices of the Borough during normal business hours. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET, SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**OFFICIAL STATEMENT
RELATING TO

THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY

\$29,175,000 BOND ANTICIPATION NOTES**

INTRODUCTION

This Official Statement (the “Official Statement”), which includes the cover page hereof and the appendices hereto, has been prepared by The Borough of Stone Harbor, in the County of Cape May (the “Borough”), in the State of New Jersey (the “State”) and provides certain information relating to the Borough in connection with the Borough’s sale of its \$29,175,000 Bond Anticipation Notes (the “Notes”). This Official Statement has been executed by and on behalf of the Borough by its Chief Financial Officer and its distribution and use in connection with the sale of the Notes has been authorized by the Borough.

This Official Statement contains specific information relating to the Notes including their general description, 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.

DESCRIPTION OF THE NOTES

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

Terms and Interest Payment Date

The Notes will be dated the date of delivery thereof and will bear interest at the interest rate per annum set forth on the cover page hereof, payable at maturity, on November 2, 2018.

Denominations and Place of Payment

The Notes will be issued in the denominations specified by the purchaser. Principal of and interest on the Notes are payable at maturity upon presentation at the office of the Chief Financial Officer of the Borough in the capacity as paying agent. The Notes will be issued in registered form.

Redemption

The Notes are not subject to redemption prior to maturity.

AUTHORIZATION AND PURPOSE

The Notes have been authorized and are to be issued pursuant to the laws of the State, including the Local Bond Law, constituting Chapter 2 of Title 40A of the New Jersey Statutes, as amended (N.J.S.A. §40A:2-1, et seq.) (the “Local Bond Law”). The Notes are authorized by bond ordinances adopted by the governing body of the Borough. Such bond ordinances, or summaries thereof, were published after their adoption along with a

statement to the effect that the twenty-day period of limitation within which a suit, action or proceeding questioning the validity of the accompanying bond ordinance can be commenced, began to run from the date of the first publication of such estoppel 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 any person shall be barred from questioning the sale, execution or delivery of such obligations.

Proceeds of the Notes, along with other funds of the Borough in the amount of \$205,650, will be used to: (i) refund, on a current basis, the bond anticipation notes of the Borough originally issued in the aggregate principal amount of \$13,455,500, dated November 3, 2016 and maturing November 3, 2017 (the "Prior Notes"); (ii) refund, on a current basis, the bond anticipation notes of the Borough originally issued in the aggregate principal amount of \$5,325,000, dated May 5, 2017 and maturing November 3, 2017; and (iii) temporarily finance the cost of various improvements in and by the Borough in the amount of \$10,600,150. The following table sets forth certain information with respect to the bond ordinances authorizing the Notes:

<u>Bond Anticipation Notes</u>			
<u>Ordinance No.</u>	<u>Purpose</u>	<u>Prior Notes Being Refunded</u>	<u>Principal Amount of New Notes to be Issued</u>
1398	Various Capital Improvements, finally adopted March 6, 2012	\$926,471	\$0
1417	Various Capital Improvements, finally adopted March 19, 2013	669,094	0
1436	Various Capital Improvements, finally adopted March 4, 2014	798,785	0
1455	Various Capital Improvements, finally adopted March 3, 2015	5,700,000	828,239
1463	Various Improvements to Recreational Facilities, finally adopted May, 15, 2015	133,000	0
1465	Various Beach Improvements, finally adopted September 1, 2015	4,700,000	50,000
1478	Various Capital Improvements, finally adopted April 5, 2016	200,000	880,000
1342	Various Improvements, finally adopted September 15, 2009	148,827	0
1391	Various Improvements, finally adopted October 18, 2011	498,480	0
1399	Various Improvements, finally adopted March 6, 2012	697,500	0
1418	Various Improvements, finally adopted April 2, 2013	1,500,000	0
1437	Various Improvements, finally adopted February 18, 2014	600,000	16,000
1450	Various Improvements, finally adopted October 21, 2014	77,693	0
1480	Various Improvements, finally adopted April 5, 2016	500,000	800,000

<u>Ordinance No.</u>	<u>Purpose</u>	<u>Prior Notes Being Refunded</u>	<u>Principal Amount of New Notes to be Issued</u>
1486	Various Improvements, finally adopted December, 14, 2016	1,425,000	0
1456	Various Improvements, finally adopted March 3, 2015	0	250,000
1479	Various Improvements, finally adopted April 5, 2016	0	530,000
1495-17	Various Improvements, finally adopted April 18, 2017	0	1,764,411
1496-17	Various Improvements, finally adopted April 18, 2017	0	2,556,500
1499-17	Various Improvements, finally adopted June 20, 2017	0	1,425,000
1492-17	Various Improvements, finally adopted March 9, 2017	<u>0</u>	<u>1,500,000</u>
Total:		<u>\$18,574,850</u>	<u>\$10,600,150</u>
Grand Total:			<u>\$29,175,000</u>

SECURITY FOR THE NOTES

The Notes will be valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable property therein without limitation as to rate or amount. See “Noteholders' Remedies in the Event of Default” and “Municipal Bankruptcy” herein.

SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO MUNICIPAL AND COUNTY DEBT AND FINANCIAL REGULATION

Set forth below is a summary of various statutory provisions and requirements relevant to the Borough's debt and financial regulation and budget process. This summary does not purport to be complete, and reference should be made to the statutes referred to for a complete statement of the provisions thereof.

Legal Framework

The Local Bond Law (N.J.S.A. §40A:2-1, *et seq.*) 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 financed and that bonds be retired in serial installments. A five percent (5%) cash down payment is generally required toward the financing of such projects. Generally, all bonds and notes issued by a local unit are general full faith and credit obligations.

Debt Limit

The authorized bonded indebtedness of a local unit is limited by statute, subject to the exceptions noted below, to an amount equal to three and one-half percent (3½%), in the case of a municipality, and two percent (2%), in the case of a county, of its average equalized valuation basis. The average equalized valuation basis of a local unit is set by statute as the average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries as annually determined by the State Board of Taxation.

Exceptions to Debt Limit - Extensions of Credit

Except for the funding of certain notes, the authorization of certain bonds for municipal utility purposes, if the utilities are self-liquidating, and certain formula allowances, the debt limit of a local unit may be exceeded only with the approval of the Local Finance Board, in the Division of Local Government Services, Department of Community Affairs of the State (the "Local Finance Board"), a State regulatory agency. If all or any part or a proposed debt authorization would exceed its debt limit, a local unit must 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 a local unit or substantially reduce the ability of a local unit to meet its obligations or to provide essential public improvements or services, or makes other statutory determinations, approval is granted.

Short-Term Financing

Pursuant to the Local Bond Law, a local unit may sell short-term 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. Any such note is designated a "bond anticipation note". Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as the same may be amended and supplemented, creating such capital expenditure. Bond anticipation notes, which are full faith and credit obligations of the local unit, may be issued for a period not exceeding one (1) year and may be renewed from time to time for a period that does not exceed one (1) year. Such notes shall mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original note, provided, however, that no such notes shall be renewed beyond the third anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which these notes are issued, is paid and retired on or before each subsequent anniversary date beyond which such notes are renewed from funds other than the proceeds of obligations.

Assessment Bonds

Assessment bonds may be issued pursuant to the Local Bond Law in annual serial installments with the first principal payment due within two (2) years and the final principal payment due within twenty (20) years of an issue's date. No principal payment may be larger than a prior year's principal payment.

Refunding Bonds

Refunding bonds may be issued pursuant to the Local Bond Law for the purpose of paying, funding or refunding outstanding bonds, including emergency appropriations, temporary emergency appropriations, advance funding of pension obligations as part of an early retirement program offered by the State, the actuarial liabilities of a non-State administered public employee pension system, amounts owing to others for taxes levied and for paying the cost of issuance of refunding bonds. The Local Finance Board must consent to the authorization for the issuance of refunding bonds and approve the maturity schedule thereof; provided, however, that the issuance of refunding bonds to realize debt service savings on outstanding obligations does not require Local Finance Board approval when authorized by conditions set forth in rules and regulations of the Local Finance Board and upon a resolution adopted by a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body of the local unit.

Tax Anticipation Notes

Tax anticipation notes may be issued pursuant to the Local Budget Law (as hereinafter defined). The issuance of tax anticipation notes is limited in amount by law to collectively thirty percent (30%) of the tax levy plus thirty percent (30%) of realized miscellaneous revenues of the next preceding fiscal year. Tax anticipation notes must be paid in full within one hundred and twenty (120) days of the close of the fiscal year in which they were issued.

School Debt Subject to Voter Approval

State law permits a school district, upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit, by using the available borrowing capacity of the municipality. If such debt is in excess of school district debt limit and the remaining borrowing capacity of the municipality, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The Local Budget Law

The foundation of the State local finance system is the annual cash basis budget. Under N.J.S.A. §40A:4-1, et seq. (the “Local Budget Law”), every local unit must adopt an operating budget in the form required by the Division of Local Government Services in the Department of Community Affairs of the State (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it is certified by the Director of the Division (the “Director”), or in the case of a local unit’s examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the Chief Financial Officer and governing body of local unit. The Local Budget Law requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit may review the adequacy of such appropriations. Among other restrictions, the Director must examine the budget with reference to all estimates of revenue and the following appropriations: (a) payment of interest and debt redemption charges, (b) deferred charges and statutory expenditures, (c) cash deficit of preceding year, (d) reserve for uncollected taxes and (e) other reserves and nondisbursement items. Anticipated tax revenues are limited to the same proportion as actual cash collections or to the total levy in the previous year, and the reserve amount must be factored into the budget to make up for the expected shortfall in actual collections. Anticipated non-tax revenues are limited to the amount actually realized the previous year unless the Director permits higher levels of anticipation should there be sufficient statutory or other evidence to substantiate that such anticipation is reasonable.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the budgetary 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 (deficit) must be raised in the succeeding year’s budget.

Each municipality is required to forward to the County Board of Taxation (the “County Board”) a certified copy of its operating budget, as adopted, not later than April 10 of the then current fiscal year. In the event that the County Board has not received a copy of the budget resolution or other evidence showing the amount to be raised by taxation for the purposes of a taxing district, the Director shall transmit to the County Board a certificate setting forth the amount required for the operation of the local unit for that fiscal year. The operating budget of the preceding year shall constitute and limit the appropriations for the then current year with suitable adjustments for debt service, other mandatory charges and changes in revenues, but excluding the amount to be raised by taxes for school purposes where required to be included in the municipal budget. The certificate shall be prepared by using the revenues and appropriations appearing in the adopted budget of the preceding year with suitable adjustments to include, without limitation: (a) any amounts required for principal and interest of indebtedness falling due in the fiscal year and (b) any deferred charges, including a deficit, if any, or statutory expenditures required to be raised in the fiscal year. See the subcaption “Tax Assessment and Collection Procedure” below.

Appropriations Not Required for Payments on Debt

It is not necessary to have an appropriation in order to release money for debt service on obligations. N.J.S.A. §40A:4-57 states that “no officer, board, body or commission shall, during any fiscal year, expend money

(except to pay notes, bonds or interest thereon), incur any liability, or enter into any contract which by its terms involves the expenditure of money for any purpose for which no appropriation is provided, or in excess of the amount appropriated for such purpose” (emphasis added).

Appropriation Caps

Chapter 89 of the New Jersey Laws of 1990 extended and amended Chapter 203 of the New Jersey Laws of 1986 and Chapter 68 of the New Jersey Laws of 1976 (N.J.S.A. §40A:4-45.3), commonly referred to as the “CAP Law”. The CAP Law places limits on county tax levies and municipal expenditures. This limitation is commonly referred to as a “CAP”. The actual calculation of the CAP is somewhat complex and the actual CAP computations are prepared by the Division and distributed to each municipality. In addition to the CAP increase in expenditures, other increases allowable include increases funded by increased service fees, proceeds from the sale of municipal assets and increased expenditures mandated by State and federal laws. Appropriations for items excluded from the CAP computation, including debt service requirements, may be set at any necessary level and are not subject to the CAP. The CAP may be exceeded if approved by referendum of the voters of the municipality.

In summary, in determining the CAP for each budget year, the prior year’s total general appropriations are reduced by certain statutory-type appropriations with the resulting balance multiplied by two and one-half percent (2½%) or the cost-of-living adjustment (the rate of annual percentage increase, rounded to the nearest half-percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services, computed and published quarterly by the United States Department of Commerce) (the “Cost-of-Living Adjustment”), whichever is less, thereby producing the basic CAP, which then may be increased by certain known increases in revenues and State or federal expenditures mandated after July 18, 1976. A municipality may, by the adoption of an ordinance, elect to increase its final appropriations by a percentage up to, but not to exceed three and one-half percent (3½%). A municipality may, by referendum, increase its final appropriations by a higher percentage rate.

Property Tax Levy Cap

Chapter 44 of the Pamphlet Laws of 2010 imposes restrictions upon the allowable annual increase in the tax levy. In general municipalities have their tax levies limited to a two percent (2%) increase. The tax levy is subject to certain adjustments, including the sum of new ratables. In addition, the following exclusions are added to the calculation of the adjusted tax levy: increases in amounts required to be raised by taxation for capital expenditures, including debt service as defined by law; increases in pension contributions and accrued liability for pension contributions in excess of two percent (2%); 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 two percent (2%) 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, as annually determined by the Division of Pensions and Benefits in the Department of the Treasury; 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 law also authorizes a municipality to submit public questions to the voters for approval (by affirmative vote of at least fifty percent (50%)) to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

Miscellaneous Revenues

A provision in the Local Budget Law (N.J.S.A. §40A:4-26) provides that: “[n]o miscellaneous revenues from any source shall 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] shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit”.

In addition, budget amendments must be approved by the Director, except for federal and State categorical grants-in-aid contracts may be realized for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with the municipality's calendar fiscal year. However, grant revenue is generally not realized until received in cash.

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, which governs the anticipation of delinquent tax collections, provides that: "[t]he maximum which may be anticipated is the sum produced by the 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: "[r]eceipts 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 the preceding fiscal year".

This provision and N.J.S.A. §40A:4-40 require that an additional amount, commonly known or referred to as 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 product will at least be equal to the tax levy required to balance the budget. The reserve requirement is calculated as follows:

The levy required to balance the budget, divided by the prior year's percentage of current tax collection (or lesser percent) levied, will equal the total taxes to be levied for the current fiscal year.

Chapter 99 of the New Jersey Laws of 1997 authorizes any municipality to sell its "total property tax levy" to the highest responsible bidder therefor in accordance with the procedures and limitations set forth therein (N.J.S.A. §54:5-113.5).

Upon the filing of certified adopted budgets by (i) a local governmental unit, (ii) a local and/or a regional school district, (iii) the county in which the local governmental unit is situated and (iv) any special improvement districts within the local governmental unit, the current year's tax rate is struck by a county's board of taxation based upon the amount of taxes required in each taxing district to fund the respective budgets.

Emergency Appropriations/Deferral of Current Expenses

Emergency appropriations made under N.J.S.A. §40A:4-46, after the adoption of the budget and the determination of the tax rate, may be authorized by a local unit. However, with minor exceptions set forth below, such appropriations must be included in full in the following year's budget. When such appropriations exceed three percent (3%) of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated quasi-capital projects ("special emergencies") such as (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost or floods, which may be amortized over three (3) years and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this clause (ii) may be amortized over five (5) years. N.J.S.A. §40A:4-53, -54, -55 and -55.1. Emergency

appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

Under the CAP Law, emergency appropriations aggregating less than three percent (3%) of the previous year's final current operating appropriations may be raised in the portion of the local unit's budget outside the CAP if approved by at least two-thirds ($\frac{2}{3}$) of the members of the governing body and the Director. Emergency appropriations that aggregate more than three percent (3%) of the previous year's final current operating appropriations must be raised within the CAP. Emergency appropriations for debt service, capital improvements, the local unit's share of federal or State grants and other statutorily permitted items are outside the CAP.

Budget Transfers

Budget transfers provide a local unit with a degree of flexibility and afford a control mechanism over expenditure needs. Transfers between major appropriation accounts are prohibited by N.J.S.A. §40A:4-58 until the last two (2) months of the fiscal year. Appropriation reserves may also be transferred during the first three (3) months of the year to the previous year's budget (N.J.S.A. §40A:4-59). Both types of transfers require a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body. However, no transfers may be made (a) to appropriations for contingent expenses, deferred charges or emergency appropriation or (b) from appropriations for contingent expenses, deferred charges cash deficit of the preceding year, reserve for uncollected taxes, down payments, the capital improvement fund or interest and redemption charges. Although budget transfers among subaccounts (line items) within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

Municipal Public Utilities

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.

Capital Budget

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 the next ensuing six (6) 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 three (3) or six (6) 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 by the annual operating budget if the items were detailed.

Fiscal Year Adjustment Law

Chapter 75 of the New Jersey of 1991, signed into law on March 28, 1992, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year (N.J.S.A. §40A:4-3.1). Municipalities that change fiscal years must adopt a six (6) month transition budget for January to June. Since expenditures would be expected to exceed revenues primarily because State aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the law authorizes the issuance of fiscal year adjustment bonds to fund the one time deficit for the six (6) month transition budget (N.J.S.A. §40A:2-51.2). The law provides that the deficit in the six (6) month transition budget may be

funded initially with bond anticipation notes based on the estimated deficit in the six (6) month transition budget. Notes issued in anticipation of fiscal year adjustment bonds, including renewals, can only be issued for up to one (1) year unless the Local Finance Board permits the municipality to renew them for a longer period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue fiscal year adjustment bonds to finance the deficit on a permanent basis. The purpose of the law is to assist municipalities that are heavily dependent on State aid and that have had to issue tax anticipation notes to fund operating cash flow deficits each year. While the law does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue fiscal year adjustment bonds as well.

State Supervision

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two (2) successive years; which has a deficit greater than four percent (4%) of its tax levy for two (2) successive years; which has failed to make payments due and owing to the State, county, Borough or special district for two (2) consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds twenty-five percent (25%) of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law or the Local Fiscal Affairs Law (as hereinafter defined) which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

Tax Assessment and Collection Procedure

A local governmental unit is the entity responsible for the levying and collection of taxes on all taxable property within its borders, including the tax levies for the county and the Borough. The levying of taxes is for a fiscal year, which starts July 1 and ends June 30. The collection of taxes to support a local governmental unit's current budget requirement is based upon a calendar year, January 1 to December 31.

Property taxes are based on a municipality's assessor's valuation of real property, as confirmed by the tax board of the county in which a municipality is situated. The taxes for municipal, local and regional school districts and a county cover the current calendar year. Turnover of the tax moneys by a municipality to a school district are based on school needs and are generally made on a periodic basis throughout the year with any balance transferred by June 30 (the end of the school district's fiscal year). A municipality remits one hundred percent (100%) of the county taxes, payable quarterly on February 15, May 15, August 15 and November 15.

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 result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. But it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

Upon the filing of certified adopted budgets by the municipality's local school district and the county, the tax rate is struck by the County Board 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, the levying of taxes and the collection of taxes are set forth in N.J.S.A. §54:4-1, et seq. Special taxing districts are permitted for various special services rendered to the properties located within the special districts.

Tax bills are sent in June of the current fiscal year. Taxes are payable in four (4) quarterly installments on February 1, May 1, August 1 and November 1. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged as the February and May installments for municipal, county and school purposes in the current fiscal year. The

amounts due for the February and May installments are determined by the municipal governing body as either one-quarter ($\frac{1}{4}$) or one-half ($\frac{1}{2}$) of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) per annum on the first \$1,500 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500. The governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed six percent (6%) of the amount of the delinquency. These penalties and interest are the highest permitted under State statutes. Delinquent taxes open for one (1) year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

State statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. Prior to February 1 in each year, a municipality must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board on or before April 1 of the current tax year for its review. The County Board has the authority after a hearing to increase, 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 believes the petition was unsatisfactorily reviewed by the County Board, appeal of the decision may be made to the Tax Court of New Jersey for further hearing. Tax Court of New Jersey appeals tend to take several years to conclude by settlement or trial and any losses in tax collections from prior years, after an unsuccessful trial or by settlement, are charged directly to operations or with the permission of the Local Finance Board, may be refinanced, generally over a three (3) to five (5) year period.

The Local Fiscal Affairs Law

N.J.S.A. §40A:5-1, et seq. (the “Local Fiscal Affairs Law”), regulates the nonbudgetary 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 and commissions.

An independent examination of the local unit’s accounts must be performed annually by a State licensed registered municipal accountant. The audit, conforming to the Division’s “Requirements of Audit”, includes recommendations for improvements of the local unit’s financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within thirty (30) days of its completion.

A local unit’s funds are invested strictly in accordance with the provisions of the Local Fiscal Affairs Law, in particular N.J.S.A. §40A:5-12.1. A local unit is not authorized to invest funds in derivative products or reverse repurchase agreements.

Basis of Accounting

The accounting policies applicable to local governmental units have been prescribed by the Division. The following is a summary of the significant policies:

Basis of Accounting - A modified accrual basis of accounting is followed, with minor exceptions. Revenues are recorded as received in cash except for certain amounts which may be due from the State. Expenditures are recorded on the accrual basis. Appropriation reserves covering unexpended appropriation balances are automatically created on December 31 of each year and recorded as liabilities, except for amounts which may be cancelled by the governing body. Appropriation reserves are available, until lapsed at the close of

the succeeding year, to meet specific claims, commitments or contracts incurred or entered into during the preceding fiscal year. Lapsed appropriation reserves are recorded as income.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Fixed Assets - Property and equipment purchased through the Current Fund and the General Capital Fund are recorded as expenditures at the time of purchase and are not capitalized.

A local unit finances its operations primarily through the Current Fund. All tax receipts and most revenues are paid into the Current Fund and substantially all expenditures made by appropriations are paid from the Current Fund.

Expenditures are comprised of those made for general purposes, certain expenditures made from restricted federal, State and private grants, certain federal or State mandated expenditures, deferred charges, debt service and capital improvements. Budgeted expenditures for general purposes include payments made primarily in support of a local unit's various departments.

NOTEHOLDERS' REMEDIES IN THE EVENT OF DEFAULT

Neither the Notes nor the proceedings with respect thereto specifically provide any remedies to the noteholders if the Borough defaults in the payment of principal of or interest on the Notes, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the noteholders upon the occurrence of such default. Upon any default in the payment of the principal of or interest on a Note, a noteholder could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the Borough to levy and collect a tax upon all taxable property within the Borough, without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Notes as the same shall come due. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies. See the caption "Municipal Bankruptcy" herein.

MUNICIPAL BANKRUPTCY

Any county, municipality, school district or other political subdivision of the State has the power to file a petition with any United States court or courts in bankruptcy under the federal bankruptcy act for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts, provided that the approval of the Municipal Finance Commission of New Jersey has been obtained. The powers of the Municipal Finance Commission of New Jersey have been vested in the New Jersey Local Finance Board.

Bankruptcy proceedings by the Borough could have adverse effects on the noteholders including (1) delay in the enforcement of their remedies, (2) subordination of their claims to those supplying goods and services to the Borough after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Notes. The federal bankruptcy act contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors, such as the holders of general obligation indebtedness or the Notes, such creditors will have the benefit of their original claim or the "indubitable equivalent". The effect of these and other provisions of the federal bankruptcy act cannot be predicted and may be significantly affected by judicial interpretation.

The above references to the federal bankruptcy act are not to be construed as an indication that the Borough expects to resort to the provisions of the federal bankruptcy act or that, if it did, such action would be approved by the Municipal Finance Commission.

NO DEFAULT

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

ABSENCE OF MATERIAL LITIGATION

In the opinion of the Borough Attorney, Marcus Karavan, Esq., Blaney & Karavan P.A., Wildwood, New Jersey (the "Borough Attorney"), no litigation of any nature is now pending or, to his knowledge, threatened restraining or enjoining the issuance or delivery of the Notes or the levy or collection of any taxes to pay the interest on or principal of the Notes, or in any manner questioning the authority or proceedings for the issuance of the Notes or for the levy or collection of said taxes, or relating to the Notes or affecting the validity thereof or the levy or collection of said taxes, and neither the corporate existence or boundaries of the Borough nor the title of any of the present officers thereof to their respective offices is being contested, and no authority or proceedings for the issuance of the Notes has or have been repealed, revoked or rescinded. A signed statement to that effect will be supplied upon delivery of the Notes. In the opinion of the Borough Attorney, there is no litigation pending or, to his knowledge, threatened against the Borough which if adversely decided would have a material adverse effect on the financial condition of the Borough or which is not otherwise adequately covered by Borough insurance.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Borough, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Notes is excluded from 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 Notes is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Borough in connection with the Notes, and Bond Counsel has assumed compliance by the Borough with certain ongoing certifications to comply with applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Borough, under existing statutes, interest on the Notes is excluded from gross income under the New Jersey Gross Income Tax Act.

Bond Counsel expresses no opinion regarding any other federal or state tax consequences with respect to the Notes. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Notes, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure

of gross proceeds of the Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Notes to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Borough will certify that, to the extent it is empowered and allowed under applicable law, it will comply with certain applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Notes. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Notes.

Prospective owners of the Notes should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Note Premium

In general, if an owner acquires the Notes for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Notes after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “note premium” on that note (a “Premium Note”). In general, under Section 171 of the Code, an owner of a Premium Note must amortize the note premium over the remaining term of the Premium Note, based on the owner’s yield over the remaining term of the Premium Note determined based on constant yield principles (in certain cases involving a Premium Note callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such note). An owner of a Premium Note must amortize the note premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the note premium allocable to that period. In the case of a tax-exempt Premium Note, if the note premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Note may realize a taxable gain upon disposition of the Premium Note even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Notes should consult their own tax advisors regarding the treatment of note premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of note premium on, sale, exchange, or other disposition of Premium Notes.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Notes. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, “Request for Taxpayer Identification Number and Certification,” or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to “backup withholding,” which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code.

For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Notes from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Notes under federal or state law or otherwise prevent beneficial owners of the Notes from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Notes.

Prospective purchasers of the Notes should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Notes will not be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

SECONDARY MARKET DISCLOSURE

In order to assist the purchasers in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the Borough has undertaken to provide to the Municipal Securities Rulemaking Board (the “MSRB”), in a timely manner not in excess of ten (10) business days after the occurrence of the specified event, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”).

The Notices include notices of any of the following events with respect to the Notes: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Notes, or other material events affecting the tax-exempt status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) note calls (other than mandatory sinking fund redemptions) if material and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Notes, if material; (11) rating changes; (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; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The sole and exclusive remedy for breach or default under the undertaking to provide continuing disclosure described above is an action to compel specific performance of the undertaking of the Borough, and no person, including any holder of the Notes, may recover monetary damages thereunder under any circumstances. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the undertaking, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The undertaking may be amended or modified without consent of the holders of the Notes under certain circumstances set forth in the undertaking. Copies of the undertaking when executed by the Borough upon the delivery of the Notes will be on file at the office of the Borough Clerk.

The Borough has entered into prior undertakings to provide continuing disclosure for several outstanding bond issues. The undertakings require the Borough to submit financial information 240 days after the end of the fiscal year which occurs on December 31st. Within the five years immediately preceding the date of this Official Statement, the Borough previously failed to file, in accordance with Rule 15c2-12, in a timely manner, under previous filing requirements: (i) audited financial information for the fiscal year ending December 31, 2012; (ii) operating data for the fiscal year ending December 31, 2012; and (iii) its most current adopted budget required for year-end December 31, 2012 and 2013. Additionally, the Borough previously failed to file event notices and late filing notices in connection with its untimely filings of (i) audited financial information; (ii) operating data; (iii) adopted budgets, all as described above, and late filing notices and/or event notices in connection with certain bond insurer and Borough rating changes in 2014. The Borough has taken steps to ensure timely filings on a going-forward basis, including hiring Phoenix Advisors, LLC in September of 2014 as its continuing disclosure agent.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters relating to the authorization, the issuance, the sale and the delivery of the Notes are subject to the approval of Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel to the Borough, whose approving opinions will be delivered with the Notes substantially in the forms set forth in Appendix C hereto. Certain legal matters will be passed upon for the Borough by the Borough Attorney.

FINANCIAL STATEMENTS

The financial statements of the Borough as of December 31, 2016 have been audited by Ford Scott and Associates, LLC, independent certified public accountants (the "Auditor"), as stated in their Independent Auditor's Report appearing in Appendix B hereto. Certain information extracted from the audited financial statements of the Borough is included in Appendix B hereto.

UNDERWRITING

The Notes have been purchased from the Borough at a public sale by Jefferies LLC, New York, New York at a price of \$29,561,280. The Notes are being offered for sale at the yield set forth on the cover of this Official Statement, which yield may be changed from time to time by the purchaser without notice.

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, served as municipal advisor to the Borough (the "Municipal Advisor") with respect to the issuance of the Notes. This Official Statement has been prepared with the assistance of the Municipal Advisor. Certain information set forth herein has been obtained from the Borough and other sources, which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein. The Municipal Advisor is a municipal advisory firm, and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiable instrument.

PREPARATION OF OFFICIAL STATEMENT

The Auditor has not assisted in the preparation of this Official Statement except for the audited financial information set forth in Appendix B hereto to the extent specified in their Independent Auditors' Report set forth in Appendix B hereto.

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

Bond Counsel and the Borough Attorney have 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, express no opinion with respect thereto.

Upon request, the Chief Financial Officer of the Borough will confirm to the purchaser of the Notes, by certificate signed by the Chief Financial Officer, that to the knowledge of the Chief Financial Officer the descriptions and statements relating to the Borough herein, 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 such descriptions and statements, in light of the circumstances under which they were made, not misleading.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to James Craft, Chief Financial Officer, 9508 Second Avenue, Stone Harbor, New Jersey 08247-1999 (609) 368-6808 or the Municipal advisor at (609) 291-0130.

MISCELLANEOUS

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.

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

This Official Statement has been duly executed on behalf of the Borough by its Chief Financial Officer.

**THE BOROUGH OF STONE HARBOR, IN
THE COUNTY OF CAPE MAY, NEW JERSEY**

By: /s/ James Craft
James Craft
Chief Financial Officer

APPENDIX A

**BOROUGH OF STONE HARBOR
FINANCIAL AND GENERAL INFORMATION**

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INFORMATION REGARDING THE BOROUGH¹

The following material presents certain economic and demographic information of the Borough of Stone Harbor (the “Borough”), in the County of Cape May (the “County”), State of New Jersey (the “State”).

General Information

The Borough occupies the lower half of an island, known as Seven Mile Beach, located in the County along the Atlantic Ocean. The early uses of the island were as hunting and fishing area for bands of Native Americans and later as pasture land for mainland cattle farmers.

The development of what is now the Borough began in 1891 shortly after the Stone Harbor Improvement Company purchased the area and started fashioning it as a resort. The first building was a hotel and opened for business on July 4, 1892. The early developers wisely laid out and began dredging a series of basins (seven in number today) which are an important asset to the present day Stone Harbor.

The area was incorporated on May 12, 1914. Its location has made it a popular vacation resort from its inception and steady progress with preservation of its natural resources has caused the Borough to adopt as its slogan, "The Seashore at Its Best."

Form of Government

The original Borough government was elected in 1914. The first election was held for mayor, six members of Council, a tax collector, assessor and a justice of the peace. Presently, the form of government consists of a mayor and six Council members. In addition, the Borough has appointed an administrator who supervises the day-to-day operations of the Borough departments and also is responsible for formulating the budget. The Borough is strictly zoned and has a Master Plan and an active Planning Board.

Police Department

The police force occupies modern headquarters in the municipal building.

The department consists of a chief of police, captain, sergeants, patrol officers and dispatchers. In the summer, the police force is augmented by additional part-time officers.

Fire Department and Rescue Squad

The volunteer fire department has a seven-bay firehouse which houses fire-fighting equipment and ambulances.

Operating expenses and purchases of fire-fighting equipment are paid by the Borough.

¹ Source: The Borough, unless otherwise indicated.

The rescue squad has a volunteer membership, all of whom have completed certified emergency medical training programs.

The Cape May Medical Center, a modern day health facility located in Middle Township, just off the Garden State Parkway, is approximately three miles from Stone Harbor.

Municipal Services

There are twenty-six (26) miles of paved streets which are maintained by the Borough and the County.

In 1987, the Cape May County Municipal Utilities Authority (CMCMUA) took over sewerage treatment for the "Seven Mile/Middle" region with a new facility, which includes, among others, the Borough and Avalon. The Borough will continue to maintain the sewer lines and the CMCMUA operates the sewerage treatment facilities.

The Borough operates its own water system with a water supply that is obtained from artesian wells over 850 feet deep, which are in the famous "Kirkwood Sands." The water supply has been traced as far as the Pocono Mountains.

Trash and garbage collection is provided by Borough employees twice a week in the summer and once a week in the winter. The Borough is a participant in the County's recycling program.

Retirement Systems

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

Pension Information²

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

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

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2016	363	338	25	6.9%
2015	380	346	34	8.9%
2014	380	340	40	10.5%
2013	379	333	46	12.1%
2012	387	335	52	13.4%
<u>County</u>				
2016	47,219	42,585	4,634	9.8%
2015	48,896	43,589	5,307	10.9%
2014	48,802	42,811	5,991	12.3%
2013	48,998	42,024	6,974	14.2%
2012	49,734	42,048	7,686	15.5%
<u>State</u>				
2016	4,524,262	4,299,923	224,315	5.0%
2015	4,545,083	4,291,650	253,417	5.6%
2014	4,518,715	4,218,423	300,277	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
2012	4,595,500	4,159,300	436,200	9.5%

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

Income (as of 2015)

	<u>Borough</u>	<u>County</u>	<u>State</u>
Median Household Income	\$81,111	\$57,637	\$72,093
Median Family Income	98,750	74,509	88,335
Per Capita Income	77,651	33,028	36,582

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

Population

The following table summarizes 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>
2015 Estimate	809	-6.58%	94,843	-2.49%	8,958,013	1.89%
2010	866	-23.23	97,265	-4.95	8,791,894	4.49
2000	1,128	10.05	102,326	7.61	8,414,350	8.85
1990	1,025	-13.65	95,089	15.59	7,730,188	4.96
1980	1,187	9.00	82,266	38.14	7,365,001	2.75

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>2016</u>	<u>% of Total</u>
	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>
Immaculate Heart of Mary Convent	\$29,975,000	0.68%
100th Street LLC	15,580,600	0.35%
Taxpayer #1	13,639,300	0.31%
Taxpayer #2	13,551,600	0.31%
Farmersham Associates, LP	12,028,900	0.27%
Taxpayer #3	11,413,400	0.26%
NACL Associates	11,340,300	0.26%
Taxpayer #4	9,976,800	0.23%
Taxpayer #5	8,850,500	0.20%
Taxpayer #6	<u>8,120,700</u>	<u>0.18%</u>
Total	<u>\$134,477,100</u>	<u>3.03%</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</u>	<u>Current Year</u>
		<u>Collection</u>	<u>% of Collection</u>
2016	\$23,847,929	\$23,647,725	99.16%
2015	23,350,101	23,134,979	99.08%
2014	23,072,256	22,703,972	98.40%
2013	22,601,796	22,254,427	98.46%
2012	22,312,347	21,945,022	98.35%

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>
2016	\$0	\$186,736	\$186,736	0.80%
2015	0	142,721	142,721	0.62%
2014	0	225,626	225,626	1.00%
2013	0	210,881	210,881	0.95%
2012	0	268,333	268,333	1.26%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

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

Source: Annual Audit Reports of the 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>
2016	\$0.239	\$0.055	0.000	\$0.238
2015	0.239	0.055	0.000	0.231
2014	0.232	0.056	0.000	0.23
2013	0.224	0.053	0.000	0.231

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>
2016	\$4,441,452,700	\$4,300,399,593	103.28%	\$304,621	\$4,300,704,214
2015	4,433,642,900	4,119,720,219	107.62	304,330	4,008,685,861
2014	4,418,151,700	3,990,743,113	110.71	303,125	3,991,046,238
2013	4,422,938,700	4,054,022,640	109.10	440,239	4,054,462,879
2012	4,434,686,000	4,195,143,317	105.71	473,991	4,195,617,308

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>
2016	\$82,610,800	\$4,190,757,900	\$0	\$165,428,800	\$0	\$2,655,200	\$4,441,452,700
2015	96,253,000	4,169,622,200	0	165,112,500	0	2,655,200	4,433,642,900
2014	94,982,300	4,152,800,200	0	165,999,000	0	4,370,200	4,418,151,700
2013	86,382,100	4,175,548,300	0	156,638,100	0	4,370,200	4,422,938,700
2012	74,408,100	4,195,457,800	0	160,449,900	0	4,370,200	4,434,686,000

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

Budget Information

<u>Anticipated Revenues</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Fund Balance Utilized	\$1,000,000	\$1,040,000	\$1,193,633	\$1,512,420	\$1,495,464
Miscellaneous Revenues	2,497,977	2,519,806	2,650,172	2,625,003	5,622,823
Receipts from Delinquent Taxes	250,000	200,000	200,000	140,000	150,000
Amount to be Raised by Taxation	<u>9,882,620</u>	<u>10,240,650</u>	<u>10,595,000</u>	<u>10,615,000</u>	<u>10,882,500</u>
Total Revenue:	<u>\$13,630,597</u>	<u>\$14,000,456</u>	<u>\$14,638,805</u>	<u>\$14,892,423</u>	<u>\$18,150,787</u>
<u>Appropriations</u>					
General Appropriations	\$9,796,801	\$9,767,644	\$9,683,652	\$10,078,591	\$10,207,812
Operations (Excluded from CAPS)	12,783	319,574	509,933	384,916	3,294,425
Deferred Charges and Statutory Expenditures	10,000	0	14,250	82,853	142,250
Judgments	0	0	0	0	0
Capital Improvement Fund	30,000	100,000	588,500	500,269	409,950
Municipal Debt Service	3,351,013	3,360,238	3,382,470	3,385,794	3,636,350
Reserve for Uncollected Taxes	<u>430,000</u>	<u>453,000</u>	<u>460,000</u>	<u>460,000</u>	<u>460,000</u>
Total Appropriations:	<u>\$13,630,597</u>	<u>\$14,000,456</u>	<u>\$14,638,805</u>	<u>\$14,892,423</u>	<u>\$18,150,787</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.

<u>Fund Balance - Current Fund</u>		
	<u>Balance</u>	<u>Utilized in Budget</u>
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2016	\$2,620,986	\$1,495,464
2015	2,801,401	1,512,420
2014	2,648,159	1,193,633
2013	2,312,032	1,040,000
2012	2,083,330	1,000,000

Source: Annual Audit Reports of the Borough

Water and 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 and Sewer Utility Operating Fund for the past five (5) fiscal years ending December 31.

Fund Balance - Water and Sewer Utility Operating Fund

<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2016	\$690,727	\$320,513
2015	485,030	135,026
2014	365,124	187,440
2013	185,085	56,526
2012	198,405	193,258

Source: Annual Audit Reports of the Borough

Borough Indebtedness as of December 31, 2016

General Purpose Debt

Serial Bonds	\$11,445,000
Bond Anticipation Notes	9,433,000
Bonds and Notes Authorized but Not Issued	11,254,131
Other Bonds, Notes and Loans	<u>4,051,798</u>
Total:	\$36,183,929

Local School District Debt

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

Self-Liquidating Debt

Serial Bonds	\$2,550,000
Bond Anticipation Notes	4,022,500
Bonds and Notes Authorized but Not Issued	2,519,906
Other Bonds, Notes and Loans	<u>8,059,808</u>
Total:	\$17,152,213

TOTAL GROSS DEBT

\$53,336,143

Less: Statutory Deductions

General Purpose Debt \$490,558

Local School District Debt 0

Self-Liquidating Debt 17,152,213

Total: \$17,642,772

TOTAL NET DEBT

\$35,693,371

Source: Annual Debt Statement of the Borough

Overlapping Debt (as of December 31, 2016)³

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Local School District	\$0	100.00%	\$0
Regional School District	0	0.00%	0
County Municipal Utilities Authori	42,261,909	8.86%	3,744,405
County	226,540,860	8.86%	<u>20,069,136</u>
Net Indirect Debt			\$23,813,541
Net Direct Debt			<u>35,693,371</u>
Total Net Direct and Indirect Debt			<u>\$59,506,912</u>

Debt Limit as of December 31, 2016

Average Equalized Valuation Basis (2014, 2015, 2016)	\$4,136,954,308
Permitted Debt Limitation (3 1/2%)	144,793,401
Less: Net Debt	<u>35,693,371</u>
Remaining Borrowing Power	<u>\$109,100,029</u>
Percentage of Net Debt to Average Equalized Valuation	0.863%
 Gross Debt Per Capita based on 2010 population of 866	 \$61,589
Net Debt Per Capita based on 2010 population of 866	\$41,216

Source: Annual Debt Statement of the Borough

³ Borough percentage of County and County Utilities Authority debt is based on the Borough's share of total equalized valuation in the County.

APPENDIX B

REPORT OF EXAMINATION OF FINANCIAL STATEMENTS

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FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

The Honorable Mayor and
Members of Borough Council
Borough of Stone Harbor, New Jersey

Report on the Financial Statements

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the Borough of Stone Harbor, as of December 31, 2016 and 2015, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2016, and the related notes to the 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 the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Borough of Stone Harbor on the basis of the financial reporting provisions prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of New Jersey.

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis balance sheets and account group as of December 31, 2016 and 2015, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2016 in accordance with the basis of financial reporting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Stone Harbor's basic financial statements. The supplementary information listed in the table of contents and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The letter of comments and recommendation section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. Because of the significance of the variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2017 on our consideration of the Borough of Stone Harbor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough of Stone Harbor's internal control over financial reporting and compliance.

Very truly yours,

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello
Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

April 21, 2017

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Regular Fund:		
Cash:		
Treasurer	\$ 4,540,224.45	4,725,512.54
Change and Petty Cash Funds	200.00	700.00
Total Cash	<u>4,540,424.45</u>	<u>4,726,212.54</u>
Receivables and Other Assets with Full Reserves:		
Delinquent Property Taxes Receivable	186,735.60	142,721.04
Revenue Accounts Receivable		
Municipal Court	3,009.73	2,859.00
Interfund Receivable:		
Due from Utility Operating Fund	-	1,145.43
Due from Animal Control Fund	0.88	0.53
Due from Federal and State Grant Fund	-	169,359.53
Total Receivables and Other Assets	<u>189,746.21</u>	<u>316,085.53</u>
Deferred Charges:		
Special Emergency Authorization	304,750.00	72,000.00
Emergency Authorization	75,000.00	65,603.06
Total Deferred Charges	<u>379,750.00</u>	<u>137,603.06</u>
Total Regular Fund	<u>5,109,920.66</u>	<u>5,179,901.13</u>
Federal and State Grant Fund:		
Federal and State Grants Receivable	<u>1,703,908.36</u>	<u>1,548,568.51</u>
Total Federal and State Grant Fund	<u>1,703,908.36</u>	<u>1,548,568.51</u>
Total Current Fund	<u>\$ 6,813,829.02</u>	<u>6,728,469.64</u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>2016</u>	<u>2015</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Regular Fund:		
Liabilities:		
Appropriation Reserves	\$ 530,753.30	448,119.86
Encumbrances Payable	336,764.38	393,682.55
Accounts Payable	1,855.09	16,588.65
Prepaid Taxes	800,964.42	697,871.02
Overpaid Taxes	35,182.03	23,484.49
Due to State of New Jersey		
Senior Citizens and Veterans	2,069.63	3,069.63
DCA Training Fees	9,885.45	8,042.00
Local School Tax Payable	300,419.65	276,454.15
Payroll Taxes Payable	-	25.08
County Added Tax Payable	37,893.81	31,629.66
Prepaid Beach Fees	43,958.00	40,343.00
Prepaid Uniform Fire Code Fees	88,260.00	93,600.00
Prepaid Marriage Ceremonies	-	200.00
Other		
Reserve for TTL	9,500.00	-
Reserve for Tax Appeals	16,500.00	16,500.00
Reserve for Building Repairs	4,895.00	4,895.00
Reserve for Reassessment Program	80,287.88	7,902.88
	<u>2,299,188.64</u>	<u>2,062,407.97</u>
Reserve for Receivables and Other Assets	189,746.21	316,085.53
Fund Balance	<u>2,620,985.81</u>	<u>2,801,407.63</u>
Total Regular Fund	<u>5,109,920.66</u>	<u>5,179,901.13</u>
Federal and State Grant Fund:		
Due to Capital	988,752.29	-
Due to Current Fund	-	169,359.53
Unappropriated Reserves	27,727.13	3,826.56
Appropriated Reserves	687,428.94	650,314.73
Encumbrances Payable	-	725,067.69
Total Federal and State Grant Fund	<u>1,703,908.36</u>	<u>1,548,568.51</u>
Total Current Fund	<u>\$ 6,813,829.02</u>	<u>6,728,469.64</u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,

	<u>2016</u>	<u>2015</u>
Revenue and Other Income Realized		
Fund Balance	\$ 1,512,420.47	1,193,633.00
Miscellaneous Revenue Anticipated	2,982,310.82	4,363,959.54
Receipts from Delinquent Taxes	139,244.17	224,164.28
Receipts from Current Taxes	23,647,725.08	23,134,979.13
Non Budget Revenue	142,957.94	73,460.78
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	418,943.81	659,586.84
Interfund Returned	170,504.61	43,600.97
Total Income	<u>29,014,106.90</u>	<u>29,693,384.54</u>
Expenditures		
Budget and Emergency Appropriations:		
Appropriations Within "CAPS"		
Operations:		
Salaries and Wages	5,013,194.02	4,847,520.00
Other Expenses	4,280,932.00	3,846,535.00
Deferred Charges & Statutory Expenditures	1,034,464.80	989,590.46
Appropriations Excluded from "CAPS"		
Operations:		
Other Expenses	576,566.30	1,996,646.03
Capital Improvements	575,269.00	654,103.06
Municipal Debt Service	3,370,153.39	3,315,144.37
Deferred Charges & Statutory Expenditures	82,853.06	14,250.00
Local District School Tax	2,444,516.00	2,396,585.00
County Tax	10,591,265.87	10,132,989.44
County Share of Added Tax	37,893.81	31,629.66
Interfund Created	-	170,504.96
Prior Year Accounts Payable Canceled	-	16,358.48
Refund of Prior Revenue	-	250.00
Total Expenditures	<u>28,007,108.25</u>	<u>28,412,106.46</u>
Excess in Revenue	<u>1,006,998.65</u>	<u>1,281,278.08</u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,

	<u>2016</u>	<u>2015</u>
Adjustments to Income before Fund Balance:		
Expenditures included above which are by		
Statute Deferred Charges to Budgets of		
Succeeding Year	325,000.00	65,603.06
Total Adjustments	<u>325,000.00</u>	<u>65,603.06</u>
Statutory Excess to Fund Balance	<u>1,331,998.65</u>	<u>1,346,881.14</u>
Fund Balance January 1	<u>2,801,407.63</u>	<u>2,648,159.49</u>
	4,133,406.28	3,995,040.63
Decreased by:		
Utilization as Anticipated Revenue	<u>1,512,420.47</u>	<u>1,193,633.00</u>
Fund Balance December 31	\$ <u><u>2,620,985.81</u></u>	<u><u>2,801,407.63</u></u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Anticipated		Realized	Excess or (Deficit)
	Budget	N.J.S. 40A:4-87		
Fund Balance Anticipated	\$ 1,512,420.47		1,512,420.47	
Total Fund Balance Anticipated	1,512,420.47	-	1,512,420.47	-
Miscellaneous Revenues:				
Section A: Local Revenues				
Licenses:				
Alcoholic Beverages	10,400.00		10,688.00	288.00
Fees and Permits	260,000.00		246,799.75	(13,200.25)
Fines and Costs:				
Municipal Court	70,000.00		79,931.02	9,931.02
Interest and Costs on Taxes	55,000.00		50,191.65	(4,808.35)
Parking Meters	370,000.00		380,146.56	10,146.56
Interest on Investments and Deposits	3,500.00		4,672.57	1,172.57
Beach Fees	765,000.00		771,185.00	6,185.00
Tennis Courts	20,000.00		26,564.09	6,564.09
Cell Tower Rent	37,950.00		46,743.02	8,793.02
Uniform Fire Code Official	140,000.00		148,453.00	8,453.00
Arts and Crafts Show	70,000.00		69,775.00	(225.00)
Marina Fees	5,000.00		10,584.90	5,584.90
Cable TV Franchise Fee	30,727.41		30,727.41	-
Beach Concession	50,000.00		65,000.00	15,000.00
Special Events Revenue	18,000.00		613.00	(17,387.00)
Total Section A: Local Revenues	1,905,577.41	-	1,942,074.97	36,497.56
Section B: State Aid Without Offsetting Appropriations				
Energy Receipts Tax	214,317.00		214,317.00	-
Total Section B: State Aid Without Offsetting Appropriations	214,317.00	-	214,317.00	-

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Anticipated			
	Budget	N.J.S. 40A:4-87	Realized	Excess or (Deficit)
Section C: Uniform Construction Code Fees				
Uniform Construction Code Fees	\$ 375,000.00		504,409.00	129,409.00
Total Section C: Uniform Construction Code Fees	375,000.00	-	504,409.00	129,409.00
Section F: Special Items - Public and Private Programs				
Off-Set with Appropriations	1,931.30		1,931.30	
Police Body Armor Replacement Fund			3,000.00	
Green Communities		3,000.00		
NJDOT-95th Street		179,000.00	179,000.00	
CMC Prosecutors-Body Worn Cameras		5,000.00	5,000.00	
ACM/JF Safety Grant		3,650.00	3,650.00	
Donations-Fire Department		1,000.00	1,000.00	
Total Section F: Special Items - Public and Private Programs	1,931.30	191,650.00	193,581.30	
Off-Set with Appropriations				-

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Anticipated		Excess or
	Budget	N.J.S. 40A:4-87	(Deficit)
Section G: Special Items of General Revenue Anticipated with Prior Written Consent of Director of Local Government Services - Other Special Items;			
Uniform Fire Safety Act	7,000.00		(248.45)
Reserve for Payment of Bonds	65,842.00	6,751.55	-
Interlocal Municipal Service Agreement - Borough of Avalon	55,335.00	65,842.00	-
Total Section G: Special Items of General Revenue Anticipated		55,335.00	
With Prior Written Consent of Director of Local Government Services - Other Special Items			
	128,177.00	-	(248.45)
Total Miscellaneous Revenues:	2,625,002.71	191,650.00	165,658.11
Receipts from Delinquent Taxes	140,000.00		(755.83)
Amount to be Raised by Taxes for Support of Municipal Budget			
Local Tax for Municipal Purposes	\$ 10,615,000.00	11,034,049.40	419,049.40
Total Amount to be Raised by Taxes for Support of Municipal Budget	10,615,000.00	11,034,049.40	419,049.40
Budget Totals	14,892,423.18	191,650.00	583,951.68
Non- Budget Revenues:			
Other Non- Budget Revenues:	-	142,957.94	142,957.94
	\$ 14,892,423.18	191,650.00	726,909.62

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

Analysis of Realized Revenues

Allocation of Current Tax Collections:

Revenue from Collections	\$	23,647,725.08
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Allocated to:

School, County and Other Taxes		<u>13,073,675.68</u>
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Balance for Support of Municipal Budget Appropriations		10,574,049.40
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Increased by:

Appropriation "Reserved for Uncollected Taxes"		<u>460,000.00</u>
------------------------------------------------	--	-------------------

Amount for Support of Municipal Budget Appropriations		<u><u>11,034,049.40</u></u>
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Receipts from Delinquent Taxes:

Delinquent Tax Collection	139,244.17	
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Tax Title Lien Collections	<u>-</u>	
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Total Receipts from Delinquent Taxes		<u><u>139,244.17</u></u>
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Analysis of Non-Budget Revenue:

Miscellaneous Revenue Not Anticipated:

Police - MRNA	535.00	
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NSF Fee	180.00	
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Photocopies	486.83	
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Senior & Vets Admin Fees	270.00	
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Zoning Board	9,600.00	
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Property Lists	590.00	
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Miscellaneous Other	<u>131,296.11</u>	
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		<u>142,957.94</u>
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Total Miscellaneous Revenue Not Anticipated:	\$	<u><u>142,957.94</u></u>
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The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
\$						
OPERATIONS WITHIN "CAPS"						
GENERAL GOVERNMENT						
General Administration						
Salaries and Wages	154,289.00	154,289.00	153,755.88		533.12	
Other Expenses	28,000.00	28,000.00	23,739.64	263.82	3,996.54	
Mayor and Council						
Salaries and Wages	72,000.00	72,000.00	67,000.00		5,000.00	
Other Expenses	9,300.00	9,300.00	7,998.87	370.90	930.23	
Municipal Clerk						
Salaries and Wages	184,990.00	184,990.00	184,989.01		0.99	
Other Expenses	22,200.00	22,200.00	12,575.53	1,128.84	8,495.63	
Financial Administration						
Salaries and Wages	78,339.00	78,339.00	76,579.66		1,759.34	
Other Expenses	58,660.00	58,660.00	56,251.92	1,960.62	447.46	
Elections						
Other Expenses	5,000.00	5,000.00	3,980.86		1,019.14	
Audit Services						
Other Expenses	30,000.00	30,000.00	15,000.00		15,000.00	
Collection of Taxes						
Salaries and Wages	47,641.00	47,641.00	47,641.00		-	
Other Expenses	11,560.00	11,560.00	11,500.65	30.00	29.35	
Assessment of Taxes						
Salaries and Wages	53,489.00	53,489.00	53,488.00		1.00	
Other Expenses	16,100.00	16,100.00	3,595.96	3,667.22	8,836.82	
Revaluation		250,000.00	107,264.00	142,736.00	-	
Legal Services						
Other Expenses	145,000.00	145,000.00	114,082.39	22,038.50	8,879.11	
Engineering Services and Costs						
Other Expenses	25,000.00	25,000.00	17,181.75	6,602.00	1,216.25	
Insurance						
Employee Group Health	1,533,153.00	1,533,153.00	1,488,759.87	8,478.12	35,915.01	
Other Insurance Premiums	400,000.00	400,000.00	348,885.90		51,114.10	
Health Benefits Waiver						
Salaries and Wages	8,500.00	8,500.00	6,375.00		2,125.00	

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
LAND USE ADMINISTRATION:						
Planning Board						
Salaries and Wages	5,400.00	5,400.00	4,800.00		600.00	
Other Expenses	23,660.00	23,660.00	3,447.07	1,250.18	18,962.75	
Zoning Board of Adjustment						
Salaries and Wages	37,301.00	37,301.00	37,301.00		-	
Other Expenses	18,800.00	18,800.00	4,128.94	775.33	13,895.73	
PUBLIC SAFETY:						
Fire Department						
Other Expenses	208,250.00	208,250.00	190,727.70	16,524.26	998.04	
Police Department						
Salaries and Wages	1,572,758.00	1,572,758.00	1,572,758.00		-	
Other Expenses	77,900.00	77,900.00	65,375.91	12,524.09	-	
Office of Emergency Management						
Salaries and Wages	12,548.00	12,548.00	11,864.74		683.26	
Other Expenses	6,400.00	6,400.00	6,400.00		-	
Aid to Volunteer Rescue Squad	85,000.00	85,000.00	85,000.00		-	
Municipal Prosecutor						
Other Expenses	20,400.00	20,400.00	19,721.00		679.00	
Uniform Fire Code Official						
Salaries and Wages	104,357.00	104,357.00	91,558.94		12,798.06	
Other Expenses	8,000.00	8,000.00	3,222.35	400.00	4,377.65	
Fire Hydrant Service						
Other Expenses	2,850.00	2,850.00	2,850.00		-	
Municipal Court						
Salaries and Wages	141,387.00	141,387.00	141,387.00		-	
Other Expenses	16,000.00	16,000.00	6,726.89	732.83	8,540.28	
Public Defender						
Other Expenses	3,500.00	3,500.00	3,500.00		-	

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
PUBLIC WORKS:						
Public Works						
Salaries and Wages	903,600.00	903,600.00	903,600.00		-	
Other Expenses	140,500.00	140,500.00	106,105.81	16,218.26	18,175.93	
Solid Waste Collection						
Salaries and Wages	584,800.00	584,800.00	561,648.75		23,151.25	
Other Expenses	202,725.00	202,725.00	184,440.90	13,729.22	4,554.88	
Public Building and Grounds						
Other Expenses	102,600.00	102,600.00	92,625.14	8,141.92	1,832.94	
NATURAL RESOURCES						
Natural Resources Committee						
Salaries and Wages	25,000.00	25,000.00			25,000.00	
Other Expenses	61,000.00	61,000.00	31,749.04	13,291.71	15,959.25	
NATURAL RESOURCES						
Animal Control						
Other Expenses	15,200.00	15,200.00	13,729.98		1,470.02	
HEALTH AND HUMAN SERVICES:						
Safety Compliance						
Other Expenses	26,400.00	26,400.00	11,579.86	360.00	14,460.14	
RECREATION AND EDUCATION:						
Docks, Bulkheads and Seawall						
Salaries and Wages	7,000.00	7,000.00	6,620.10		379.90	
Beach Patrol						
Salaries and Wages	580,000.00	580,000.00	556,171.28		23,828.72	
Other Expenses	58,550.00	58,550.00	54,138.33	4,352.52	59.15	
Parks and Playgrounds						
Salaries and Wages	180,866.02	180,866.02	157,260.09		23,605.93	
Other Expenses	45,300.00	45,300.00	42,588.72	1,531.15	1,180.13	
Special Events						
Salaries and Wages	47,500.00	47,500.00	47,500.00		-	
Tourism						
Other Expenses	128,000.00	128,000.00	103,709.63	15,612.33	8,678.04	

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
UNIFORM CONSTRUCTION CODE:						
State Uniform Construction Code						
Construction Official						
Salaries and Wages	194,223.00	194,223.00	186,492.82		7,730.18	
Other Expenses	8,750.00	8,750.00	5,620.65	746.47	2,382.88	
UNCLASSIFIED:						
Longevity Pay for Employees	17,206.00	17,206.00	17,205.76		0.24	
UTILITY EXPENSES AND BULK PURCHASES:						
Electric	111,435.00	111,435.00	104,491.22		6,943.78	
Telephone	150,000.00	137,000.00	76,197.68	15,000.00	45,802.32	
Street Lighting	116,739.00	116,739.00	100,937.29	15,801.71	-	
Gasoline	57,000.00	70,000.00	66,706.69	407.75	2,885.56	
Natural Gas	47,000.00	47,000.00	18,626.18	7,645.93	20,727.89	
TOTAL OPERATIONS WITHIN "CAPS"	9,039,126.02	9,289,126.02	8,501,161.35	332,321.68	455,642.99	-
Contingent	5,000.00	5,000.00	475.00	3,600.00	925.00	
TOTAL OPERATIONS INCLUDING CONTINGENT WITHIN "CAPS"	9,044,126.02	9,294,126.02	8,501,636.35	335,921.68	456,567.99	-
Detail:						
Salaries and Wages	5,013,194.02	5,013,194.02	4,885,997.03	-	127,196.99	-
Other Expenses	4,030,932.00	4,280,932.00	3,615,639.32	335,921.68	329,371.00	-

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
DEFERRED CHARGES/STATUTORY EXPENDITURES						
Deferred Charges:						
Prior Years Bill: Gall's	68.80	68.80	68.80			-
Statutory Expenditures:						
Contributions to:						
Police and Fire Retirement System of N.J.						
Public Employees Retirement System	301,136.00	301,136.00	301,136.00		-	
Defined Contribution Retirement Plan	324,760.00	324,760.00	324,760.00		-	
Social Security System (O.A.S.I.)	3,500.00	3,500.00	2,258.83		1,241.17	
Unemployment Compensation Insurance	380,000.00	380,000.00	370,699.05		9,300.95	
	25,000.00	25,000.00	22,680.03		2,319.97	
TOTAL DEFERRED CHARGES AND STATUTORY EXPENDITURES:	<u>1,034,464.80</u>	<u>1,034,464.80</u>	<u>1,021,602.71</u>	<u>-</u>	<u>12,862.09</u>	<u>-</u>
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES WITHIN "CAPS"						
OPERATIONS - EXCLUDED FROM "CAPS"	10,078,590.82	10,328,590.82	9,523,239.06	335,921.68	469,430.08	-
(A) Operations - Excluded from "CAPS"						
Insurance						
Employee Group Health	25,883.00	25,883.00			25,883.00	
TOTAL OTHER OPERATIONS - EXCLUDED FROM "CAPS"	<u>25,883.00</u>	<u>25,883.00</u>	<u>-</u>	<u>-</u>	<u>25,883.00</u>	<u>-</u>
Interlocal Municipal Service Agreements						
Borough of Avalon Interlocal Agreement						
Police Dispatch Services						
Other Expenses	286,110.00	286,110.00	286,110.00		-	
Financial Administration - CFO	70,992.00	70,992.00	70,281.72		710.28	
TOTAL SHARED SERVICE AGREEMENTS	<u>357,102.00</u>	<u>357,102.00</u>	<u>356,391.72</u>	<u>-</u>	<u>710.28</u>	<u>-</u>

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Canceled
	Budget	Budget After Modifications		Encumbered	Reserved	
(A) Public and Private Programs Off-Set by Revenues						
Police Body Armor Replacement Fund	1,931.30	1,931.30	1,931.30	-	-	
Donations-Fire Department		1,000.00	1,000.00	-	-	
Safety Grant		3,650.00	3,650.00	-	-	
CMC-Prosecutor's-Body Worn Cameras		5,000.00	5,000.00	-	-	
DOT-Reconstruction of 95th Street		179,000.00	179,000.00	-	-	
Green Communities		3,000.00	3,000.00	-	-	
Total Public and Private Programs Off-Set by Revenues	<u>1,931.30</u>	<u>193,581.30</u>	<u>193,581.30</u>	<u>-</u>	<u>-</u>	<u>-</u>
B - Total Operations - Excluded from "CAPS"	384,916.30	576,566.30	549,973.02	-	26,593.28	
Detail:						
Salaries and Wages	-	-	-	-	-	-
Other Expenses	384,916.30	576,566.30	549,973.02	-	26,593.28	-
(C) Capital Improvements						
Capital Improvement Fund	390,000.00	465,000.00	465,000.00			-
Computers - Administrative	15,000.00	15,000.00	15,000.00		-	
Body Cameras	15,000.00	15,000.00	15,000.00		-	
Recreation Improvements	10,892.00	10,892.00	5,888.16	842.70	4,161.14	
Beach Patrol-Various Equipment	28,000.00	28,000.00	28,000.00		-	
Construction-Copier	6,377.00	6,377.00	6,377.00		-	
Police-Breath Test Equipment	20,000.00	20,000.00			20,000.00	
Fire Department-Radios	15,000.00	15,000.00	4,431.20		10,568.80	
Total Capital Improvements	<u>500,269.00</u>	<u>575,269.00</u>	<u>539,696.36</u>	<u>842.70</u>	<u>34,729.94</u>	<u>-</u>

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Canceled
	Budget	Budget After Modifications		Encumbered	Reserved	
(D) Debt Service						
Payment of Bond Principal	2,625,000.00	2,625,000.00	2,624,910.17			89.83
Interest on Bonds	474,917.00	474,917.00	459,366.22			15,550.78
Interest on Notes	32,130.00	32,130.00	32,130.00			-
New Jersey Environmental Infrastructure Trust						
Principal	187,200.00	187,200.00	187,200.00		-	-
Interest	66,547.00	66,547.00	66,547.00		-	-
Total Debt Service	<u>3,385,794.00</u>	<u>3,385,794.00</u>	<u>3,370,153.39</u>	<u>-</u>	<u>-</u>	<u>15,640.61</u>
(E) Deferred Charges						
Emergency Authorizations	65,603.06	65,603.06	65,603.06		-	
Special Emergency Authorization	17,250.00	17,250.00	17,250.00		-	
Total Deferred Charges	<u>82,853.06</u>	<u>82,853.06</u>	<u>82,853.06</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES EXCLUDED FROM "CAPS"	<u>4,353,832.36</u>	<u>4,620,482.36</u>	<u>4,542,675.83</u>	<u>842.70</u>	<u>61,323.22</u>	<u>15,640.61</u>
SUBTOTAL GENERAL APPROPRIATIONS	<u>14,432,423.18</u>	<u>14,949,073.18</u>	<u>14,065,914.89</u>	<u>336,764.38</u>	<u>530,753.30</u>	<u>15,640.61</u>
(M) Reserve for Uncollected Taxes	<u>460,000.00</u>	<u>460,000.00</u>	<u>460,000.00</u>			
TOTAL GENERAL APPROPRIATIONS	<u>\$ 14,892,423.18</u>	<u>15,409,073.18</u>	<u>14,525,914.89</u>	<u>336,764.38</u>	<u>530,753.30</u>	<u>15,640.61</u>

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

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Canceled
	Budget	Budget After Modifications		Encumbered	Reserved	
Budget						
Appropriations by 40A:4-87		14,892,423.18				
Capital Improvement Fund		191,650.00				
Emergency Appropriations		75,000.00				
Special Emergency		250,000.00				
		<u>15,409,073.18</u>				
Reserve for Uncollected Taxes			460,000.00			
Federal and State Grants			193,581.30			
Deferred Charges - Special Emergency			82,853.06			
Transferred to Reserve for Revaluation			107,264.00			
Disbursements			13,682,216.53			
			<u>14,525,914.89</u>			

TRUST FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,

	<u>2016</u>	<u>2015</u>
ASSETS		
Animal Control Fund:		
Cash	\$ 600.58	468.63
Due from State of New Jersey	<u>34.80</u>	<u>24.00</u>
	<u>635.38</u>	<u>492.63</u>
Other Funds:		
Cash - Treasurer	<u>1,738,931.96</u>	<u>1,477,000.30</u>
	<u>1,738,931.96</u>	<u>1,477,000.30</u>
	<u>\$ 1,739,567.34</u>	<u>1,477,492.93</u>
LIABILITIES, RESERVES AND FUND BALANCE		
Animal Control Fund:		
Due to Current Fund	\$ 0.88	0.53
Reserve for Expenditures	<u>634.50</u>	<u>492.10</u>
	<u>635.38</u>	<u>492.63</u>
Other Funds:		
Reserves - Miscellaneous	<u>1,738,931.96</u>	<u>1,477,000.30</u>
	<u>1,738,931.96</u>	<u>1,477,000.30</u>
	<u>\$ 1,739,567.34</u>	<u>1,477,492.93</u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**GENERAL CAPITAL FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
Cash	\$	2,083,200.67	2,805,915.00
Deferred Charges to Future Taxation -			
Funded		15,496,798.30	18,425,046.47
Unfunded		20,687,131.05	19,294,000.05
Interfunds and Receivables			
Due from Grant Fund		988,752.29	-
Due from State of New Jersey - EIT		734,096.33	230,313.66
Due from Water and Sewer Capital Fund		0.01	-
Grants Receivable		-	224,441.82
		<u>39,989,978.65</u>	<u>40,979,717.00</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Contracts Payable		9,289,003.07	13,048,747.92
Serial Bonds Payable		11,445,000.00	14,134,000.00
NJEIT Loan Payable		4,051,798.30	4,291,046.47
Bond Anticipation Notes Payable		9,433,000.00	5,100,000.00
Improvement Authorizations:			
Funded		437,192.73	480,859.46
Unfunded		4,695,560.57	3,427,147.17
Reserve for Payment of NJEIT Loan		193,366.00	62,116.00
Reserve for Payment of Bonds		359,308.43	425,150.43
Reserve for Arbitrage Liability		1,699.33	1,699.33
Reserve for Preliminary Costs		8,830.46	8,830.46
Capital Improvement Fund		75,100.00	-
Fund Balance		119.76	119.76
	\$	<u>39,989,978.65</u>	<u>40,979,717.00</u>

There were bonds and notes authorized but not issued at December 31

2015	14,194,000.05
2016	11,254,131.05

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**GENERAL CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Beginning Balance January 1	\$	119.76	119.76
No current year activity			
Ending Balance December 31	\$	<u>119.76</u>	<u>119.76</u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>			
Operating Fund:			
Cash	\$	1,130,273.33	798,037.58
Change Fund		50.00	50.00
		<u>1,130,323.33</u>	<u>798,087.58</u>
Receivables and Other Assets with Full Reserves:			
Water & Sewer Rents Receivable		84,549.12	107,218.63
Miscellaneous		-	1,464.62
		<u>84,549.12</u>	<u>108,683.25</u>
Total Operating Fund		<u>1,214,872.45</u>	<u>906,770.83</u>
Capital Fund:			
Cash - Treasurer		1,231,597.91	296,159.75
Due from N.J. Environ. Infrastructure Trust			
2010 Series A		2,830.00	2,830.00
2012 Series A		224,742.87	224,742.87
2012 Series ABC		120,995.90	120,995.90
2015 Series		1,603,607.33	4,000,000.00
Due from Water & Sewer Operating		-	20,000.00
Fixed Capital		12,622,948.87	12,622,948.87
Fixed Capital - Authorized and Uncompleted		17,389,000.00	15,536,000.00
Total Capital Fund		<u>33,195,722.88</u>	<u>32,823,677.39</u>
	\$	<u>34,410,595.33</u>	<u>33,730,448.22</u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Operating Fund:			
Appropriation Reserves	\$	183,532.75	115,826.91
Reserve for Encumbrances		74,280.12	58,189.02
Due to Utility Capital Fund		-	20,000.00
Due to Current Fund		-	1,145.43
Utility Prepayments		73,126.65	49,328.09
Utility Overpayments		22,380.29	8,896.72
Accrued Interest on Bonds and Notes		86,276.57	85,000.00
		<u>439,596.38</u>	<u>338,386.17</u>
Reserve for Receivables		84,549.12	108,683.25
Fund Balance		690,726.95	459,701.41
Total Operating Fund		<u>1,214,872.45</u>	<u>906,770.83</u>
Capital Fund:			
Encumbrances Payable		2,571,824.21	2,927,397.36
Interfunds:			
Due to General Capital Fund		0.01	-
Serial Bonds Payable		2,550,000.00	3,075,000.00
N.J. Environmental Infrastructure Trust Loans		7,982,881.38	8,587,347.49
Bond Anticipation Notes		4,022,500.00	3,522,500.00
Improvement Authorizations:			
Funded		-	6,339.56
Unfunded		2,344,396.52	2,261,943.39
Reserve for Amortization		13,372,723.54	12,243,257.43
Deferred Reserve for Amortization		160,700.00	160,700.00
Reserve for Payment of Bonds		60,000.00	-
Reserve for Insurance Reimbursement		71,505.06	-
Capital Improvement Fund		24,575.77	4,575.77
Fund Balance		34,616.39	34,616.39
Total Capital Fund		<u>33,195,722.88</u>	<u>32,823,677.39</u>
	\$	<u>34,410,595.33</u>	<u>33,730,448.22</u>

There were bonds and notes authorized but not issued at December 31

2015	570,143.95
2016	1,923,143.95

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Revenue and Other Income Realized			
Fund Balance	\$	135,026.00	187,440.00
Water Rents		1,694,660.64	1,591,121.27
Sewer Rents		1,719,181.47	1,631,154.06
Fire Hydrant Service		2,850.00	2,800.00
Miscellaneous Revenue		190,268.29	213,175.84
Other Credits to Income:			
Unexpended Balance of Appropriation Res.		133,444.68	35,972.05
Total Income		<u>3,875,431.08</u>	<u>3,661,663.22</u>
Expenditures			
Operations			
Salaries and Wages		399,826.00	393,500.00
Other Expenses		548,900.00	496,340.00
Interlocal Agreement - CFO		17,748.00	17,400.00
Cape May County MUA		1,300,000.00	1,350,000.00
Capital Improvements		20,000.00	20,000.00
Debt Service		1,190,405.54	1,068,926.92
Statutory & Deferred Charges		32,500.00	32,000.00
Refund of Prior Year's Revenue		-	1,478.60
Total Expenditures		<u>3,509,379.54</u>	<u>3,379,645.52</u>
Excess/(Deficit) in Revenue		<u>366,051.54</u>	<u>282,017.70</u>
Adjustments to Income before Fund Balance:			
Expenditures included above which are by			
Statute Deferred Charges to Budgets of			
Succeeding Year - None		-	-
Total Adjustments		<u>-</u>	<u>-</u>
Excess in Operations		<u>366,051.54</u>	<u>282,017.70</u>
Fund Balance January 1		<u>459,701.41</u>	<u>365,123.71</u>
		825,752.95	647,141.41
Decreased by:			
Utilization as Anticipated Revenue		<u>135,026.00</u>	<u>187,440.00</u>
Fund Balance December 31	\$	<u><u>690,726.95</u></u>	<u><u>459,701.41</u></u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>Ref.</u>	<u>2016</u>	<u>2015</u>
Beginning Balance January 1	\$	34,616.39	34,616.39
Increased by:			
No Activity			
		<u>-</u>	<u>-</u>
		34,616.39	34,616.39
Decreased by:			
No Activity			
		<u>-</u>	<u>-</u>
Ending Balance December 31	\$	<u><u>34,616.39</u></u>	<u><u>34,616.39</u></u>
		-	-

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Ref.</u>	<u>Anticipated Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Surplus Anticipated	\$	135,026.00	135,026.00	-
Rents - Water		1,591,121.27	1,694,660.64	103,539.37
Rents - Sewer		1,631,154.06	1,719,181.47	88,027.41
Fire Hydrant Service		2,800.00	2,850.00	50.00
Miscellaneous		177,774.67	190,268.29	12,493.62
	\$	<u>3,537,876.00</u>	<u>3,741,986.40</u>	<u>204,110.40</u>

Analysis of Realized Revenue:

Consumer Accounts Receivable:

Water Rents

Current Collections	1,665,548.23
Overpayments Applied	29,112.41

1,694,660.64

Sewer Rents

Current Collections	1,690,069.07
Overpayments Applied	29,112.40

1,719,181.47

Miscellaneous

Meter Boxes & Fittings	97,774.25
Penalties on Delinquent Accounts	8,818.47
Permanent Disconnect	4,100.00
NSF Fee	493.76
Sewer Vent Penalty	5,268.50
Sewer Service	842.00
Final Meter Reading	5,855.00
Miscellaneous	729.90
Miscellaneous Parts	6,591.54
Miscellaneous Water Use	6,140.50
Street Openings	31,494.00
Turn off/on	8,750.74
Private Fire Protection	12,259.21

Total Miscellaneous - Collector	189,117.87
Interest on Investments	1,150.42

190,268.29

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

WATER AND SEWER UTILITY FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016

	Appropriations		Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications	Paid or Charged	Encumbered	
Operations:					
Salaries and Wages	\$ 399,826.00	399,826.00	376,161.93		23,664.07
Other Expenses	548,900.00	548,900.00	424,351.09	74,280.12	50,268.79
Cape May County MUA	1,300,000.00	1,300,000.00	1,191,269.00		108,731.00
Interlocal Agreement - CFO	17,748.00	17,748.00	17,570.40		177.60
	<u>2,266,474.00</u>	<u>2,266,474.00</u>	<u>2,009,352.42</u>	<u>74,280.12</u>	<u>182,841.46</u>
					-
Capital Improvements:					
Capital Improvement Fund	20,000.00	20,000.00	20,000.00		-
	<u>20,000.00</u>	<u>20,000.00</u>	<u>20,000.00</u>	<u>-</u>	<u>-</u>
Debt Service:					
Payment of Bond Principal	954,402.00	954,402.00	953,384.71		1,017.29
Interest on Bonds	241,000.00	241,000.00	213,585.31		27,414.69
Interest on Notes	23,500.00	23,500.00	23,435.52		64.48
	<u>1,218,902.00</u>	<u>1,218,902.00</u>	<u>1,190,405.54</u>	<u>-</u>	<u>28,496.46</u>
Deferred Charges and Statutory Expenditures:					
Social Security System	30,500.00	30,500.00	30,159.62		340.38
Unemployment	2,000.00	2,000.00	1,649.09		350.91
	<u>32,500.00</u>	<u>32,500.00</u>	<u>31,808.71</u>	<u>-</u>	<u>691.29</u>
					-
	<u>3,537,876.00</u>	<u>3,537,876.00</u>	<u>3,251,566.67</u>	<u>74,280.12</u>	<u>28,496.46</u>

STATEMENT OF GENERAL FIXED ASSETS
DECEMBER 31,
REGULATORY BASIS

	<u>2016</u>	<u>2015</u>
General Fixed Assets:		
Land	\$ 78,321,333.00	78,321,333.00
Land Improvements	66,634.52	66,634.52
Buildings and Improvements	4,511,293.67	4,511,293.67
Machinery and Equipment	9,142,461.33	8,562,059.76
	<u>92,041,722.52</u>	<u>91,461,320.95</u>
Investment in General Fixed Assets	\$ <u>92,041,722.52</u>	<u>91,461,320.95</u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Except as noted below, the financial statements of the Borough of Stone Harbor include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the Borough of Stone Harbor, as required by N.J.S. 40A:5-5.

Component units are legally separate organizations for which the entity is financially accountable. The entity is financially accountable for an organization if the entity appoints a voting majority of the organization's governing board and (1) the entity is able to significantly influence the programs or services performed or provided by the organization; or (2) the entity is legally entitled to or can otherwise access the organization's resources; the entity is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the entity is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the entity in that the entity approves the budget, the issuance of debt or the levying of taxes. The entity has no component units.

B. Description of Funds

The accounting policies of the Borough of Stone Harbor conform to the accounting principles applicable to municipalities which have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 the respect to public funds. Under this method of accounting, the Borough of Stone Harbor accounts for its financial transactions through the following separate funds:

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

Trust Funds -- receipts, custodianship and disbursement of funds in accordance with the purpose for which each reserve was created.

General Capital Fund -- receipt and disbursement of funds for the acquisition of general facilities, other than those acquired in the Current Fund.

Water and Sewer Operating and Capital Funds -- account for the operations of the water and sewer utility and acquisition of water and sewer capital facilities other than those acquired in the Current and General Capital Funds.

General Fixed Assets Account Group -- All fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds.

C. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the State of New Jersey differ in certain respects from generally accepted accounting principles applicable to local governmental units. The more significant policies in New Jersey follow.

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

Revenues -- are recorded as received in cash except for certain amounts, which are due from other governmental units. Receipts from Federal and State grants are realized as revenue when anticipated in the entity budget. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the entity's Current Fund, in addition the receivables for utility billings are recorded with offsetting reserves in the Utility Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the entity which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue when received.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Expenditures -- are recorded on the "budgetary" basis of accounting. Generally expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with the Encumbrance Accounting System. Outstanding encumbrances at December 31 are reported as a cash liability in the financial statements. Appropriation reserves covering unencumbered appropriation balances are automatically created at December 31st of each year and recorded as liabilities, except for amounts which may be canceled by the Governing Body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are recorded as income. Appropriations for principal payments on outstanding general capital bonds and notes are provided on the cash basis; interest on general capital indebtedness is on the cash basis; interest on utility capital indebtedness is on the accrual basis. Compensated absences are treated on a pay as you go basis with no amount charged to operations in the year incurred.

Foreclosed Property -- Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved.

Interfunds -- Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Inventories of Supplies - The cost of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The cost of inventories is not included on the various balance sheets.

General Fixed Assets -- The entity has developed a fixed assets accounting and reporting system, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles.

As required by New Jersey Statutes, foreclosed property is reported in the current operating fund of the municipality.

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

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for land which is valued at estimated market value on the date of acquisition. Expenditures for long lived assets with an original cost in excess of \$2,000.00 are capitalized.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are 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.

Property and equipment purchased by the Water and 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. Contributions 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 represents charges to operations for the costs of acquisitions of property, equipment and improvements.

The utility does not record depreciation on fixed assets.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Levy of Taxes -- The County Board of Taxation certifies the tax levy of the municipality each year. The tax levy is based on the assessed valuation of taxable property within the municipality. Taxes are payable on the first day of February, May, August, and November. Any taxes that have not been paid by 11th day of the 11th month in the fiscal year levied are subject to being included in the tax sale and the lien enforced by selling the property in accordance with NJSA 54:5 et. seq.

The municipality is responsible for remitting 100% of the school and county taxes to the respective agency. The loss for delinquent or uncollectible accounts is borne by the municipality and not the school district or county.

Interest on Delinquent Taxes -- It is the policy of the Borough of Stone Harbor to collect interest for the nonpayment of taxes or assessments on or before the date when they would become delinquent. The Tax Collector is authorized to charge eight percent (8%) per annum on the first \$1,500.00 of taxes becoming delinquent after due date and eighteen percent (18%) per annum on any amount of taxes in excess of \$1,500.00 becoming delinquent after due date and if a delinquency is in excess of \$10,000.00 and remains in arrears beyond December 31st, an additional penalty of six percent (6%) shall be charged against the delinquency. There is a ten day grace period.

Levy of Utility Charges -- The entity operates a water and sewer utility fund. Rates are determined by ordinance and changed as necessary. Water and sewer charges are based on flat fees and usage based on the type of entity. Charges are billed annually and due in quarterly installments on December 1, March 1, June 1 and September 1.

Interest on Delinquent Utility Charges -- It is the policy of the entity to collect interest for the nonpayment of utility charges on or before the date when they would become delinquent. The Utility Collector is authorized to charge eight percent (8%) per annum on the first \$1,500.00 of charges becoming delinquent after due date and eighteen percent (18%) per annum on any amount of charges in excess of \$1,500.00 becoming delinquent after due date.

Capitalization of Interest -- It is the policy of the Borough of Stone Harbor to treat interest on projects as a current expense and the interest is included in both the current and utility operating budgets with the exception of certain projects financed by the New Jersey Environmental Infrastructure Trust.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles or the statutory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

D. Required Financial Statements

The State of New Jersey requires the following financial statements to be presented for each fund on the regulatory basis of accounting: Balance Sheet, Statement of Operations and Changes in Fund Balance, Statement of Revenue and Statement of Expenditures. These statements differ from those presented under Generally Accepted Accounting Principles, which requires a Statement of Net Position and Statement of Activities in addition to the fund financial statements.

E. Comparative Data

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statement of Operations in order to provide an understanding of changes in the entity's financial position. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in the Statement of Revenue-Regulatory Basis and Statement of Expenditures-Regulatory Basis since their inclusion would make the statements unduly complex and difficult to read.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

F. Recent Accounting Pronouncements Not Yet Effective

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68". This statement, which is effective for fiscal periods beginning after June 30, 2016, will not have any effect on the Borough's financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement, which is effective for fiscal periods beginning after June 30, 2016, establishes new accounting and financial reporting requirement for OPEB plans. It is anticipated that this statement will not have any effect on Borough's financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement is effective for fiscal periods beginning after June 30, 2017. Although not determinable, the impact of this statement on net position of the entity is anticipated to be significant.

In January 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 80 "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14". This statement, which is effective for fiscal periods beginning after June 15, 2016, will not have any effect on the Borough's financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 81 "Irrevocable Split-Interest Agreements". This statement, which is effective for fiscal periods beginning after December 15, 2016, will not have any effect on the Borough's financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82 "Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73". This statement, which is effective for fiscal periods beginning after June 15, 2016, other than additional disclosure, will not have any effect on the Borough's financial reporting.

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83 "Certain Asset Retirement Obligations". This statement, which is effective for fiscal periods beginning after June 15, 2018, other than additional disclosure, will not have any effect on the Borough's financial reporting.

NOTE 2: BUDGETARY INFORMATION

Under New Jersey State Statutes, the annual budget is required to be a balanced cash basis document. To accomplish this, the municipality is required to establish a reserve for uncollected taxes. The 2016 and 2015 statutory budgets included a reserve for uncollected taxes in the amount of \$460,000.00 and \$460,000.00, respectively. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2016 and 2015 statutory budgets was \$1,512,420.47 and \$1,193,633.00, respectively. In addition, the entity operates a self liquidating water and sewer utility. Under New Jersey Statutes a separate budget for the utility must be adopted concurrently with the operating budget of the entity. The utility budget must be a balanced cash basis budget with fund balance being used to balance the budget. The amount of fund balance budgeted to balance the 2016 and 2015 statutory budgets was \$135,026.00 and \$187,440.00.

The Chief Financial Officer has the discretion of approving intra department budgetary transfers throughout the year. Inter department transfers are not permitted prior to November 1. After November 1 these transfers can be made in the form of a resolution and approved by Borough Council.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

The following significant budget transfers were approved in the 2016 and 2015 calendar years:

<u>Budget Category</u>	<u>2016</u>	<u>2015</u>
<u>Current Fund:</u>		
Telephone		
Other Expenses	\$ (13,000.00)	6,000.00
Gasoline		
Other Expenses	13,000.00	(14,950.00)
Public Works		
Salaries and Wages		(26,142.00)
Solid Waste		
Salaries and Wages		20,000.00
Parks and Playgrounds		
Salaries and Wages		16,836.00
Docks, Bulkheads and Seawall		
Salaries and Wages		(694.00)
Beach Patrol		
Salaries and Wages		14,356.00
Other Expenses		(906.00)
Tourism		
Other Expenses		(10,000.00)
Contingent		
Other Expenses		(4,500.00)

NJSA 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2016 and 2015, the following significant budget insertions were approved:

<u>Budget Category</u>	<u>2016</u>	<u>2015</u>
Clean Communities Program	\$ -	15,688.37
Green Communities	3,000.00	-
NJ DOT - 95th Street	179,000.00	
CMC Prosecutors-Body Worn Cameras	5,000.00	
Safety Grant	3,650.00	1,500.00
Donations-Fire Department	1,000.00	
Open Space - Chelsea Park		600,000.00
Open Space - 82nd St Recreation		645,525.00
Cops in Shops		2,000.00
Sustainable Jersey Small Grant		2,000.00
ADA Improvements at 82nd St		220,000.00
	<u>191,650.00</u>	<u>1,486,713.37</u>

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

The Borough may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year.

Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. The Borough approved a special emergency appropriations in the amount of \$15,000.00 in 2015 and \$250,000.00 in 2016. The 2015 Special Emergency was for the preparation and execution of approved tax maps in the Borough and the 2016 Special Emergency was for the Revaluation of Real Property. The unfunded balances of all Special Emergencies as of December 31, 2016 was \$304,750.00. The Borough also approved an emergency appropriations of \$65,603.06 in 2015 and \$75,000 in 2016. Both of the emergencies were for down payments on capital improvements; the unfunded balance as of December 31, 2016 of \$75,000.06 was raised in the 2017 budget.

NOTE 3: INVESTMENTS

As of December 31, 2016 and 2015, the municipality had no investments.

Interest Rate Risk. The municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The municipality places no limit on the amount the entity can invest in any one issuer.

NOTE 4: CASH

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 municipality's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, all demand deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the municipality in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, bail funds or funds that may pass to the municipality relative to the happening of a future condition. As of December 31, 2016 and 2015, \$0 of the municipality's bank balance of \$10,828,605.04 and \$10,068,361.00 was exposed to custodial credit risk.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 5: FIXED ASSETS

The following schedules are a summarization of the changes in general fixed assets for the calendar years ended December 31, 2016 and 2015:

	Balance 12/31/2015	Additions	Retirements	Balance 12/31/2016
Land	\$ 78,321,333.00			\$ 78,321,333.00
Building	66,635.00			66,635.00
Building Improvements	4,511,294.11			4,511,294.11
Equipment and Machinery	8,562,058.94	716,711.63	(136,310.16)	9,142,460.41
	<u>\$ 91,461,321.05</u>	<u>716,711.63</u>	<u>(136,310.16)</u>	<u>92,041,722.52</u>

	Balance 12/31/2014	Additions	Retirements	Balance 12/31/2015
Land	\$ 78,321,333.00			78,321,333.00
Building	66,635.00			66,635.00
Building Improvements	4,413,890.00	97,404.11		4,511,294.11
Equipment and Machinery	8,685,171.00	412,635.99	(535,748.05)	8,562,058.94
	<u>\$ 91,487,029.00</u>	<u>510,040.10</u>	<u>(535,748.05)</u>	<u>91,461,321.05</u>

Note 6: SHORT-TERM OBLIGATIONS

At December 31, 2015 the Borough had a bond anticipation note outstanding in the amount of \$8,622,500.00 due November 4, 2016 with interest at 0.63%.

	Balance 12/31/14	Issued	Retired	Balance 12/31/15
Bond Anticipation Notes payable:				
General	\$3,200,000.00	5,100,000.00	3,200,000.00	5,100,000.00
Water & Sewer	-	3,522,500.00		3,522,500.00
	<u>\$3,200,000.00</u>	<u>8,622,500.00</u>	<u>3,200,000.00</u>	<u>8,622,500.00</u>

At December 31, 2016, the Borough has a bond anticipation outstanding in the amount of \$13,455,500.00, due November 3, 2017 with interest at 0.97%.

	Balance 12/31/15	Issued	Retired	Balance 12/31/16
Bond Anticipation Notes payable:				
General	\$5,100,000.00	9,433,000.00	5,100,000.00	9,433,000.00
Water & Sewer	3,522,500.00	4,022,500.00	3,522,500.00	4,022,500.00
	<u>\$8,622,500.00</u>	<u>13,455,500.00</u>	<u>8,622,500.00</u>	<u>13,455,500.00</u>

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 7: LONG TERM DEBT

Long-term debt as of December 31, 2015 and 2016 consisted of the following:

	Balance 12/31/14	Issued	Retired	Balance 12/31/15	Amounts Due Within One Year
Bonds payable:					
General	\$ 16,719,000.00		2,585,000.00	14,134,000.00	2,625,000.00
Utility	3,515,000.00		440,000.00	3,075,000.00	465,000.00
Total	20,234,000.00	-	3,025,000.00	17,209,000.00	3,090,000.00
Other liabilities:					
Loans Payable:					
General	2,494,922.16	2,000,000.00	203,875.69	4,291,046.47	180,725.81
Utility	5,004,288.00	4,000,000.00	416,940.89	8,587,347.11	363,287.68
Total long-term liabilities	<u>\$ 27,733,210.16</u>	<u>6,000,000.00</u>	<u>3,645,816.58</u>	<u>30,087,393.58</u>	<u>3,634,013.49</u>
	Balance 12/31/15	Issued	Retired	Balance 12/31/16	Amounts Due Within One Year
Bonds payable:					
General	\$ 14,134,000.00	3,220,000.00	5,909,000.00	11,445,000.00	2,635,000.00
Utility	3,075,000.00	1,445,000.00	1,970,000.00	2,550,000.00	475,000.00
Total	17,209,000.00	4,665,000.00	7,879,000.00	13,995,000.00	3,110,000.00
Other liabilities:					
Loans Payable:					
General	4,291,046.47		239,248.17	4,051,798.30	243,186.50
Utility	8,587,347.11		604,465.73	7,982,881.38	526,177.03
Total long-term liabilities	<u>\$ 30,087,393.58</u>	<u>4,665,000.00</u>	<u>8,722,713.90</u>	<u>26,029,679.68</u>	<u>3,879,363.53</u>

Outstanding Bonds Whose Principal and Interest are Paid From the Current Fund Budget of the Entity:

\$12,750,000.00 General Improvement Bonds dated November 1, 2011, due in annual installments through November 1, 2023, bearing interest at a varying rate ranging from 3.0% to 3.125%. The balance remaining as of December 31, 2016 is \$8,225,000.00

\$3,220,000.00 General Refunding Bonds dated March 31, 2016, due in annual installments through August 15, 2018, bearing interest at 4.0%. The balance remaining as of December 31, 2016 is \$3,220,000.00.

\$1,013,511.00 N.J. Environmental Trust Loan Bond Series B dated December 2, 2010, due in annual installments beginning August 1, 2012 through August 1, 2030, bearing interest at 5.00%. The balance remaining as of December 31, 2016 is \$966,645.29.

\$358,462.00 N.J. Environmental Fund Loan Bond dated December 2, 2010, due in semi-annual installments through August 1, 2030, bearing no interest. The balance remaining at December 31, 2016 is \$161,909.33.

\$141,786.00 N.J. Environmental Trust Loan Bond Series ABC dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2016 is \$133,555.04.

\$105,536.00 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2016 is \$41,573.48.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

\$1,070,575.00 N.J. Environmental Trust Loan Bond Series A dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2016 is \$988,330.86.

\$493,799.00 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2016 is \$181,343.79.

\$346,667.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2016 through August 1, bearing interest ranging from 4.00% to 5.00%. The balance remaining at December 31, 2016 is \$345,612.00.

\$1,123,006.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2016 through August 1, bearing no interest. The balance remaining at December 31, 2016 is \$1,020,224.00

\$161,181.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2016 through August 1, bearing interest ranging from 4.00% to 5.00%. The balance remaining at December 31, 2016 is \$161,514.15.

\$69,115.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2016 through August 1, bearing no interest. The balance remaining at December 31, 2016 is \$54,090.36.

Outstanding Bonds Whose Principal and Interest are Paid From the Utility Operating Fund of the Entity:

\$1,620,000.00 Water & Sewer Utility Bonds dated November 1, 2011, due in annual installments through November 1, 2023, bearing interest at a varying rate ranging from 2.0% to 3.125%. The balance remaining as of December 31, 2016 is \$1,105,000.00.

\$1,445,000.00 Refunding Bonds dated March 31, 2016, due in annual installments through August 15, 2020, bearing interest at 4.0%. The balance remaining as of December 31, 2016 is \$1,445,000.00.

\$920,000.00 N.J. Environmental Trust Loan Bond Series A dated November 8, 2007, due in annual installments beginning August 1, 2009 through August 1, 2027, bearing interest at varying rates. The balance remaining as of December 31, 2016 is \$548,000.00.

\$901,733.00 N.J. Environmental Fund Loan Bond Series A dated November 8, 2007, due in semi-annual installments through August 1, 2027, bearing no interest. The balance remaining at December 31, 2016 is \$509,912.08.

\$707,506.00 N.J. Environmental Trust Loan Bond Series A dated March 10, 2010, due in annual installments beginning August 1, 2011 through August 1, 2029, bearing no interest. The balance remaining as of December 31, 2016 is \$605,000.00.

\$2,023,865.00 N.J. Environmental Fund Loan Bond Series A dated March 10, 2010, due in semi-annual installments through August 1, 2029, bearing no interest. The balance remaining at December 31, 2016 is \$1,219,266.40.

\$273,203.37 N.J. Environmental Trust Loan Bond Series B dated December 2, 2010, due in annual installments beginning August 1, 2012 through August 1, 2030, bearing interest at 5.00%. The balance remaining as of December 31, 2016 is \$260,552.39.

\$111,087.48 N.J. Environmental Fund Loan Bond dated December 2, 2010, due in semi-annual installments through August 1, 2030, bearing no interest. The balance remaining at December 31, 2016 is \$43,641.51.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

\$728,304.13 N.J. Environmental Trust Loan Bond Series ABC dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2016 is \$515,522.26.

\$226,358.02 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2016 is \$160,473.82.

\$906,832.75 N.J. Environmental Trust Loan Bond Series A dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2016 is \$814,232.58.

\$406,814.50 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2016 is \$149,399.43.

\$2,063,781.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in semi-annual installments through September 1, 2034, bearing interest ranging from 4.00% to 5.00%. The balance as of December 31, 2016 is \$2,040,448.00.

\$1,522,720.00 N.J. Environmental Fund Loan Bond dated May 21, 2016, due in semi-annual installments through September 1, 2034, bearing no interest. The balance remaining at December 31, 2016 is \$685,224.00.

\$326,362.00 N.J. Environmental Fund Loan Bond dated May 21, 2016, due in semi-annual installments through September 1, 2034, bearing interest ranging from 4.00% to 5.00%. The balance as of December 31, 2016 is \$323,028.19.

\$354,593.00 N.J. Environmental Fund Loan Bond dated May 21, 2016, due in semi-annual installments through September 1, 2034, bearing no interest. The balance remaining at December 31, 2016 is \$108,180.72.

Schedule of Annual Debt Service for Principal and Interest for Bonded Debt Issued and Loans Outstanding

Year	General Fund		Utility Fund	
	Principal	Interest	Principal	Interest
2017	\$ 2,878,186.50	457,229.61	1,001,177.03	217,720.40
2018	2,933,623.43	358,029.95	1,047,503.97	192,870.06
2019	1,377,561.85	257,058.47	1,069,981.60	166,141.54
2020	1,431,969.97	218,790.05	1,081,306.31	138,959.96
2021	1,484,711.43	178,801.23	734,486.10	110,848.78
2022-2026	3,978,206.45	354,491.92	3,221,133.62	357,814.58
2027-2031	1,127,520.81	90,615.80	1,807,257.04	118,790.48
2032-2034	285,017.86	7,133.32	570,035.71	14,266.68
	<u>\$ 15,496,798.30</u>	<u>1,922,150.35</u>	<u>10,532,881.38</u>	<u>1,317,412.48</u>

As of December 31, 2016, the carrying value of the above bonds and notes approximates the fair value of the bonds. The total interest charged to the current budget was \$558,043.22 and to the utility budget was \$237,020.83.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

<u>Summary of Municipal Debt</u>	<u>Year 2016</u>	<u>Year 2015</u>	<u>Year 2014</u>
<u>Issued:</u>			
General - Bonds and Notes	\$ 24,929,798.30	\$ 19,234,000.00	\$ 22,791,976.22
Water/Sewer Utility - Bonds and Notes	14,555,381.38	6,597,500.00	9,309,294.24
Total Issued	<u>39,485,179.68</u>	<u>25,831,500.00</u>	<u>32,101,270.46</u>
<u>Authorized but not issued:</u>			
General - Bonds and Notes	11,254,131.05	12,194,000.00	3,142,650.00
Water/Sewer Utility - Bonds and Notes	1,923,143.95	570,143.95	7,745,643.95
Total Authorized But Not Issued	<u>13,177,275.00</u>	<u>12,764,143.95</u>	<u>10,888,293.95</u>
Total Bonds & Notes Issued and Authorized But Not Issued	<u>\$ 52,662,454.68</u>	<u>\$ 38,595,643.95</u>	<u>\$ 42,989,564.41</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 0.861%.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School District Debt	\$ -	-	-
Water/Sewer Utility Debt	16,478,525.33	16,478,525.33	-
General Debt	36,183,929.35	552,674.43	35,631,254.92
	<u>\$ 52,662,454.68</u>	<u>\$ 17,031,199.76</u>	<u>\$ 35,631,254.92</u>

Net Debt \$35,631,254.92 ÷ Equalized Valuation Basis per N.J.S.A. 40A:2-2 as amended, \$4,136,954,308.33 = 0.861%.

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

3 1/2 % of Equalized Valuation Basis (Municipal)	\$ 144,793,400.79
Net Debt	35,631,254.92
Remaining Borrowing Power	<u>\$ 109,162,145.87</u>

The Borough of Stone Harbor School District, as a K-5 school district, is permitted to borrow up to 2.5% of the average equalized valuation for the past three years. State statutes allow a school district to exceed the districts limitation with voter approval. Any amount approved by the voters in excess of the limit is treated as an impairment of the municipal limit.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
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NOTE 8: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2016 and 2015, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2017 and 2016 were as follows:

	2017	2016
Current Fund	\$ 1,495,463.96	1,512,420.47
Water/Sewer Utility	320,513.00	135,026.00

NOTE 9: SCHOOL TAXES

Local District School Taxes have been raised and a liability deferred by statute, resulting in the school tax payable set forth in the Current Fund liabilities as follows:

	12/31/2016	12/31/2015
Balance of Tax	\$ 1,222,257.25	1,198,291.75
Deferred	921,837.60	921,837.60
Tax Payable	\$ 300,419.65	276,454.15

NOTE 10: TAXES COLLECTED IN ADVANCE

Taxes collected in advance are recorded as cash liabilities in the financial statements. Following is a comparison of the liability for the previous two years:

	Balance 12/31/16	Balance 12/31/15
Prepaid Taxes	\$ 800,864.42	697,871.00
Cash Liability for Taxes Collected in Advance	\$ 800,864.42	697,871.00

NOTE 11: PENSION FUNDS

Description of Plans

Substantially all of the entity's employees participate in the Public Employees' Retirement System (PERS) and Police and Fireman's Retirement System (PFRS) cost sharing multiple-employer defined benefit pension plans which have been established by State Statute and are administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the system terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the systems. This report may be obtained by writing to the Division of Pension and Benefits, PO Box 295, Trenton, New Jersey 08625 or the report can be accessed on the internet at <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

Public Employees' Retirement System

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Police and Fireman's Retirement System

The contribution policy for the Police and Fireman's Retirement System (PFRS) is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10.0% of employees' annual compensation, as defined. Employers are required to contribute to an actuarially determined rate.

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provided for employee contributions of 7.06% through June 30, 2016 and 7.20% thereafter of employee's annual compensation, as defined. Employers are required to contribute to an actuarially determined rate in PERS. The current Employer's PERS rate is 12.91% of covered payroll. The entity's contributions to PERS for the years ended December 31, 2016, 2015, and 2014 were \$324,760.00, \$324,393.00 and \$284,191.00.

The contribution policy for the PFRS is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10.0% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate which is currently 25.51% of covered payroll. The entity's contributions to PFRS for the years ended December 31, 2016, 2015, and 2014 were \$301,136.00, \$261,454.00 and \$259,144.00.

The total payroll for the year ended December 31, 2016, 2015 and 2014 was \$4,919,371.12, \$4,634,649.23 and \$4,972,377.38. Payroll covered by PFRS was \$1,209,108.00, \$1,239,901.00 and \$1,165,405.00. Payroll covered by PERS was \$2,625,002.00, \$2,623,527.00 and \$2,537,725.00.

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%.
- For fiscal year 2013, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
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- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60th from 1/55th, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7th of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

NOTE 12: PENSION LIABILITIES

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the municipality's pension liabilities. However, due to the fact that the municipality reports on the regulatory basis of accounting, no financial statement impact will be recognized.

The following represents the municipality's pension liabilities as June 30, 2016:

Public Employees' Retirement System

The Municipality has a liability of \$11,310,466.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Municipality's proportion would be 0.03818893000%, which would be an increase of 1.10% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality would have recognized pension expense of \$1,090,051.00. At December 31, 2016, the Municipality would report deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 210,340	
Changes of assumptions	2,342,924	
Changes in proportion	234,188	(197,187)
Net difference between projected and actual earnings on pension plan investments	431,278	
Total	<u>\$ 3,218,730</u>	<u>(197,187)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,	
2017	\$ 683,794
2018	683,794
2019	781,717
2020	654,167
2021	218,071
Total	<u>\$ 3,021,543</u>

NOTES TO FINANCIAL STATEMENTS
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Actuarial Assumptions

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

Inflation rate	3.08%
Salary increases:	
Through 2026	1.65% - 4.15% (based on age)
Thereafter	2.65% - 5.15% (based on age)
Investment rate of return:	7.65%

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 2014 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and 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 scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

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

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflations. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt (Except US)	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Municipality's proportionate share of the net pension liability to changes in the discount rate.

The following presents the Municipality's proportionate share of the net pension liability calculated using the discount rate of 3.98%, as well as what the Municipality's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.98%) or 1-percentage point higher (4.98%) than the current rate:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Municipality's proportionate share of the net pension liability	\$ 13,554,505	11,310,466	\$ 9,459,807

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Police and Firemen's Retirement System

The Municipality has a liability of \$7,481,373.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the Municipality's proportion would be 0.03916424650%, which would be an increase of 5.72% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality would have recognized pension expense of \$894,589.00. At December 31, 2016, the Municipality would have reported deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ -	(49,042)
Changes of assumptions	1,036,232	
Changes in proportion	500,546	(101,037)
Net difference between projected and actual earnings on pension plan investments	524,205	
Total	<u>\$ 2,060,983</u>	<u>(150,079)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,		
2016	\$	462,081
2017		462,081
2018		613,318
2019		359,295
2020		14,129
Total	<u>\$</u>	<u>1,910,904</u>

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Actuarial Assumptions

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

Inflation rate	3.08%
Salary increases:	
Through 2026	2.10% - 8.98% (based on age)
Thereafter	3.10% - 9.98% (based on age)
Investment rate of return:	7.65%

Pre-retirement mortality rates were based on the RP-2000 Pre-Retirement mortality tables projected thirteen years using Projection Scale BB and then projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for male service retirements and beneficiaries are based on the RP-2000 Combined Healthy Mortality Tables projected one year using Projection Scale AA and two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Post-retirement mortality rates for female service retirements and beneficiaries were based on the RP-2000 Combined Healthy Mortality Tables projected thirteen years using Projection Scale BB and then two years using the plan actuary's modified 2014 projection scales, which was further projected on a generational basis using the plan actuary's modified 2014 projection scales. Disability mortality rates were based on special mortality tables used for the period after disability retirement.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2013.

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2016 are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt (Except US)	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 5.55% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the non-employer contributing entity will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2050. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2050, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Municipality's proportionate share of the net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2016, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease (4.55%)	Current Discount Rate (5.55%)	1% Increase (6.55%)
District's proportionate share of the net pension liability	\$ 9,510,746	7,481,373	5,827,206

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

In addition to the PFRS liabilities listed above, a special funding situation exists for the Local employers of the Police and Fire Retirement System of New Jersey. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers under 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 June 30, 2016 State special funding situation net pension liability amount of \$1,604,141,087.00, is the accumulated differences between the annual actuarially determined State obligation under the special funding situation and the actual State contribution through the valuation date. The fiscal year ending June 30, 2016 State special funding situation pension expense of \$204,886,666.00 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2016. The pension expense is deemed to be a State administrative expense due to the special funding situation.

The contribution policy for PFRS is set by N.J.S.A. 43:16A and required 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 2016, the State contributed an amount less than the actuarially determined amount.

Although the liabilities related to the special funding situation are the liabilities of the State of New Jersey, the proportionate share of the statewide liability allocated to the Municipality was 0.03916424650% for 2016. The net pension liability amount allocated to the Municipality was \$628,250.00. For the fiscal year ending June 30, 2016 State special funding situation pension expense of \$80,242.00 is allocated to the Municipality.

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PFRS financial report.

NOTE 13: POST-RETIREMENT BENEFITS

Plan Description The Borough of Stone Harbor contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at to <http://www.state.nj.us/treasury/pensions/shbp.htm>

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

Plan Coverage The entity currently has 2 collective bargaining units as well as non-union employees. The employee's post employment benefits are not dependent upon the collective bargaining unit to which they are a member. The benefits by collective bargaining unit are:

All Employees - Individuals who retired with at least 25 years of service to the Borough receive hospitalization, major medical, prescription for the employee and spouse in effect at the time of retirement.

Funding Policy Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Borough of Stone Harbor on a monthly basis. The rates charged by the system for the year ended December 31, 2016 vary according to the type of coverage selected by the retiree and range from \$540.00 to \$2,800.00 monthly per retiree.

The Borough of Stone Harbor contributions to SHBP for post-retirement benefits for the year ended December 31, 2016 and 2015 were \$107,983.32 and \$98,231.00 respectively, which equaled the required contribution for the year.

NOTE 14: ACCRUED SICK AND VACATION BENEFITS

The Borough does not permit employees to accrue sick and vacation time. Hence, employees are not compensated upon retirement for accrued time.

NOTE 15: ECONOMIC DEPENDENCY

The Borough of Stone Harbor is not economically dependent on any one business. The tourism industry is a major source of tax revenue for the entity.

NOTE 16: RISK MANAGEMENT

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

Property and Liability Insurance - The entity maintains commercial insurance coverage for property, liability and surety bonds. During the year ended December 31, 2016 and 2015 the entity did not incur claims in excess of their coverage and the amount of coverage did not significantly decrease.

The entity is a member of the Atlantic County Joint Insurance Fund (JIF) and the Municipal Excess Liability Fund (MEL) which also includes other municipalities throughout the region. The entity is obligated to remit insurance premiums into these funds for sufficient insurance coverage. There is an unknown contingent liability with the Atlantic County Municipal Joint Insurance Fund if there is a catastrophic insurance claim from any member of the fund. The entity has a general liability limit of \$100,000 under JIF, which increases to \$5,000,000 under MEL.

NOTE 17: DEFERRED COMPENSATION

Employees of the Borough of Stone Harbor may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The deferred compensation plan is available to all employees of the entity. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015
(CONTINUED)

An unrelated financial institution administers the deferred compensation plan. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the employees.

As part of its fiduciary role, the entity has an obligation of due care in selecting the third party administrator.

NOTE 18: CONTINGENT LIABILITIES

From time to time, the entity is a defendant in legal proceedings relating to its operations as a municipality. In the best judgment of the entity's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

NOTE 19: INTERFUND BALANCES

As of December 31, 2016, the following interfunds were included on the balance sheets of the various funds of the Borough of Stone Harbor:

	Due From	Due To
Current Fund:		
Animal Control Fund	\$ 0.88	
Grant Fund:		
General Capital Fund		988,752.29
Animal Control Fund:		
Current Fund		0.88
General Capital Fund:		
Grant Fund	988,752.29	
Water & Sewer Capital Fund	0.01	
Water and Sewer Capital Fund:		
General Capital Fund		0.01
	\$ <u>988,753.18</u>	<u>988,753.18</u>

NOTE 20: SUBSEQUENT EVENTS

The entity has evaluated subsequent events through April 21, 2017, the date which the financial statements were available to be issued and identified no events requiring disclosure.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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Hawkins Delafield & Wood LLP

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PORTLAND
ANN ARBOR

November 2, 2017

C. STEVEN DONOVAN
ROBERT H. BEINFELD
ERIC J. SAPIR
CHARLES G. TOTO
KRISTINE L. FLYNN
DAVID S. HANDLER

Borough Council of The
Borough of Stone Harbor, in the
County of Cape May, New Jersey

Ladies and Gentlemen:

We have acted as bond counsel to The Borough of Stone Harbor, a municipal corporation of the State of New Jersey, situate in the County of Cape May (the "Borough"), and have examined a record of proceedings relating to the issuance by the Borough of a Bond Anticipation Note in the denomination of \$29,175,000 (the "Note"). The Note is dated November 2, 2017, matures on November 2, 2018, bears interest at the rate of two and fifty hundredths per centum (2.50%) per annum payable at maturity, is issued in registered form, is transferable as therein provided, and is issued pursuant to the Local Bond Law of the State of New Jersey, and by virtue of a bond ordinance or ordinances of the Borough and a resolution of its governing body adopted October 3, 2017.

The Note is a temporary obligation issued in anticipation of the issuance of bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Note in order that interest on the Note be and remain excluded from gross income under Section 103 of the Code. We have examined the Arbitrage and Use of Proceeds Certificate of the Borough delivered in connection with the issuance of the Note which contains provisions and procedures regarding compliance with the requirements of the Code. By said Arbitrage and Use of Proceeds Certificate, the Borough has certified that, to the extent it is empowered and allowed under applicable law, it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Note is excludable from gross income under Section 103 of the Code. In rendering this opinion, we have assumed that the Borough will comply with the provisions and procedures set forth in its Arbitrage and Use of Proceeds Certificate.

In our opinion, the Note is a valid and legally binding obligation of the Borough, payable in the first instance from the proceeds of the sale of the bonds in anticipation of the issuance of which the Note is issued but, if not so paid, payable ultimately from ad valorem taxes which may be levied upon all the taxable property within the Borough without limitation as to rate or amount. The enforceability of rights or remedies with respect to the Note may be limited by bankruptcy, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

In our opinion, under existing statutes and court decisions, interest on the Note is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and interest on the Note is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code and is not included in the adjusted current earnings of corporations for purposes of calculating the alternative minimum tax. In addition, in our opinion, under existing statutes, interest on the Note is excluded from gross income under the New Jersey Gross Income Tax Act.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the Borough other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to the purchaser of the Note.

We express no opinion regarding any other federal or state consequences with respect to the Note. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update this opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. We express no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for federal income tax purposes of interest on the Note, or under state and local tax law.

We have examined the executed the Note above described, and, in our opinion, the form of said Note and its execution are regular and proper.

Very truly yours,