

OFFICIAL STATEMENT DATED OCTOBER 23, 2018

NEW ISSUE

**Rating: S&P “AAA”
(See “RATING” herein)**

In the opinion of McManimon, Scotland & Baumann, LLC, Bond Counsel, assuming compliance by the Borough (as defined herein) with certain tax covenants described herein, under existing law, interest on the Bonds (as defined herein) is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax; however, interest paid to certain corporate holders of the Bonds indirectly may be subject to alternative minimum tax under circumstances described under “TAX MATTERS” herein. Based upon existing law, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. See “TAX MATTERS” herein.

**BOROUGH OF AVALON
IN THE COUNTY OF CAPE MAY, NEW JERSEY
\$11,900,000 WATER/SEWER UTILITY BONDS, SERIES 2018
(CALLABLE) (BOOK-ENTRY-ONLY)**

Dated: Date of Delivery

Due: November 1, as shown on the inside front cover

The \$11,900,000 Water/Sewer Utility Bonds, Series 2018 (the “Bonds”) of the Borough of Avalon, in the County of Cape May, New Jersey (the “Borough”), will be issued in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as Securities Depository.

Proceeds of the Bonds, along with other available funds of the Borough in the amount of \$170,195, will be used to: (i) currently refund the Borough’s \$11,463,195 Bond Anticipation Notes, dated February 20, 2018 and maturing December 5, 2018; (ii) permanently finance the cost of various capital improvements in and by the Borough in the amount of \$907,000; and (iii) pay the costs associated with the authorization, sale and issuance of the Bonds. See “AUTHORIZATION AND PURPOSE” herein.

Interest on the Bonds will be payable semiannually on the first day of May and November in each year until maturity or earlier redemption, commencing May 1, 2019. The principal of and the interest due on the Bonds will be paid to DTC by the Borough. Interest on the Bonds will be credited to the Participants (as defined herein) of DTC as listed on the records of DTC as of each next preceding April 15 and October 15 (the “Record Dates” for the payment of interest on the Bonds). Interest on the Bonds shall be calculated on the basis of a 360-day year of twelve 30-day calendar months.

The Bonds are subject to optional redemption prior to their stated maturities. See “DESCRIPTION OF THE BONDS - Redemption” herein.

The Bonds are valid and legally binding general 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 for the payment of the Bonds and the interest thereon without limitation as to rate or amount.

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

The Bonds are offered when, as and if issued, and delivered to the Underwriter (as defined herein), subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey, and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor to the Borough in connection with the issuance of the Bonds. Delivery is anticipated to be at the offices of the Borough’s Bond Counsel, McManimon, Scotland & Baumann, LLC, or at such other place as agreed to with the Underwriter on or about November 13, 2018.

UBS FINANCIAL SERVICES INC.

BOROUGH OF AVALON
IN THE COUNTY OF CAPE MAY, NEW JERSEY
\$11,900,000 WATER/SEWER UTILITY BONDS, SERIES 2018

MATURITIES, AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

| <u>Year</u> <u>(November 1)</u> | <u>Principal</u> <u>Amount</u> | <u>Interest</u> <u>Rate</u> | <u>Yield</u> | <u>CUSIP**</u> |
|--|---|--|---------------------|-----------------------|
| 2019 | \$430,000 | 5.000% | 1.900% | 053375NT4 |
| 2020 | 430,000 | 5.000 | 2.050 | 053375NU1 |
| 2021 | 450,000 | 5.000 | 2.110 | 053375NV9 |
| 2022 | 475,000 | 5.000 | 2.210 | 053375NW7 |
| 2023 | 565,000 | 5.000 | 2.290 | 053375NX5 |
| 2024 | 640,000 | 5.000 | 2.390 | 053375NY3 |
| 2025 | 660,000 | 5.000 | 2.490 | 053375NZ0 |
| 2026 | 745,000 | 4.000 | 2.560* | 053375PA3 |
| 2027 | 765,000 | 4.000 | 2.650* | 053375PB1 |
| 2028 | 790,000 | 3.000 | 3.050 | 053375PC9 |
| 2029 | 815,000 | 3.000 | 3.150 | 053375PD7 |
| 2030 | 835,000 | 3.125 | 3.250 | 053375PE5 |
| 2031 | 860,000 | 3.250 | 3.350 | 053375PF2 |
| 2032 | 860,000 | 3.250 | 3.450 | 053375PG0 |
| 2033 | 860,000 | 3.500 | 3.500 | 053375PH8 |
| 2034 | 860,000 | 3.500 | 3.580 | 053375PJ4 |
| 2035 | 860,000 | 3.500 | 3.640 | 053375PK1 |

* Priced at the stated yield to the first optional redemption date of November 1, 2025 at a redemption price of 100%.

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

**BOROUGH OF AVALON,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

MAYOR

Martin L. Pagliughi

BOROUGH COUNCIL

James Deeever, Council President
Charles Covington, Council Vice President
Richard E. Dean
Nancy M. Hudanich, Ed.D.
John McCorristin

BOROUGH ADMINISTRATOR

Scott J. Wahl

CHIEF FINANCIAL OFFICER

James V. Craft

BOROUGH CLERK

Marie J. Hood

BOROUGH AUDITOR

Ford, Scott and Associates LLC
Ocean City, New Jersey

BOROUGH ATTORNEY

Nicole J. Curio, Esquire
Gruccio, Pepper, DeSanto & Ruth, P.A.
Vineland, New Jersey

BOND COUNSEL

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

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

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

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

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

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

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| INTRODUCTION | 1 |
| DESCRIPTION OF THE BONDS | 1 |
| General Description | 1 |
| Redemption | 1 |
| Notice of Redemption | 2 |
| Book-Entry-Only System..... | 2 |
| Discontinuation of Book-Entry-Only System | 4 |
| SECURITY AND SOURCE OF PAYMENT | 4 |
| General | 4 |
| The Borough | 4 |
| AUTHORIZATION AND PURPOSE..... | 4 |
| MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES | 5 |
| Local Bond Law (N. J. S. A. 40A:2-1 et seq.) | 5 |
| Local Budget Law (N. J. S. A. 40A:4-1 et seq.) | 6 |
| Tax Assessment and Collection Procedure | 8 |
| Tax Appeals | 9 |
| Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 et seq.)..... | 9 |
| FINANCIAL STATEMENTS | 9 |
| LITIGATION..... | 9 |
| TAX MATTERS..... | 10 |
| Exclusion of Interest on the Bonds From Gross Income for Federal Tax Purposes | 10 |
| Original Issue Discount..... | 11 |
| Original Issue Premium | 11 |
| Bank Qualification | 11 |
| Additional Federal Income Tax Consequences of Holding the Bonds | 12 |
| Changes in Federal Tax Law Regarding the Bonds..... | 12 |
| State Taxation | 12 |
| MUNICIPAL BANKRUPTCY | 12 |
| RATING | 13 |
| UNDERWRITER | 13 |
| MUNICIPAL ADVISOR..... | 14 |
| APPROVAL OF LEGAL PROCEEDINGS..... | 14 |
| PREPARATION OF OFFICIAL STATEMENT | 14 |
| SECONDARY MARKET DISCLOSURE..... | 14 |
| ADDITIONAL INFORMATION..... | 16 |
| MISCELLANEOUS | 16 |
| APPENDIX A | |
| Economic and Demographic Information Relating to the Borough of Avalon, in the County of Cape May, New Jersey..... | A-1 |
| APPENDIX B | |
| Financial Statements of the Borough of Avalon, in the County of Cape May, New Jersey | B-1 |
| APPENDIX C | |
| Form of Approving Legal Opinion of Bond Counsel..... | C-1 |

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**OFFICIAL STATEMENT
OF
BOROUGH OF AVALON,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

\$11,900,000 WATER/SEWER UTILITY BONDS, SERIES 2018

INTRODUCTION

This Official Statement, which includes the front cover page, the inside front cover page and the appendices attached hereto, has been prepared by the Borough of Avalon, in the County of Cape May, New Jersey (the “Borough”) in connection with the sale and issuance of \$11,900,000 Water/Sewer Utility Bonds, Series 2018 (the “Bonds”). 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 Bonds has been authorized by the Borough.

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

DESCRIPTION OF THE BONDS

General Description

The Bonds shall be dated the date of delivery and shall mature on November 1 in each of the years and in the amounts set forth on the inside cover page hereof. Interest on the Bonds will be payable semiannually on May 1 and November 1 in each year until maturity or earlier redemption, commencing on May 1, 2019. Principal of and interest on the Bonds will be paid to DTC (as defined herein) by the Borough or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding April 15 and October 15 (the “Record Dates” for the payment of interest on the Bonds). Interest on the Bonds shall be calculated on the basis of a 360-day year of twelve 30-day calendar months.

The Bonds are issuable as fully registered book-entry bonds in the form of one certificate for each maturity of Bonds and in the principal amount of such maturity. The Bonds may be purchased in book-entry-only form in the amount of \$5,000, or any integral multiple thereof, through book-entries made on the books and records of The Depository Trust Company, New York, New York (“DTC”) and its participants. So long as DTC or its nominee, Cede & Co. (or any successor or assign), is the registered owner for the Bonds, payments of the principal of and interest on the Bonds will be made by the Borough directly to Cede & Co. (or any successor or assign), as nominee for DTC. See “Book-Entry-Only System” herein.

Redemption

The Bonds of this issue maturing prior to November 1, 2026 are not subject to redemption prior to their stated maturities. The Bonds of this issue maturing on or after November 1, 2026 are redeemable at the option of the Borough, in whole or in part, on any date on or after November 1, 2025 at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption shall be given by first class mail in a sealed envelope with postage prepaid to the registered owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the Borough, at least thirty (30) but not more than sixty (60) days before the date fixed for redemption. However, so long as DTC (or any successor thereto) acts as securities depository for the Bonds, notice of redemption shall be sent to such securities depository and shall not be sent to the beneficial owners of the Bonds, and will be done in accordance with DTC procedures. Any failure of such securities depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any notice of redemption shall not affect the validity of the redemption proceedings. If the Borough determines to redeem a portion of the Bonds of a maturity, such Bonds shall be selected by the Borough by lot. If notice of redemption has been given as described herein, the Bonds, or the portion thereof called for redemption, shall be due and payable on the date fixed for redemption at the Redemption Price, together with accrued interest to the date fixed for redemption. Payment shall be made upon surrender of the Bonds redeemed.

Book-Entry-Only System

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

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

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

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

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

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

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

Redemption proceeds, if applicable, and distributions on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Borough or paying agent, on payable date in accordance with their respective holdings shown on DTC's records.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the paying agent, if any, or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, if applicable, and distributions to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borough or its paying agent, if any, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

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

Discontinuation of Book-Entry-Only System

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

SECURITY AND SOURCE OF PAYMENT

General

The Bonds are valid and legally binding general obligations of the Borough, and the Borough has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable real property within the Borough without limitation as to rate or amount. The enforceability of rights or remedies with respect to such Bonds may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

The Borough

The Borough is located along the eastern border of Cape May County, New Jersey (the "County"). See Appendix "A" for demographic and statistical information concerning the Borough.

AUTHORIZATION AND PURPOSE

The Bonds are authorized and are issued pursuant to the Local Bond Law of the State of New Jersey, N.J.S.A. 40A:2-1 et seq. (the "Local Bond Law") and the bond ordinances set forth below, each duly approved and published as required by law and a resolution duly adopted by the Borough on September 26, 2018.

The proceeds of the Bonds, along with other available funds of the Borough in the amount of \$170,195, will be used to: (i) currently refund the Borough's \$11,463,195 Bond Anticipation Notes, dated and issued February 20, 2018 and maturing December 5, 2018 (the "Prior Notes"); (ii) permanently finance the cost of various capital improvements in and by the Borough in the amount of \$907,000; and (iii) pay the costs associated with the authorization, sale and issuance of the Bonds.

| WATER/SEWER UTILITY BOND ORDINANCES | | | |
|--|---|---|--------------------------------------|
| BOND ORDINANCE NUMBER | DESCRIPTION OF AND DATE OF ADOPTION OF BOND ORDINANCE | AMOUNT OF PRIOR NOTES COMING DUE | TOTAL AMOUNT OF BOND PROCEEDS |
| 600-08 | Various sewer and water improvements, finally adopted August 22, 2008. | \$855,000 | \$684,900 |
| 634-10 | Improvements to the water/sewer utility, finally adopted September 8, 2010. | 315,000 | 349,000 |
| 653-12 | Various sewer and water improvements, finally adopted March 19, 2012. | 720,000 | 720,000 |
| 678-13 | Various water and sewer utility improvements, finally adopted March 13, 2013. | 950,000 | 950,000 |
| 704-14 | Various capital improvements, finally adopted June 11, 2014. | 665,000 | 665,000 |
| 722-15 | Various capital improvements, finally adopted May 13, 2015. | 2,375,475 | 2,375,400 |
| 737-16 | Amends ordinance 722-15, finally adopted November 9, 2016. | 2,507,000 | 2,507,000 |
| 751-16 | Various water and sewer utility improvements, finally adopted April 13, 2016. | 2,280,000 | 2,280,000 |
| 755-17 | Various water and sewer utility improvements, finally adopted April 12, 2017. | 795,720 | 795,700 |
| 770-18 | Various water and sewer utility improvements, finally adopted March 14, 2018. | 0 | 873,000 |
| TOTAL: | | \$11,463,195 | \$12,200,000* |

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

The Local Bond Law governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects bonded and that bonds be retired in serial installments. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes subject to a number of exceptions. All bonds and notes issued by the Borough are general full faith and credit obligations.

* Includes \$300,000 of bond proceeds constituting original issue premium.

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

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

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

The Borough may sell short-term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the ordinance creating such capital expenditure, as it may be amended and supplemented. A local unit’s bond anticipation notes may be issued for periods not greater than one year. Generally, bond anticipation notes may not be outstanding for longer than ten years. An additional period may be available following the tenth anniversary date equal to the period from the notes’ maturity to the end of the tenth fiscal year in which the notes mature plus 4 months (May 1) in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum amount required for the first year’s principal payment for a bond issue.

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

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

The local unit is authorized to issue Emergency Notes and Special Emergency Notes pursuant to the Local Budget Law.

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

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

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

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

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

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

Emergency appropriations (those made after the adoption of the budget and the determination of the tax rate) may be authorized by the governing body of a local unit. However, with minor exceptions, such appropriations must be included in full in the following year's budget.

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

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

A provision of law known as the New Jersey "Cap Law" (N.J.S.A. 40A:4-45.1 et seq.) imposes limitations on increases in municipal appropriations subject to various exceptions. The payment of debt service is an exception from this limitation. The Cap formula is somewhat complex, but basically, it permits a municipality to increase its overall appropriations by the lesser of 2.5% or the "Index Rate" if the index rate is greater than 2.5%. The "Index Rate" is the rate of annual percentage increase, rounded to the nearest one-half percent, in the Implicit Price Deflator for State and Local Government purchases of goods and services computed by the U.S. Department of Commerce. Exceptions to the limitations imposed by the Cap Law also

exist for other things including capital expenditures; extraordinary expenses approved by the Local Finance Board for implementation of an interlocal services agreement; expenditures mandated as a result of certain emergencies; and certain expenditures for services mandated by law. Counties are also prohibited from increasing their tax levies by more than the lesser of 2.5% or the Index Rate subject to certain exceptions. Municipalities by ordinance approved by a majority of the full membership of the governing body may increase appropriations up to 3.5% over the prior year's appropriation and counties by resolution approved by a majority of the full membership of the governing body may increase the tax levy up to 3.5% over the prior years' tax levy in years when the Index Rate is 2.5% or less.

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

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

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

Tax Assessment and Collection Procedure

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

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

Tax bills are typically mailed annually in June or following the adoption of the State budget, at which time state aid is certified, by the Borough's Tax Collector. The taxes are due August 1 and November 1, respectively, and are adjusted to reflect the current calendar year's total tax liability. The preliminary taxes due February 1 and May 1 of the succeeding year are based upon one-half of the current year's total tax.

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

interest rates and penalties are the highest permitted under New Jersey statutes. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

Tax Appeals

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

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

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

An independent examination of each local unit accounts must be performed annually by a licensed registered municipal accountant. The audit, conforming to the Division of Local Government Services' "Requirements of Audit", includes recommendations for improvement of the local unit's financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its submission. The entire annual audit report for the year ended December 31, 2017 for the Borough is on file with the Clerk and is available for review during business hours.

FINANCIAL STATEMENTS

Appendix "B" contains audited financial statements of the Borough for the fiscal year ending December 31, 2017. The financial statements of the Borough for the fiscal year ending December 31, 2017 were audited by Ford, Scott and Associates LLC, Ocean City, New Jersey (the "Auditor") as stated in their report appearing in Appendix "B" to this Official Statement. The Auditor has not participated in the preparation of this Official Statement, nor has such firm verified the accuracy, completeness or fairness of the information contained herein (except for the financial statements appearing in Appendix "B" hereto) and, accordingly, will express no opinion with respect thereto. *See* "APPENDIX B - Financial Statements of the Borough of Avalon, in the County of Cape May, New Jersey".

LITIGATION

To the best of the knowledge of the Borough Attorney, Nicole J. Curio, Esq., of Gruccio, Pepper, DeSanto & Ruth, P.A., Vineland, New Jersey (the "Borough Attorney"), there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Borough or the title of any of the present officers. To the knowledge of the Borough Attorney, no litigation is presently pending or threatened that, in the opinion of the Borough Attorney, would have a material adverse impact on the financial condition of the

Borough if adversely decided. A certificate to such effect will be executed by the Borough Attorney and delivered to the purchaser of the Bonds at the closing.

TAX MATTERS

Exclusion of Interest on the Bonds From Gross Income for Federal Tax Purposes

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

Assuming the Borough observes its covenants with respect to compliance with the Code, McManimon, Scotland & Baumann, LLC (“Bond Counsel”) is of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, and interest on the Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax. For corporations with tax years beginning after December 31, 2017, the corporate alternative minimum tax was repealed by federal legislation, Public Law No. 115-97 (the “Tax Cuts and Jobs Act”) enacted on December 22, 2017, effective for tax years beginning after December 31, 2017. For tax years beginning before January 1, 2018, interest on the Bonds is not an item of tax preference for purposes of the corporate alternate minimum tax in effect prior to enactment of the Tax Cuts and Jobs Act; however, interest on Bonds held by a corporation (other than an S corporation, regulated investment company or real estate investment trust) may be indirectly subject to federal alternative minimum tax for tax years beginning before January 1, 2018 because of its inclusion in the adjusted current earnings of a corporate holder.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service (“IRS”) or any court. Bond Counsel expresses no opinion about the effect of future changes in (i) the Code and the applicable regulations under the Code or (ii) the interpretation and enforcement of the Code or those regulations by the IRS.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Borough or the owners of the Bonds regarding the tax status of interest thereon in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Borough as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including, but

not limited to, selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market value of the Bonds.

Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bond owner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the exclusion of such interest from gross income for federal income tax purposes.

Original Issue Discount

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

Original Issue Premium

Certain maturities of the Bonds may be sold at an initial offering price in excess of the amount payable at the maturity date (the "Premium Bonds"). The excess, if any, of the tax basis of the Premium Bonds to a purchaser (other than a purchaser who holds such Premium Bonds as inventory, as stock-in-trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is amortizable bond premium, which is not deductible from gross income for federal income tax purposes. Amortizable bond premium, as it amortizes, will reduce the owner's tax cost of the Premium Bonds used to determine, for federal income tax purposes, the amount of gain or loss upon the sale, redemption at maturity or other disposition of the Premium Bonds. Accordingly, an owner of a Premium Bond may have taxable gain from the disposition of the Premium Bond, even though the Premium Bond is sold, or disposed of, for a price equal to the owner's original cost of acquiring the Premium Bond. Bond premium amortizes over the term of the Premium Bonds under the "constant yield method" described in regulations interpreting Section 1272 of the Code. Owners of the Premium Bonds should consult their own tax advisors with respect to the calculation of the amount of bond premium that will be treated for federal income tax purposes as having amortized for any taxable year (or portion thereof) of the owner and with respect to other federal, state and local tax consequences of owning and disposing of the Premium Bonds.

Bank Qualification

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

The Code denies the interest deduction for certain indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations. The denial to such institutions of one hundred percent (100%) of the deduction for interest paid on funds allocable to tax-exempt obligations applies to those tax-exempt obligations acquired by such institutions after August 7, 1986. For

certain issues, which are eligible to be designated and which are designated by the issuer as qualified under Section 265 of the Code, eighty percent (80%) of such interest may be deducted as a business expense by such institutions.

Additional Federal Income Tax Consequences of Holding the Bonds

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

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

Changes in Federal Tax Law Regarding the Bonds

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

State Taxation

Bond Counsel is of the opinion that, based upon existing law, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act.

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

MUNICIPAL BANKRUPTCY

The undertakings of the Borough should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 901, et seq., as amended by Public Law 94-260, approved April 8, 1976, and as further amended on November 6, 1978 by the Bankruptcy Reform Act of 1978, effective October 1, 1979, as further amended by Public Law 100-597, effective November 3, 1988, and as further amended and

other bankruptcy laws affecting creditor's rights and municipalities in general. The amendments of P.L. 94-260 replace former Chapter IX and permit the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to file a petition in a court of bankruptcy for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to debt owed for services or material actually provided within three months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount or more than one-half in number of the listed creditors. The 1976 Amendments were incorporated into the Bankruptcy Reform Act of 1978 with only minor changes.

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

RATING

S&P Global Ratings, acting through Standard & Poor's Ratings Services LLC (the "Rating Agency") has assigned a rating of "AAA" to the Bonds.

The rating reflects only the view of the Rating Agency and an explanation of the significance of such rating may only be obtained from the Rating Agency. The Borough provided the Rating Agency with certain information and materials concerning the Bonds and the Borough. There can be no assurance that the rating will be maintained for any given period of time or that the rating will not be raised, lowered or withdrawn entirely, if in the Rating Agency's judgment, circumstances so warrant. Any downward change in, or withdrawal of such rating, may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITER

The Bonds have been purchased from the Borough, pursuant to the terms of the Borough's notice of sale, by UBS Financial Services Inc., New York, New York (the "Underwriter"), at a purchase price of \$12,203,108.88 (the "Purchase Price"). The Purchase Price reflects the par amount of the Bonds in the amount of \$11,900,000.00, plus a bid premium in the amount of \$303,108.88. The Underwriter is obligated to purchase all of the Bonds if any are purchased.

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

MUNICIPAL ADVISOR

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

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization, the sale, the issuance and the delivery of the Bonds are subject to the approval of Bond Counsel to the Borough, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as Appendix “C”. Certain legal matters will be passed on for the Borough by the Borough Attorney.

PREPARATION OF OFFICIAL STATEMENT

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

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

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

SECONDARY MARKET DISCLOSURE

The Borough has covenanted for the benefit of the Bondholders and the beneficial owners of the Bonds to provide certain secondary market disclosure information pursuant to Rule 15c2-12 of the Securities and Exchange Commission, as amended and interpreted from time to time (the “Rule”). Specifically, for so long as the Bonds remain outstanding (unless the Bonds have been wholly defeased), the Borough shall provide:

(a) On or prior September 30 of each year, commencing September 30, 2019 for the fiscal year ending December 31, 2018, to the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access Data Port (“MSRB”), annual financial information with respect to Borough consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the Borough and certain financial information and operating data consisting of (i) Borough indebtedness, (ii) property valuation information, and (iii) tax rate, levy and collection data. The audited financial information will be prepared in accordance with modified cash accounting as mandated by State of New Jersey statutory principles in effect from time to time or with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law and shall be filed electronically and accompanied by identifying information with the MSRB;

(b) in a timely manner not in excess of ten business days after the occurrence of the event, to the MSRB, notice of any of the following events with respect to the Bonds (herein “Material Events”):

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

(c) in a timely manner to the MSRB, notice of failure of the Borough to provide required annual financial information on or before the date specified in the undertaking. In the event that the Borough fails to comply with the above-described undertaking and covenants, the Borough shall not be liable for any monetary damages, remedy of the beneficial owners of the Bonds being specifically limited in the undertaking to specific performance of the covenants.

The undertaking may be amended by the Borough from time to time, without the consent of the Bondholders or the beneficial owners of the Bonds, in order to make modifications required in connection with a change in legal requirements or change in law, which in the opinion of nationally recognized bond counsel complies with Rule.

During the five-year period preceding the date of this Official Statement, the Borough previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) its audited financial statements for the fiscal year ended December 31, 2013; (ii) its adopted budget for the fiscal year ended December 31, 2014; and (iii) annual operating data for the fiscal year ended December 31, 2013. Additionally, the Borough acknowledges that it previously failed to file late filing notices in connection with its annual financial statements, operating data, and adopted budgets, all as described above. Such notices of late filings have since been filed with the MSRB’s Electronic Municipal Market Access Dataport (“EMMA”) as of the date of this Official Statement. The Borough appointed Phoenix Advisors, LLC in August of 2014 to serve as continuing disclosure agent.

There can be no assurance that there will be a secondary market for the sale or purchase of the Bonds. Such factors as prevailing market conditions, financial condition or market position of firms who may make the secondary market and the financial condition of the Borough may affect the future liquidity of the Bonds.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including any information additional to that contained herein, may be directed to James V. Craft, Chief Financial Officer, Borough of Avalon, 3100 Dune Drive, Avalon, New Jersey, 08202, (609) 967-8205 or the Municipal Advisor, Phoenix Advisors, LLC at 625 Farnsworth Avenue, Bordentown, New Jersey 08505, (609) 291-0130.

MISCELLANEOUS

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

**BOROUGH OF AVALON, IN THE COUNTY OF
CAPE MAY, NEW JERSEY**

/s/ James V. Craft
James V. Craft,
Chief Financial Officer

Dated: October 23, 2018

APPENDIX A

Economic and Demographic Information Relating to the Borough of Avalon, in the County of Cape May, New Jersey

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INFORMATION REGARDING THE BOROUGH¹

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

General Information

The Borough of Avalon is located in the southern part of New Jersey in Cape May County, approximately 23 miles south of Atlantic City and facing the Atlantic Ocean. The Borough is principally a resort community consisting of approximately five square miles of which approximately 95% is developed. The undeveloped land consists mainly of private wetlands, public and quasi-public wetlands, beaches, dunes, waterways and lagoons. The Borough enjoys over four miles of beach. The Borough's economy is service oriented and somewhat seasonal in nature.

Form of Government

The Borough operates under a mayor-council form of government with an appointed administrator. The Mayor is the chief executive of the Borough and supervises all departments. The Mayor appoints the Borough Administrator and all other department heads subject to advice and consent of Council. The Administrator's principal duties are to assist in preparation of the annual budget and to administer the purchasing and personnel systems.

Public Safety

The safety and security of the residents of the Borough is protected by a Chief of Police, captain, administrative sergeant, squad sergeants, patrolmen, detectives and police dispatchers.

Fire protection is provided by a volunteer fire department. Fire equipment is owned and maintained by the Borough. Present fire apparatus includes pumpers, aerial pumper truck/rescue vehicle, brush trucks, command vehicles, boats and jet skis.

Ambulance service is provided by a paid rescue squad. The Borough owns and maintains ambulances.

Public Works

The Department of Public Works has full-time employees and part-time employees. It has the responsibility of maintaining public buildings and grounds, beaches and street cleaning, road maintenance, and snow removal. Trash is collected by a contractor. All recycled materials are picked up by a contractor.

¹ Source: The Borough, unless otherwise indicated.

Recreation

The Borough, an attractive resort community, is enhanced by its four miles of beaches and half-mile of boardwalk, making it a consistent seasonal favorite. Armacost Park, a Community Hall, Bay Park Marina, tennis courts and baseball fields offer a variety of recreational activities. A full-time recreational director is employed by the Borough providing year-round as well as seasonal residents with various programs.

Water-Sewer Utility

Middlesex Water Company is responsible for the operation of the Borough's water and wastewater facilities (the "Water-Sewer Utility"). On July 1, 2012, the Borough entered into a management contract with Middlesex Water Company for a period of ten years. Wastewater treatment by the Cape May County Municipal Utilities Authority for the Seven Mile Beach/Middle Region began in the summer of 1987.

The Borough has five production facilities. The total pumpage rated capacity is 4.6 million gallons per day. The Borough also has combined storage facilities with a capacity of 600,000 gallons.

Building, Zoning and Development Costs

The Borough adopted a zoning code in 1959, and subsequently a revised master plan in 1989. The Borough is a seashore town that has primarily been developed and zoned residential in nature, with businesses directed to serve visitors as well as full-time residents. Businesses are service oriented accompanied by summer rentals. The Borough's beautiful setting is maintained by planning and regulations, such as environmental control, site plan review, flood mitigation with representation from home owners, planning board and enforcement by the Construction Department. Borough regulations include Federal regulations on flood mitigation, local zoning code, local regulations of the State, building codes, and a fire prevention code, all directed to serve the health, safety and welfare of the persons and property in the Borough.

Education

The Board of Education of the Borough of Avalon (the "Board") operates independently of the Borough government. It is a Type II School District with five elected members serving staggered three-year terms.

The Board adopts its own budget. New regulations issued in 2012 gave boards of education the option to eliminate the public vote on the budget and move the board member vote to the general election in November. The Board exercised its option to make these changes in 2012.

The Commissioner of Education must notify each school district, on or before February 23, of the amount of aid payable to each district for the succeeding year. The Commissioner must also notify the district of its maximum permissible local levy, if applicable. On or before March 8, local boards of education must submit to the County Office of Education a copy of their proposed budgets for the next school year. The County Executive Superintendent then reviews

all current expenses and capital outlay appropriations to determine their adequacy with regard to the annual report submitted for the district.

The Board operates on a fiscal year July 1 to June 30, but taxes are raised on a calendar year basis. This means that taxes are raised for six months of the two school years that make up the calendar year and paid to the local school by December 31.

The public school facilities in the Borough consist of one school for grades 5 - 8. The high school pupils attend the Middle Township High School. Since 2012, pupils in grades K - 4 attend school in the Stone Harbor and pupils from Stone Harbor in Grades 5-8 attend the Avalon Elementary School.

Retirement Systems

All full-time permanent or qualified Borough employees must enroll in one of three 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"), the Police and Firemen's Retirement System ("PFRS") and the Defined Contribution Retirement Plan ("DCRP").

Pension Information²

Employees, who are eligible to participate in a pension plan, are enrolled in PERS, PFRS or DCRP, 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

Presented for the following years is the annual average employment information for the Borough, the County, the State and the United States:

| LABOR FORCE DATA - ANNUAL AVERAGES³ | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Borough of Avalon | | | | | |
| Labor Force | 519 | 538 | 537 | 539 | 551 |
| Employment | 488 | 500 | 491 | 484 | 484 |
| Unemployment | 31 | 38 | 46 | 55 | 67 |
| Unemployment Rate | 6.0% | 7.1% | 8.6% | 10.2% | 12.2% |
| County of Cape May | | | | | |
| Labor Force | 47,088 | 47,219 | 48,896 | 48,802 | 48,998 |
| Employment | 42,780 | 42,585 | 43,589 | 42,811 | 42,024 |
| Unemployment | 4,308 | 4,634 | 5,307 | 5,991 | 6,974 |
| Unemployment Rate | 9.1% | 9.8% | 10.9% | 12.3% | 14.2% |
| State of New Jersey | | | | | |
| Labor Force | 4,521,158 | 4,524,300 | 4,543,741 | 4,518,700 | 4,537,800 |
| Employment | 4,315,167 | 4,299,900 | 4,288,839 | 4,218,450 | 4,166,000 |
| Unemployment | 205,991 | 224,400 | 254,902 | 300,250 | 371,800 |
| Unemployment Rate | 4.6% | 5.0% | 5.6% | 6.6% | 8.2% |
| United States | | | | | |
| Labor Force | 159,640,000 | 159,187,000 | 157,130,000 | 155,922,000 | 155,389,000 |
| Employment | 152,111,000 | 151,436,000 | 148,834,000 | 146,305,000 | 143,929,000 |
| Unemployment | 7,529,000 | 7,751,000 | 8,296,000 | 9,617,000 | 11,460,000 |
| Unemployment Rate | 4.7% | 4.9% | 5.3% | 6.2% | 7.4% |

Income (as of 2016)⁴

| | Borough | County | State | United States |
|-------------------------|----------------|---------------|--------------|----------------------|
| Per Capita Income | \$ 71,818 | \$ 34,550 | \$ 37,538 | \$ 29,829 |
| Median Household Income | \$ 82,768 | \$ 59,338 | \$ 73,702 | \$ 55,322 |

³Source: 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

⁴Source: US Bureau of the Census, 2016 American Community Survey 5-Year Estimates

POPULATION TRENDS - 1980 to 2010⁵

The following table summarizes population increases and the decreases for the Borough, the County, State and the United States.

| Year | Borough | County | State | United States |
|-------------------|----------------|---------------|--------------|----------------------|
| 1980 | 2,162 | 82,266 | 7,365,011 | 226,545,805 |
| 1990 | 1,809 | 95,089 | 7,730,188 | 248,709,873 |
| 2000 | 2,143 | 102,326 | 8,414,350 | 281,421,906 |
| 2010 | 1,334 | 97,265 | 8,791,894 | 308,745,538 |
| 2017 ⁶ | 1,267 | 93,553 | 9,005,644 | 325,719,178 |

Largest Taxpayers⁷

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

| | Taxpayer | 2018 Assessed Valuation | % of Total Assessed Valuation |
|----|------------------------|--|--|
| 1 | Individual Taxpayer #1 | 22,810,900 | 0.26% |
| 2 | Icona Golden Inn, LLC | 20,450,000 | 0.23% |
| 3 | MBM Estate, LLC | 15,063,000 | 0.17% |
| 4 | Dilbet Incorporated | 13,550,000 | 0.15% |
| 5 | Jordan Realty, LLC | 12,951,500 | 0.14% |
| 6 | Individual Taxpayer #2 | 12,626,500 | 0.14% |
| 7 | Beach Doggies, LLC | 12,112,300 | 0.14% |
| 8 | Individual Taxpayer #3 | 11,796,100 | 0.13% |
| 9 | 75th Street Beach, LLC | 11,736,900 | 0.13% |
| 10 | Individual Taxpayer #4 | 11,706,900 | 0.13% |

⁵Source: United States Department of Commerce, Bureau of the Census

⁶Source: US Bureau of the Census, 2017 Estimates

⁷Source: Municipal Tax Assessor

Comparison of Tax Levies and Collections⁸

| <u>Year</u> | <u>Property Tax Levy</u> | <u>Current Collection</u> | <u>Current Collection Rate (2)</u> |
|-------------|----------------------------------|-------------------------------|--|
| 2017 | \$ 41,915,961 | \$ 41,666,657 | 99.41% |
| 2016 | 41,036,337 | 40,575,390 | 98.88% |
| 2015 | 40,013,400 | 39,502,548 | 98.72% |
| 2014 | 39,288,425 | 38,717,407 | 98.55% |
| 2013 | 38,371,403 | 37,899,939 | 98.77% |

Delinquent Taxes and Tax Title Liens⁸

| <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> |
|-------------|--|---|-----------------------------|--------------------------|
| 2017 | \$ 317 | \$ 278,898 | \$ 279,215 | 0.67% |
| 2016 | 301 | 427,966 | 428,267 | 1.04% |
| 2015 | 223 | 495,286 | 495,509 | 1.24% |
| 2014 | 14,703 | 560,829 | 575,532 | 1.46% |
| 2013 | 14,703 | 441,368 | 456,071 | 1.19% |

Tax Rates per \$100 of Net Valuations Taxable and Allocations⁹

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

| <u>Type of Tax</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|-----------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Local Municipal | \$ 0.199 | \$ 0.226 | \$ 0.227 | \$ 0.226 | \$ 0.224 |
| Municipal Library | 0.032 | 0.036 | 0.036 | 0.035 | 0.035 |
| Local School District | 0.035 | 0.041 | 0.042 | 0.042 | 0.043 |
| County | 0.222 | 0.251 | 0.245 | 0.238 | 0.233 |
| Total Tax Rate | <u>\$ 0.488</u> | <u>\$ 0.554</u> | <u>\$ 0.550</u> | <u>\$ 0.541</u> | <u>\$ 0.535</u> |

⁸Source: Audited Financial Statements of the Borough.

⁹Source: Abstract of Ratables Cape May County.

Valuation of Property⁹

| <u>Year</u> | <u>Aggregate Assessed Value 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> |
|-------------|--|--|--|--|--------------------------------|
| 2018 | \$ 8,933,539,000 | \$ 8,435,567,361 | 105.90% | \$ 940,138 | \$ 8,436,507,499 |
| 2017 | 7,499,656,900 | 8,209,883,407 | 91.35% | 827,659 | 8,210,711,066 |
| 2016 | 7,424,852,700 | 8,127,917,570 | 91.35% | 862,511 | 8,128,780,081 |
| 2015 | 7,366,627,000 | 7,880,431,108 | 93.48% | 865,940 | 7,881,297,048 |
| 2014 | 7,307,712,400 | 7,727,305,065 | 94.57% | 871,927 | 7,728,176,992 |

Classification of Ratables¹⁰

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>Commercial</u> | <u>Total</u> |
|-------------|------------------------|--------------------|-------------------|------------------|
| 2018 | \$ 218,096,200 | \$ 8,522,519,600 | \$ 192,923,200 | \$ 8,933,539,000 |
| 2017 | 178,946,300 | 7,151,209,100 | 169,501,500 | 7,499,656,900 |
| 2016 | 177,766,900 | 7,080,456,300 | 166,629,500 | 7,424,852,700 |
| 2015 | 195,567,300 | 7,004,430,200 | 166,629,500 | 7,366,627,000 |
| 2014 | 112,159,500 | 7,028,995,300 | 166,557,600 | 7,307,712,400 |

⁹Source: Abstract of Ratables Cape May County.

¹⁰Source: 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 Information¹¹

| <u>Anticipated Revenues</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> | <u>2018</u> |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| Fund Balance Utilized | \$ 2,837,359 | \$ 2,885,000 | \$ 4,099,386 | \$ 4,127,153 | \$ 4,046,908 |
| Miscellaneous Revenues | 2,630,022 | 2,716,244 | 2,894,134 | 3,852,564 | 3,053,752 |
| Receipts from Delinquent Taxes | 425,000 | 525,000 | 475,000 | 400,000 | 250,000 |
| Amount to be Raised by Taxation | 18,914,827 | 19,213,584 | 19,427,096 | 19,659,591 | 20,558,187 |
| Total Revenue | \$ 24,807,208 | \$ 25,339,828 | \$ 26,895,616 | \$ 28,039,308 | \$ 27,908,847 |
| <u>Appropriations</u> | | | | | |
| Operating Appropriations (Within CAPS) | \$ 14,892,239 | \$ 15,016,916 | \$ 15,106,469 | \$ 15,967,633 | \$ 16,247,761 |
| Operations (Excluded from CAPS) | 2,750,194 | 2,786,699 | 2,769,062 | 2,787,875 | 2,951,311 |
| Deferred Charges | 1,088,000 | 1,293,573 | 2,162,500 | 47,750 | 25,000 |
| Capital Improvements | 673,000 | 1,360,250 | 1,088,575 | 860,750 | 1,271,700 |
| Municipal Debt Service | 3,853,775 | 3,260,476 | 4,144,010 | 6,750,300 | 5,758,075 |
| Reserve for Uncollected Taxes | 1,550,000 | 1,621,914 | 1,625,000 | 1,625,000 | 1,655,000 |
| Total Appropriations | \$ 24,807,208 | \$ 25,339,828 | \$ 26,895,616 | \$ 28,039,308 | \$ 27,908,847 |

The following table summarizes the Borough's Current Fund Actual Results for the past four (4) 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 Actual Current Fund Results

Budget Information¹²

| <u>Anticipated Revenues</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Fund Balance Utilized | \$ 2,837,359 | \$ 2,885,000 | \$ 4,099,386 | \$ 4,127,153 |
| Miscellaneous Revenues | 5,819,069 | 2,824,595 | 3,200,370 | 4,298,000 |
| Receipts from Delinquent Taxes | 437,894 | 576,284 | 489,233 | 425,401 |
| Amount to be Raised by Taxation | 18,607,255 | 18,864,578 | 19,289,093 | 19,713,607 |
| Unanticipated Revenues | 1,179,125 | 1,399,443 | 588,874 | 558,702 |
| Unexpended Balance of Appropriation Reserves | 622,668 | 930,050 | 1,333,226 | 836,132 |
| Interfunds & Other Credits | | | | |
| Total Revenue | \$ 29,503,370 | \$ 27,479,950 | \$ 29,000,182 | \$ 29,958,995 |
| <u>Appropriations</u> | | | | |
| Operating Appropriations (Within CAPS) | \$ 14,456,273 | \$ 14,507,757 | \$ 14,867,529 | \$ 15,420,918 |
| Operations (Excluded from CAPS) | 5,871,863 | 2,834,030 | 2,843,351 | 3,031,015 |
| Deferred Charges | 1,088,000 | 1,293,573 | 2,162,500 | 47,750 |
| Capital Improvements | 673,000 | 1,360,250 | 1,088,575 | 860,750 |
| Municipal Debt Service | 3,852,763 | 3,259,063 | 4,142,794 | 6,687,460 |
| Interfunds & Other Charges | 55,832 | 78,826 | 25,259 | 133,867 |
| Total Appropriations | \$ 25,997,731 | \$ 23,333,499 | \$ 25,130,008 | \$ 26,181,760 |
| Excess in Revenue | 3,505,639 | 4,146,451 | 3,870,174 | 3,777,235 |
| Deferred Charges | | | 125,000 | |
| Statutory Excess to Fund Balance | 3,505,639 | 4,146,451 | 3,995,174 | 3,777,235 |
| Fund Balance Anticipated as Revenue | (2,837,359) | (2,885,000) | (4,099,386) | (4,127,153) |
| Fund Balance, January 1 | 5,851,532 | 6,519,812 | 7,781,263 | 7,677,051 |
| Fund Balance, December 31 | \$ 6,519,812 | \$ 7,781,263 | \$ 7,677,051 | \$ 7,327,133 |

¹¹Source: Annual Adopted Budgets of the Borough

¹²Source: Annual Audited Financial Statements of the Borough.

Fund Balance¹²

Current Fund

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

| Fund Balance - Current Fund | | |
|------------------------------------|--------------------------|--|
| Year | Balance 12/31 | Utilized in Budget of Succeeding Year |
| 2017 | \$ 7,327,133 | \$ 4,046,908 |
| 2016 | 7,677,051 | 4,127,153 |
| 2015 | 7,781,263 | 4,099,386 |
| 2014 | 6,519,812 | 2,885,000 |
| 2013 | 5,851,532 | 2,837,359 |

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

| Fund Balance - Water & Sewer Operating Fund | | |
|--|--------------------------|--|
| Year | Balance 12/31 | Utilized in Budget of Succeeding Year |
| 2017 | \$ 120,007 | \$ 100,000 |
| 2016 | 228,807 | 108,800 |
| 2015 | 142,630 | - |
| 2014 | 142,630 | - |
| 2013 | 5,997 | - |

¹²Source: Annual Audited Financial Statements of the Borough.

Borough Indebtedness as of December 31, 2017¹³**General Purpose Debt:**

| | |
|---|--------------|
| Serial Bonds | \$ 9,995,000 |
| Bond Anticipation Notes | 11,489,975 |
| Bonds & Notes Authorized but Not Issued | 8,575,250 |
| Other Bonds, Notes & Loans | 616,350 |

Total General Purpose Debt 30,676,575

Local School District Debt:

| | |
|--------------|-----------|
| Serial Bonds | 1,320,000 |
|--------------|-----------|

Self - Liquidating Water & Sewer Utility Debt:

| | |
|---|-----------|
| Serial Bonds | 932,000 |
| Bond Anticipation Notes | 6,620,000 |
| Bonds & Notes Authorized but Not Issued | 5,232,539 |
| Other Bonds, Notes & Loans | 663,131 |

Total Self Liquidating Debt 13,447,670

Total Gross Debt 45,444,245

Less: Statutory Deductions:

| | |
|------------------------------|--------------|
| Reserve for Payment of Bonds | (79,520) |
| Local School District Debt | (1,320,000) |
| Self - Liquidating Debt | (13,447,670) |

Total Deductions (14,847,190)

Statutory Net Debt \$ 30,597,055

Average Equalized Valuation Basis (2015, 2016, 2017) \$ 8,144,030,000

Net Debt Expressed as a Percentage of Equalized Valuation 0.376%

¹³Source: Annual Debt Statement and Annual Audited Financial Statements of the Borough.

Overlapping Debt (as of December 31, 2017)¹⁴

| <u>Name of Related Entity</u> | <u>Related Entity Outstanding Debt</u> | <u>Borough's Percentage</u> | <u>Borough's Share</u> |
|--|---|--|-----------------------------------|
| Avalon School District | \$ 1,320,000.00 | 100.00% | \$ 1,320,000.00 |
| County of Cape May ¹⁵ | 226,578,595 | 16.80% | 38,072,998 |
| Cape May County MUA ¹⁵ | 30,415,953 | 16.80% | 5,110,926 |
| Cape May County Bridge Commission ¹⁵ | 12,855,000 | 16.80% | 2,160,082 |
| | Net Indirect Debt | | 46,664,007 |
| | Net Direct Debt | | 30,597,055 |
| | Total Net Indirect & Direct Debt | | <u><u>\$ 77,261,062</u></u> |

Debt Limit as of December 31, 2017

| | |
|---|------------------------------|
| Average Equalized Valuation Basis (2015, 2016, 2017) | \$ 8,144,030,000 |
| Permitted Debt Limitation (3 1/2%) | 285,041,050 |
| Less Net Debt | (30,597,055) |
| Remaining Net Debt | <u><u>\$ 254,443,995</u></u> |
| Gross Debt Per Capita based on 2017 population of 1,267 | \$ 35,868 |
| Net Debt Per Capita based on 2017 population of 1,267 | \$ 24,149 |

¹⁴ Source: Annual Debt Statement of the County of Cape May.

¹⁵ Borough percentage of County, County MUA and the County Bridge Commission debt is based on the Borough's share of total equalized valuation in the County.

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APPENDIX B

Financial Statements of the Borough of Avalon, in the County of Cape May, New Jersey

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FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Honorable Mayor and
Members of Borough Council
Borough of Avalon
County of Cape May, 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 Avalon, as of December 31, 2017 and 2016, 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, 2017, 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 Avalon 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 Avalon as of December 31, 2017 and 2016 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 balances sheets and account group as of December 31, 2017 and 2016, the regulatory basis statements of operations for the year then ended and the regulatory basis statements of revenues and expenditures for the years ended December 31, 2017 and 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 Avalon’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.

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.

The letter of comments and recommendations 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2018 on our consideration of the Borough of Avalon'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 Avalon's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.

FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Michael S. Garcia

Michael S. Garcia
Certified Public Accountant
Registered Municipal Accountant
No. 472

May 4, 2018

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

| | <u>2017</u> | <u>2016</u> |
|--|-------------------------|----------------------|
| <u>ASSETS</u> | | |
| Regular Fund: | | |
| Cash: | | |
| Cash Treasurer | \$ 17,077,016.33 | 11,313,305.51 |
| Cash - Change | 1,200.00 | 1,200.00 |
| Total Cash | <u>17,078,216.33</u> | <u>11,314,505.51</u> |
| Receivables and Other Assets with Full Reserves: | | |
| Delinquent Property Taxes Receivable | 278,897.86 | 427,965.62 |
| Tax Title and Other Liens | 316.55 | 300.59 |
| Property Acquired for Taxes - at Assessed Valuation | 137,480.20 | 137,480.20 |
| Due from Avalon Library | 102,423.13 | 107,222.76 |
| Protested Checks Receivable | 5,362.73 | - |
| Revenue Accounts Receivable | 2,679.13 | 4,639.39 |
| Interfund Receivable: | | |
| Federal & State Grant Fund | 20,922.28 | - |
| Water Sewer Capital Fund | - | 71,698.18 |
| Animal Control Fund | 171.95 | 171.95 |
| Trust-Other | 1,525.27 | 95,207.11 |
| Water & Sewer Operating Fund | 574,875.77 | 208,435.49 |
| Beach Utility Fund | - | 88,678.77 |
| Total Receivables and Other Assets | <u>1,124,654.87</u> | <u>1,141,800.06</u> |
| Deferred Charges: | | |
| Emergency Appropriation | | |
| Special Emergency Appropriation | 100,000.00 | 125,000.00 |
| Total Deferred Charges | <u>100,000.00</u> | <u>125,000.00</u> |
| Total Regular Fund | <u>18,302,871.20</u> | <u>12,581,305.57</u> |
| Federal and State Grant Fund: | | |
| Cash | - | - |
| Due from Water and Sewer Operating | 22,932.34 | 22,932.34 |
| Federal and State Grants Receivable | 1,868,213.99 | 1,673,168.54 |
| Total Federal and State Grant Fund | <u>1,891,146.33</u> | <u>1,696,100.88</u> |
| Total Current Fund | <u>\$ 20,194,017.53</u> | <u>14,277,406.45</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>2017</u> | <u>2016</u> |
|--|-------------------------|----------------------|
| <u>LIABILITIES, RESERVES AND FUND BALANCE</u> | | |
| Regular Fund: | | |
| Liabilities: | | |
| Appropriation Reserves | \$ 892,608.41 | 834,843.94 |
| Reserve for Encumbrances/Accounts Payable | 595,997.14 | 404,209.21 |
| Accounts Payable | 127,758.32 | 129,858.65 |
| Prepaid Taxes | 6,522,879.21 | 1,502,489.53 |
| Overpaid Taxes | 34,309.21 | 60,426.97 |
| Due County - Added Taxes Payable | 96,213.83 | 86,810.79 |
| Due to General Capital Fund | 42,825.88 | - |
| Due to Beach Utility Fund | 115,024.95 | - |
| Local School Taxes Payable | 769,673.50 | - |
| Prepaid Rental Licenses | 261,600.00 | 281,400.00 |
| Prepaid Fire Inspection Fees | 73,317.00 | 67,217.00 |
| Bid Bond | 328.00 | 328.00 |
| Due to State of New Jersey: | | |
| State Training Fee for New Construction | 10,875.00 | 9,587.00 |
| Veterans and Senior Citizens Deductions | 3,502.95 | 3,502.95 |
| Sales Tax | 38.28 | 76.15 |
| Marriage Licenses | 275.00 | 175.00 |
| Rental License Bond | 14,000.00 | 21,000.00 |
| Reserve for Master Plan | 6,892.50 | 6,892.50 |
| Reserve for Revaluation | 26,448.44 | 96,693.12 |
| Reserve for Benches - Downtown | 7,309.77 | 15,978.52 |
| Reserve for Animal Protection Fund | 4,071.41 | 2,128.36 |
| Reserve for 911 Memorial Maintenance | 13,423.11 | 13,423.11 |
| Reserve for Beach Access Mitigation | 47,708.95 | 47,708.95 |
| Reserve for Backbay Dredging | 12,080.00 | 9,680.00 |
| Reserve for Library Surplus Transfer | 171,922.00 | 168,025.00 |
| | <u>9,851,082.86</u> | <u>3,762,454.75</u> |
| Reserve for Receivables and Other Assets | 1,124,654.87 | 1,141,800.06 |
| Fund Balance | <u>7,327,133.47</u> | <u>7,677,050.76</u> |
| Total Regular Fund | <u>18,302,871.20</u> | <u>12,581,305.57</u> |
| Federal and State Grant Fund: | | |
| Unappropriated Reserves | 68,123.81 | 11,684.17 |
| Appropriated Reserves | 182,159.76 | 158,641.33 |
| Encumbrances Payable | 679,039.63 | 543,188.69 |
| Due to General Capital Fund | 940,900.85 | 982,586.69 |
| Due to Current Fund | 20,922.28 | - |
| | <u>1,891,146.33</u> | <u>1,696,100.88</u> |
| Total Federal and State Grant Fund | <u>1,891,146.33</u> | <u>1,696,100.88</u> |
| Total Current Fund | <u>\$ 20,194,017.53</u> | <u>14,277,406.45</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>2017</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Revenue and Other Income Realized | | |
| Fund Balance | \$ 4,127,153.25 | 4,099,386.16 |
| Miscellaneous Revenue Anticipated | 4,298,000.15 | 3,200,370.49 |
| Receipts from Delinquent Taxes | 425,401.28 | 489,233.49 |
| Receipts from Current Taxes | 41,666,656.64 | 40,575,390.19 |
| Non Budget Revenue | 558,701.87 | 588,874.25 |
| Other Credits to Income: | | |
| Unexpended Balance of Appropriation Reserves | 836,131.73 | 1,333,225.61 |
| Total Income | <u>51,912,044.92</u> | <u>50,286,480.19</u> |
| Expenditures | | |
| Budget and Emergency Appropriations: | | |
| Appropriations Within "CAPS" | | |
| Operations: | | |
| Salaries and Wages | 6,451,320.16 | 6,299,912.55 |
| Other Expenses | 6,952,223.55 | 7,034,727.00 |
| Deferred Charges & Statutory Expenditures | 2,017,374.80 | 1,532,889.85 |
| Appropriations Excluded from "CAPS" | | |
| Operations: | | |
| Salaries and Wages | 6,300.00 | 4,519.67 |
| Other Expenses | 3,024,714.59 | 2,838,831.82 |
| Capital Improvements | 860,750.00 | 1,088,575.00 |
| Debt Service | 6,687,459.57 | 4,142,794.43 |
| Deferred Charges & Statutory Expenditures | 47,750.00 | 2,162,500.00 |
| Local District School Tax | 3,078,694.00 | 3,078,694.00 |
| County Tax | 18,778,141.59 | 18,120,792.77 |
| County Share of Added Tax | 96,213.83 | 86,810.79 |
| Interfund Created | 133,866.87 | 25,258.71 |
| Total Expenditures | <u>48,134,808.96</u> | <u>46,416,306.59</u> |
| Excess/(Deficit) in Revenue | <u>3,777,235.96</u> | <u>3,870,173.60</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>2017</u> | <u>2016</u> |
|--|------------------------|---------------------|
| Adjustments to Income before Fund Balance: | | |
| Expenditures included above which are by | | |
| Statute Deferred Charges to Budgets of | | |
| Succeeding Year | - | 125,000.00 |
| Emergency Appropriation | | |
| Total Adjustments | <u>-</u> | <u>125,000.00</u> |
| Statutory Excess to Fund Balance | <u>3,777,235.96</u> | <u>3,995,173.60</u> |
| Fund Balance January 1 | <u>7,677,050.76</u> | <u>7,781,263.32</u> |
| | 11,454,286.72 | 11,776,436.92 |
| Decreased by: | | |
| Utilization as Anticipated Revenue | <u>4,127,153.25</u> | <u>4,099,386.16</u> |
| Fund Balance December 31 | <u>\$ 7,327,133.47</u> | <u>7,677,050.76</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, 2017

| | Anticipated | | Realized | Excess or (Deficit) |
|---|-----------------|-----------------|--------------|------------------------|
| | Budget | N.J.S. 40A:4-87 | | |
| Fund Balance Anticipated | \$ 4,127,153.25 | | 4,127,153.25 | - |
| Total Fund Balance Anticipated | 4,127,153.25 | - | 4,127,153.25 | - |
| Miscellaneous Revenues: | | | | |
| Section A: Local Revenues | | | | |
| Licenses: | | | | |
| Alcoholic Beverages | 20,000.00 | | 22,938.00 | 2,938.00 |
| Other | 300.00 | | 266.50 | (33.50) |
| Fees and Permits | 385,000.00 | | 440,299.97 | 55,299.97 |
| Fines and Costs: | | | | |
| Municipal Court | 104,000.00 | | 117,461.74 | 13,461.74 |
| Interest and Costs on Taxes | 120,000.00 | | 115,602.41 | (4,397.59) |
| Interest Earned on Investments | 26,750.00 | | 38,363.16 | 11,613.16 |
| Fees from Fire Inspections | 140,000.00 | | 132,902.00 | (7,098.00) |
| Fees from Rental Registrations and Licenses | 305,000.00 | | 360,000.00 | 55,000.00 |
| Television Cable Fees | 58,503.20 | | 58,503.20 | - |
| Library - Rent & Administration/Bldgs & Grounds | 157,470.00 | | 157,470.00 | - |
| Total Section A: Local Revenues | 1,317,023.20 | - | 1,443,806.98 | 126,783.78 |

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, 2017

| | Budget | Anticipated N.J.S. 40A:4-87 | Realized | Excess or (Deficit) |
|--|------------|--------------------------------|------------|------------------------|
| Section B: State Aid Without Offsetting Appropriations | | | | |
| Garden State Preservation Trust Fund | 3,877.00 | | 3,877.00 | - |
| Energy Receipts Tax | 435,714.00 | | 435,714.00 | - |
| Total Section B: State Aid Without Offsetting Appropriations | 439,591.00 | - | 439,591.00 | - |
| Section C: Uniform Construction Code Fees | | | | |
| Uniform Construction Code Fees | 425,000.00 | | 508,303.00 | 83,303.00 |
| Total Section C: Uniform Construction Code Fees | 425,000.00 | - | 508,303.00 | 83,303.00 |
| Section F: Special Items - Public and Private Programs | | | | |
| Off-Set with Appropriations | | | | |
| Drunk Driving Enforcement Fund | 2,500.00 | | 2,500.00 | - |
| Clean Communities Program | | 25,596.42 | 25,596.42 | - |
| Cops in Shops Grant | 1,600.00 | 2,200.00 | 3,800.00 | - |
| NJ DEP Electric Vehicle Workplace Charging Grant | | 5,000.00 | 5,000.00 | - |
| NJ DEP Community Stewardship Incentive Program | | 30,000.00 | 30,000.00 | - |
| Sea Isle: Stone Harbor Communications Grant | 7,000.00 | | 7,000.00 | - |
| NJ DOT 2017 Municipal Aid for Reconstruction 39th St. | | 180,343.00 | 180,343.00 | - |
| Bullet Proof Vest Partnership | 2,184.17 | | 2,184.17 | - |
| Total Section F: Special Items - Public and Private Programs | 13,284.17 | 243,139.42 | 256,423.59 | - |

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, 2017

| | Anticipated | | Excess or |
|--|----------------------|-------------------|---------------------|
| | Budget | N.J.S. 40A:4-87 | (Deficit) |
| Section G: Other Special Items | | | |
| Uniform Fire Safety Act | 9,000.00 | | 5,375.89 |
| Reserve for Payment of BAN's | 1,027,875.00 | | - |
| Interlocal Agreement Police Dispatch Stone Harbor | 291,832.00 | | - |
| Interlocal Agreement CFO-Stone Harbor | 88,434.00 | | 1,194.04 |
| County of Cape May Fleet Maintenance | 72,500.00 | | (14,360.35) |
| Transfer of Excess Library Surplus | 168,025.00 | | - |
| Total Section G: Other Special Items | <u>1,657,666.00</u> | <u>-</u> | <u>(7,790.42)</u> |
| Total Miscellaneous Revenues: | <u>3,852,564.37</u> | <u>243,139.42</u> | <u>202,296.36</u> |
| Receipts from Delinquent Taxes | <u>400,000.00</u> | | <u>25,401.28</u> |
| Amount to be Raised by Taxes for Support of Municipal Budget | | | |
| Local Tax for Municipal Purposes | 16,950,000.00 | | 1,679,016.22 |
| Library Tax | 2,709,591.00 | | - |
| Total Amount to be Raised by Taxes for Support of Municipal Budget | <u>19,659,591.00</u> | <u>-</u> | <u>1,679,016.22</u> |
| Budget Totals | <u>28,039,308.62</u> | <u>243,139.42</u> | <u>1,906,713.86</u> |
| Non- Budget Revenues: | | | |
| Other Non- Budget Revenues: | | | |
| | <u>28,039,308.62</u> | <u>243,139.42</u> | <u>558,701.87</u> |
| | | | <u>2,465,415.73</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, 2017**

Analysis of Realized Revenues

Allocation of Current Tax Collections:

| | |
|--|-----------------------------|
| Revenue from Collections | \$ 41,666,656.64 |
| Less: Reserve for Tax Appeals Pending | <u>-</u> |
| Net Revenue from Collections | 41,666,656.64 |
| Allocated to: | |
| School, County and Other Taxes | <u>21,953,049.42</u> |
| Balance for Support of Municipal Budget Appropriations | 19,713,607.22 |
| Increased by: | |
| Appropriation "Reserved for Uncollected Taxes" | <u>1,625,000.00</u> |
| Amount for Support of Municipal Budget Appropriations | <u><u>21,338,607.22</u></u> |

Receipts from Delinquent Taxes:

| | |
|--------------------------------------|--------------------------|
| Delinquent Tax Collection | \$ 425,401.28 |
| Tax Title Lien Collections | <u>-</u> |
| Total Receipts from Delinquent Taxes | <u><u>425,401.28</u></u> |

Analysis of Non-Budget Revenue:

Miscellaneous Revenue Not Anticipated:

| | |
|--|--------------------------|
| Joint Insurance Fund Reimbursements | 19,035.21 |
| Refunds | 49,730.88 |
| Recycling | 7,224.60 |
| Library Health Insurance | 85,058.15 |
| Homestead Rebate Mail Reimbursement | 98.40 |
| Senior and Vet Admin Fee | 595.00 |
| Miscellaneous | 119,242.44 |
| County Fleet Reimbursement | 33,749.76 |
| Library Refund | 82,592.68 |
| FEMA | 630.00 |
| Premium on Notes | <u>160,744.75</u> |
| Total Miscellaneous Revenue Not Anticipated: | <u><u>558,701.87</u></u> |
| Cash Receipts | <u>558,701.87</u> |
| | <u><u>558,701.87</u></u> |

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, 2017

| | Appropriations | | Paid or Charged | Expended | | (Over expended) Unexpended Balance Cancelled |
|--|----------------|-------------------------------|--------------------|------------|-----------|---|
| | Budget | Budget After Modifications | | Encumbered | Reserved | |
| OPERATIONS WITHIN "CAPS" | | | | | | |
| GENERAL GOVERNMENT: | | | | | | |
| Business Administration | | | | | | |
| Salaries and Wages | \$ 188,144.00 | 188,144.00 | 176,462.06 | | 11,681.94 | - |
| Other Expenses | 21,000.00 | 21,000.00 | 19,109.82 | 933.69 | 956.49 | - |
| Other Expenses - Employee Awards Program | 500.00 | 500.00 | | | 500.00 | - |
| Council | | | | | | |
| Salaries and Wages | 59,684.00 | 59,684.00 | 59,132.08 | | 551.92 | - |
| Other Expenses | 43,000.00 | 43,000.00 | 32,543.79 | 10,433.84 | 22.37 | - |
| Office of the Mayor | | | | | | |
| Salaries and Wages | 109,559.00 | 109,559.00 | 83,431.40 | | 26,127.60 | - |
| Other Expenses | 111,500.00 | 111,500.00 | 109,385.64 | 1,686.88 | 427.48 | - |
| Borough Clerk's Office | | | | | | |
| Salaries and Wages | 132,317.00 | 132,317.00 | 132,296.92 | | 20.08 | - |
| Other Expenses | 24,250.00 | 24,250.00 | 13,008.06 | 9,416.81 | 1,825.13 | - |
| Treasurer's Office | | | | | | |
| Salaries and Wages | 227,323.00 | 227,323.00 | 227,306.12 | | 16.88 | - |
| Other Expenses | 48,125.00 | 48,125.00 | 41,935.72 | 6,107.37 | 81.91 | - |
| Audit Services | | | | | | |
| Other Expenses | 27,800.00 | 27,800.00 | 27,800.00 | | - | - |
| Election | | | | | | |
| Other Expenses | 21,000.00 | 21,000.00 | 18,026.58 | | 2,973.42 | - |
| Municipal Court | | | | | | |
| Salaries and Wages | 97,650.00 | 97,650.00 | 71,909.68 | | 25,740.32 | - |
| Other Expenses | 75,612.00 | 75,612.00 | 68,828.96 | 601.39 | 6,181.65 | - |
| Public Defender | | | | | | |
| Salaries and Wages | 4,000.00 | 4,000.00 | 4,000.00 | | - | - |
| Revenue Administration (Tax Collector) | | | | | | |
| Salaries and Wages | 71,766.00 | 71,766.00 | 71,737.95 | | 28.05 | - |
| Other Expenses | 39,600.00 | 39,600.00 | 30,427.23 | 9,144.20 | 28.57 | - |
| Tax Assessment Administration | | | | | | |
| Salaries and Wages | 149,759.00 | 149,759.00 | 146,319.64 | | 3,439.36 | - |
| Other Expenses | 11,150.00 | 11,150.00 | 8,584.25 | 532.93 | 2,032.82 | - |
| Revaluation Special Emergency | | | | | - | - |
| Legal Services | | | | | | |
| Other Expenses | 185,000.00 | 185,000.00 | 148,296.54 | 28,699.88 | 8,003.58 | - |
| Engineering Services and Costs | | | | | | |
| Other Expenses | 160,000.00 | 160,000.00 | 112,733.62 | 15,925.98 | 31,340.40 | - |

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, 2017

| | Appropriations | | Expended | | (Over expended) Unexpended Balance Cancelled |
|--|----------------|-------------------------------|--------------------|------------|---|
| | Budget | Budget After Modifications | Paid or Charged | Encumbered | Reserved |
| Licensing | | | | | |
| Salaries and Wages | 39,837.16 | 39,837.16 | 35,776.44 | | 4,060.72 |
| Other Expenses | 6,000.00 | 6,000.00 | 3,894.96 | | 2,105.04 |
| Worker and Community Right to Know Act | | | | | |
| Salaries and Wages | 33,705.00 | 33,705.00 | 23,035.22 | | 10,669.78 |
| Other Expenses | 17,500.00 | 17,500.00 | 9,452.02 | 5,564.78 | 2,483.20 |
| LAND USE ADMINISTRATION | | | | | |
| Planning and Zoning | | | | | |
| Salaries and Wages | 15,262.00 | 15,262.00 | 14,130.22 | | 1,131.78 |
| Other Expenses | 61,200.00 | 61,200.00 | 50,204.44 | 10,995.56 | - |
| Environmental Commission | | | | | |
| Salaries and Wages | 3,971.00 | 3,971.00 | 3,962.69 | | 8.31 |
| Other Expenses | 2,100.00 | 2,100.00 | 1,613.92 | | 486.08 |
| INSURANCE | | | | | |
| General Liability | 186,500.00 | 186,500.00 | 183,806.71 | | 2,693.29 |
| Workers Compensation Insurance | 230,000.00 | 230,000.00 | 217,616.33 | | 12,383.67 |
| Health Benefits Waiver | | | | | |
| Salaries and Wages | 25,000.00 | 25,000.00 | 8,703.34 | | 16,296.66 |
| Employee Group Health | 2,450,000.00 | 2,450,000.00 | 2,324,534.13 | 6,183.75 | 119,282.12 |
| PUBLIC SAFETY | | | | | |
| Fire Department | | | | | |
| Other Expenses | 220,400.00 | 220,400.00 | 192,922.40 | 13,532.67 | 13,944.93 |
| Police Department | | | | | |
| Salaries and Wages | 2,388,661.00 | 2,388,661.00 | 2,325,897.53 | | 62,763.47 |
| Other Expenses: | | | | | |
| Municipal Alliance Program | 5,000.00 | 5,000.00 | 5,000.00 | | - |
| Miscellaneous Other Expenses | 190,642.00 | 190,642.00 | 154,675.85 | 33,328.09 | 2,638.06 |
| Office of Emergency Management | | | | | |
| Salaries and Wages | 44,356.00 | 44,356.00 | 30,035.24 | | 14,320.76 |
| Other Expenses | 7,800.00 | 7,800.00 | 7,070.58 | 513.58 | 215.84 |
| Uniform Fire Safety Act: | | | | | |
| Fire Official | | | | | |
| Salaries and Wages | 121,189.00 | 121,189.00 | 121,165.95 | | 23.05 |
| Other Expenses | 7,000.00 | 7,000.00 | 1,560.20 | 768.94 | 4,670.86 |
| Rescue Squad | | | | | |
| Salaries and Wages | 422,596.00 | 422,596.00 | 380,244.50 | | 42,351.50 |
| Other Expenses | 25,140.00 | 25,140.00 | 13,924.10 | 11,186.72 | 29.18 |
| Municipal Prosecutor | | | | | |
| Salaries and Wages | 15,000.00 | 15,000.00 | 15,000.00 | | - |

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, 2017

| | Appropriations | | Paid or Charged | Expended | | (Over expended) Unexpended Balance Cancelled |
|--|----------------|-------------------------------|--------------------|------------|-----------|---|
| | Budget | Budget After Modifications | | Encumbered | Reserved | |
| PUBLIC WORKS | | | | | | |
| Division of Public Works | | | | | | |
| Salaries and Wages | | | 1,359,794.15 | | 1,668.85 | - |
| Other Expenses: | | | | | | - |
| Landscape/Lawn Care - Contractual | 1,361,463.00 | 1,361,463.00 | | | | - |
| Miscellaneous Other Expenses | 471,172.00 | 471,172.00 | 420,966.70 | 42,369.78 | 7,835.52 | - |
| Garbage and Trash Removal | 314,030.00 | 314,030.00 | 222,396.10 | 26,745.61 | 64,888.29 | - |
| Contractual | 263,380.00 | 263,380.00 | 241,543.16 | 20,980.40 | 856.44 | - |
| Garbage and Trash Licenses | | | | | | - |
| Other Expenses | 1,500.00 | 1,500.00 | | | 1,500.00 | - |
| Recycling | | | | | | - |
| Contractual | 263,380.00 | 263,380.00 | 236,230.37 | 19,997.67 | 7,151.96 | - |
| Sanitary Landfill Closure Act | | | | | | - |
| Other Expenses | 245,000.00 | 237,477.55 | 184,516.82 | 19,828.45 | 33,132.28 | - |
| Vehicle Maintenance | | | | | | - |
| Salaries and Wages | 197,374.00 | 197,374.00 | 194,233.25 | | 3,140.75 | - |
| Other Expenses | 153,920.00 | 153,920.00 | 131,506.90 | 19,391.25 | 3,021.85 | - |
| HEALTH AND HUMAN SERVICES: | | | | | | |
| Animal Control | | | | | | - |
| Other Expenses | 33,600.00 | 33,600.00 | 20,026.92 | | 13,573.08 | - |
| PARKS AND RECREATION FUNCTIONS: | | | | | | |
| Recreation | | | | | | - |
| Salaries and Wages | 280,583.00 | 280,583.00 | 235,076.14 | | 45,506.86 | - |
| Other Expenses | 243,945.00 | 243,945.00 | 235,268.68 | 5,252.79 | 3,423.53 | - |
| UNIFORM CONSTRUCTION CODE | | | | | | |
| State Uniform Construction Code | | | | | | - |
| Construction Official | | | | | | - |
| Salaries and Wages | 249,819.00 | 249,819.00 | 211,402.84 | | 38,416.16 | - |
| Other Expenses | 12,500.00 | 12,500.00 | 10,482.34 | 319.63 | 1,698.03 | - |
| Sub-Code Official | | | | | | - |
| Zoning Official | | | | | | - |
| Salaries and Wages | 22,750.00 | 22,750.00 | 22,741.08 | | 8.92 | - |
| Other Expenses | 1,500.00 | 1,500.00 | 251.83 | 295.85 | 952.32 | - |
| Code Enforcement | | | | | | - |
| Salaries and Wages | 49,552.00 | 49,552.00 | 31,177.60 | | 18,374.40 | - |
| Other Expenses | 1,000.00 | 1,000.00 | 720.72 | 275.08 | 4.20 | - |

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, 2017

| | Appropriations | | Paid or Charged | Expended | | (Over expended) Unexpended Balance Cancelled |
|--|----------------|-------------------------------|--------------------|------------|------------|---|
| | Budget | Budget After Modifications | | Encumbered | Reserved | |
| UTILITY EXPENSES AND BULK PURCHASES | | | | | | |
| Salary Adjustments | 40,000.00 | 40,000.00 | 20,593.95 | | 19,406.05 | - |
| Accumulated Leave | 100,000.00 | 100,000.00 | 100,000.00 | | - | - |
| Utilities: | | | | | | |
| Electric, Natural Gas | 480,000.00 | 480,000.00 | 331,587.34 | 97,167.34 | 51,245.32 | - |
| Telephone | 70,000.00 | 70,000.00 | 55,894.44 | 7,750.66 | 6,354.90 | - |
| Gasoline | 180,000.00 | 180,000.00 | 119,028.00 | 8,757.47 | 52,214.53 | - |
| TOTAL OPERATIONS WITHIN "CAPS" | 13,364,066.16 | 13,356,543.71 | 12,112,942.16 | 434,689.04 | 808,912.51 | (0.00) |
| Contingent | 47,000.00 | 47,000.00 | 46,071.76 | 672.00 | 256.24 | - |
| TOTAL OPERATIONS INCLUDING CONTINGENT WITHIN "CAPS" | 13,411,066.16 | 13,403,543.71 | 12,159,013.92 | 435,361.04 | 809,168.75 | (0.00) |
| Detail: | | | | | | |
| Salaries and Wages | 6,451,320.16 | 6,451,320.16 | 6,105,565.99 | - | 345,754.17 | - |
| Other Expenses | 6,959,746.00 | 6,952,223.55 | 6,053,447.93 | 435,361.04 | 463,414.58 | (0.00) |
| DEFERRED CHARGES AND STATUTORY EXPENDITURES: | | | | | | |
| Deferred Charges: | | | | | | |
| Anticipated Deficit in Beach Utility Fund | 250,423.00 | 250,423.00 | 203,315.63 | | - | 47,107.37 |
| Anticipated Deficit in Water Sewer Utility Fund | 676,632.00 | 676,632.00 | 182,640.67 | | - | 493,991.33 |
| FEMA Project Engineering and Legal | 185,640.29 | 185,640.29 | 180,024.05 | | - | - |
| Statutory Expenditures: | | | | | | |
| Contributions to: | | | | | | |
| Police and Fire Retirement System of N.J. | 377,791.00 | 382,106.26 | 382,106.26 | | - | - |
| Public Employees Retirement System | 545,081.00 | 548,288.19 | 548,288.19 | | - | - |
| Unemployment Compensation Insurance | 22,000.00 | 22,000.00 | 22,000.00 | | - | - |
| Social Security System (O.A.S.I.) | 494,000.00 | 494,000.00 | 443,504.25 | | 50,495.75 | - |
| Defined Contribution Retirement Program | 5,000.00 | 5,000.00 | 4,159.04 | | 840.96 | - |
| TOTAL DEFERRED CHARGES AND STATUTORY EXPENDITURES: | 2,556,567.29 | 2,564,089.74 | 1,966,038.09 | - | 51,336.71 | 541,098.70 |
| TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES WITHIN "CAPS" | 15,967,633.45 | 15,967,633.45 | 14,125,052.01 | 435,361.04 | 860,505.46 | 541,098.70 |

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, 2017

| | Appropriations | | Paid or Charged | Expended | | (Over expended) Unexpended Balance Cancelled |
|---|----------------|----------------------------|-----------------|------------|-----------|--|
| | Budget | Budget After Modifications | | Encumbered | Reserved | |
| OPERATIONS - EXCLUDED FROM "CAPS" | | | | | | |
| (A) Operations - Excluded from "CAPS" | | | | | | |
| Emergency Service Volunteer Length of Service Award Program | | | | | | |
| Other Expenses | 50,000.00 | 50,000.00 | 50,000.00 | - | - | - |
| Aid to Free Public Library (NJSA 40:54-8) | | | | | | |
| Other Expenses | 2,709,591.00 | 2,709,591.00 | 2,709,591.00 | - | - | - |
| Interlocal Agreement-Stone Harbor Court | | | | | | |
| | 2,759,591.00 | 2,759,591.00 | 2,759,591.00 | - | - | - |
| (A) Public and Private Programs Off-Set by Revenues | | | | | | |
| Recycling Tonnage Grant | | - | - | | - | - |
| Clean Communities Program | | 25,596.42 | 25,596.42 | | - | - |
| Cops in Shops Grant | 1,600.00 | 3,800.00 | 3,800.00 | | | |
| Drunk Driving Enforcement Fund | 2,500.00 | 2,500.00 | 2,500.00 | | | |
| Matching Funds for Grants | 15,000.00 | 15,000.00 | | | 15,000.00 | - |
| Bullet Proof Vest Grant | 2,184.17 | 2,184.17 | 2,184.17 | | - | - |
| CMC Prosecutor's Office Body Worn Camera Assist. | | - | - | | | |
| Sea Isle/Stone Harbor Communications | 7,000.00 | 7,000.00 | 7,000.00 | | - | - |
| NJ DEP Southern Pine Beetle Suppression Grant | | 30,000.00 | 30,000.00 | | | |
| NJ DEP Electric Vehicle Workplace Charging Grant | | 5,000.00 | 5,000.00 | | | |
| NJ DOT 2017 Municipal Aid for Reconstruction 39th St. | | 180,343.00 | 180,343.00 | | | |
| Bike Patrol Grant | | - | - | | - | - |
| McElhatton - Recreation Grant | | - | - | | - | - |
| Emergency Management Assistance | | - | - | | - | - |
| Total Public and Private Programs Off-Set by Revenues | 28,284.17 | 271,423.59 | 256,423.59 | - | 15,000.00 | - |
| Total Operations - Excluded from "CAPS" | 2,787,875.17 | 3,031,014.59 | 3,016,014.59 | - | 15,000.00 | - |
| Detail: | | | | | | |
| Salaries and Wages | 4,100.00 | 6,300.00 | 6,300.00 | - | - | - |
| Other Expenses | 2,783,775.17 | 3,024,714.59 | 3,009,714.59 | - | 15,000.00 | - |

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, 2017

| | Appropriations | | Paid or Charged | Expended | | (Over expended) Unexpended Balance Cancelled |
|--|----------------|----------------------------|-----------------|------------|-----------|--|
| | Budget | Budget After Modifications | | Encumbered | Reserved | |
| (C) Capital Improvements | | | | | | |
| Capital Improvement Fund | 400,000.00 | 400,000.00 | 400,000.00 | | - | - |
| Bike Lane Painting | 75,000.00 | 75,000.00 | 7,074.00 | 67,926.00 | - | - |
| Dock/Fire & Police Boat | 25,000.00 | 25,000.00 | 24,970.88 | | 29.12 | - |
| Rec Flooring/Shed/Elec Vehicle/Copier | 56,000.00 | 56,000.00 | 55,822.64 | | 177.36 | - |
| Major Repairs to Unit 15 | 8,000.00 | 8,000.00 | 7,348.71 | | 651.29 | - |
| Small Roller/Blast System | 59,000.00 | 59,000.00 | 44,112.92 | 11,760.00 | 3,127.08 | - |
| Public Works Vehicles | 60,000.00 | 60,000.00 | 50,619.97 | 3,050.00 | 6,330.03 | |
| Fire Department Elevator and Lockers | 40,500.00 | 40,500.00 | 11,153.55 | 29,295.00 | 51.45 | |
| Various Capital Repairs to Buildings | 117,250.00 | 117,250.00 | 68,208.28 | 48,605.10 | 436.62 | |
| Breath Test Machine-Police Department | 20,000.00 | 20,000.00 | 13,700.00 | | 6,300.00 | |
| Total Capital Improvements | 860,750.00 | 860,750.00 | 683,010.95 | 160,636.10 | 17,102.95 | - |
| (D) Debt Service | | | | | | |
| Payment of Bond Principal | 3,415,000.00 | 3,415,000.00 | 3,415,000.00 | | | - |
| Payment of BAN's and Capital Notes | 1,027,875.00 | 1,027,875.00 | 1,027,875.00 | | | - |
| Interest on Bonds | 509,525.00 | 509,525.00 | 447,681.67 | | | 61,843.33 |
| Interest on Notes | 292,000.00 | 292,000.00 | 291,185.28 | | | 814.72 |
| Green Acres Trust Loan Program | | | | | | |
| Loan Repayments for Principal and Interest | 75,000.00 | 75,000.00 | 74,817.62 | | | 182.38 |
| Payment of BAN's Ord. 692-14 | 250,000.00 | 250,000.00 | 250,000.00 | | | - |
| Payment of BAN's Ord. 677-13 | 930,900.00 | 930,900.00 | 930,900.00 | | | - |
| Payment of BAN's Ord. 661-12 | 250,000.00 | 250,000.00 | 250,000.00 | | | - |
| Total Debt Service | 6,750,300.00 | 6,750,300.00 | 6,687,459.57 | - | - | 62,840.43 |

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, 2017

| | Appropriations | | Paid or Charged | Expended | | (Over expended) Unexpended Balance Cancelled |
|--|-------------------------|-------------------------------|----------------------|-------------------|-------------------|---|
| | Budget | Budget After Modifications | | Encumbered | Reserved | |
| (E) Deferred Charges | | | | | | |
| Deferred Charges to Future Taxation Unfunded | 22,750.00 | 22,750.00 | 22,750.00 | | - | - |
| Special Emergency Authorization - (N.J.S. 40A: 4-55) | 25,000.00 | 25,000.00 | 25,000.00 | | - | - |
| Total Deferred Charges | <u>47,750.00</u> | <u>47,750.00</u> | <u>47,750.00</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES EXCLUDED FROM "CAPS" | 10,446,675.17 | 10,689,814.59 | 10,434,235.11 | 160,636.10 | 32,102.95 | 62,840.43 |
| SUBTOTAL GENERAL APPROPRIATIONS | <u>26,414,308.62</u> | <u>26,657,448.04</u> | <u>24,559,287.12</u> | <u>595,997.14</u> | <u>892,608.41</u> | <u>603,939.13</u> |
| (M) Reserve for Uncollected Taxes | <u>1,625,000.00</u> | <u>1,625,000.00</u> | <u>1,625,000.00</u> | | - | - |
| TOTAL GENERAL APPROPRIATIONS | <u>\$ 28,039,308.62</u> | <u>28,282,448.04</u> | <u>26,184,287.12</u> | <u>595,997.14</u> | <u>892,608.41</u> | <u>603,939.13</u> |
| Budget | | \$ 28,039,308.62 | | | Cancelled | \$ 603,939.13 |
| Appropriations by 40A:4-87 | | 243,139.42 | | | Overexpended | (0.00) |
| Special Emergency Appropriations | | <u>28,282,448.04</u> | | | | <u>603,939.13</u> |
| Reserve for Uncollected Taxes | | \$ 1,625,000.00 | | | | |
| Federal and State Grants | | 256,423.59 | | | | |
| Deferred Charge - Special Emergency | | 25,000.00 | | | | |
| Disbursements | | <u>24,277,863.53</u> | | | | |
| | | <u>26,184,287.12</u> | | | | |

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

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

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|---------------------|
| <u>ASSETS</u> | | |
| <u>Animal Control Fund</u> | | |
| Cash | \$ 369.06 | 300.04 |
| | <u>369.06</u> | <u>300.04</u> |
| <u>Other Funds</u> | | |
| Cash - Treasurer | 814,862.82 | 1,089,249.64 |
| | <u>814,862.82</u> | <u>1,089,249.64</u> |
| | <u>\$ 815,231.88</u> | <u>1,089,549.68</u> |
| <u>LIABILITIES, RESERVES AND FUND BALANCE</u> | | |
| <u>Animal Control Fund</u> | | |
| Reserve for Animal Control Expenditures | \$ 197.11 | 126.89 |
| Due to State of New Jersey | - | 1.20 |
| Interfunds: | | |
| Due to Current Fund | 171.95 | 171.95 |
| | <u>369.06</u> | <u>300.04</u> |
| <u>Other Funds</u> | | |
| Reserve for: | | |
| Payroll Deductions Payable | 62,942.93 | 60,066.53 |
| Due to Current Fund | 1,525.27 | 95,207.11 |
| Reserve for Unemployment Compensation | 23,155.70 | 33,344.03 |
| Reserve for Parking Offenses Adjudication Act | 3,888.05 | 3,630.05 |
| Reserve for Small Cities Grant | 44,270.50 | 44,270.50 |
| Reserve for Planning Board Escrow | 224,249.57 | 428,402.69 |
| Reserve for Law Enforcement Trust Fund | 3,166.15 | 3,163.70 |
| Reserve for Accumulated Absences | 407,716.63 | 324,594.92 |
| Reserve for Dedicated Fire Penalties | 59.12 | 9,111.21 |
| Reserve for Off Duty Police | 42,933.25 | 45,503.25 |
| Reserve for Tax Title Lien Redemption | 955.65 | 41,955.65 |
| | <u>814,862.82</u> | <u>1,089,249.64</u> |
| | <u>\$ 815,231.88</u> | <u>1,089,549.68</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>ASSETS</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------------|----------------------|
| Cash | \$ - | 3,218,141.92 |
| Deferred Charges to Future Taxation - | | |
| Funded | 10,611,349.70 | 14,182,915.33 |
| Unfunded | 20,065,225.00 | 21,238,750.00 |
| Due from Current Fund | 42,825.88 | - |
| Due from Grant Fund | 940,900.85 | 982,586.69 |
| | <u>31,660,301.43</u> | <u>39,622,393.94</u> |
| <u>LIABILITIES, RESERVES AND FUND BALANCE</u> | | |
| Serial Bonds Payable | 9,995,000.00 | 13,505,000.00 |
| NJEIT Loan Payable | 616,349.70 | 677,915.33 |
| Bond Anticipation Notes Payable | 11,489,975.00 | 14,600,000.00 |
| Improvement Authorizations: | | |
| Funded | 936,409.77 | 782,514.66 |
| Unfunded | 6,897,157.75 | 6,691,188.36 |
| Due to Water/Sewer Capital Fund | - | 925,000.00 |
| Reserve for Encumbrances | 1,317,387.77 | 1,077,879.15 |
| Reserve for Payment of BAN's | 79,520.00 | 79,520.00 |
| Reserve for Payment of Bonds | - | 1,027,875.00 |
| Capital Improvement Fund | 207,690.80 | 134,690.80 |
| Fund Balance | 120,810.64 | 120,810.64 |
| | <u>\$ 31,660,301.43</u> | <u>39,622,393.94</u> |

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

| | |
|------|--------------|
| 2016 | 6,638,750.00 |
| 2017 | 8,575,250.00 |

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>2017</u> | <u>2016</u> |
|--|-----------------------------|--------------------------|
| Beginning Balance January 1 | \$ 120,810.64 | 59,384.45 |
| Increased by: | | |
| Funded Improvement Authorizations Canceled | <u>-</u> | <u>61,426.19</u> |
| | 120,810.64 | 120,810.64 |
| Decreased by: | | |
| Appropriation to Finance Improvement Authorizations | <u>-</u> | <u>-</u> |
| Ending Balance December 31 | \$ <u><u>120,810.64</u></u> | <u><u>120,810.64</u></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>2017</u> | <u>2016</u> |
|--|-------------------------|----------------------|
| <u>ASSETS</u> | | |
| Operating Fund: | | |
| Cash | \$ 908,788.19 | 1,050,099.77 |
| Protested Checks Receivable | 5,141.84 | 5,141.84 |
| Due from Bank | 16.05 | 16.05 |
| Due from Middlesex Water Company | 8,261.81 | - |
| Interfunds: | | |
| Due from Water Sewer Capital Fund | 558,818.98 | - |
| | <u>1,481,026.87</u> | <u>1,055,257.66</u> |
| Receivables and Other Assets with Full Reserves: | | |
| Consumer Accounts Receivable | 78,068.59 | 136,035.47 |
| | <u>78,068.59</u> | <u>136,035.47</u> |
| Deferred Charges: | | |
| Deferred Charge - Emergency Appropriation | - | 120,000.00 |
| | <u>-</u> | <u>120,000.00</u> |
| Total Operating Fund | <u>1,559,095.46</u> | <u>1,311,293.13</u> |
| Capital Fund: | | |
| Cash - Treasurer | - | 863,864.72 |
| Fixed Capital | 32,040,205.49 | 32,040,205.49 |
| Fixed Capital - Authorized and Uncompleted | 17,712,047.76 | 16,874,447.76 |
| Due from General Capital Fund | - | 925,000.00 |
| Due from County - CAFR Permit | 2,631.81 | 2,631.81 |
| Total Capital Fund | <u>49,754,885.06</u> | <u>50,706,149.78</u> |
| | <u>\$ 51,313,980.52</u> | <u>52,017,442.91</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>2017</u> | <u>2016</u> |
|---|-----------------------------|--------------------------|
| <u>LIABILITIES, RESERVES AND FUND BALANCE</u> | | |
| Operating Fund: | | |
| Appropriation Reserves | \$ 223,302.88 | 273,764.97 |
| Reserve for Encumbrances | 218,639.93 | 35,804.84 |
| Accounts Payable | 20,183.54 | 20,183.54 |
| Prepaid Rents | 171,180.31 | 265,103.16 |
| Water Sewer Overpayments | 1,990.91 | - |
| Accrued Interest on Bonds and Notes | 127,913.95 | 111,480.05 |
| Interfunds: | | |
| Due to Current Fund | 574,875.77 | 208,435.49 |
| Due to Grant Fund | 22,932.34 | 22,932.34 |
| Due to Middlesex Water Company/PNC Bank | - | 8,746.03 |
| | <u>1,361,019.63</u> | <u>946,450.42</u> |
| Reserve for Receivables | 78,068.59 | 136,035.47 |
| Fund Balance | 120,007.24 | 228,807.24 |
| Total Operating Fund | <u>1,559,095.46</u> | <u>1,311,293.13</u> |
| Capital Fund: | | |
| Encumbrances Payable | 664,560.15 | 896,064.50 |
| Interfunds: | | |
| Current Fund | - | 71,698.18 |
| Water Sewer Operating Fund | 558,818.98 | - |
| Serial Bonds Payable | 932,000.00 | 1,472,000.00 |
| N.J. Environmental Infrastructure Trust Loans | 663,131.00 | 737,897.35 |
| Bond Anticipation Notes Payable | 6,620,000.00 | 4,725,000.00 |
| Improvement Authorizations: | | |
| Funded | 55,935.00 | 161,115.00 |
| Unfunded | 3,788,570.85 | 6,912,772.02 |
| Reserve for Amortization | 35,908,207.83 | 35,146,561.48 |
| Deferred Reserve for Amortization | 396,375.00 | 396,375.00 |
| Downpayment on Improvements | 222.00 | 19,602.00 |
| Fund Balance | 167,064.25 | 167,064.25 |
| Total Capital Fund | <u>49,754,885.06</u> | <u>50,706,149.78</u> |
| | <u>\$ 51,313,980.52</u> | <u>52,017,442.91</u> |

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

| | |
|------|--------------|
| 2016 | 6,436,819.42 |
| 2017 | 5,232,539.42 |

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, 2017

| | <u>2017</u> | <u>2016</u> |
|--|----------------------|---------------------|
| Revenue and Other Income Realized | | |
| Fund Balance | \$ 108,800.00 | - |
| Rents | 5,803,092.28 | 5,496,984.30 |
| Miscellaneous Revenue | 388,024.53 | 419,687.26 |
| Deficit (General Budget) | 182,640.67 | - |
| Non-Budget Revenue | 92,613.80 | 153,551.13 |
| Water and Sewer Capital Fund Balance | - | - |
| Other Credits to Income: | | |
| Cancellation of Bid Bond | - | 36,000.00 |
| Appropriation Reserves Lapsed | 125,487.71 | 115,088.24 |
| Total Income | <u>6,700,658.99</u> | <u>6,221,310.93</u> |
| Expenditures | | |
| Operations | | |
| Salaries and Wages | 206,397.00 | 196,703.00 |
| Other Expenses | 5,193,593.00 | 4,733,987.32 |
| Capital Improvements | 297,500.00 | 488,600.00 |
| Debt Service | 867,468.99 | 820,418.35 |
| Deferred Charges & Statutory Expenditures | 135,700.00 | 15,425.00 |
| Total Expenditures | <u>6,700,658.99</u> | <u>6,255,133.67</u> |
| Excess/(Deficit) in Revenue | <u>-</u> | <u>(33,822.74)</u> |
| Adjustments to Income before Fund Balance: | | |
| Deferred Charges - Emergency Appropriation | <u>-</u> | <u>120,000.00</u> |
| Fund Balance January 1 | <u>228,807.24</u> | <u>142,629.98</u> |
| | 228,807.24 | 228,807.24 |
| Decreased by: | | |
| Utilization as Anticipated Revenue | <u>108,800.00</u> | <u>-</u> |
| Fund Balance December 31 | <u>\$ 120,007.24</u> | <u>228,807.24</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>2017</u> | <u>2016</u> |
|--|-----------------------------|--------------------------|
| Beginning Balance January 1 | \$ 167,064.25 | 164,221.79 |
| Increased by: | | |
| Funded Improvement Authorization Cancelled | | 2,842.46 |
| | <u>-</u> | <u>2,842.46</u> |
| | 167,064.25 | 167,064.25 |
| Decreased by: | | |
| No Activity | - | - |
| | <u>-</u> | <u>-</u> |
| Ending Balance December 31 | \$ <u><u>167,064.25</u></u> | <u><u>167,064.25</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, 2017**

| | Anticipated Budget | Realized | Excess or (Deficit) |
|--------------------------|------------------------|---------------------|------------------------|
| Fund Balance Anticipated | \$ 108,800.00 | 108,800.00 | - |
| Rents | 5,496,700.00 | 5,803,092.28 | 306,392.28 |
| Miscellaneous | 419,500.00 | 388,024.53 | (31,475.47) |
| Deficit (General Budget) | 676,632.00 | 182,640.67 | (493,991.33) |
| Unanticipated | - | 92,613.80 | 92,613.80 |
| | <u>\$ 6,701,632.00</u> | <u>6,575,171.28</u> | <u>(126,460.72)</u> |

Analysis of Realized Revenue:

Consumer Accounts Receivable:

Rents

| | |
|----------------------------------|--------------|
| Accounts Receivable | 5,520,981.28 |
| Due (to) - from MWC | 17,007.84 |
| Prepayments/Overpayments Applied | 265,103.16 |

5,803,092.28

Miscellaneous

| | |
|--------------------------|------------|
| Water Installation | 79,804.64 |
| Sewer Installation | 14,293.10 |
| Water Application Fees | 4,300.00 |
| Sewer Connection Fees | 2,800.00 |
| Miscellaneous | 8,252.19 |
| Cell Tower Rents | 277,184.34 |
| Premium on Sale of Notes | 92,613.80 |

Total Miscellaneous - Collector
Interest on Investments

479,248.07
1,390.26

480,638.33

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, 2017

| | Appropriations | | Expended | | (Over expended) Unexpended Balance Cancelled |
|---|---------------------|-------------------------------|---------------------|-------------------|---|
| | Budget | Budget After Modifications | Paid or Charged | Encumbered | |
| Operations: | | | | | |
| Salaries and Wages | \$ 206,397.00 | 206,397.00 | 196,460.49 | | 9,936.51 |
| Other Expenses | 5,201,093.00 | 5,193,593.00 | 4,802,158.10 | 181,574.79 | 209,860.11 |
| | <u>5,407,490.00</u> | <u>5,399,990.00</u> | <u>4,998,618.59</u> | <u>181,574.79</u> | <u>-</u> |
| Capital Improvements: | | | | | |
| Capital Improvement Fund | 15,000.00 | 22,500.00 | 22,500.00 | | - |
| Capital Outlay | 275,000.00 | 275,000.00 | 235,103.65 | 37,065.14 | 2,831.21 |
| | <u>290,000.00</u> | <u>297,500.00</u> | <u>257,603.65</u> | <u>37,065.14</u> | <u>-</u> |
| Debt Service: | | | | | |
| Payment of Bond Principal | 584,767.00 | 584,767.00 | 584,766.35 | | 0.65 |
| Payment of BAN's | 105,000.00 | 105,000.00 | 105,000.00 | | - |
| Interest on Notes | 110,675.00 | 110,675.00 | 110,675.00 | | - |
| Interest on Bonds | 68,000.00 | 68,000.00 | 67,027.64 | | 972.36 |
| | <u>868,442.00</u> | <u>868,442.00</u> | <u>867,468.99</u> | <u>-</u> | <u>973.01</u> |
| Deferred Charges and Statutory Expenditures: | | | | | |
| Emergency Authorizations | 120,000.00 | 120,000.00 | 120,000.00 | | - |
| Social Security System | 15,700.00 | 15,700.00 | 15,024.95 | | 675.05 |
| | <u>135,700.00</u> | <u>135,700.00</u> | <u>135,024.95</u> | <u>-</u> | <u>-</u> |
| Deficits in Operations in Prior Years | | | | | |
| | | - | | | - |
| | <u>6,701,632.00</u> | <u>6,701,632.00</u> | <u>6,258,716.18</u> | <u>218,639.93</u> | <u>973.01</u> |
| | | Deferred Charges | 120,000.00 | | |
| | | Accrued Interest | 177,702.64 | | |
| | | Cash Disbursed | 5,961,013.54 | | |
| | | <u>6,258,716.18</u> | | | |

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

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

| | <u>2017</u> | <u>2016</u> |
|---|----------------------|-------------------|
| <u>ASSETS</u> | | |
| Operating Fund: | | |
| Cash | \$ 195,519.33 | 272,088.19 |
| Due from Current Fund | 115,024.95 | - |
| | <u>310,544.28</u> | <u>272,088.19</u> |
| Total Operating Fund | <u>310,544.28</u> | <u>272,088.19</u> |
| Capital Fund: | | |
| Cash | 2,250.00 | 2,250.00 |
| Fixed Capital - Completed | 510,411.94 | 510,411.94 |
| Total Capital Fund | <u>512,661.94</u> | <u>512,661.94</u> |
| | <u>823,206.22</u> | <u>784,750.13</u> |
| <u>LIABILITIES, RESERVES AND FUND BALANCE</u> | | |
| Operating Fund: | | |
| Appropriation Reserves | 203,428.24 | 70,471.29 |
| Encumbrances Payable | 43,475.60 | 50,774.69 |
| Accounts Payable | 29,140.44 | 29,140.44 |
| Prepaid Beach Fees | 34,500.00 | 33,023.00 |
| Due to Current Fund | - | 88,678.77 |
| | <u>310,544.28</u> | <u>272,088.19</u> |
| Fund Balance | - | - |
| Total Operating Fund | <u>310,544.28</u> | <u>272,088.19</u> |
| Capital Fund: | | |
| Reserve for Amortization | 510,411.94 | 510,411.94 |
| Capital Improvement Fund | 2,250.00 | 2,250.00 |
| Total Capital Fund | <u>512,661.94</u> | <u>512,661.94</u> |
| | <u>\$ 823,206.22</u> | <u>784,750.13</u> |

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

BEACH UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| Revenue and Other Income Realized | | |
| Beach Fees | \$ 1,223,338.00 | 1,219,461.00 |
| Fees and Permits | 8,240.00 | 10,027.16 |
| Other Credits to Income: | | |
| Miscellaneous Revenue not Anticipated | 326.14 | 427.16 |
| Appropriation Reserves Lapsed | 69,203.23 | 83,150.61 |
| Total Income | <u>1,301,107.37</u> | <u>1,313,065.93</u> |
| Expenditures | | |
| Operations: | | |
| Salaries and Wages | 1,113,248.00 | 1,086,094.00 |
| Other Expenses | 296,000.00 | 300,658.50 |
| Deferred Charges and Statutory Expenditures | 95,175.00 | 98,100.00 |
| Total Expenditures | <u>1,504,423.00</u> | <u>1,484,852.50</u> |
| Excess/(Deficit) in Revenue | <u>(203,315.63)</u> | <u>(171,786.57)</u> |
| Adjustments to Income before Fund Balance: | | |
| Realized from General Budget for | | |
| Anticipated Deficit in Revenue | 203,315.63 | 171,786.57 |
| Total Adjustments | <u>203,315.63</u> | <u>171,786.57</u> |
| Excess in Operations | <u>-</u> | <u>-</u> |
| Fund Balance January 1 | <u>-</u> | <u>-</u> |
| | - | - |
| Decreased by: | | |
| Utilization as Anticipated Revenue | <u>-</u> | <u>-</u> |
| Fund Balance December 31 | <u>\$ -</u> | <u>-</u> |

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

**BEACH UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

| | Anticipated Budget | Realized | Excess or (Deficit) |
|--------------------------|------------------------|---------------------|------------------------|
| Anticipated Revenue: | | | |
| Beach Fees | \$ 1,245,000.00 | 1,223,338.00 | (21,662.00) |
| Fees and Permits | 9,000.00 | 8,240.00 | (760.00) |
| Deficit (General Budget) | 250,423.00 | 203,315.63 | (47,107.37) |
| Non-Budget Revenue: | - | 326.14 | 326.14 |
| | <u>\$ 1,504,423.00</u> | <u>1,435,219.77</u> | <u>(69,203.23)</u> |

Analysis of Realized Revenue:

| | | |
|----------------------------|------------------|---------------------|
| Beach Fees | | |
| Collections | 1,190,315.00 | |
| Prepaid Beach Fees Applied | <u>33,023.00</u> | |
| Total Beach Fees | | <u>1,223,338.00</u> |
| Fees and Permits | | |
| Beach Vehicle Permits | | <u>8,240.00</u> |
| Non-Budget Revenue: | | |
| Miscellaneous | | |
| Interest Earned | <u>326.14</u> | |
| Total Non-Budget Revenue | | <u>326.14</u> |

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

**STATEMENT OF GENERAL FIXED ASSETS
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

| | <u>2017</u> | <u>2016</u> |
|--|-----------------------------|--------------------------|
| General Fixed Assets: | | |
| Buildings | \$ 7,655,079.24 | 7,655,079.24 |
| Land and Improvements | 7,525,211.83 | 7,494,811.83 |
| Machinery and Equipment | 3,926,018.73 | 3,858,064.36 |
| Vehicles & Watercraft | <u>4,951,113.53</u> | <u>4,846,620.53</u> |
| | <u>24,057,423.33</u> | <u>23,854,575.96</u> |
| Investment in General Fixed Assets | \$ <u>24,057,423.33</u> | <u>23,854,575.96</u> |

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Except as noted below, the financial statements of the Borough of Avalon include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the Borough of Avalon, as required by N.J.S. 40A:5-5. The Borough of Avalon is a seashore community located on the Atlantic Ocean in the County of Cape May, State of New Jersey. The population according to the 2010 census is 1,334. The Borough was incorporated in 1892 and operates under a Mayor and Council form of government. The mayor is the chief executive officer of the Borough and is elected by the voters.

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 Avalon 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 Avalon 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 Utility Operating and Capital Funds

The Water and Sewer Utility Operating and Capital Funds account for the operations and acquisition of capital facilities of the municipally owned Water and Sewer Utility.

Beach Utility Operating and Capital Funds

The Beach Utility Operating and Capital Funds account for the operations and acquisition of capital facilities related to the Borough's beaches.

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.

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 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.

Utility Fixed Assets

Property and equipment purchased by a utility fund are recorded in the utility capital account at cost, and are adjusted for disposition and abandonment. The amounts shown do not represent replacement cost or current value. Contributions in aid of construction are not capitalized. The Reserve for Amortization and Deferred Reserve for Amortization accounts in the utility capital fund represent charges to operations for the cost of acquisition of property, equipment and improvements. GAAP does not require the establishment of a reserve for amortization of fixed capital, whereas it does require the recognition of depreciation of property and equipment by the utility fund.

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 Avalon 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 does not operate a sewer utility fund. However, sewer rents are levied and collected in the Current Fund. Rates are determined by ordinance and changed as necessary. 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 Avalon 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 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.

F. Recent Accounting Pronouncements Not Yet Effective

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, which is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Township's financial reporting.

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 Township'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 Township'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, will not have any effect on the Township'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, will not have any effect on the Township's financial reporting.

In January 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 84 "Fiduciary Activities". This statement, which is effective for fiscal periods beginning after December 15, 2018, will not have any effect on the Township's financial reporting.

In March 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 85 "Omnibus 2017". This statement, which is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Township's financial reporting.

In May 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 86 "Certain Debt Extinguishment Issues". This statement, which is effective for fiscal periods beginning after June 15, 2017, will not have any effect on the Township's financial reporting.

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87 "Leases". This statement, which is effective for fiscal periods beginning after December 15, 2019, may have an effect on the Township'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 2017 and 2016 statutory budgets included a reserve for uncollected taxes in the amount of \$1,625,000 and \$1,625,000. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2017 and 2016 statutory budgets was \$4,127,153.25 and \$4,099,386.16.

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.

The following significant budget transfers were approved in the 2017 and 2016 calendar years:

| <u>Budget Category</u> | <u>2017</u> | <u>2016</u> |
|------------------------------------|-------------|-------------|
| <u>Current Fund:</u> | | |
| Sanitary Landfill Closure Act | | |
| Other Expenses | \$ (7,522) | |
| Fire Department | | |
| Other Expenses | | 25,000 |
| Gasoline | | (25,000) |
| Statutory Expenditures: | | |
| Contributions to: | | |
| Police and Fire Retirement System | 4,315 | |
| Public Employees Retirement System | 3,207 | |

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 2017 and 2016, the following significant budget insertions were approved:

| <u>Budget Category</u> | <u>2017</u> | <u>2016</u> |
|---|--------------|--------------|
| Clean Communities | \$ 25,596.42 | \$ 30,128.93 |
| COPs in Shops | | 2,400.00 |
| NJ DEP Electric Vehicle Workplace Charging Grant | 5,000.00 | - |
| Recycling Tonnage Grant | | 7,760.16 |
| CMC Prosecutor's Office Body Worn Camera Assistance | | 10,000.00 |
| NJ DEP Southern Pine Beetle Suppression Grant | 30,000.00 | 24,000.00 |
| NJ DOT 2017 Municipal Aid for Reconstruction 39th St. | 180,343.00 | |

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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. In 2017, The Borough did not authorize any special emergencies.

NOTE 3: INVESTMENTS

N.J.S.A. 40A:5-15.1 provides specific guidance for the allowable investment of public funds. The Borough did not have any investments as of year end.

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 fund that may pass to the municipality relative to the happening of a future condition. As of December 31, 2017 and 2016, \$925,223.99 and \$941,049.81 respectively of the municipality's bank balance of \$17,159,630.12 and \$17,936,100.75 was exposed to custodial credit risk.

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NOTE 5: FIXED ASSETS

The following schedules are a summarization of the changes in general fixed assets for the calendar years ended December 31, 2017 and 2016:

| | Balance 12/31/2015 | Additions | Adjustments/ Retirements | Balance 12/31/2016 |
|---------------------------|-----------------------|----------------|-----------------------------|-----------------------|
| Land and Improvements | \$ 7,489,611 | 5,200 | | 7,494,811 |
| Building and Improvements | 7,655,079 | | | 7,655,079 |
| Equipment and Machinery | 3,829,561 | 82,459 | (53,955) | 3,858,065 |
| Vehicles | 4,816,215 | 227,675 | (197,269) | 4,846,621 |
| | <u>\$ 23,790,466</u> | <u>315,334</u> | <u>(251,224)</u> | <u>23,854,576</u> |

| | Balance 12/31/2016 | Additions | Retirements | Balance 12/31/2017 |
|---------------------------|-----------------------|----------------|-----------------|-----------------------|
| Land and Improvements | \$ 7,494,811 | 30,400 | | 7,525,211 |
| Building and Improvements | 7,655,079 | - | | 7,655,079 |
| Equipment and Machinery | 3,858,065 | 91,909 | (23,955) | 3,926,019 |
| Vehicles | 4,846,621 | 134,717 | (30,224) | 4,951,114 |
| | <u>\$ 23,854,576</u> | <u>257,026</u> | <u>(54,179)</u> | <u>24,057,423</u> |

NOTE 6: SHORT-TERM OBLIGATIONS

| | Balance 12/31/15 | Issued | Retired | Balance 12/31/16 |
|-------------------|----------------------|-------------------|-------------------|---------------------|
| Bond Anticipation | | | | |
| Notes payable: | | | | |
| General Capital | \$ 16,083,750 | 14,600,000 | 16,083,750 | 14,600,000 |
| Utility Capital | 3,800,000 | 4,725,000 | 3,800,000 | 4,725,000 |
| | <u>\$ 19,883,750</u> | <u>19,325,000</u> | <u>19,883,750</u> | <u>19,325,000</u> |

| | Balance 12/31/16 | Issued | Retired | Balance 12/31/17 |
|-------------------|----------------------|-------------------|-------------------|---------------------|
| Bond Anticipation | | | | |
| Notes payable: | | | | |
| General Capital | \$ 14,600,000 | 11,489,975 | 14,600,000 | 11,489,975 |
| Utility Capital | 4,725,000 | 6,620,000 | 4,725,000 | 6,620,000 |
| | <u>\$ 19,325,000</u> | <u>18,109,975</u> | <u>19,325,000</u> | <u>18,109,975</u> |

The 2017 note was issued on 02/24/17 and was due and payable on 02/23/18 with interest at 2.50%. As of December 31, 2017, the Borough has authorized but not issued bonds in the amount of \$8,575,250.00 in the General Capital Fund and \$5,232,539.42 in the Water and Sewer Utility Capital Fund.

NOTE 7: LONG TERM DEBT

Long-term debt as of December 31, 2017 and 2016 consisted of the following:

| | Balance 12/31/15 | Issued | Retired | Balance 12/31/16 | Amounts Due Within One Year |
|---------------------------------|-----------------------------|-----------------|-------------------------|--------------------------|-----------------------------------|
| Bonds payable: | | | | | |
| General Capital Fund | \$ 16,755,000 | | 3,250,000 | 13,505,000 | 3,415,000 |
| Utility Capital Fund | 2,027,000 | | 555,000 | 1,472,000 | 510,000 |
| Total | <u>\$ 18,782,000</u> | <u>\$ -</u> | <u>\$ 3,805,000</u> | <u>\$ 14,977,000</u> | <u>\$ 3,925,000</u> |
| Other liabilities: | | | | | |
| Loans Payable | | | | | |
| General Capital Fund | \$ 738,268 | | 60,353 | 677,915 | 61,566 |
| Utility Capital Fund | 812,664 | | 74,766 | 737,898 | 74,766 |
| Compensated Absences Payable | <u>2,173,227</u> | | <u>93,285</u> | <u>2,079,942</u> | |
| | <u>3,724,159</u> | <u>-</u> | <u>228,404</u> | <u>3,495,755</u> | <u>136,332</u> |
| Total long-term liabilities | <u><u>\$ 22,506,159</u></u> | <u><u>-</u></u> | <u><u>4,033,404</u></u> | <u><u>18,472,755</u></u> | <u><u>4,061,332</u></u> |

| | Balance 12/31/16 | Issued | Adjustment/ Retired | Refunded | Balance 12/31/17 | Amounts Due Within One Year |
|---------------------------------|-----------------------------|----------------------|-------------------------|-------------------------|--------------------------|-----------------------------------|
| Bonds payable: | | | | | | |
| General Capital Fund | \$ 13,505,000 | | 3,415,000 | (95,000) | 9,995,000 | 3,520,000 |
| Utility Capital Fund | 1,472,000 | | 510,000 | (30,000) | 932,000 | 332,000 |
| Total | <u>\$ 14,977,000</u> | <u>-</u> | <u>3,925,000</u> | <u>(125,000)</u> | <u>10,927,000</u> | <u>3,852,000</u> |
| Other liabilities: | | | | | | |
| Loans Payable: | | | | | | |
| General Capital Fund | 677,915 | | 61,566 | | 616,349 | 62,803 |
| Utility Capital Fund | 737,898 | | 74,766 | | 663,132 | 74,766 |
| Compensated Absences Payable | <u>2,079,942</u> | <u>83,937</u> | <u>(820,813)</u> | | <u>1,343,065</u> | |
| | <u>3,495,755</u> | <u>83,937</u> | <u>(684,481)</u> | <u>-</u> | <u>2,622,546</u> | <u>137,569</u> |
| Total long-term liabilities | <u><u>\$ 18,472,755</u></u> | <u><u>83,937</u></u> | <u><u>3,240,519</u></u> | <u><u>(125,000)</u></u> | <u><u>13,549,546</u></u> | <u><u>3,989,569</u></u> |

Outstanding Bonds Whose Principal and Interest are paid from the Current Fund Budget of the Entity:

At December 31, 2017, bonds and loans payable in the General Capital Fund consisted of the following individual issues:

\$19,000,000 General Improvement Bonds dated May 15, 2008, due in annual installments through May 15, 2018, bearing interest at variable rates ranging from 4.00% to 5.00% per annum. The balance remaining as of December 31, 2017, is \$2,550,000.

\$4,870,000 Refunding Bonds dated October 4, 2012, due in annual installments beginning on November 1, 2012 through November 1, 2019, bearing interest at variable rates ranging from 2.00% to 4.00% per annum. The purpose of this issue is to refund a portion of the principal amount of \$4,820,000 of the General Bonds of 2004 and pay issuance costs. The balance remaining as of December 31, 2017, is \$1,940,000.

\$5,505,000 Refunding Bonds dated August 23, 2017, due in annual installments beginning on May 15, 2019 through May 15, 2020, bearing interest at 4.00% per annum. The balance remaining as of December 31, 2017, is \$5,505,000.

\$149,950 Loan dated October 15, 2013 with New Jersey Green Acres Program for Park Improvements to 8th Street Recreation Area, due in semi-annual installments through May 6, 2023, bearing interest at 2.00% per annum. The balance remaining as of December 31, 2017, is \$49,377.

\$150,000 Loan dated May 19, 2005 with New Jersey Green Acres Program for 8th Street Recreation Refunding Issue – Part I, due in semi-annual installments through January 19, 2025, bearing interest at 2.00% per annum. This loan advance refunded principal due on the General Improvement Bonds of 2001 due on July 15, 2015 which is callable on July 13, 2013. The balance remaining as of December 31, 2017, is \$64,663.

\$500,000 Loan dated November 3, 2007 with New Jersey Green Acres Program for 8th Street Recreation Refunding Issue – Part II, due in semi-annual installments through May 3, 2027, bearing interest at 2.00% per annum. This loan advance refunded principal due on the General Improvement Bonds of 2001 due on July 15, 2015 which is callable on July 15, 2013. The balance remaining as of December 31, 2017, is \$267,792.

\$400,000 Loan dated June 18, 2008 with New Jersey Green Acres Program for Multi-Park Improvements, due in semi-annual installments through June 18, 2028, bearing interest at 2.00% per annum. The balance remaining as of December 31, 2017, is \$234,517.

At December 31, 2017, bonds payable in the Water and Sewer Utility Fund consisted of the following individual issues:

\$2,282,000 Water and Sewer Utility Bonds dated July 15, 2003, due in annual installments through July 15, 2018, bearing interest at variable rates from 4.10% to 4.20% per annum. The balance remaining as of December 31, 2017, is \$182,000.

\$2,350,000 Water and Sewer Improvement Bonds dated May 15, 2008, due in annual installments through May 15, 2018, bearing interest at variable rates ranging from 4.00% to 5.00% per annum. The balance remaining as of December 31, 2017, is \$150,000.

\$600,000 Water and Sewer Improvement Refunding Bonds dated August 23, 2017, due in annual installments beginning on May 15, 2019 through May 15, 2023, bearing interest at 4.00% per annum. The balance remaining as of December 31, 2017, is \$600,000.

\$535,000 N.J. Environmental Trust Loan Bond Series B dated December 2, 2010, due in annual installments beginning August 1, 2012 through August 1, 2025, bearing interest at 5.00%. The balance remaining as of December 31, 2017 is \$345,000.

\$583,240 N.J. Environmental Fund Loan Bond dated December 2, 2010, due in semi-annual installments through August 1, 2025, bearing no interest. The balance remaining at December 31, 2017 is \$318,131.

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

| Year Ending December 31 | General Capital Fund | | Utility Capital Fund | |
|----------------------------|-------------------------|----------------------|------------------------|----------------------|
| | Principal | Interest | Principal | Interest |
| 2018 | \$ 3,582,803.08 | 373,564.54 | 406,766.35 | 52,644.00 |
| 2019 | 3,714,065.41 | 216,152.20 | 214,766.35 | 36,800.00 |
| 2020 | 2,890,353.15 | 65,964.49 | 214,766.35 | 29,400.00 |
| 2021 | 66,666.73 | 8,150.89 | 214,766.35 | 22,000.00 |
| 2022 | 68,006.73 | 6,810.88 | 219,766.35 | 14,600.00 |
| 2023-2027 | 277,141.19 | 15,218.72 | 324,299.25 | 15,950.00 |
| 2028 | 12,313.50 | 123.14 | - | - |
| | <u>\$ 10,611,349.79</u> | <u>\$ 685,984.86</u> | <u>\$ 1,595,131.00</u> | <u>\$ 171,394.00</u> |

As of December 31, 2017 the carrying value of the above bonds and notes approximates the fair value of the bonds. No interest was charged to capital projects during the year. The total interest charged to the current budget was \$447,682 and \$67,028 was charged to the water sewer utility fund budget.

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Summary of Municipal Debt

| | Year 2017 | Year 2016 | Year 2015 |
|---|---------------|--------------|--------------|
| Issued: | | | |
| General: | | | |
| Bonds and Notes | \$ 21,484,975 | 28,105,000 | 32,838,750 |
| Loans | 616,350 | 677,915 | 738,268 |
| Water/Sewer Utility: | | | |
| Bonds and Notes | 7,552,000 | 6,197,000 | 5,827,000 |
| Loans | 663,131 | 737,897 | 812,664 |
| Total Issued | 30,316,456 | 35,717,813 | 40,216,682 |
| Less: | | | |
| Funds Temporarily | | | |
| Held to Pay Bonds and Notes: | | | |
| General | 79,520 | 1,107,395 | 79,520 |
| Net Debt Issued | 30,236,936 | 34,610,418 | 40,137,162 |
| Authorized But Not Issued: | | | |
| General: | | | |
| Bonds and Notes | 8,575,250 | 6,638,750 | 6,892,500 |
| Water/Sewer Utility: | | | |
| Bonds and Notes | 5,232,539 | 6,436,819 | 2,597,150 |
| Total Authorized But Not Issued | 13,807,789 | 13,075,569 | 9,489,650 |
| Net Bonds and Notes Issued and Authorized But Not Issued | \$ 44,044,725 | 47,685,987 | 49,626,812 |

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 .376%:

| | Gross Debt | Deductions | Net Debt |
|----------------------------|---------------|---------------|---------------|
| Local School Purposes | \$ 1,320,000 | \$ 1,320,000 | \$ - |
| Water & Sewer Utility Debt | 13,447,670 | 13,447,670 | - |
| General Debt | 30,696,459 | 79,520 | 30,616,939 |
| | \$ 45,464,129 | \$ 14,847,190 | \$ 30,616,939 |

Net debt \$30,616,939 divided by Equalized Valuation Basis per N.J.S.A. 40A:2-2 as amended, \$8,144,030,000 = 0.376%.

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

| | |
|-------------------------------------|----------------|
| 3-1/2% of Equalized Valuation Basis | \$ 285,041,050 |
| Net Debt | 30,616,939 |
| | \$ 254,424,111 |

The Borough of Avalon School District, as a K-8 school district, is permitted to borrow up to 3.0% 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.

NOTE 8: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2017 and 2016, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2018 and 2017 were as follows:

| | | <u>2018</u> | <u>2017</u> |
|---------------------|----|-------------|-------------|
| Current Fund | \$ | 4,046,908 | 4,127,153 |
| Water Sewer Utility | | 100,000 | 108,800 |
| Beach Utility | | 0 | 0 |

NOTE 9: 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:

| | <u>Balance</u> <u>12/31/17</u> | <u>Balance</u> <u>12/31/16</u> |
|---|-----------------------------------|-----------------------------------|
| Prepaid Taxes | \$ 6,530,942 | \$ 1,502,490 |
| Cash Liability for Taxes Collected in Advance | <u>\$ 6,530,942</u> | <u>\$ 1,502,490</u> |

NOTE 10: 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.

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 7.20% through June 30, 2017 and 7.34% thereafter of employee's annual compensation, as defined. Employers are required to contribute to an actuarially determined rate in PERS. The entity's contributions to PERS for the years ended December 31, 2017, 2016, and 2015 were \$545,801, \$489,078 and \$482,905.

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. The entity's contributions to PFRS for the years ended December 31, 2017, 2016, and 2015 were \$375,791, \$349,488, and \$355,152.

The total payroll for the year ended December 31, 2017, 2016 and 2015 was \$7,842,582.85, \$8,037,051 and \$7,350,826. Payroll covered by PFRS was \$1,631,227, \$1,475,474 and \$1,428,358. Payroll covered by PERS was \$4,274,763, \$4,149,975 and \$4,135,545.

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 6.78% of annual compensation to 6.92% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%.
- For fiscal year 2015, the member contribution rates increased in July 2015. 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.
- 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.

Note 11: 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. GASB statement 68 requires that the June 30, 2017 actuarial valuation be used for this disclosure, but as of the date of this report the 2017 actuarial valuations are not yet available from the Division of Pensions. The Division of Local Government Services has stated that disclosing the 2016 valuation is in compliance with the Regulatory Basis of Accounting described in Note 1.

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

Public Employees' Retirement System

The Municipality has a liability of \$18,105,313 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 0.06113121690%, which would be an increase of 7.46% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality would have recognized pension expense of \$1,820,022.

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 | \$ 336,704 | |
| Changes of assumptions | 3,750,454 | |
| Changes in proportion | 691,620 | 221,881 |
| Net difference between projected and actual earnings on pension plan investments | 690,372 | |
| Total | <u>\$ 5,469,150</u> | <u>221,881</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 | \$ 1,187,490 |
| 2018 | 1,187,490 |
| 2019 | 1,357,545 |
| 2020 | 1,136,039 |
| 2021 | 378,706 |
| Total | <u>\$ 5,247,269</u> |

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:

| 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 | \$ 21,697,475 | 18,105,313 | \$ 15,142,856 |

Pension plan fiduciary net position.

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

Police and Firemen's Retirement System

The Municipality has a liability of \$8,804,381 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 0.04609006390%, which would be an increase of 7.2% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality would have recognized pension expense of \$905,285. 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 | | 57,714 |
| Changes of assumptions | 1,219,479 | |
| Changes in proportion | 355,994 | 391,183 |
| Net difference between projected and actual earnings on pension plan investments | 616,905 | |
| Total | <u>\$ 2,192,378</u> | <u>448,897</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 | \$ 421,596 |
| 2017 | 421,596 |
| 2018 | 559,582 |
| 2019 | 327,816 |
| 2020 | 12,891 |
| Total | <u>\$ 1,743,481</u> |

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 table on the following page:

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| 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 | \$ 11,192,628 | 8,804,381 | 6,857,691 |

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 0.040609006390% for 2016. The net pension liability amount allocated to the Municipality was \$739,350. For the fiscal year ending June 30, 2016 State special funding situation pension expense of \$94,432 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.

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NOTE 12: POST-RETIREMENT BENEFITS

Plan Description The Borough of Avalon 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>

Plan Coverage The entity currently has 5 collective bargaining units as well as unaffiliated non-union employees. The employee's post employment benefits are dependent upon the collective bargaining unit to which they are a member as well as the year of retirement. The benefits by collective bargaining unit are as follows:

Policemen Benevolent Association Local 59 – Individuals below the rank of Lieutenant who retire with at least 25 years of service in the Police and Fireman's Retirement System receive hospitalization, major medical, dental, prescription, vision and life insurance for the employee and spouse in effect at the time of retirement. Spousal benefits continue upon retiree's death.

Policemen Benevolent Association Local 59 (Superior Officers) – Individuals above the rank of Lieutenant who retire with at least 25 years of service in the Police and Fireman's Retirement System receive hospitalization, major medical, dental, prescription, vision and life insurance for the employee and spouse in effect at the time of retirement. Spousal benefits continue upon retiree's death.

All Other Bargaining Units and Non Affiliated Employees - Individuals who retired with at least 25 years of service or after attainment of age 62 and completion of 15 years of service in the Public Employees' Retirement System receive hospitalization, major medical, dental, prescription, vision and life insurance 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.

The Borough utilizes the New Jersey State Health Benefits Plan for Health Insurance, however, they also provide post-retirement benefits for vision, dental, and life insurance that are not included as a part of the State Health Benefits Plan. These benefits are budgeted by the Borough annually on a "pay as you go basis" and included in group insurance.

In accordance with GASB 45 and the State of New Jersey, the Borough is required to obtain an actuarial valuation of the liability for providing these benefits. This is the second valuation and the actuary is using the entry age normal funding method. The actuarial valuation report was based on 126 total participants including 37 retirees. The actuarial determined valuation of these benefits has been reviewed and will be reviewed bi-annually for the purpose of estimating the present value of future benefits for active and retired employees and their dependents as required by GASB 45.

Annual OPEB Cost and Net OPEB Obligation

The Borough's annual OPEB cost represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation. The annual OPEB cost is equal to the annual required contribution (ARC) less adjustment if a net OPEB obligation exists. The ARC is equal to the normal cost and amortization of the Unfunded Actuarial Accrued Liability (UAAL) plus interest.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates and assumptions about the probability of occurrences of events that fare into the future, including future employment, mortality and healthcare cost trends. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In the January 1, 2015 Actuarial Valuation Report, the projected unit credit method was used for all participants. The actuarial assumptions used to project future costs included a discount rate of 4.0%. In addition, the unfunded actuarial accrued liability is being amortized over the maximum acceptable period of 30 years and is calculated assuming a level dollar amount.

Other Post-employment Benefit Costs and Obligations

The Annual Required Contribution (ARC) for the year ending December 31, 2017 was projected as follows:

| | December 31, 2017 |
|------------------------------------|----------------------|
| Normal Cost | \$ 611,526 |
| Amortization of Unfunded Liability | 514,338 |
| Interest | 45,035 |
| Total ARC | <u>\$ 1,170,899</u> |

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The following reflects the components of the 2017 annual OPEB Costs, amounts paid, and changes to the net accrued OPEB obligation based on the January 1, 2017 actuarial valuation and actual OPEB payments made or accrued during 2017:

| | December 31, 2017 |
|--|----------------------|
| Net OPEB Obligation - Beginning of Year | \$ 4,510,118 |
| Annual OPEB Cost | 1,433,258 |
| OPEB Payments | (851,568) |
| Increase in Net OPEB Obligation | 581,690 |
| Net OPEB Obligation - End of Year | \$ <u>5,091,808</u> |
| Percentage of OPEB Cost Contributed | <u>59.41%</u> |

The Borough's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016 and 2015 years were as follows (note: an update is required every two years):

| Fiscal Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------------|---------------------|------------------------------------|---------------------------|
| 12/31/2015 | 1,041,306 | 76.49% | 3,914,600 |
| 12/31/2016 | 1,384,976 | 57.00% | 4,510,118 |
| 12/31/2017 | 1,433,258 | 59.41% | 5,091,808 |

Required Supplementary Information:

| | December 31, 2017 |
|-----------------------------------|----------------------|
| Actuarial Value of Plan Assets | \$ - |
| Actuarial Accrued Liability (AAL) | 23,978,006 |
| Total Unfunded AAL (UAAL) | \$ <u>23,978,006</u> |
| Funded ratio | 0.00% |

NOTE 13: ACCRUED SICK AND VACATION BENEFITS

The Borough has permitted employees to accrue unused vacation, personal and sick time, which may be taken as time off, or paid at a later date at an agreed upon rate. The monetary value of these earned and unused employee benefits has not been accrued by either charges to operations or to budgets of prior years, although in some cases they might be material, since the realization of this liability may be affected by conditions which preclude an employee from receiving full payment of the accrual. At December 31, 2017, the Borough estimates this liability to approximate \$1,343,065.33 based on 2017 pay rates and compensated absence balances. The Borough has \$407,717 reserved at December 31st to partially fund this liability.

NOTE 14: 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 15: RISK MANAGEMENT

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

Property and Liability Insurance - The entity maintains commercial insurance coverage for property, liability and surety bonds. During the year ended December 31, 2017 and 2016 the Borough 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.

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

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

| Calendar Year | Borough Contribution | Employee Contributions | Interest Earned | Amount Reimbursed | Ending Balance |
|------------------|-------------------------|---------------------------|--------------------|----------------------|-------------------|
| 2017 | 32,000.00 | 14,188.76 | 11.97 | 56,389.06 | 23,155.70 |
| 2016 | 37,000.00 | 14,150.95 | 15.46 | 28,670.28 | 33,344.03 |
| 2015 | 22,000.00 | 14,659.25 | 4.66 | 44,091.57 | 10,847.90 |

NOTE 16: DEFERRED COMPENSATION

Employees of the Borough of Avalon 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.

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 17: INTERFUND BALANCES

As of December 31, 2017, the following interfunds were included on the balance sheets of the various funds of the Borough of Avalon and are expected to be returned within one year:

| | Due From | Due To |
|-------------------------------|------------------------|---------------------|
| Current Fund: | | |
| Animal Control Fund | \$ 171.95 | |
| Water & Sewer Operating Fund | 449,388.06 | |
| General Capital Fund | | 42,825.88 |
| Beach Utility Fund | | 115,024.95 |
| Other Trust Fund | 1,525.27 | |
| Grant Fund | 20,922.28 | |
| Trust Fund: | | |
| Current - Animal Control Fund | | 171.95 |
| Current - Other Trust Fund | | 1,525.27 |
| General Capital Fund | | |
| Current Fund | 42,825.88 | |
| Federal & State Grant Fund | 940,900.85 | |
| Water & Sewer Operating Fund | | |
| Current Fund | | 449,388.06 |
| Grant Fund | | 22,932.34 |
| Water & Sewer Capital | 558,818.98 | |
| Federal and State Grant Fund | | |
| Current Fund | | 20,922.28 |
| Water & Sewer Operating Fund | 22,932.34 | |
| General Capital Fund | | 940,900.85 |
| Water & Sewer Capital Fund | | |
| Water & Sewer Operating Fund | | 558,818.98 |
| Beach Utility Fund | | |
| Current Fund | 115,024.95 | |
| | <u>\$ 2,152,510.56</u> | <u>2,152,510.56</u> |

The amounts due to the Current fund from the Animal Control fund, General Capital fund and the Other Trust fund are due to interest and other cash activity not transferred by year end.

NOTE 18: SUBSEQUENT EVENTS

The Borough has evaluated subsequent events through May 4, 2018, the date which the financial statements were available to be issued and identified no events requiring disclosure.

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APPENDIX C

Form of Approving Legal Opinion of Bond Counsel

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_____, 2018

Borough Council of the
Borough of Avalon, in the
County of Cape May, New Jersey

Dear Council Members:

We have acted as bond counsel to the Borough of Avalon, in the County of Cape May, New Jersey (the "Borough"), in connection with the issuance by the Borough of its \$11,900,000 Water/Sewer Utility Bonds (collectively, the "Bonds"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us as we have deemed necessary.

The Bonds are issued pursuant to the Local Bond Law of the State of New Jersey, a resolution of the Borough adopted September 26, 2018 pursuant to N.J.S.A. 40A:2-26(f), in all respects duly approved, and the various bond ordinances referred to therein, each in all respects duly approved and published as required by law.

In our opinion, except insofar as the enforcement thereof may be limited by any applicable bankruptcy, moratorium or similar laws or application by a court of competent jurisdiction of legal or equitable principles relating to the enforcement of creditors' rights, the Bonds are valid and legally binding general obligations of the Borough, and the Borough has the power and is obligated to levy *ad valorem* taxes upon all the taxable real property within the Borough for the payment of the Bonds and the interest thereon without limitation as to rate or amount.

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

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

Very truly yours,

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