

OFFICIAL STATEMENT DATED JANUARY 9, 2019

New Issue

Rating: Moody's: "Aaa"  
See "RATING" herein

In the opinion of McManimon, Scotland & Baumann, LLC, Bond Counsel, assuming compliance by the Board (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. 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.

THE BOARD OF EDUCATION OF PRINCETON  
IN THE COUNTY OF MERCER, NEW JERSEY  
\$26,928,000 SCHOOL BONDS  
(Book-Entry-Only) (Callable)

Dated: Date of Delivery

Due: July 15, as shown below

The \$26,928,000 School Bonds (the "Bonds") of The Board of Education of Princeton in the County of Mercer, New Jersey (the "Board" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) 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. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on January 15 and July 15 in each year until maturity, or earlier redemption, commencing on July 15, 2019. Principal of and interest on the Bonds will be paid to DTC by the Board 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 January 1 and July 1 (the "Record Dates" for the payment of interest on the Bonds). The Bonds shall be subject to redemption prior to their stated maturities. See "DESCRIPTION OF THE BONDS - Redemption" herein.

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS\*

| <u>Maturity</u><br><u>(July 15)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>CUSIP*</u> | <u>Maturity</u><br><u>(July 15)</u> | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>CUSIP*</u> |
|-------------------------------------|-----------------------------------|--------------------------------|--------------|---------------|-------------------------------------|-----------------------------------|--------------------------------|--------------|---------------|
| 2020                                | \$803,000                         | 2.50%                          | 1.70%        | 742290AR0     | 2030                                | \$1,600,000                       | 3.00%                          | 2.75%**      | 742290BB4     |
| 2021                                | 800,000                           | 2.50                           | 1.75         | 742290AS8     | 2031                                | 1,600,000                         | 3.00                           | 2.90**       | 742290BC2     |
| 2022                                | 800,000                           | 3.00                           | 1.80         | 742290AT6     | 2032                                | 1,600,000                         | 3.00                           | 3.09         | 742290BD0     |
| 2023                                | 1,300,000                         | 3.00                           | 1.85         | 742290AU3     | 2033                                | 1,600,000                         | 3.00                           | 3.17         | 742290BE8     |
| 2024                                | 1,350,000                         | 3.00                           | 1.95         | 742290AV1     | 2034                                | 1,600,000                         | 3.00                           | 3.24         | 742290BF5     |
| 2025                                | 1,395,000                         | 3.00                           | 2.05         | 742290AW9     | 2035                                | 1,600,000                         | 3.00                           | 3.32         | 742290BG3     |
| 2026                                | 1,445,000                         | 3.00                           | 2.15         | 742290AX7     | 2036                                | 1,600,000                         | 3.00                           | 3.38         | 742290BH1     |
| 2027                                | 1,495,000                         | 3.00                           | 2.30**       | 742290AY5     | 2037                                | 1,600,000                         | 3.00                           | 3.44         | 742290BJ7     |
| 2028                                | 1,545,000                         | 3.00                           | 2.45**       | 742290AZ2     | 2038                                | 1,600,000                         | 3.00                           | 3.49         | 742290BK4     |
| 2029                                | 1,595,000                         | 3.00                           | 2.60**       | 742290BA6     |                                     |                                   |                                |              |               |

The Bonds are offered when, as and if issued and delivered to the Underwriter, 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 in connection with the issuance of the Bonds. Delivery is anticipated to be via DTC in New York, New York on or about January 23, 2019.

CITIGROUP

\* 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 Board 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.

\*\* Priced at the stated yield to the first optional redemption date of July 15, 2026 at a redemption price of 100%.

**THE BOARD OF EDUCATION OF PRINCETON  
IN THE COUNTY OF MERCER, NEW JERSEY**

**MEMBERS OF THE BOARD**

Beth Behrend, President  
Gregory Stankiewicz, Vice President  
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Daniel Dart  
Jessica Deutsch  
William Hare  
Brian McDonald  
Michele Tuck-Ponder  
Evelyn Spann, Cranbury Representative

**SUPERINTENDENT**

Stephen C. Cochrane

**BUSINESS ADMINISTRATOR/BOARD SECRETARY**

Stephanie Kennedy

**AUDITOR**

Wiss & Company, LLP  
Livingston, New Jersey

**BOARD ATTORNEY**

Frank P. Cavallo, Jr., Esquire  
Parker McCay P.A.  
Mount Laurel, New Jersey

**MUNICIPAL ADVISOR**

Phoenix Advisors, LLC  
Bordentown, New Jersey

**BOND COUNSEL**

McManimon, Scotland & Baumann, LLC  
Roseland, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Board 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 Board and other sources deemed reliable; however, no representation is made as to the accuracy or completeness of information from sources other than the Board. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. 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 made 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 Board during normal business hours.

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 Board or the Underwriter.

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

In order to facilitate the distribution of the Bonds, the Underwriter may engage in transactions intended to stabilize the price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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**OFFICIAL STATEMENT  
OF  
THE BOARD OF EDUCATION OF PRINCETON  
IN THE COUNTY OF MERCER, NEW JERSEY**

**\$26,928,000  
SCHOOL BONDS  
(BOOK-ENTRY-ONLY) (CALLABLE)**

**INTRODUCTION**

This Official Statement, which includes the front cover page and the appendices attached hereto, has been prepared by The Board of Education of Princeton in the County of Mercer, New Jersey (the “Board” when referring to the governing body and legal entity and the “School District” when referring to the territorial boundaries governed by the Board) in connection with the sale and issuance of its \$26,928,000 School Bonds (the “Bonds”). This Official Statement has been executed by and on behalf of the Board by the Business Administrator/Board Secretary, and its distribution and use in connection with the sale of the Bonds have been authorized by the Board.

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

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

**DESCRIPTION OF THE BONDS**

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

**Terms and Interest Payment Dates**

The Bonds shall be dated the date of delivery and shall mature on July 15 in each of the years and in the amounts set forth on the front cover page hereof. The Bonds shall bear interest from the date of delivery, which interest shall be payable semi-annually on the fifteenth day of January and July, commencing on July 15, 2019 (each an “Interest Payment Date”), in each of the years and at the interest rates set forth on the front cover page hereof in each year until maturity, or earlier redemption, by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each January 1 and July 1 immediately preceding the respective Interest Payment Dates (the “Record Dates”). Interest on the Bonds shall be calculated on the basis of a 360-day year of twelve 30-day calendar months. So long as The Depository Trust Company, New York, New York (“DTC”) or its nominee Cede & Co. (or any successor or assign) is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

The Bonds will be issued in fully registered book-entry-only form, without certificates. One certificate shall be issued for the aggregate principal amount of Bonds maturing in each year, and when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Bonds. The certificates will be on deposit with DTC. DTC will be responsible for maintaining a book-entry system for recording the interests of its participants and transfers of the interests among its participants. The participants will be responsible for maintaining records regarding the beneficial ownership interests in the Bonds on behalf of the individual purchasers. Individual purchases may be made in the principal amount of \$1,000 or any integral multiple thereof, with a minimum purchase of \$5,000, through book entries made on the books and the records of DTC and its participants. Individual purchasers of the Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each book-entry owner will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial transaction statement stating the details of the Bonds purchased. *See* “BOOK-ENTRY-ONLY SYSTEM” herein.

## **Redemption**

The Bonds maturing prior to July 15, 2027 are not subject to redemption prior to maturity. The Bonds maturing on or after July 15, 2027 shall be subject to redemption at the option of the Board, in whole or in part, on any date on or after July 15, 2026 at a price of 100% of the Bonds to be redeemed (the “Redemption Price”), plus unpaid accrued interest to the date fixed for redemption.

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

If notice of redemption has been given as provided 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. Interest shall cease to accrue on and after such redemption date.

## **Security for the Bonds**

The Bonds are valid and legally binding general obligations of the Board, and the Board 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 property within the School District without limitation as to rate or amount except to the extent that enforcement of such payment may be limited by bankruptcy, insolvency or other similar laws on equitable principles effecting the enforcement of creditors’ rights generally.

## **New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 et seq.)**

All school bonds are secured by the School Bond Reserve (the “School Bond Reserve”) established in the Fund for the Support of Free Public Schools of the State of New Jersey (the “Fund”) in accordance with the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c. 72, approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003 (the “Act”)). Amendments to the



Act provide that the Fund will be divided into two School Bond Reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1-1/2% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued prior to July 1, 2003 (the "Old School Bond Reserve Account") and all bonds, including the Bonds, issued on or after July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued on or after July 1, 2003 (the "New School Bond Reserve Account"), provided such amounts do not exceed the moneys available in the Fund. If a municipality, county or school district is unable to make payment of principal of or interest on any of its bonds issued for school purposes, the trustees of the Fund will purchase such bonds at par value and will pay to the bondholders the interest due or to become due within the limits of funds available in the applicable School Bond Reserve account in accordance with the provisions of the Act.

The Act provides that the School Bond Reserve shall be composed entirely of direct obligations of the United States government or obligations guaranteed by the full faith and credit of the United States government. Securities representing at least one-third of the minimal market value to be held in the School Bond Reserve shall be due to mature within one year of issuance or purchase. Beginning with the fiscal year ending on June 30, 2003 and continuing on each June 30 thereafter, the State Treasurer shall calculate the amount necessary to fully fund the Old School Bond Reserve Account and the New School Bond Reserve Account as required pursuant to the Act. To the extent moneys are insufficient to maintain each account in the School Bond Reserve at the required levels, the State agrees that the State Treasurer shall, no later than September 15 of the fiscal year following the June 30 calculation date, pay to the trustees for deposit in the School Bond Reserve such amounts as may be necessary to maintain the Old School Bond Reserve Account and the New School Bond Reserve Account at the levels required by the Act. No moneys may be borrowed from the Fund to provide liquidity to the State unless the Old School Bond Reserve Account and the New School Bond Reserve Account each are at the levels certified as full funding on the most recent June 30 calculation date. The amount of the School Bond Reserve in each account is pledged as security for the prompt payment to holders of bonds benefited by such account of the principal of and the interest on such bonds in the event of the inability of the issuer to make such payments. In the event the amounts in either the Old School Bond Reserve Account or the New School Bond Reserve Account fall below the amount required to make payments on bonds, the amounts in both accounts are available to make payments for bonds secured by the School Bond Reserve.

The Act further provides that the amount of any payment of interest or purchase price of school bonds paid pursuant to the Act shall be deducted from the appropriation or apportionment of State aid, other than certain State aid which may be otherwise restricted pursuant to law, payable to the school district, county or municipality and shall not obligate the State to make, nor entitle the school district, county or municipality to receive any additional appropriation or apportionment. Any amount so deducted shall be applied by the State Treasurer to satisfy the obligation of the school district, county or municipality arising as a result of the payment of interest or purchase price of bonds pursuant to the Act.

### **AUTHORIZATION AND PURPOSE**

The School District is issuing the Bonds pursuant to: (i) Chapter 24 of Title 18A of the New Jersey (the "State") Statutes, as amended and supplemented (the "School Bond Act"); (ii) a resolution duly adopted by the Board on December 18, 2018 (the "Resolution"); and (iii) a proposal adopted by the Board on October 9, 2018 and approved by a majority of the legal voters present and voting at the School District election held on December 11, 2018.

The Bonds are being issued to provide funds for the construction of an addition, alterations, renovations, improvements and athletic improvements at Community Park Elementary School, Johnson Park Elementary School, Littlebrook Elementary School, Riverside Elementary School and John

Witherspoon Middle School and Princeton High School, including acquisition and installation of furnishings, fixtures, equipment and site work (collectively, the “Project”). The Board is authorized to expend an amount not to exceed \$26,928,351 for the Project (of which, \$21,678,410 represents eligible costs (the “Final Eligible Costs”), as determined by the Commissioner of Education), for which the State has agreed to pay approximately 40.0% of the debt service on the portion of the Bonds (including both principal and interest) issued to finance the Final Eligible Costs of the Project. The remaining payments of the Bonds issued to finance the portion of the Project not eligible for State support will not receive debt service aid.

### **BOOK-ENTRY-ONLY SYSTEM<sup>1</sup>**

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, and other payments on the Bonds to DTC Participants or Beneficial Owners 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 Board. Accordingly, the Board 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 Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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 Participants’ 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

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<sup>1</sup> Source: The Depository Trust Company

transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry 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 affect 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 Participants or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Board as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments 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 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

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

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

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

**THE BOARD 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.**

### **Discontinuance of Book-Entry-Only System**

In the event that the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Board/paying agent; (ii) the transfer of any Bonds may be registered on the books maintained by the paying agent for such purposes only upon the surrender thereof to the Board/paying agent together with the duly executed assignment in form satisfactory to the Board/paying agent; and (iii) for every exchange or registration of transfer of Bonds, the Board/paying agent may make a charge sufficient to reimburse for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds. Interest on the Bonds will be payable by check or draft, mailed on each Interest Payment Date to the registered owners thereof as of the close of business on the Record Date, whether or not a business day, next preceding an Interest Payment Date.

### **THE SCHOOL DISTRICT AND THE BOARD**

The School District is a Type II school district and provides a full range of educational services appropriate to Pre-Kindergarten (Pre-K) through grade twelve (12). The School District is coterminous with the boundaries of Princeton ("Princeton"), in Mercer County (the "County"). Students from the Township of Cranbury ("Cranbury") attend the School District for grades nine (9) through twelve (12) as part of a sending/receiving relationship.

The Board is a nine (9) member board with members elected for staggered three (3) year terms. Pursuant to State statute, the Board appoints a Superintendent and Business Administrator/Board Secretary. Cranbury is granted a seat on the Board pursuant to N.J.S.A. 18A:38-8.1 et seq. The appointed Cranbury representative has all of the voting rights as prescribed in the statute cited.

### **THE STATE'S ROLE IN PUBLIC EDUCATION**

The Constitution of the State provides that the legislature of the State shall provide for the maintenance and support of a thorough and efficient system of free public schools for the instruction of all children in the State between the ages of 5 and 18 years. Case law has expanded the responsibility to include children between the ages of 3 and 21.

The responsibilities of the State with respect to the general supervision and control of public education have been delegated to the New Jersey Department of Education (the "Department"), which is a

part of the executive branch of the State government and was created by the State Legislature. The Department is governed and guided by the policies set forth by the New Jersey Board of Education (the “State Board”). The State Board is responsible for the general supervision and control of public education and is obligated to formulate plans and to make recommendations for the unified, continuous and efficient development of public education of all people of all ages within the State. To fulfill these responsibilities, the State Board has the power, *inter alia*, to adopt rules and regulations that have the effect of law and that are binding upon school districts.

The Commissioner of Education (the “Commissioner”) is the chief executive and administrative officer of the Department. The Commissioner is appointed by the Governor of the State with the advice and consent of the State Senate, and serves at the pleasure of the Governor during the Governor’s term of office. The Commissioner is Secretary and Chief Executive Officer of the State Board and is responsible for the supervision of all school districts in the State and is obligated to enforce the rules and regulations of the State Board. The Commissioner has the authority to recommend the withholding of State financial aid and the Commissioner’s consent is required for authorization to sell school bonds that exceed the debt limit of the municipality in which the school district is located and may also set the amount to be raised by taxation for a board of education if a school budget has not been adopted by a board of school estimate or by the voters.

An Executive County Superintendent of Schools (the “County Superintendent”) is appointed for each county in the State by the Governor, upon the recommendation of the Commissioner and with the advice and consent of the State Senate. The County Superintendent reports to the Commissioner or a person designated by the Commissioner. The County Superintendent is responsible for the daily supervision of the school districts in the county and is charged with the enforcement of rules pertaining to the certification of teachers, pupil registers and financial reports and the review of budgets. Under the Uniform Shared Services and Consolidation Act, P.L. 2007, c. 63 approved April 3, 2007 (A4), the role of the County Superintendent was changed to create the post of the Executive County Superintendent with expanded powers for the operation and management of school districts to, among other things, promote administrative and operational efficiencies, eliminate non-operating school districts and recommend a school district consolidation plan to eliminate school districts through the establishment or enlargement of regional school districts, subject to voter approval.

## **STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY**

### **Categories of School Districts**

State school districts are characterized by the manner in which the board of education or the governing body takes office. School districts are principally categorized in the following categories:

(1) Type I, in which the mayor or chief executive officer (“CEO”) of a municipality appoints the members of a board of education and a board of school estimate, which board of school estimate consists of two (2) members of the board of education, two (2) members of the governing body of the municipality and the mayor or CEO of the municipality comprising the school district, approves fiscal matters;

(2) Type II, in which the registered voters in a school district elect the members of a board of education and either (a) the registered voters may also vote upon fiscal matters, or (b) a board of school estimate, consisting of two (2) members of the governing body of and the CEO of each municipality within the school district and the president of and one member of the board of education, approves all fiscal matters;

(3) Regional and consolidated school districts comprising the territorial boundaries of more than one municipality in which the registered voters in the school district elect members of the board of

education and may vote upon fiscal matters. Regional school districts may be “All Purpose Regional School Districts” or “Limited Purpose Regional School Districts”;

(4) State operated school districts created by the State Board, pursuant to State law, when a local board of education cannot or will not correct severe educational deficiencies;

(5) County vocational school districts have boards of education consisting of the County Superintendent and four (4) members unless it is a county of the first class, which adopted an ordinance, in which case it can have a board consisting of seven (7) appointed members which the board of chosen freeholders of the county appoints. Such vocational school districts shall also have a board of school estimate, consisting of two (2) members appointed by the board of education of the school district, two (2) members appointed by the board of chosen freeholders and a fifth member being the county executive or the director of the board of chosen freeholders of the county, which approves fiscal matters; and

(6) County special services school districts have boards of education consisting of the County Superintendent and six (6) persons appointed by the board of chosen freeholders of the county. Such special services school districts shall also have a board of school estimate, consisting of two (2) members appointed by the board of education of the school district, two (2) members appointed by the board of chosen freeholders and a fifth member being the freeholder-director of the board of chosen freeholders, which approves all fiscal matters.

There is a procedure whereby a Type I school district or a Type II school district may change from one type to the other after an approving public referendum. Such a public referendum must be held whenever directed by the municipal governing body or board of education in a Type I school district, or the board of education in a Type II school district, or when petitioned for by fifteen percent (15%) of the voters of any school district. The School District is a Type II school district without a board of school estimate.

Under the Uniform Services and Consolidation Act, the Executive County Superintendent is required to eliminate non-operating school districts and to recommend consolidation to eliminate school districts through the establishment or enlargement of regional school districts, subject to voter approval.

### **School Budgetary Process (N.J.S.A. 18A:22-1 et seq.)**

In a Type I school district, a separate body from the school district, known as the board of school estimate, examines the budget requests and fixes the appropriation amounts for the next year’s operating budget at or after a public hearing. This board, whose composition is fixed by statute, certifies the budget to the municipal governing body or board of education. If the board of education disagrees with the certified budget of the board of school estimate, then it can appeal to the Commissioner to request changes.

In a Type II school district, the elected board of education develops the budget proposal and, at or after a public hearing, submits it for voter approval unless the board has moved its annual election to November as described below. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing body of the constituent municipalities must develop the school budget by May 19 of each year. Should the governing body be unable to do so, the Commissioner establishes the local school budget.

The Budget Election Law (P.L. 2011, c.202, effective January 17, 2012) established procedures that allow the date of the annual school election of a Type II school district, without a board of school estimate, to be moved from April to the first Tuesday after the first Monday in November, to be held simultaneously with the general election. Such change in the annual school election date must be authorized by resolution of either the board of education or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters,

is filed with the board of education. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four years.

School districts that opt to move the annual school election to November are no longer required to submit the budget to the voters for approval if the budget is at or below the two-percent property tax levy cap as provided for by the 2% Tax Levy Cap Law. For school districts that opt to change the annual school election date to November, proposals to spend above the two-percent property tax levy cap would be presented to voters at the annual school election in November.

The Board conducts its annual elections in November.

### **Spending Growth Limitation**

CEIFA (as hereinafter defined) places limits on the amount school districts can increase their annual current expenses and capital outlay budgets, and such limits are known as a school district's spending growth limitation amount (the "Spending Growth Limitation"). See "SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT" herein.

## **SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT**

### **Levy and Collection of Taxes**

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

### **Budgets and Appropriations**

School districts in the State must operate on an annual cash basis budget. Each school district must adopt an annual budget in such detail and upon forms as prescribed by the Commissioner, to which must be attached an itemized statement showing revenues, including State and federal aid, and expenditures. The Commissioner must approve a budget prior to its final adoption and has the power to increase or decrease individual line items in a budget. Any amendments to a school district's budget must be approved by the board of education or the board of school estimate, as the case may be. Every budget submitted must provide no less than the minimum permissible amount deemed necessary under State law to provide for a thorough and efficient education as mandated by the State constitution. The Commissioner may not approve any budget unless the Commissioner is satisfied that the school district has adequately implemented within the budget the Core Curriculum Content Standards required by State law. If necessary, the Commissioner is authorized to order changes in the local school district's budget. The Commissioner will also ensure that other provisions of law are met including the limitations on taxes and spending explained below.

### **Tax and Spending Limitations**

The Public School Education Act of 1975, N.J.S.A. 18A:7A-1 *et seq.*, P.L. 1975, c. 212 (as amended and partially repealed) first limited the amount of funds that could be raised by a local school district. It limited the annual increase of any school district's net current expense budget. The budgetary limitation was known as a "CAP" on expenditures. The "CAP" was intended to control the growth in local property taxes. Subsequently there have been numerous legislative changes as to how the spending limitations would be applied.

The Quality Education Act of 1990, N.J.S.A. 18A:7D-1 et seq., P.L. 1990, c. 52 (“QEA”) (now repealed) also limited the annual increase in the school district’s current expense and capital outlay budgets by a statutory formula linked to the annual percentage increase in per capita income. The QEA was amended and revised by Chapter 62 of the Laws of New Jersey of 1991, and further amended by Chapter 7 of the Laws of New Jersey of 1993.

The Comprehensive Educational Improvement and Financing Act of 1996, N.J.S.A. 18A:7F-1 et seq., P.L. 1996, c. 138 (“CEIFA”) (as amended by P.L. 2004, c.73, effective July 1, 2004), which followed QEA, also limited the annual increase in a school district’s net budget by a spending growth limitation. CEIFA limited the amount school districts could increase their annual current expenses and capital outlay budgets, defined as a school district’s “Spending Growth Limitation”. Generally, budgets could increase by either a set percent or the consumer price index, whichever was greater. Amendments to CEIFA lowered the budget cap to 2.5% from 3%. Budgets could also increase because of certain adjustments for enrollment increases, certain capital outlay expenditures, pupil transportation costs, and special education costs that exceeded \$40,000 per pupil. Waivers were available from the Commissioner based on increasing enrollments and other fairly narrow grounds and increases higher than the cap could be approved by a vote of 60% at the annual school election.

P.L. 2007, c. 62, effective April 3, 2007 (Assembly Bill A1), provided additional limitations on school district spending by limiting the amount a school district could raise for school district purposes through the property tax levy by 4% over the prior budget year’s tax levy. P.L. 2007, c. 62 provided for adjustments to the cap for increases in enrollment, reductions in State aid and increased health care costs and for certain other extraordinary cost increases that required approval by the Commissioner. The bill granted discretion to the Commissioner to grant other waivers from the cap for increases in special education costs, capital outlay, and tuition charges. The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

P.L. 2007, c. 62 was deemed to supersede the prior limitations on the amount school districts could increase their annual current expenses and capital outlay budgets, created by CEIFA (as amended by P.L. 2004, c.73, effective July 1, 2004). However, Chapter 62 was in effect only through fiscal year 2012. Without an extension of Chapter 62 by the legislature, the Spending Growth Limitations on the general fund and capital outlay budget would be in effect.

Debt service was not limited either by the Spending Growth Limitations or the 4% cap on the tax levy increase imposed by Chapter 62.

The previous legislation was amended by P.L. 2010, c. 44, approved July 13, 2010 and became applicable to the next local budget year following enactment. This law limits the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election (the “Tax Levy Cap Law”). Additionally, also becoming effective in the 2011-2012 fiscal year, a school district that has not been granted approval to exceed the tax levy CAP by a separate proposal to bank the unused tax levy for use in any of the next three succeeding budget years. A school district can request a use of “banked CAP” only after it has fully exhausted all eligible statute spending authority in the budget year. The process for obtaining waivers from the Commissioner for additional increases over the tax levy cap or Spending Growth Limitations was eliminated under Chapter 44. Notwithstanding the foregoing, under P.L. 2018, c. 67, approved, July 24, 2018, which increases State school aid to underfunded school districts and decreases state school aid to over funded school districts, during the 2018-2019 through 2024-2025 fiscal years, SDA Districts, which are certain urban districts formerly referred to as Abbott Districts referred to herein under “SUMMARY OF STATE AID TO SCHOOL DISTRICTS”, are permitted



increases in the tax levy over the 2% limit to raise a general fund tax levy to an amount that does not exceed its local share of the adequacy budget.

The restrictions are solely on the tax levy for the general fund and are not applicable to the debt service fund. There are no restrictions on a local school district's ability to raise funds for debt service, and nothing would limit the obligation of a school district to levy *ad valorem* taxes upon all taxable real property within the school district to pay debt service on its bonds or notes with one exception. School districts are subject to GAAP accounting, and under GAAP interest on obligations maturing within one year must be treated as operating expenses. Accordingly, under the Department of Education's Chart of Accounts, interest on notes is raised in the General Fund of a school district and therefore is counted within its 2% tax levy cap on spending.

### **Issuance of Debt**

Among the provisions for the issuance of school debt are the following requirements: (i) bonds must mature in serial installments within the statutory period of usefulness of the projects being financed but not exceeding forty (40) years; (ii) bonds shall be issued pursuant to an ordinance adopted by the governing body of the municipality comprised within the school district for a Type I school district; (iii) for Type II school districts (without boards of school estimate) bonds shall be issued by board of education resolution approving the bond proposal and by approval of the legally qualified voters of the school district; (iv) debt must be authorized by a resolution of a board of education (and approved by a board of school estimate in a Type I school district); and (v) there must be filed with the State by each municipality comprising a school district a supplemental debt statement and a school debt statement setting forth the amount of bonds and notes authorized but unissued and outstanding for such school district.

### **Annual Audit (N.J.S.A. 18A:23-1 et seq.)**

Every board of education is required to provide an annual audit of the school district's accounts and financial transactions. A licensed public school accountant must complete the annual audit no later than five (5) months after the end of the fiscal year. The audit, in conformity with statutory requirements, must be filed with the board of education and the Commissioner. Additionally, the audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days following receipt of the annual audit by such board of education.

### **Temporary Financing (N.J.S.A. 18A:24-3)**

Temporary notes may be issued in anticipation of the issuance of permanent bonds for a capital improvement or capital project. Such temporary notes may not exceed in the aggregate the amount of bonds authorized for such improvement or project. A school district's temporary notes may be issued for one (1) year periods, with the final maturity not exceeding five (5) years from the date of original issuance; provided, however, that no such notes shall be renewed beyond the third and fourth anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which said notes are issued, is paid and retired subsequent to such third anniversary date from funds other than the proceeds of obligations.

### **Refunding Bonds**

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

## **Debt Limitation (N.J.S.A. 18A:24-19)**

Except as provided below, no additional debt shall be authorized if the principal amount, when added to the net debt previously authorized, exceeds a statutory percentage of the average equalized valuation of taxable property in a school district. As a pre-kindergarten (PreK) through grade twelve (12) school district, the Board can borrow up to 4% of the average equalized valuation of taxable property in the School District. The Board has not exceeded its 4% debt limit. See “APPENDIX A – Debt Limit of the Board.”

## **Exceptions to Debt Limitation**

A Type II school district (other than a regional school district) may also utilize its constituent municipality’s remaining statutory borrowing power (i.e., the excess of 3.5% of the average equalized valuation of taxable property within the constituent municipality over the constituent municipality’s net debt). A school district may also authorize debt in excess of this limit with the consent of the Commissioner and the Local Finance Board.

## **Capital Lease Financing**

School districts are permitted to enter into lease purchase agreements for the acquisition of equipment or for the improvement of school buildings. Generally, lease purchase financings must mature within five years except for certain lease purchase financings of energy savings equipment and other energy conservation measures, which may mature within fifteen (15) years and in certain cases twenty (20) years from the date the project is placed in service, if paid from energy savings (see “Energy Savings Obligations” below). Facilities lease purchase agreements, which may only be financed for a term of five (5) years or less, must be approved by the Commissioner. The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72, effective July 18, 2000, as amended (“EFCFA”) repealed the authorization to enter into facilities leases for a term in excess of five years. The payment of rent is treated as a current expense and within the school district’s Spending Growth Limitation and tax levy cap, and the payment of rent on an ordinary equipment lease and on a five year and under facilities lease is subject to annual appropriation. Lease purchase payments on leases in excess of five years entered into under prior law (CEIFA) are treated as debt service payments and, therefore, will receive debt service aid if the school district is entitled and are outside the school district’s Spending Growth Limitation and tax levy cap.

## **Energy Saving Obligations**

Under N.J.S.A. 18A:18A-4.6 (P.L. 2009, c. 4, effective March 23, 2009, as amended by P.L. 2012, c. 55, effective September 19, 2013), the Energy Savings Improvement Program Law or the “ESIP Law,” school districts may issue energy savings obligations as refunding bonds without voter approval or lease purchase agreements to fund certain improvements that result in reduced energy use, facilities for production of renewable energy or water conservation improvements, provided that the value of the savings will cover the cost of the measures. The lease purchase financings for such measures must mature within 15 years, or in certain instances 20 years, from the date the projects are placed in service. These energy savings refunding bonds or leases are payable from the general fund. Such payments are within the school district’s Spending Growth Limitation and tax levy cap but are not necessarily subject to annual appropriation.

## **Promissory Notes for Cash Flow Purposes**

N.J.S.A. 18A:22-44.1 permits school districts to issue promissory notes in an amount not exceeding ½ the amount appropriated for current general fund expenses. These promissory notes are not considered debt and are used for cash flow purposes including funding in anticipation of the receipt of taxes, other revenues or grants.

## Investment of School Funds

Investment of funds by New Jersey school districts is governed by State statute. Pursuant to N.J.S.A. 18A:20-37, school districts are limited to purchasing the following securities: (1) direct obligations of, or obligations guaranteed by, the United States of America (“Government Obligations”); (2) U.S. Government money market mutual funds; (3) obligations of Federal Government agencies or instrumentalities having a maturity of 397 days or less, provided such obligations bear a fixed rate of interest not dependent on any index or external factor; (4) bonds or other obligations of the particular school district or municipalities or counties within which the school district is located; (5) bonds or other obligations having a maturity of 397 days or fewer approved by the Division of Investment of the State Department of the Treasury; (6) local government investment pools, rated in the highest rating category, investing in U.S. government securities and repurchase agreements fully collateralized by securities set forth in (1) and (3) above; (7) deposits with the New Jersey Cash Management Fund (created pursuant to N.J.S.A. 52:18A-90.4; the “Cash Management Fund”); and (8) repurchase agreements with a maximum 30 day maturity fully collateralized by securities set forth in (1) and (3) above. School districts are required to deposit their funds in interest-bearing bank accounts in banks satisfying certain security requirements set forth in N.J.S.A. 17:9-41 et seq. or invest in permitted investments to the extent practicable, and may invest in bank certificates of deposit.

The Cash Management Fund is governed by regulations of the State Investment Council, a nonpartisan oversight body, and is not permitted to invest in derivatives. The Cash Management Fund is permitted to invest in Government Obligations, Federal Government Agency obligations, certain short-term investment-grade corporate obligations, commercial paper rated “prime”, certificates of deposit, repurchase agreements involving Government Obligations and Federal Government Agency obligations and certain other types of instruments. The average maturity of these securities in the Cash Management Fund must be one year or less, and only a quarter of the securities are permitted to mature in as much as two years.

The Board has no investments in derivatives.

## SUMMARY OF STATE AID TO SCHOOL DISTRICTS

In 1973, the Supreme Court of the State (the “Court”) first ruled in Robinson v. Cahill that the method then used to finance public education principally through property taxation was unconstitutional. Pursuant to the Court’s ruling, the State Legislature enacted the Public School Education Act of 1975, N.J.S.A. 18A:7A-1 et seq. (P.L. 1975, c. 212) (the “Public School Education Act”) (since amended and partially repealed), which required funding of the State’s school aid through the New Jersey Gross Income Tax Act, P.L. 1976, c. 47, since amended and supplemented, enacted for the purpose of providing property tax relief.

On June 5, 1990, the Court ruled in Abbott v. Burke that the school aid formula enacted under the Public School Education Act was unconstitutional as applied. The Court found that poorer urban school districts were significantly disadvantaged under that school funding formula because school revenues were derived primarily from property taxes. The Court found that wealthy school districts were able to spend more, yet tax less for educational purposes.

Since that time there has been much litigation and many cases affecting the State’s responsibilities to fund public education and many legislative attempts to distribute State aid in accordance with the court cases and the constitutional requirement. The cases addressed not only current operating fund aid but also addressed the requirement to provide facilities aid as well. The legislation has included QEA, CEIFA and EFCFA, which became law on July 18, 2000. For many years, aid has simply been determined in the State Budget, which itself is an act of the legislature, based upon amounts provided in prior years. The school

funding formula provided in the School Funding Reform Act of 2008, P.L. 2007, c. 260, approved January 1, 2008 (A500), attempts to remove the special status given to certain school districts known as Abbott Districts after the school funding cases and instead has funding follow students with certain needs and provides aid in a way that takes into account the ability of the local school district to raise local funds to support the budget in amounts deemed adequate to provide for a thorough and efficient education as required by the State constitution. This legislation was challenged in the Court, and the Court held that the State's then current plan for school aid was a "constitutionally adequate scheme". However, the State continued to underfund certain school districts and to overfund other school districts in its budgets based on the statutory scheme. In its budget process for FY 2019 and with the enactment of P.L. 2018, c. 67, approved July 24, 2018, the State is moving the school districts toward the intent of the statutory scheme by increasing funding for underfunded school districts and decreasing funding for overfunded school districts over the next six years and providing cap relief for overfunded school districts to enable them to pick up more of the local share.

Notwithstanding over 35 years of litigation, the State provides State aid to school districts of the State in amounts provided in the State Budget each year. These now include equalization aid, special education categorical aid, transportation aid, preschool education aid, instructional supplement aid, supplemental core curriculum standards aid, distance learning network aid, bilingual aid, security aid, adjustment aid and other aid determined in the discretion of the Commissioner.

State law requires that the State will provide aid for the construction of school facilities in an amount equal to the greater of the district aid percentage or 40% times the eligible costs determined by the Commissioner either in the form of a grant or debt service aid as determined under the EFCFA. The amount of aid to which a school district is entitled is established prior to the authorization of the project. Grant funding is provided by the State upfront and debt service aid must be appropriated annually by the State.

The State reduced debt service aid by fifteen percent (15%) for fiscal years 2011 through 2018. As a result of the debt service aid reduction for those fiscal years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, school districts which received grants under the EFCFA, which grants were financed through the New Jersey Economic Development Authority (the "EDA"), were assessed an amount in their fiscal years 2011 through 2018 budgets representing 15% of the school district's proportionate share of the principal and interest payments on the outstanding EDA bonds issued to fund such grants.

Pursuant to Public Law 2018, c.67, signed into law by the Governor of the State on July 24, 2018, the School Funding Reform Act has been modified to adjust the distribution of State aid to school districts in the State ("SFRA Modification Law"). In particular, the SFRA Modification Law revises the School Funding Reform Act so that, after calculating the amount of State aid available per pupil, State aid will be distributed to each school district based on student enrollment. The SFRA Modification Law also eliminates the application of the State aid growth limit and adjustment aid, but includes a transition period for school districts that will receive less State aid. Under the SFRA Modification Law, most school districts that will receive reduced State aid resulting from the revised funding formula will be provided a transition period from the 2019-2020 school year through the 2024-2025 school year during which funding will be reduced. For those school districts where State aid will increase under the SFRA Modification Law, the transition period to increase funding will be one-year.

## **SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS**

Federal funds are available for certain programs approved by the federal government with allocation decided by the State, which assigns a proportion to each local school district. The Every Student Succeeds Act of 2015, enacted December 10, 2015, is a federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is

available under Chapter 1 Aid. Such federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

## **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 five percent (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 Princeton are general full faith and credit obligations.

The authorized bonded indebtedness of a municipality for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3.5% of its average equalized valuation basis. See “SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT – Debt Limitation (N.J.S.A. 18A:24-19) and Exception to Debt Limitation.”

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.

A municipality may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency (the “Local Finance Board), and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the municipality 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 municipality or substantially reduce the ability of the municipality 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 a municipality 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).

A municipality may sell short-term “bond anticipation notes” to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. A local unit’s bond anticipation notes must mature within one year, but may be renewed or rolled over. Bond anticipation notes, including renewals, must mature and be paid no later than the first day of the fifth month following the close of the tenth fiscal year next following the date of the original notes. For bond ordinances adopted on or after February 3, 2003, notes may only be renewed beyond the third anniversary date of the original notes if a minimum payment equal to the first year’s required principal payment on the bonds is paid to retire a portion of the notes on or before each subsequent anniversary date from funds other than the proceeds of bonds or notes. For bond ordinances adopted prior to February 3, 2003, the governing body may elect to make such minimum principal payment only when the notes are renewed beyond the third and fourth anniversary dates. Generally, bond anticipation notes may not be outstanding for longer than ten (10) 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 four (4) months 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 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 State local finance system is the annual cash basis budget. Every local unit must adopt an annual operating budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the director of the Division (the “Director”) prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations, among others, for certification.

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

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

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

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

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

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. The maximum amount of delinquent taxes that may be anticipated is limited by a statutory formula, which allows the 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 the last day of that fiscal year. The budget also must provide for any cash deficits of the prior year.

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

The exceptions are certain enumerated quasi-capital projects (“special emergencies”) such as ice, snow and flood damage to streets, roads and bridges, which may be amortized over three (3) years, and tax map preparation, revaluation programs, revision and codification of ordinances, master plan preparations, and drainage map preparation for flood control purposes, which may be amortized over five (5) years. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project.

Budget transfers provide a degree of flexibility and afford a control mechanism. Transfers between appropriation accounts may be made only during the last two (2) 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 "CAP" 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". 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 two and one-half percent (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 three and one-half percent (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 three and one-half percent (3.5%) over the prior year's tax levy in years when the Index Rate is two and one-half percent (2.5%) or less.

Additionally, legislation constituting P.L. 2007, c. 62, effective April 3, 2007, imposed a 4% cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments. The exclusions from the limit included increases required to be raised for debt service and certain lease payments to county improvement authorities, increases to replace certain lost State aid, increases in certain pension contributions, increases in the reserve for uncollected taxes required for municipalities, and certain increases in health care costs over four percent (4%). The Local Finance Board was able to approve waivers for certain extraordinary costs identified by the statute, and voters could approve increases above four percent (4%) not otherwise permitted by a vote of 60% of the voters voting on a public question.

This legislation has now been amended by P.L. 2010, c. 44, approved July 13, 2010 and applicable to the next local budget year following enactment to limit tax levy increases for those local units to two percent (2%) with exceptions only for capital expenditures including debt service, increases in pension contributions and accrued liability for pension contributions in excess of two percent (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. Chapter 44 eliminates the process for obtaining waivers for additional spending under the tax levy limitation.

Neither the tax levy limitation nor the "Cap Law" limits, including the provisions of the recent legislation, would limit the obligation of a municipality to levy *ad valorem* taxes upon all taxable real property within a municipality 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 result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners, but it often results in a divergence of the assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

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

Tax bills are mailed annually in June by the 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 eight percent (8%) per annum on the first \$1,500.00 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500.00. These interest penalties are the highest permitted under State statutes. If a delinquency is in excess of \$10,000.00 and remains in arrears after December 31st, an additional penalty of six percent (6%) shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

### **Tax Appeals**

The State Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. Prior to February 1 in each year, the municipality must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board 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's 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 thirty (30) days of its submission.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Board for the year ended June 30, 2017 are presented in Appendix B to this Official Statement (the "Audited Financial Statements"). The Audited Financial Statements have been audited by Wiss & Company, LLP, Livingston, New Jersey, an independent auditor (the "Auditor"). Also included in Appendix B is certain unaudited financial information of the Board as of and for the year ended June 30, 2018 (collectively, with the Audited Financial Statements, the "Financial Statements"). See "APPENDIX B - Financial Statements of The Board of Education of Princeton in the County of Mercer, New Jersey".

## **LITIGATION**

To the knowledge of the Board Attorney, Frank P. Cavallo, Jr., Esquire, Parker McCay P.A., Mount Laurel, New Jersey (the "Board 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 Board or the School District or the title of any of the present officers. To the knowledge of the Board Attorney, no litigation is presently pending or threatened that, in the opinion of the Board Attorney, would have a material adverse impact on the financial condition of the Board if adversely decided. A certificate to such effect will be executed by the Board Attorney and delivered to the Underwriter (as hereinafter defined) 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 Board 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 Board 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 Board 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. McManimon, Scotland & Baumann, LLC ("Bond Counsel") will rely upon the representations made in the Arbitrage and Tax Certificate and will assume continuing compliance by the Board 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 Board observes its covenants with respect to compliance with the Code, Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, and interest on the

Bonds is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax.

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 Board 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 Board 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.

### **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. 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.

### **Bank Qualification**

The Bonds will not be designated as qualified under Section 265 of the Code by the Board 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.

### **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 Board should be considered with reference to 11 U.S.C. 401 *et seq.*, as amended and supplemented (the “Bankruptcy Code”), and other bankruptcy laws affecting creditors’ rights and municipalities in general. The Bankruptcy Code permits the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court 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 certain priority to debt owed for services or material; and provides that the plan must be accepted in writing by or on behalf of classes of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of such class. The Bankruptcy Code specifically 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 Code.

The Bankruptcy Code provides that special revenue acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by such debtor before the commencement of such bankruptcy case. However, any such lien, other than municipal betterment assessments, shall be subject to the necessary operating expenses of such project or system. Furthermore, the Bankruptcy Code provides that a transfer of property of a debtor to or for the benefit of any holder of a bond or note, on account of such bond or note, may not be avoided pursuant to certain preferential transfer provisions set forth in such Bankruptcy Code.

Reference should also be made to N.J.S.A. 52:27-40 *et seq.*, which provides that a local unit has the power to file a petition in bankruptcy with any United States Court or court in bankruptcy under the provisions of the Bankruptcy Code, for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts; provided, however, the approval of the Municipal Finance Commission must be obtained. The powers of the Municipal Finance Commission have been vested in the Local Finance Board.

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

### **APPROVAL OF LEGAL PROCEEDINGS**

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

## **PREPARATION OF OFFICIAL STATEMENT**

The Board hereby states that the descriptions and statements herein, including the Financial Statements, are true and correct in all material respects, and it will confirm same to the Underwriter (as hereinafter defined) by a certificate signed by the Board President and the Business Administrator/Board Secretary.

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

## **RATING**

Moody's Investors Service, Inc. (the "Rating Agency") has assigned an underlying rating of "Aaa" to the Bonds based upon the underlying credit of the School District. The Bonds are additionally secured by the Act.

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

## **UNDERWRITING**

The Bonds have been purchased from the Board at a public sale by Citigroup Global Markets Inc. (the "Underwriter") at a price of \$26,928,000.00.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the front cover of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investments trusts) at yields higher than the public offering yields set forth on the front cover of this Official Statement, and such 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 Board with respect to the issuance of the Bonds (the "Municipal Advisor"). The Municipal Advisor is not obligated to undertake and has not undertaken, either to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in this Official Statement and the appendices hereto. The Municipal Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## SECONDARY MARKET DISCLOSURE

Solely for purposes of complying with Rule 15c2-12 of the Securities and Exchange Commission, as amended and interpreted from time to time (the “Rule”), and provided that the Bonds are not exempt from the Rule and provided that the Bonds are not exempt from the following requirements in accordance with paragraph (d) of the Rule, for so long as the Bonds remain outstanding (unless the Bonds have been wholly defeased), the Board shall provide for the benefit of the holders of the Bonds and the beneficial owners thereof:

(a) On or prior to February 1 of each year, beginning February 1, 2020, electronically to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system or such other repository designated by the SEC to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the Board 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 Board and certain financial information and operating data consisting of (1) Board indebtedness; (2) property valuation information; and (3) tax rate, levy and collection data. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

(b) if any of the following events occur regarding the Bonds, a timely notice not in excess of ten business days after the occurrence of the event sent to EMMA:

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

For the purposes of the event identified in subparagraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Board in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental

authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board.

(c) Notice of failure of the Board to provide required annual financial information on or before the date specified in the Resolution shall be sent in a timely manner to EMMA.

In the event that the Board fails to comply with the above-described undertaking and covenants, the Board 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 Board 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 the Rule.

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 Board may affect the future liquidity of the Bonds.

If all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Resolution, insofar as the provisions of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

The Business Administrator/Board Secretary shall determine, in consultation with Bond Counsel, the application of the Rule or the exemption from the Rule for each issue of obligations of the Board prior to their offering. Such officer is authorized to enter into additional written contracts or undertakings to implement the Rule and is further authorized to amend such contracts or undertakings or the undertakings set forth in the Resolution, provided such amendment is, in the opinion of nationally recognized bond counsel, in compliance with the Rule.

The Board has previously entered into continuing disclosure undertakings under the Rule. The Board appointed Phoenix Advisors, LLC, Bordentown, New Jersey in May of 2015 to serve as continuing disclosure agent.

#### **ADDITIONAL INFORMATION**

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Stephanie Kennedy, Business Administrator/Board Secretary, at 25 Valley Road, Princeton, NJ 08540, (609) 806-4204, or to the Municipal Advisor at 625 Farnsworth Avenue, Bordentown, New Jersey 08505, (609) 291-0130.

#### **CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT**

At the time of the original delivery of the Bonds, the Board will deliver a certificate of one of its authorized officials to the effect that they have examined this Official Statement (including the appendices) and the financial and other data concerning the School District contained herein and that, to the best of their knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading and (ii) between the date of this

Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or otherwise), financial condition or results or operations of the Board except as set forth in or contemplated by this Official Statement.

### **MISCELLANEOUS**

This Official Statement is not to be construed as a contract or agreement among the Board, the Underwriter and the 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 the Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs (financial or otherwise) of the Board since the date hereof. The information contained in this Official Statement is not guaranteed as to accuracy or completeness.

### **THE BOARD OF EDUCATION OF PRINCETON IN THE COUNTY OF MERCER, NEW JERSEY**

**By: /s/ Stephanie Kennedy**  
**Stephanie Kennedy,**  
**Business Administrator/Board Secretary**

**Date:** January 9, 2019



**APPENDIX A**

**CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE SCHOOL  
DISTRICT AND PRINCETON, IN THE COUNTY OF MERCER, NEW JERSEY**

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## INFORMATION REGARDING THE SCHOOL DISTRICT

### Type

The Board of Education of Princeton (the “Board” when referring to the governing body and legal entity and the “School District” when referring to the territorial boundaries governed by the Board) is a Type II school district and provides a full range of educational services appropriate to Pre-Kindergarten (Pre-K) through grade twelve (12). The School District is coterminous with the boundaries of Princeton (“Princeton”), in Mercer County (the “County”). Students from the Township of Cranbury (“Cranbury”) attend the School District for grades nine (9) through twelve (12) as part of a sending/receiving relationship.

The Board is a nine (9) member board with members elected for staggered three (3) year terms. Pursuant to State statute, the Board appoints a Superintendent and Business Administrator/Board Secretary. Cranbury is granted a non-voting seat on the Board, with the appointed representative only voting on issues concerning the high school or district-wide. The Board provides education to its students through four (4) elementary schools, one (1) middle school and one (1) high school.

### Description of Facilities

The Board presently operates the following school facilities:

| <b>Facility</b>                  | <b>Construction Date</b> | <b>Grade Level</b> | <b>Student Enrollment (As of 6/30/18)</b> | <b>Student Enrollment (As of 6/30/17)</b> |
|----------------------------------|--------------------------|--------------------|---|---|
| Community Park Elementary School | 1962                     | K-5                | 380                                       | 371                                       |
| Johnson Park Elementary School   | 1959                     | Pre-K-5            | 390                                       | 388                                       |
| Littlebrook Elementary School    | 1957                     | Pre-K-5            | 373                                       | 337                                       |
| Riverside Elementary School      | 1959                     | Pre-K-5            | 299                                       | 283                                       |
| John Witherspoon Middel School   | 1965                     | 6-8                | 721                                       | 788                                       |
| Princeton High School            | 1927                     | 9-12               | 1,602                                     | 1,584                                     |

Source: Comprehensive Annual Financial Report of the School District

### Charter Schools

Under the Charter School Program Act, NJSA 18A-36A-1 *et seq.*, the Princeton Charter School (“PCS”) opened its doors in 1997 with an initial enrollment of 72 students. PCS offers education to Princeton residents in grades kindergarten (K) through eighth (8) with most students enrolling at Princeton High School in ninth grade. PCS is a public school operated under a charter issued by the Commissioner of Education. PCS is operated independently of the Board. For Fiscal Year 2018-19, the annual tuition cost to the School District is approximately \$6.4 million.

PCS filed an application for enrollment expansion for a total of 424 students with the Commissioner of Education in December 2016 which was approved. Such expansion was set to occur in the 2017-18 and 2018-19 fiscal years. PCS's current charter expires at the end of the 2020-21 fiscal year. The School District recently reached an agreement with PCS to remit \$30,000 to the School District for each of the 2019-20 and 2020-21 fiscal years to reimburse the School District for tuition paid for PCS students who are not residents of Princeton.

Enrollment history of PCS for the last ten years is as follows:

| <b><u>Fiscal Year</u></b> | <b><u>Enrollment</u></b> |
|---------------------------|--------------------------|
| 2009-10                   | 345                      |
| 2010-11                   | 343                      |
| 2011-12                   | 343                      |
| 2012-13                   | 342                      |
| 2013-14                   | 341                      |
| 2014-15                   | 346                      |
| 2015-16                   | 348                      |
| 2016-17                   | 348                      |
| 2017-18                   | 396                      |
| 2018-19                   | 424                      |

Source: Comprehensive Annual Financial Report of the School District

### **Staff**

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

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

|                                  | <b><u>2017</u></b> | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Teaching Professionals           | 495                | 477                | 472                | 452                | 473                |
| Support Staff                    | <u>237</u>         | <u>216</u>         | <u>213</u>         | <u>210</u>         | <u>199</u>         |
| Total Full & Part Time Employees | <u>732</u>         | <u>693</u>         | <u>685</u>         | <u>662</u>         | <u>672</u>         |

Source: Comprehensive Annual Financial Report of the School District

## **Pupil Enrollments**

The following table presents the historical average daily pupil enrollments for the past six (6) school years.

| <b>Pupil Enrollments</b>  |                          |
|---------------------------|--------------------------|
| <b><u>School Year</u></b> | <b><u>Enrollment</u></b> |
| 2017-2018                 | 3,764                    |
| 2016-2017                 | 3,751                    |
| 2015-2016                 | 3,553                    |
| 2014-2015                 | 3,563                    |
| 2013-2014                 | 3,422                    |
| 2012-2013                 | 3,415                    |

Source: School District

## **Labor Relations**

The Board currently has labor contracts with the following collective bargaining units:

| <b><u>Association</u></b>   | <b><u>Date of Contract Expiration</u></b> |
|---|---|
| Princeton Regional Education Association (“PREA”)                   | 6/30/2020                                 |
| Princeton Regional Educational Support Staff Association (“PRESSA”) | 6/30/2020                                 |
| Princeton Administrative Association (“PAA”)                        | 6/30/2020                                 |

Source: School District

## **Pensions**

Those employees of the School District who are eligible for pension coverage are enrolled in one of the two State-administered multi-employer pension systems (the “Pension System”). The Pension System was established by an act of the State Legislature. The Board of Trustees for the Pension System is responsible for the organization and administration of the Pension System. The two State-administered pension funds are: (1) the Teacher's Pension and Annuity Fund (“TPAF”) and (2) the Public Employee's Retirement System (“PERS”). The Division of Pensions and Benefits, within the State of New Jersey Department of the Treasury (the “Division”), charges the participating school districts annually for their respective contributions. The School District raises its contributions through taxation and the State contributes the employer's share of the annual Social Security and Pension contribution for employees enrolled in the TPAF. The Pension System is a cost sharing multiple employer contributory defined benefit plan. The Pension System's designated purpose is to provide retirement and medical benefits for qualified retirees and other benefits to its members. Membership in the Pension System is mandatory for substantially all full-time employees of the

State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State administered retirement system or other state or local jurisdiction.

**Fiscal 2018-19 Budget**

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

The General Fund budget is the sum of all state aid (exclusive of pension aid and social security aid) and the local tax levy (exclusive of debt service). The Board’s General Fund Budget for the 2018-2019 fiscal year is \$90,253,817. The major sources of revenue are \$76,246,634 from the local tax levy and \$4,773,203 from state aid.

**Budget History**

The following table presents the General Fund budget and the amount raised by the local tax levy for the past five (5) school years.

| <b><u>Budget<br/>Year</u></b> | <b><u>Amount Raised<br/>in Taxes</u></b> | <b><u>Budget<br/>Amount</u></b> |
|-------------------------------|--|---------------------------------|
| 2018-2019                     | \$76,246,634                             | \$90,253,817                    |
| 2017-2018                     | 73,055,295                               | 87,549,741                      |
| 2016-2017                     | 70,148,719                               | 82,801,799                      |
| 2015-2016                     | 68,227,891                               | 81,939,935                      |
| 2014-2015                     | 65,996,845                               | 79,519,884                      |

Source: School District

## **Financial Operations**

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2014 through June 30, 2018 for the general fund. Beginning with the 1993-94 fiscal year, school districts in the State of New Jersey have begun to prepare their financial statements in accordance with Generally Accepted Accounting Principles in the United States.

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

|  | <b><u>2017</u></b> | <b><u>2016</u></b> | <b><u>2015</u></b> | <b><u>2014</u></b> | <b><u>2013</u></b> |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| <b>REVENUES</b>  |                    |                    |                    |                    |                    |
| Local Sources:   |                    |                    |                    |                    |                    |
| Local Tax Levy   | \$70,148,719       | \$68,227,892       | \$65,996,845       | \$64,702,790       | \$63,434,112       |
| Other Local Revenue  | <u>5,849,774</u>   | <u>6,065,617</u>   | <u>5,645,432</u>   | <u>5,761,684</u>   | <u>5,153,174</u>   |
| Total revenues-local sources                                 | 75,998,493         | 74,293,509         | 71,642,277         | 70,464,474         | 68,587,286         |
| State Sources  | 13,617,048         | 12,739,693         | 11,674,963         | 10,402,903         | 11,126,463         |
| Federal Sources  | <u>3,730</u>       | <u>3,319</u>       | <u>11,654</u>      | <u>54,769</u>      | <u>11,449</u>      |
| Total Revenues   | \$89,619,271       | \$87,036,521       | \$83,328,894       | \$80,922,146       | \$79,725,198       |
| <b>EXPENDITURES</b>  |                    |                    |                    |                    |                    |
| General Fund:  |                    |                    |                    |                    |                    |
| Instruction  | \$34,041,310       | \$33,359,773       | \$32,363,067       | \$31,458,331       | \$30,803,772       |
| Undistributed Expenditures                                   | 54,903,698         | 52,943,352         | 51,089,999         | 49,329,339         | 47,708,655         |
| Capital Outlay   | <u>0</u>           | <u>0</u>           | <u>0</u>           | <u>0</u>           | <u>81,330</u>      |
| Total Expenditures   | \$88,945,008       | \$86,303,125       | \$83,453,066       | \$80,787,670       | \$78,593,757       |
| Excess (Deficiency) of Revenues<br>Over/(Under) Expenditures | 674,263            | 733,396            | (124,172)          | 134,476            | 1,131,441          |
| Other Financing Sources (Uses):                              |                    |                    |                    |                    |                    |
| Premium Bonds  | 0                  | 0                  | 0                  | 0                  | 81,330             |
| Transfers in   | 3,886              | 5,236              | 186,077            | 0                  | 20,167             |
| Transfers out  | <u>0</u>           | <u>(1,094,795)</u> | <u>(773,050)</u>   | <u>0</u>           | <u>0</u>           |
| Total other financing sources (uses)                         | 3,886              | (1,089,559)        | (586,973)          | 0                  | 101,497            |
| Net Change in Fund Balance                                   | 678,149            | (356,163)          | (711,145)          | 134,476            | 1,232,938          |
| Fund Balance, July 1   | <u>7,808,040</u>   | <u>8,164,203</u>   | <u>8,875,348</u>   | <u>8,740,872</u>   | <u>7,507,934</u>   |
| Fund Balance, June 30  | <u>\$8,486,189</u> | <u>\$7,808,040</u> | <u>\$8,164,203</u> | <u>\$8,875,348</u> | <u>\$8,740,872</u> |

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

**Capital Leases**

As of June 30, 2017, the Board has no capital leases outstanding

**Operating Leases**

As of June 30, 2017, the Board has no operating leases outstanding.

**Short Term Debt**

As of June 30, 2017, the Board has no short-term debt outstanding.

**Long Term Debt**

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

| <u>Fiscal Year Ending</u> | <u>Principal</u>           | <u>Interest</u>           | <u>Total</u>               |
|---------------------------|----------------------------|---------------------------|----------------------------|
| 2018                      | \$4,770,000                | \$961,650                 | \$5,731,650                |
| 2019                      | 4,955,000                  | 800,550                   | 5,755,550                  |
| 2020                      | 5,150,000                  | 632,875                   | 5,782,875                  |
| 2021                      | 5,345,000                  | 458,088                   | 5,803,088                  |
| 2022                      | 5,555,000                  | 252,513                   | 5,807,513                  |
| 2023                      | <u>1,225,000</u>           | <u>24,500</u>             | <u>1,249,500</u>           |
| <b>TOTALS</b>             | <b><u>\$27,000,000</u></b> | <b><u>\$3,130,175</u></b> | <b><u>\$30,130,175</u></b> |

Source: Comprehensive Annual Financial Report of the School District

**Debt Limit of the Board**

The debt limitation of the Board is established by statute (N.J.S.A. 18A:24-19). The Board is permitted to incur debt up to 4% of the average equalized valuation for the past three years. (See “SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT- Exceptions to Debt Limitation”). The following is a summation of the Board’s debt limitations as of June 30, 2017:

|   |                   |
|---|-------------------|
| Average Equalized Real Property Valuation<br>(2015, 2016, and 2017) | \$7,693,103,748   |
| <b>School District Debt Analysis</b>                                |                   |
| Permitted Debt Limitation (4% of AEVP)                              | \$307,724,150     |
| Less: Bonds and Notes Authorized and Outstanding                    | <u>27,000,000</u> |
| Remaining Limitation of Indebtedness                                | \$280,724,150     |
| Percentage of Net School Debt to Average Equalized Valuation        | 0.35%             |

Source: Comprehensive Annual Financial Report of the School District



## **ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING PRINCETON**

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

### **Municipal Consolidation**

Following an extensive consolidation and shared services study over the course of two years, the Borough of Princeton (the “Borough”) and the Township of Princeton (the “Township”) conducted a referendum on November 8, 2011, which allowed residents to vote on consolidating the Borough and the Township into one municipality. The referendum was successful and beginning January 1, 2013, the Borough and the Township became one municipality known as Princeton and as a result the obligations as to the prior bonds issued by the Borough and the Township are vested in Princeton as the new municipality.

### **General Information**

Princeton covers 18.5 square miles and is located in west central New Jersey in the northern portion of the County.

### **Form of Government**

Princeton is governed by a Mayor and a six-member Council. The Mayor was elected at large for a four-year term and the Council members are elected at large for staggered three-year terms. The President of the Council, who presides in the absence of the Mayor, was elected annually by the Council from among their membership for a one-year term. The professional staff is headed by an appointed, non-partisan Administrator, a position established by ordinance.

### **Retirement Systems**

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

### **Pension Information**

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

## **Employment and Unemployment Comparisons**

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

|                         | <b><u>Total Labor<br/>Force</u></b> | <b><u>Employed<br/>Labor Force</u></b> | <b><u>Total<br/>Unemployed</u></b> | <b><u>Unemployment<br/>Rate</u></b> |
|-------------------------|-------------------------------------|--|------------------------------------|-------------------------------------|
| <b><u>Princeton</u></b> |                                     |  |                                    |                                     |
| 2017                    | 16,572                              | 16,135                                 | 437                                | 2.6%                                |
| 2016                    | 16,595                              | 16,137                                 | 458                                | 2.8%                                |
| 2015                    | 15,603                              | 15,094                                 | 509                                | 3.3%                                |
| 2014                    | 15,574                              | 14,981                                 | 593                                | 3.8%                                |
| 2013                    | 14,820                              | 14,127                                 | 693                                | 4.7%                                |
| <b><u>County</u></b>    |                                     |  |                                    |                                     |
| 2017                    | 198,846                             | 190,683                                | 8,163                              | 4.1%                                |
| 2016                    | 199,400                             | 190,708                                | 8,692                              | 4.4%                                |
| 2015                    | 198,447                             | 188,505                                | 9,942                              | 5.0%                                |
| 2014                    | 195,547                             | 184,035                                | 11,512                             | 5.9%                                |
| 2013                    | 193,679                             | 179,551                                | 14,128                             | 7.3%                                |
| <b><u>State</u></b>     |                                     |  |                                    |                                     |
| 2017                    | 4,518,838                           | 4,309,708                              | 209,123                            | 4.6%                                |
| 2016                    | 4,530,800                           | 4,305,515                              | 225,262                            | 5.0%                                |
| 2015                    | 4,537,231                           | 4,274,685                              | 262,531                            | 5.8%                                |
| 2014                    | 4,527,177                           | 4,221,277                              | 305,900                            | 6.8%                                |
| 2013                    | 4,548,569                           | 4,173,815                              | 374,738                            | 8.2%                                |

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

## **Income (as of 2016)**

|                         | <b><u>Princeton</u></b> | <b><u>County</u></b> | <b><u>State</u></b> |
|-------------------------|-------------------------|----------------------|---------------------|
| Median Household Income | \$118,467               | \$73,966             | \$72,093            |
| Median Family Income    | 181,455                 | 95,533               | 88,335              |
| Per Capita Income       | 67,660                  | 38,652               | 36,582              |

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

## **Population**

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

| <b><u>Year</u></b> | <b><u>Princeton</u></b>  |                        | <b><u>County</u></b>     |                        | <b><u>State</u></b>      |                        |
|--------------------|--------------------------|------------------------|--------------------------|------------------------|--------------------------|------------------------|
|                    | <b><u>Population</u></b> | <b><u>% Change</u></b> | <b><u>Population</u></b> | <b><u>% Change</u></b> | <b><u>Population</u></b> | <b><u>% Change</u></b> |
| 2017 Estimate      | 31,822                   | 11.37%                 | 374,733                  | 2.24%                  | 8,958,013                | 1.89%                  |
| 2010               | 28,572                   | -5.48                  | 366,513                  | 4.49                   | 8,791,894                | 4.49                   |
| 2000               | 30,230                   | 19.89                  | 350,761                  | 7.65                   | 8,414,350                | 8.85                   |
| 1990               | 25,214                   | -1.95                  | 325,824                  | 5.83                   | 7,730,188                | 4.96                   |
| 1980               | 25,715                   | -0.95                  | 307,863                  | 1.23                   | 7,365,001                | 2.75                   |

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

## **Largest Taxpayers**

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

| <b><u>Taxpayers</u></b>          | <b><u>2017</u></b>               | <b><u>% of Total</u></b>         |
|----------------------------------|----------------------------------|----------------------------------|
|                                  | <b><u>Assessed Valuation</u></b> | <b><u>Assessed Valuation</u></b> |
| Trustees of Princeton University | \$395,752,000                    | 5.65%                            |
| Palmer Residences 1 LLC          | 82,539,100                       | 1.18%                            |
| Avalon Properties LLC            | 40,212,000                       | 0.57%                            |
| Palmer Sq LTD Partners           | 35,310,000                       | 0.50%                            |
| Jasna Polna Golf Club            | 31,500,000                       | 0.45%                            |
| Princeton (Edens) LLC            | 32,542,200                       | 0.46%                            |
| Nassau Inn Partnership           | 26,030,100                       | 0.37%                            |
| Fountain Ridge (Copperwood)      | 24,590,900                       | 0.35%                            |
| Institute for Advanced Study     | 22,015,500                       | 0.31%                            |
| Princeton Theological Seminary   | <u>17,229,200</u>                | <u>0.25%</u>                     |
| <b>Total</b>                     | <b><u>\$707,721,000</u></b>      | <b><u>10.11%</u></b>             |

Source: School District CAFR & Municipal Tax Assessor

### **Comparison of Tax Levies and Collections**

| <b><u>Year</u></b> | <b><u>Tax Levy</u></b> | <b><u>Current Year<br/>Collection</u></b> | <b><u>Current Year<br/>% of Collection</u></b> |
|--------------------|------------------------|---|--|
| 2017               | \$161,754,825          | \$160,707,370                             | 99.35%   |
| 2016               | 156,620,488            | 155,890,976                               | 99.53%   |
| 2015               | 151,153,749            | 150,279,774                               | 99.42%   |
| 2014               | 148,621,930            | 146,436,237                               | 98.53%   |
| 2013               | 144,030,581            | 142,636,184                               | 99.03%   |

Source: Annual Audit Reports

### **Delinquent Taxes and Tax Title Liens**

| <b><u>Year</u></b> | <b><u>Amount of Tax<br/>Title Liens</u></b> | <b><u>Amount of<br/>Delinquent Tax</u></b> | <b><u>Total<br/>Delinquent</u></b> | <b><u>% of<br/>Tax Levy</u></b> |
|--------------------|---|--|------------------------------------|---------------------------------|
| 2017               | \$128,688                                   | \$1,034,987                                | \$1,163,675                        | 0.72%                           |
| 2016               | 117,206                                     | 1,135,276                                  | 1,252,482                          | 0.80%                           |
| 2015               | 105,354                                     | 1,115,779                                  | 1,221,133                          | 0.81%                           |
| 2014               | 95,843                                      | 841,535                                    | 937,378                            | 0.63%                           |
| 2013               | 95,814                                      | 1,195,427                                  | 1,291,241                          | 0.90%                           |

Source: Annual Audit Reports

### **Property Acquired by Tax Lien Liquidation**

| <b><u>Year</u></b> | <b><u>Amount</u></b> |
|--------------------|----------------------|
| 2017               | \$634,400            |
| 2016               | 634,400              |
| 2015               | 278,400              |
| 2014               | 317,400              |
| 2013               | 330,100              |

Source: Annual Audit Reports

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

| <u>Year</u> | <u>Municipal</u> | <u>Local School</u> | <u>County</u> | <u>Total</u> |
|-------------|------------------|---------------------|---------------|--------------|
| 2018        | \$0.502          | \$1.119             | \$0.711       | \$2.332      |
| 2017        | 0.502            | 1.101               | 0.696         | 2.299        |
| 2016        | 0.495            | 1.080               | 0.689         | 2.264        |
| 2015        | 0.486            | 1.063               | 0.663         | 2.212        |
| 2014        | 0.470            | 1.047               | 0.668         | 2.185        |

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

## **Valuation of Property**

| <u>Year</u> | <u>Aggregate Assessed Valuation of Real Property</u> | <u>Aggregate True Value of Real Property</u> | <u>Ratio of Assessed to True Value</u> | <u>Assessed Value of Personal Property</u> | <u>Equalized Valuation</u> |
|-------------|--|--|--|--|----------------------------|
| 2018        | \$7,139,214,600                                      | \$8,270,637,859                              | 86.32%                                 | \$8,583,276                                | \$8,279,221,135            |
| 2017        | 6,990,951,700  | 8,007,045,814                                | 87.31                                  | 8,823,569                                  | 8,015,869,383              |
| 2016        | 6,891,624,800  | 7,764,336,187                                | 88.76                                  | 8,698,857                                  | 7,773,035,044              |
| 2015        | 6,813,101,660  | 7,603,059,547                                | 89.61                                  | 8,545,211                                  | 7,611,604,758              |
| 2014        | 6,769,628,760  | 7,420,397,632                                | 91.23                                  | 8,619,869                                  | 7,429,017,501              |

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

## **Classification of Ratables**

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

| <u>Year</u> | <u>Vacant Land</u> | <u>Residential</u> | <u>Farm</u>  | <u>Commercial</u> | <u>Industrial</u> | <u>Apartments</u> | <u>Total</u>    |
|-------------|--------------------|--------------------|--------------|-------------------|-------------------|-------------------|-----------------|
| 2018        | \$95,025,100       | \$5,861,854,100    | \$32,386,800 | \$811,414,900     | \$11,759,700      | \$326,774,000     | \$7,139,214,600 |
| 2017        | 87,865,000         | 5,779,425,700      | 36,947,600   | 779,781,900       | 11,759,700        | 295,171,800       | 6,990,951,700   |
| 2016        | 88,842,500         | 5,700,180,500      | 38,150,200   | 778,304,700       | 11,759,700        | 274,387,200       | 6,891,624,800   |
| 2015        | 92,656,100         | 5,619,263,400      | 49,403,410   | 772,598,550       | 8,981,700         | 270,198,500       | 6,813,101,660   |
| 2014        | 90,710,900         | 5,572,589,600      | 47,280,410   | 788,160,750       | 8,981,700         | 261,905,400       | 6,769,628,760   |

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

**Princeton Indebtedness as of December 31, 2017**

**General Purpose Debt**

|   |                  |
|---|------------------|
| Serial Bonds                              | \$80,553,724     |
| Bond Anticipation Notes                   | 1,774,000        |
| Bonds and Notes Authorized but Not Issued | 21,159,849       |
| Other Bonds, Notes and Loans              | <u>6,363,486</u> |
| Total:                                    | \$109,851,060    |

**Local School District Debt**

|   |              |
|---|--------------|
| Serial Bonds                              | \$27,000,000 |
| Temporary Notes Issued                    | 0            |
| Bonds and Notes Authorized but Not Issued | <u>0</u>     |
| Total:                                    | \$27,000,000 |

**Parking Utility Debt**

|   |                |
|---|----------------|
| Serial Bonds                              | \$8,600,000    |
| Temporary Notes Issued                    | 0              |
| Bonds and Notes Authorized but Not Issued | <u>318,000</u> |
| Total:                                    | \$8,918,000    |

**Affordable Housing Utility Debt**

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

**TOTAL GROSS DEBT \$145,769,060**

|                               |              |
|-------------------------------|--------------|
| Less: Statutory Deductions    |              |
| General Purpose Debt          | \$1,616,423  |
| Regional School District Debt | 27,000,000   |
| Parking Utility Debt          | 8,918,000    |
| Affordable Housing Utility    | <u>0</u>     |
| Total:                        | \$37,534,423 |

**TOTAL NET DEBT \$108,234,637**

Source: Annual Debt Statement

**Overlapping Debt (as of December 31, 2017)<sup>1</sup>**

| <b><u>Name of Related Entity</u></b>                         | <b><u>Related Entity<br/>Debt Outstanding</u></b> | <b><u>Princeton<br/>Percentage</u></b> | <b><u>Princeton<br/>Share</u></b> |
|--|---|--|-----------------------------------|
| Regional School District                                     | \$27,000,000                                      | 100.00%                                | \$27,000,000                      |
| Stony Brook Reg. Sewerage Authority<br>Improvement Authority | 24,049,222  | 33.18%                                 | 7,979,532                         |
| County   | 15,764,191  | 100.00%                                | 15,764,191                        |
|  | 531,752,113                                       | 18.04%                                 | <u>95,906,805</u>                 |
| Net Indirect Debt  |   |  | \$146,650,528                     |
| Net Direct Debt  |   |  | <u>108,234,637</u>                |
| Total Net Direct and Indirect Debt                           |   |  | <b><u>\$254,885,165</u></b>       |

**Debt Limit**

|  |                             |
|--|-----------------------------|
| Average Equalized Valuation Basis (2015, 2016, 2017)     | \$7,791,480,516             |
| Permitted Debt Limitation (3 1/2%)                       | 272,701,818                 |
| Less: Net Debt   | <u>108,234,637</u>          |
| Remaining Borrowing Power                                | <b><u>\$164,467,181</u></b> |
| Percentage of Net Debt to Average Equalized Valuation    | 1.389%                      |
| Gross Debt Per Capita based on 2010 population of 28,572 | \$5,102                     |
| Net Debt Per Capita based on 2010 population of 28,572   | \$3,788                     |

Source: Annual Debt Statement

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<sup>1</sup> Princeton percentage of County and Improvement Authority debt is based on Princeton's share of total equalized valuation in the County. Princeton's percentage of utilities authority debt is based on Princeton's portion of total flow from each respective authority.

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**APPENDIX B**

**FINANCIAL STATEMENTS OF THE BOARD OF EDUCATION OF PRINCETON  
IN THE COUNTY OF MERCER, NEW JERSEY**

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**PRINCETON PUBLIC SCHOOLS**  
**UNAUDITED FINANCIAL INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2018**

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## Princeton Public Schools

## Statement of Net Position

June 30, 2018

|   | <u>Governmental<br/>Activities</u> | <u>Business-type<br/>Activities</u> | <u>Total</u>         |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>Assets</b>                                   |                                    |                                     |                      |
| Cash and cash equivalents                       | \$ 4,636,355                       | \$ 332,346                          | \$ 4,968,701         |
| Accounts receivable                             | 2,321,447                          | 29,107                              | 2,350,554            |
| Inventories                                     |                                    | 16,641                              | 16,641               |
| Restricted assets:                              |                                    |                                     |                      |
| Cash and cash equivalents                       | 2,242,450                          |                                     | 2,242,450            |
| Capital assets, non-depreciable                 | 282,160                            |                                     | 282,160              |
| Capital assets, depreciable, net                | 83,409,431                         | 159,217                             | 83,568,648           |
| Total assets                                    | <u>92,891,843</u>                  | <u>537,311</u>                      | <u>93,429,154</u>    |
| <b>Deferred Outflows of Resources</b>           |                                    |                                     |                      |
| Deferred loss on defeasance of debt             | 710,766                            |                                     | 710,766              |
| Pension deferrals                               | 10,956,753                         |                                     | 10,956,753           |
| Total deferred outflows of resources            | <u>11,667,519</u>                  |                                     | <u>11,667,519</u>    |
| Total assets and deferred outflows of resources | <u>104,559,362</u>                 | <u>537,311</u>                      | <u>105,096,673</u>   |
| <b>Liabilities</b>                              |                                    |                                     |                      |
| Accounts payable                                | 2,196,280                          | 22,136                              | 2,218,416            |
| Accrued interest payable                        | 333,563                            |                                     | 333,563              |
| Intergovernmental payables:                     |                                    |                                     |                      |
| State   | 78,197                             |                                     | 78,197               |
| Unearned revenue                                | 134,329                            | 47,979                              | 182,308              |
| Other liabilities                               | 820                                |                                     | 820                  |
| Net pension liability                           | 30,712,413                         |                                     | 30,712,413           |
| Current portion of long-term obligations        | 5,660,642                          |                                     | 5,660,642            |
| Noncurrent portion of long-term obligations     | 23,063,709                         |                                     | 23,063,709           |
| Total liabilities                               | <u>62,179,953</u>                  | <u>70,115</u>                       | <u>62,250,068</u>    |
| <b>Deferred Inflow of Resources</b>             |                                    |                                     |                      |
| Pension deferrals                               | <u>6,930,369</u>                   |                                     | <u>6,930,369</u>     |
| <b>Net position</b>                             |                                    |                                     |                      |
| Net investment in capital assets                | 61,422,775                         | 159,217                             | 61,581,992           |
| Restricted for:                                 |                                    |                                     |                      |
| Capital reserve                                 | 2,242,450                          |                                     | 2,242,450            |
| Capital projects                                | 534,664                            |                                     | 534,664              |
| Excess Surplus-prior year                       | 193,609                            |                                     | 193,609              |
| Unrestricted (deficit)                          | <u>(28,944,458)</u>                | <u>307,979</u>                      | <u>(28,636,479)</u>  |
| Total net position                              | <u>\$ 35,449,040</u>               | <u>\$ 467,196</u>                   | <u>\$ 35,916,236</u> |

See accompanying notes to the basic financial statements.

## Princeton Public Schools

## Statement of Activities

Year ended June 30, 2018

| Functions/Programs                          | Expenses       | Program Revenues     |                                    | Net (Expense) Revenue and Changes in Net Position |                          | Total           |
|---|----------------|----------------------|------------------------------------|---|--------------------------|-----------------|
|   |                | Charges for Services | Operating Grants and Contributions | Governmental Activities                           | Business-type Activities |                 |
| <b>Governmental activities</b>              |                |                      |                                    |   |                          |                 |
| Instruction                                 | \$ 66,168,886  | \$ 5,228,140         | \$ 1,607,455                       | \$ (59,333,291)                                   |                          | \$ (59,333,291) |
| Support services:                           |                |                      |                                    |   |                          |                 |
| Attendance/social work                      | 455,682        |                      |                                    | (455,682)   |                          | (455,682)       |
| Health services                             | 1,454,730      |                      |                                    | (1,454,730)                                       |                          | (1,454,730)     |
| Other support services                      | 11,949,660     |                      | 820,144                            | (11,129,516)                                      |                          | (11,129,516)    |
| Improvement of instruction                  | 397,955        |                      |                                    | (397,955)   |                          | (397,955)       |
| Other support: instructional staff          | 1,926,326      |                      |                                    | (1,926,326)                                       |                          | (1,926,326)     |
| School library                              | 2,299,225      |                      |                                    | (2,299,225)                                       |                          | (2,299,225)     |
| General administration                      | 1,327,006      |                      |                                    | (1,327,006)                                       |                          | (1,327,006)     |
| School administration                       | 4,493,210      |                      |                                    | (4,493,210)                                       |                          | (4,493,210)     |
| Central services                            | 2,094,856      |                      |                                    | (2,094,856)                                       |                          | (2,094,856)     |
| Admin info technology                       | 1,309,704      |                      |                                    | (1,309,704)                                       |                          | (1,309,704)     |
| Required maintenance of plant services      | 2,044,138      |                      |                                    | (2,044,138)                                       |                          | (2,044,138)     |
| Operation of plant                          | 7,436,669      |                      |                                    | (7,436,669)                                       |                          | (7,436,669)     |
| Student transportation                      | 4,092,854      | 168,768              |                                    | (3,924,086)                                       |                          | (3,924,086)     |
| Charter schools                             | 5,539,621      |                      |                                    | (5,539,621)                                       |                          | (5,539,621)     |
| Interest on long-term debt                  | 866,111        |                      |                                    | (866,111)   |                          | (866,111)       |
| Total governmental activities               | 113,856,633    | 5,396,908            | 2,427,599                          | (106,032,126)                                     |                          | (106,032,126)   |
| <b>Business-type activities</b>             |                |                      |                                    |   |                          |                 |
| Food service                                | 1,103,582      | 787,213              | 323,289                            |   | \$ 6,920                 | 6,920           |
| Total business-type activities              | 1,103,582      | 787,213              | 323,289                            |   | 6,920                    | 6,920           |
| Total primary government                    | \$ 114,960,215 | \$ 6,184,121         | \$ 2,750,888                       | (106,032,126)                                     | 6,920                    | (106,025,206)   |
| <b>General revenues:</b>                    |                |                      |                                    |   |                          |                 |
| Property taxes, levied for general purposes |                |                      |                                    | 73,055,295  |                          | 73,055,295      |
| Property taxes, levied for debt service     |                |                      |                                    | 5,512,273   |                          | 5,512,273       |
| Federal and state sources                   |                |                      |                                    | 25,308,417  |                          | 25,308,417      |
| Investment earnings                         |                |                      |                                    | 83,202  | 1,978                    | 85,180          |
| Miscellaneous income                        |                |                      |                                    | 427,356   |                          | 427,356         |
| Total general revenues                      |                |                      |                                    | 104,386,543                                       | 1,978                    | 104,388,521     |
| Change in net position                      |                |                      |                                    | (1,645,583)                                       | 8,898                    | (1,636,685)     |
| Net position—beginning                      |                |                      |                                    | 37,094,623  | 458,298                  | 37,552,921      |
| Net position—ending                         |                |                      |                                    | \$ 35,449,040                                     | \$ 467,196               | \$ 35,916,236   |

See accompanying notes to the basic financial statements.

Princeton Public Schools  
Governmental Funds

Balance Sheet

June 30, 2018

|   | Major Funds         |                            |                             |                         | Total<br>Governmental<br>Funds |
|---|---------------------|----------------------------|-----------------------------|-------------------------|--------------------------------|
|   | General<br>Fund     | Special<br>Revenue<br>Fund | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund |                                |
| <b>Assets</b>                               |                     |                            |                             |                         |                                |
| Cash and cash equivalents                   | \$ 2,790,669        | \$ 260,084                 | \$ 1,585,602                |                         | \$ 4,636,355                   |
| Accounts receivable:                        |                     |                            |                             |                         |                                |
| State                                       | 1,560,706           | 3,426                      |                             |                         | 1,564,132                      |
| Federal                                     |                     | 110,763                    |                             |                         | 110,763                        |
| Local                                       | 503,572             | 574                        |                             |                         | 504,146                        |
| Interfund                                   | 828,423             |                            |                             | \$ 586,789              | 1,415,212                      |
| Other                                       | 117,406             |                            |                             |                         | 117,406                        |
| Restricted cash and cash equivalents        | 2,242,450           |                            |                             |                         | 2,242,450                      |
| <b>Total assets</b>                         | <u>\$ 8,043,226</u> | <u>\$ 374,847</u>          | <u>\$ 1,585,602</u>         | <u>\$ 586,789</u>       | <u>\$ 10,590,464</u>           |
| <b>Liabilities and fund balances</b>        |                     |                            |                             |                         |                                |
| <b>Liabilities:</b>                         |                     |                            |                             |                         |                                |
| Accounts payable                            | \$ 632,988          | \$ 208,988                 |                             |                         | \$ 841,976                     |
| Intergovernmental payables:                 |                     |                            |                             |                         |                                |
| State                                       |                     | 78,197                     |                             |                         | 78,197                         |
| Interfunds payable                          |                     |                            | \$ 963,106                  | \$ 452,106              | 1,415,212                      |
| Unearned revenue                            | 42,537              | 91,792                     |                             |                         | 134,329                        |
| Other liabilities                           |                     | 820                        |                             |                         | 820                            |
| <b>Total liabilities</b>                    | <u>675,525</u>      | <u>379,797</u>             | <u>963,106</u>              | <u>452,106</u>          | <u>2,470,534</u>               |
| <b>Fund balances:</b>                       |                     |                            |                             |                         |                                |
| Restricted for:                             |                     |                            |                             |                         |                                |
| Capital reserve                             | 2,242,450           |                            |                             |                         | 2,242,450                      |
| Capital projects                            |                     |                            | 622,496                     |                         | 622,496                        |
| Debt service                                |                     |                            |                             | 134,683                 | 134,683                        |
| Excess surplus-prior year                   | 193,609             |                            |                             |                         | 193,609                        |
| Assigned to:                                |                     |                            |                             |                         |                                |
| Designated for subsequent year expenditures | 2,925,000           |                            |                             |                         | 2,925,000                      |
| Other purposes                              | 298,468             |                            |                             |                         | 298,468                        |
| Unassigned (deficit)                        | 1,708,174           | (4,950)                    |                             |                         | 1,703,224                      |
| <b>Total fund balances</b>                  | <u>7,367,701</u>    | <u>(4,950)</u>             | <u>622,496</u>              | <u>134,683</u>          | <u>8,119,930</u>               |
| <b>Total liabilities and fund balances</b>  | <u>\$ 8,043,226</u> | <u>\$ 374,847</u>          | <u>\$ 1,585,602</u>         | <u>\$ 586,789</u>       |                                |

Amounts reported for governmental activities in the statement of net position (A-1) are different because:

|   |                      |
|---|----------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$128,478,778 and the accumulated depreciation is \$44,787,187. (See Note 4)                                    | 83,691,591           |
| Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds.  | (333,563)            |
| Long-term liabilities, including bonds payable and compensated absences are not due in the current period and therefore are not liabilities in the funds.   | (28,724,351)         |
| Losses arising from the issuance of refunding bonds that are a result of the difference in the carrying value of the refunded bonds and the new bonds are deferred and amortized over the life of the bonds.  | 710,766              |
| Legal settlement is a receivable in the statement of activities, but not reported in the funds.   | 25,000               |
| Deferred pension costs in governmental activities are not financial resources and are therefore not reported in the funds.  | 4,026,384            |
| Accrued pension contributions for the June 30, 2018 plan year end are not paid with current economic resources and are therefore not reported as a liability in the funds, but are included in accounts payable in the government-wide statement of net position. | (1,354,304)          |
| Net pension liability is not due and payable in the current period and therefore is not reported as a liability in the funds.   | (30,712,413)         |
| <b>Net position of governmental activities</b>  | <u>\$ 35,449,040</u> |

Princeton Public Schools  
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2018

|   | Major Funds     |                            |                             |                         | Total<br>Governmental<br>Funds |
|---|-----------------|----------------------------|-----------------------------|-------------------------|--------------------------------|
|   | General<br>Fund | Special<br>Revenue<br>Fund | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund |                                |
| <b>Revenues:</b>  |                 |                            |                             |                         |                                |
| Local sources:  |                 |                            |                             |                         |                                |
| Local tax levy  | \$ 73,055,295   |                            |                             | \$ 5,512,273            | \$ 78,567,568                  |
| Tuition   | 5,228,140       |                            |                             |                         | 5,228,140                      |
| Interest on investments                                 | 73,807          |                            | \$ 9,395                    |                         | 83,202                         |
| Transportation-hazardous routes                         | 168,768         |                            |                             |                         | 168,768                        |
| Miscellaneous   | 427,356         | \$ 61,557                  |                             |                         | 488,913                        |
| Total local sources                                     | 78,953,366      | 61,557                     | 9,395                       | 5,512,273               | 84,536,591                     |
| State sources   | 15,668,123      | 841,100                    |                             |                         | 16,509,223                     |
| Federal sources   | 5,023           | 1,524,942                  |                             |                         | 1,529,965                      |
| Total revenues  | 94,626,512      | 2,427,599                  | 9,395                       | 5,512,273               | 102,575,779                    |
| <b>Expenditures:</b>                                    |                 |                            |                             |                         |                                |
| Current:  |                 |                            |                             |                         |                                |
| Instruction   | 36,051,586      |                            |                             |                         | 36,051,586                     |
| Support services:                                       |                 |                            |                             |                         |                                |
| Instruction - tuition to other districts                | 2,853,951       | 1,607,455                  |                             |                         | 4,461,406                      |
| Attendance/social work                                  | 263,481         |                            |                             |                         | 263,481                        |
| Health services   | 849,999         |                            |                             |                         | 849,999                        |
| Support services  | 6,643,654       | 820,144                    |                             |                         | 7,463,798                      |
| Improvement of instruction                              | 243,689         |                            |                             |                         | 243,689                        |
| Other support: instructional staff                      | 867,495         |                            |                             |                         | 867,495                        |
| School library  | 1,299,750       |                            |                             |                         | 1,299,750                      |
| General administration                                  | 942,831         |                            |                             |                         | 942,831                        |
| School administration                                   | 2,517,971       |                            |                             |                         | 2,517,971                      |
| Central services  | 1,303,813       |                            |                             |                         | 1,303,813                      |
| Administration information technology                   | 1,180,271       |                            |                             |                         | 1,180,271                      |
| Required maintenance of plant services                  | 1,542,574       |                            |                             |                         | 1,542,574                      |
| Operation of plant-custodial services                   | 4,715,409       |                            |                             |                         | 4,715,409                      |
| Care & upkeep of grounds                                | 406,268         |                            |                             |                         | 406,268                        |
| Security  | 206,457         |                            |                             |                         | 206,457                        |
| Student transportation                                  | 3,296,172       |                            |                             |                         | 3,296,172                      |
| Employee benefits                                       | 14,501,228      |                            |                             |                         | 14,501,228                     |
| On-behalf pension, medical and disability contributions | 8,089,243       |                            |                             |                         | 8,089,243                      |
| On-behalf TPAF social security contributions            | 2,566,087       |                            |                             |                         | 2,566,087                      |
| Contribution to charter schools - current               | 5,539,621       |                            |                             |                         | 5,539,621                      |
| Capital outlay  |                 |                            | 116,620                     |                         | 116,620                        |
| Debt Service:   |                 |                            |                             |                         |                                |
| Principal   | 239,765         |                            |                             | 4,770,000               | 5,009,765                      |
| Interest  |                 |                            |                             | 961,650                 | 961,650                        |
| Total expenditures                                      | 96,121,315      | 2,427,599                  | 116,620                     | 5,731,650               | 104,397,184                    |
| Deficiency of revenues under expenditures               | (1,494,803)     | -                          | (107,225)                   | (219,377)               | (1,821,405)                    |
| Other financing sources (uses):                         |                 |                            |                             |                         |                                |
| Transfers in  | 376,315         |                            |                             | 354,060                 | 730,375                        |
| Transfers out   |                 |                            | (730,375)                   |                         | (730,375)                      |
| Total other financing sources (uses)                    | 376,315         |                            | (730,375)                   | 354,060                 | -                              |
| Change in fund balances before special item             | (1,118,488)     | -                          | (837,600)                   | 134,683                 | (1,821,405)                    |
| Special item-legal settlement                           |                 |                            | 100,000                     |                         | 100,000                        |
| Net change in fund balances                             | (1,118,488)     | -                          | (737,600)                   | 134,683                 | (1,721,405)                    |
| Fund balances (deficit), July 1                         | 8,486,189       | (4,950)                    | 1,360,096                   | -                       | 9,841,335                      |
| Fund balances (deficit), June 30                        | \$ 7,367,701    | \$ (4,950)                 | \$ 622,496                  | \$ 134,683              | \$ 8,119,930                   |

The reconciliation of the fund balances of governmental funds to the net position of governmental activities in the statement of activities is presented in an accompanying schedule (B-3).

See accompanying notes to the basic financial statements.



Princeton Public Schools  
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2018

**Total net change in fund balances - governmental funds (from B-2)** \$ (1,721,405)

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

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

|                         |                |             |
|-------------------------|----------------|-------------|
| Depreciation expense    | \$ (3,609,788) |             |
| Capital asset additions | <u>638,535</u> | (2,971,253) |

In the statement of activities, interest on long-term debt is  
accrued, regardless of when due. In the governmental funds, interest is  
reported when due. The amount presented is the change from prior year.

67,125

Repayments of bond principal are expenditures in the governmental funds, but the  
repayment reduces long-term liabilities in the statement of net position and is  
not reported in the statement of activities.

4,770,000

Governmental funds report the effect of premiums and similar items when the debt is first  
issued, whereas the amounts are deferred and amortized in the statement of activities.  
This represents the current year amortization related to the deferred interest costs.

206,104

Governmental funds report the effect of refunding transactions when the debt is first  
issued, whereas the amounts are deferred and amortized in the statement of activities.  
This represents the current year amortization related to the deferred loss on refunding.

(177,690)

In the statement of activities, certain operating expenses,  
e.g., compensated absences (vacations) are measured by the amounts  
earned during the year. In the governmental funds, however,  
expenditures for these items are reported in the amount of  
financial resources used (paid). The amount presented is the  
change from the prior year.

(132,430)

Legal settlement was recorded as revenue in the statement of activities in the prior year,  
but not reported in the governmental funds until collected. The amount presented is  
the current year collections of legal settlement receivable.

(100,000)

Certain expenses reported in the Statement of Activities do not require the use of  
current financial resources and therefore are not reported as expenditures in  
governmental funds.  
Pension expense

(1,586,034)

**Change in net position of governmental activities (A-2)** \$ (1,645,583)

*See accompanying notes to the basic financial statements.*

**Unaudited**

Princeton Public Schools  
Enterprise Fund

Statement of Net Position

June 30, 2018

|                              | <b>Major Fund</b>       |
|------------------------------|-------------------------|
|                              | <b>Food<br/>Service</b> |
| <b>Assets</b>                |                         |
| Current assets:              |                         |
| Cash and cash equivalents    | \$ 332,346              |
| Accounts receivable:         |                         |
| State                        | 718                     |
| Federal                      | 22,116                  |
| Other                        | 6,273                   |
| Inventories                  | 16,641                  |
| Total current assets         | 378,094                 |
| Non-current assets:          |                         |
| Capital assets:              |                         |
| Equipment                    | 911,001                 |
| Accumulated depreciation     | (751,784)               |
| Total capital assets, net    | 159,217                 |
| Total assets                 | 537,311                 |
| <b>Liabilities</b>           |                         |
| Current liabilities:         |                         |
| Accounts payable             | 22,136                  |
| Unearned revenue             | 47,979                  |
| Total current liabilities    | 70,115                  |
| <b>Net position</b>          |                         |
| Investment in capital assets | 159,217                 |
| Unrestricted                 | 307,979                 |
| Total net position           | \$ 467,196              |

*See accompanying notes to the basic financial statements.*

Princeton Public Schools  
Enterprise Fund

Statement of Revenues, Expenses and  
Changes in Fund Net Position

Year ended June 30, 2018

|  | <b>Major Fund</b> |
|--|-------------------|
|  | <b>Food</b>       |
|  | <b>Service</b>    |
| Operating revenues:                        |                   |
| Local sources:                             |                   |
| Daily food sales-reimbursable programs     | \$ 344,414        |
| Daily food sales-non-reimbursable programs | 369,428           |
| Special event income                       | 38,690            |
| Miscellaneous income                       | 34,681            |
| Total operating revenues                   | 787,213           |
| Operating expenses:                        |                   |
| Salaries                                   | 421,572           |
| Employee benefits                          | 61,537            |
| Other purchased services                   | 44,830            |
| Supplies and materials                     | 56,665            |
| Depreciation                               | 30,809            |
| Cost of sales- non-program revenues        | 128,546           |
| Cost of sales- program revenues            | 279,000           |
| Management and administrative fees         | 66,856            |
| Miscellaneous                              | 13,767            |
| Total operating expenses                   | 1,103,582         |
| Operating loss                             | (316,369)         |
| Nonoperating revenues:                     |                   |
| State sources:                             |                   |
| State school lunch program                 | 8,381             |
| Federal sources:                           |                   |
| National school breakfast program          | 35,396            |
| National school lunch program              | 216,962           |
| Food donation program                      | 62,550            |
| Interest                                   | 1,978             |
| Total nonoperating revenues                | 325,267           |
| Change in net position                     | 8,898             |
| Total net position-beginning               | 458,298           |
| Total net position-ending                  | \$ 467,196        |

*See accompanying notes to the basic financial statements.*

Princeton Public Schools  
Enterprise Fund

Statement of Cash Flows

Year ended June 30, 2018

|   | <u>Major Fund</u>   |
|---|---------------------|
|   | <u>Food</u>         |
|   | <u>Service</u>      |
| <b>Cash flows from operating activities</b>                                       |                     |
| Receipts from customers   | \$ 776,320          |
| Payments to employees   | (421,572)           |
| Payments for employee benefits  | (61,537)            |
| Payments to suppliers   | (598,023)           |
| Net cash used in operating activities   | <u>(304,812)</u>    |
| <b>Cash flows from noncapital financing activities</b>                            |                     |
| Cash received from state and federal reimbursements                               | 258,254             |
| Receipts from food donation program   | 61,842              |
| Net cash provided by noncapital financing activities                              | <u>320,096</u>      |
| <b>Cash flows from capital and related financing activities</b>                   |                     |
| Acquisition of capital assets   | (39,723)            |
| Net cash used in capital and related financing activities                         | <u>(39,723)</u>     |
| <b>Cash flows from investing activities</b>                                       |                     |
| Interest received   | 1,978               |
| Net cash provided by investing activities   | <u>1,978</u>        |
| Net decrease in cash and cash equivalents   | (22,461)            |
| Cash and cash equivalents, beginning of year                                      | 354,807             |
| Cash and cash equivalents, end of year  | <u>\$ 332,346</u>   |
| <b>Reconciliation of operating loss to net cash used in operating activities</b>  |                     |
| Operating loss  | \$ (316,369)        |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                     |
| Depreciation  | 30,809              |
| Change in assets and liabilities:   |                     |
| Increase in accounts receivable   | (1,733)             |
| Decrease in inventory   | 124                 |
| Increase in accounts payable  | 5,164               |
| Decrease in interfund payable   | (13,647)            |
| Decrease in unearned revenue  | (9,160)             |
| Net cash used in operating activities   | <u>\$ (304,812)</u> |

**Noncash noncapital financing activities:**

The District received \$61,842 of food commodities from the U.S. Department of Agriculture for the year ended June 30, 2018.

*See accompanying notes to the basic financial statements.*

Princeton Public Schools  
Fiduciary Funds

Statement of Fiduciary Net Position

June 30, 2018

|  | <b>Private-<br/>Purpose<br/>Scholarship<br/>Funds</b> | <b>Unemployment<br/>Compensation<br/>Trust</b> | <b>Agency<br/>Funds</b> |
|--|---|--|-------------------------|
| <b>Assets</b>  |   |  |                         |
| Cash and cash equivalents                                | \$ 14,663   | \$ 533,288                                     | \$ 1,288,155            |
| Total assets   | 14,663  | 533,288  | \$ 1,288,155            |
| <b>Liabilities</b>                                       |   |  |                         |
| Accounts payable   |   | \$ 13,985                                      |                         |
| Payroll deductions and withholdings payable              |   |  | \$ 539,436              |
| Summer savings payable                                   |   |  | 339,734                 |
| Due to student groups                                    |   |  | 408,985                 |
| Total liabilities  |   | 13,985   | \$ 1,288,155            |
| <b>Net Position</b>                                      |   |  |                         |
| Held in trust for scholarships                           | \$ 14,663   |  |                         |
| Held in trust for unemployment claims and other purposes |   | \$ 519,303                                     |                         |

*See accompanying notes to the basic financial statements.*

Princeton Public Schools  
Fiduciary Funds

Statement of Changes in Fiduciary Net Position

Year ended June 30, 2018

|                               | <b>Private-<br/>Purpose<br/>Scholarship<br/>Fund</b> | <b>Unemployment<br/>Compensation<br/>Trust</b> |
|-------------------------------|--|--|
| <b>Additions</b>              |  |  |
| Contributions:                |  |  |
| Plan member contributions     |  | \$ 76,366                                      |
| Total contributions           |  | 76,366   |
| Investment earnings:          |  |  |
| Interest                      | \$ 113   | 2,627  |
| Total additions               | 113  | 78,993   |
| <b>Deductions</b>             |  |  |
| Unemployment benefit payments |  | 56,416   |
| Scholarship payments          | 6,000  |  |
| Total deductions              | 6,000  | 56,416   |
| Change in net position        | (5,887)  | 22,577   |
| Net position-beginning        | 20,550   | 496,726  |
| Net position-ending           | \$ 14,663  | \$ 519,303                                     |

*See accompanying notes to the basic financial statements.*

**PRINCETON PUBLIC SCHOOLS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**PRINCETON PUBLIC SCHOOLS**  
**PRINCETON, NEW JERSEY**

Prepared by Princeton Public Schools  
Business Office  
Stephanie Kennedy  
Business Administrator, Board Secretary

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## INDEPENDENT AUDITORS' REPORT

Honorable President and Members  
of the Board of Education  
Princeton Public Schools  
Princeton, New Jersey  
County of Mercer

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Princeton Public Schools, County of Mercer, New Jersey (the "District"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey. Those standards and requirements require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District'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.

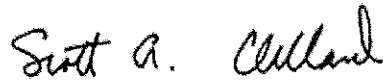
## Opinions

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

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the District's proportionate share of the net pension liability-PERS, schedule of District contributions-PERS, schedule of the State's proportionate share of the net pension liability associated with the District-TPAF and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Scott A. Clelland  
Licensed Public School Accountant  
No. 1049



WISS & COMPANY, LLP

October 18, 2017  
Livingston, New Jersey

**PRINCETON PUBLIC SCHOOLS  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED JUNE 30, 2017**

As management of Princeton Public Schools, we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the year ended June 30, 2017. We encourage readers to consider the information presented, in conjunction with additional information that we have furnished in our letter of transmittal.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current fiscal year and the prior fiscal year is presented in the MD&A as required by GASB Statement No. 34.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This document also contains required supplementary and other information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the assets, deferred inflows and outflows of resources and liabilities of the District, with the difference between the four reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net position of the District changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation and sick leave and pension liability).

The government-wide financial statements can be found on pages 11-12 of this report.

**Fund financial statements.** A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, special revenue fund, capital projects fund and debt service fund, all of which are considered to be major funds.

The District adopts an annual appropriated budget for its general fund, special revenue fund and debt service fund. Budgetary comparison statements have been provided as required supplementary information for the general fund and special revenue fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-15 of this report.

**Proprietary funds.** The District maintains one proprietary fund type. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for the operations of its food service program.

The basic enterprise fund financial statements can be found on pages 16-18 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District uses trust funds to account for the activity of the private-purpose scholarship fund and unemployment compensation trust fund.

The District uses agency funds to account for resources held for student activities and groups, and payroll related liabilities. The basic fiduciary fund financial statements can be found on pages 19-20 of this report.

**Notes to the basic financial statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21-49 of this report.

## **Financial Highlights**

### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities by \$37,552,921 (net position) for the fiscal year ended June 30, 2017 and our overall financial position has decreased slightly in the current year. The following table provides a summary of net position relating to the District's governmental and business-type activities at June 30, 2017 and 2016:

The largest portion of the District's net position is its net investment in capital assets. Restricted net position includes those items that are subject to external restrictions (e.g., for capital projects, capital reserve and excess fund balance in the general fund).

Princeton Public Schools  
Princeton, New Jersey  
Net Position  
Year Ended June 30,

|   | 2017                       |                             |                      | 2016                       |                             |                      |
|---|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Total                | Governmental<br>Activities | Business-type<br>Activities | Total                |
| <b>Assets:</b>                                |                            |                             |                      |                            |                             |                      |
| Current and other assets                      | \$ 10,987,669              | \$ 382,814                  | \$ 11,370,483        | \$ 11,236,244              | \$ 302,247                  | \$ 11,538,491        |
| Capital assets, net                           | 86,662,844                 | 150,303                     | 86,813,147           | 88,485,652                 | 171,210                     | 88,656,862           |
| Total assets                                  | 97,650,513                 | 533,117                     | 98,183,630           | 99,721,896                 | 473,457                     | 100,195,353          |
| Deferred outflows of resources                | 15,991,966                 |                             | 15,991,966           | 7,173,341                  |                             | 7,173,341            |
| <b>Liabilities:</b>                           |                            |                             |                      |                            |                             |                      |
| Current liabilities                           | 7,846,643                  | 74,819                      | 7,921,462            | 7,593,340                  | 54,405                      | 7,647,745            |
| Net pension liability                         | 40,347,557                 |                             | 40,347,557           | 27,491,446                 |                             | 27,491,446           |
| Long-term liabilities                         | 28,353,656                 |                             | 28,353,656           | 33,320,676                 |                             | 33,320,676           |
| Total liabilities                             | 76,547,856                 | 74,819                      | 76,622,675           | 68,405,462                 | 54,405                      | 68,459,867           |
| Deferred inflow of resources                  | -                          |                             | -                    | 442,010                    |                             | 442,010              |
| <b>Net position:</b>                          |                            |                             |                      |                            |                             |                      |
| Net investment in capital assets              | 59,712,054                 | 150,303                     | 59,862,357           | 57,046,654                 | 171,210                     | 57,217,864           |
| Restricted for capital reserve                | 2,274,167                  |                             | 2,274,167            | 2,222,937                  |                             | 2,222,937            |
| Restricted for capital projects               | 1,155,824                  |                             | 1,155,824            | 1,952,005                  |                             | 1,952,005            |
| Restricted for excess<br>surplus-current year | 193,609                    |                             | 193,609              | 711,742                    |                             | 711,742              |
| Restricted for excess<br>surplus-prior year   | 711,742                    |                             | 711,742              | 147,897                    |                             | 147,897              |
| Unrestricted (deficit)                        | (26,952,773)               | 307,995                     | (26,644,778)         | (24,033,470)               | 247,842                     | (23,785,628)         |
| Total net position                            | <u>\$ 37,094,623</u>       | <u>\$ 458,298</u>           | <u>\$ 37,552,921</u> | <u>\$ 38,047,765</u>       | <u>\$ 419,052</u>           | <u>\$ 38,466,817</u> |

Current and other assets decreased primarily due to the decrease in cash and cash equivalents, as a withdrawal of approximately \$285,000 was made from the capital reserve and utilized to fund capital projects. Deferred outflows of resources increased due to the large increase in pension deferrals based on actuarial calculations mainly from the change in assumptions used. Net pension liability increased as a result of changes of assumptions by the pension plan's actuary as well as changes in proportion of the allocation of the net pension liability. Long-term liabilities decreased mainly due to the payment of principal on debt. Deferred inflow of resources decreased due to the difference between the projected and actual earnings on pension plan investments.

Capital assets, net decreased from the prior year due to the completion of several projects, which resulted in a majority of prior year construction in progress balance being placed in service and depreciated in the current year. As a result, depreciation expense exceeded capital asset additions, contributing to the overall decrease.

Net investment in capital assets increased from the prior year due to the overall decrease in bonds payable and unamortized premium (used to build or acquire capital assets), due to regular payments of principal made during the current year.

There was no substantial change in business-type activity assets, liabilities and net position for the year ended June 30, 2017.

**Government-wide activities.** The key elements of the District's net position for the years ended June 30, 2017 and 2016 are as follows:

| Princeton Public Schools<br>Princeton, New Jersey<br>Net Position<br>Year Ended June 30, |                            |                             |                      |                            |                             |                      |
|--|----------------------------|-----------------------------|----------------------|----------------------------|-----------------------------|----------------------|
|  | 2017                       |                             |                      | 2016                       |                             |                      |
|  | Governmental<br>Activities | Business-type<br>Activities | Total                | Governmental<br>Activities | Business-type<br>Activities | Total                |
| Revenues:  |                            |                             |                      |                            |                             |                      |
| Program Revenues:  |                            |                             |                      |                            |                             |                      |
| Charges for services   | \$ 5,320,393               | \$ 754,998                  | \$ 6,075,391         | \$ 5,570,959               | \$ 635,162                  | \$ 6,206,121         |
| Operating grants and contributions   | 2,436,682                  | 312,002                     | 2,748,684            | 2,216,199                  | 300,296                     | 2,516,495            |
| Capital grants and contributions   | 458,968                    |                             | 458,968              | 21,749                     |                             | 21,749               |
| General revenues:  |                            |                             |                      |                            |                             |                      |
| Property taxes   | 75,596,645                 |                             | 75,596,645           | 73,412,568                 |                             | 73,412,568           |
| Federal and state aid not restricted<br>to specific purposes                             | 28,887,329                 |                             | 28,887,329           | 22,530,148                 |                             | 22,530,148           |
| Earnings on investments  | 83,404                     | 1,731                       | 85,135               | 87,684                     | 1,502                       | 89,186               |
| Miscellaneous  | 457,106                    |                             | 457,106              | 673,868                    |                             | 673,868              |
| <b>Total Revenues</b>  | <b>113,240,527</b>         | <b>1,068,731</b>            | <b>114,309,258</b>   | <b>104,513,175</b>         | <b>936,960</b>              | <b>105,450,135</b>   |
| Expenses:  |                            |                             |                      |                            |                             |                      |
| Instructional services   | 66,875,881                 |                             | 66,875,881           | 60,336,519                 |                             | 60,336,519           |
| Support services   | 41,330,206                 | 1,029,485                   | 42,359,691           | 37,101,814                 | 965,528                     | 38,067,342           |
| Charter school   | 4,745,777                  |                             | 4,745,777            | 4,907,407                  |                             | 4,907,407            |
| Interest on long-term debt   | 1,241,805                  |                             | 1,241,805            | 1,357,596                  |                             | 1,357,596            |
| <b>Total expenses</b>  | <b>114,193,669</b>         | <b>1,029,485</b>            | <b>115,223,154</b>   | <b>103,703,336</b>         | <b>965,528</b>              | <b>104,668,864</b>   |
| Change in net position   | (953,142)                  | 39,246                      | (913,896)            | 809,839                    | (28,568)                    | 781,271              |
| Net position-beginning of year   | 38,047,765                 | 419,052                     | 38,466,817           | 37,237,926                 | 447,620                     | 37,685,546           |
| <b>Net position-end of year</b>  | <b>\$ 37,094,623</b>       | <b>\$ 458,298</b>           | <b>\$ 37,552,921</b> | <b>\$ 38,047,765</b>       | <b>\$ 419,052</b>           | <b>\$ 38,466,817</b> |

The change in capital grants and contributions was related to the increased work that was performed in the current year relating to the New Jersey Schools Development Authority grants in the current year as compared to the prior year.

Property taxes increased \$2,184,077, which was in accordance with state regulations.

The increase in unrestricted federal and state aid is mainly due to an increase in the TPAF full accrual pension adjustment of \$6,440,065, as well as an increase in on-behalf TPAF pension contributions of \$858,198.

Instructional and support services expenses increased due to increases in the number of employees, and salary and benefits increases, as well as increase in the on-behalf TPAF pension contributions.

### Financial Analysis of the District's Funds

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

**Governmental funds.** The focus of the District’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District’s financing requirements.

*General Fund.* The general fund is the main operating fund of the District. At the end of the current fiscal year, unassigned fund balance was \$2,159,598, while the total fund balance was \$8,486,189. The net change in total fund balance for the General Fund was an increase of \$678,149, which was mainly attributable to District not making significant transfers to the capital projects fund. The District withdrew \$285,000 for the use of capital projects and deposited \$263,000 into capital reserve.

*Special Revenue Fund.* The special revenue fund is used to track the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes, other than debt service or capital projects. Revenue and expenditures for the current fiscal year were comparable to the prior fiscal year, with an increase of \$220,483 attributable mostly to an increase in federal and state grants expended. IDEA continues to be the largest grant in the special revenue fund, with expenditures in the current fiscal year of \$1,137,135.

*Capital Projects Fund.* The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to an expenditure for capital outlays, including the acquisition or construction of major capital facilities and other assets (other than those financed by proprietary funds). There were expenditures of \$1,322,626 in the current fiscal year compared to expenditures of \$381,872 in the prior year. The increase was mainly due to current year expenditures relating to three New Jersey Schools Development Authority grants that were awarded that were started in the prior year and completed in the current year. Prior year expenditures related to three grant projects that were started, but not completed in the prior year.

*Debt Service Fund.* The debt service fund accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The fund balance in the debt service fund is \$-0-, which is attributable to the entire fund balance being used in the budget to offset current year payments.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management. The following schedule presents a summary of the General Fund, Special Revenue Fund and Debt Service Fund revenues for the fiscal year ended June 30, 2017, and the increases in relation to prior year.

| Revenue         | Amount               | Percent of Total | Increase from 2016  | Percent of Increase |
|-----------------|----------------------|------------------|---------------------|---------------------|
| Local sources   | \$ 81,494,006        | 83.6%            | \$ 1,920,489        | 2.4%                |
| State sources   | 14,423,126           | 14.8             | 992,040             | 7.4                 |
| Federal sources | 1,586,747            | 1.6              | 153,954             | 10.7                |
| Total           | <u>\$ 97,503,879</u> | <u>100.0%</u>    | <u>\$ 3,066,483</u> | <u>3.2%</u>         |

The increase in local sources is mainly attributable to an increase in the tax levy of \$2,184,077.

The increase in state sources is mainly attributable to the increase in the TPAF pension contributions made by the State of New Jersey on-behalf of the District during the current year of \$858,198, plus increases in various other state grants.

The increase in federal sources is mainly attributable to an increase in the IDEA grant in the current year of \$103,903, plus increase in various other federal grants.

The following schedule presents a summary of General Fund, Special Revenue Fund and Debt Service Fund expenditures for the fiscal year ended June 30, 2017, and the increases and decreases in relation to the prior year:

| Expenditures          | Amount               | Percent<br>of Total | Increase<br>(Decrease)<br>from 2016 | Percent of<br>Increase<br>(Decrease) |
|-----------------------|----------------------|---------------------|-------------------------------------|--------------------------------------|
| Current expenditures: |                      |                     |                                     |                                      |
| Instruction           | \$ 38,166,287        | 39.3%               | \$ 652,224                          | 1.7%                                 |
| Support services      | 48,229,861           | 49.7                | 2,371,772                           | 5.2                                  |
| Charter schools       | 4,745,777            | 4.9                 | (161,630)                           | (3.3)                                |
| Debt service:         |                      |                     |                                     |                                      |
| Principal             | 4,874,765            | 5.0                 | 140,000                             | 3.0                                  |
| Interest              | 1,079,600            | 1.1                 | (114,250)                           | (9.6)                                |
| Total                 | <u>\$ 97,096,290</u> | <u>100.0%</u>       | <u>\$ 2,888,116</u>                 | <u>3.1%</u>                          |

The increase in instruction and support services expenditures is mainly attributable to the increase in the number of instruction related employees as well as the increase in salaries of teachers and other employees for regular programs and special education instruction, as well an increase in the related health benefits and the increase in the State of New Jersey on-behalf pension contributions.

### **General Fund Budgetary Highlights**

The District budget is prepared according to New Jersey Statutes. The most significant budgeted fund is the general fund. During the fiscal year, there were several differences between the original budget and the final amended budget as a result of transfers being applied to certain line items. These transfers were made between line items as part of the normal process as permitted by State guidelines. Readers should refer to Section C of the financial report for comparisons between actual and budgeted amounts.

Described below are explanations for variations in revenues and expenditures for certain lines where the modified budgeted amounts differ from the original budget by significant amounts. All other fluctuations were considered immaterial and no explanations were deemed required.

### **Expenditures**

- The modified budget for regular programs-undistributed instruction for other salaries for instruction decreased from the original budget by approximately \$321,000 or 29% as a result of the accumulated leave budgeted amounts transferring to the budget line associated with payouts.
- The modified budget for undistributed expenditures-instruction for tuition to CSSD and regional day schools decreased from the original budget by approximately \$186,000 or 20% as a result of fewer students attending CSSD in the current year.
- The modified budget for undistributed expenditures-child study team for purchased professional educational services increased from the original budget by approximately \$299,000 or 43% as a result of encumbering of additional funds in anticipation of service needs.



- The modified budget for undistributed instruction – non-instructional services for school buses-regular increased from the original budget by approximately \$272,000 or 100% as a result of the purchase of buses during the 2016-2017 school year to bring routes in house rather than contract out for the services.
- The modified budget for facilities acquisition and construction services for construction services increased by approximately \$285,000 or 100% as a result of the capital reserve withdrawal used to fund capital projects ongoing.

Described below are explanations for variations in revenues and expenditures for certain lines where the modified budgeted amounts differ from the actual by significant amounts. All other fluctuations were considered immaterial and no explanations were deemed required.

### Revenues

- Actual extraordinary aid was in excess of the modified budget by approximately \$778,062 or 63% as a result of the fact that the final award amount is calculated by the State of New Jersey and is not required to be budgeted for.

### Expenditures

- The actual amounts expended for undistributed expenditures-child study team for purchased professional educational services were less than the final budget by approximately \$177,000 or 22% as a result of the District transferring \$299,000 in anticipation of services and then canceling \$155,000 of purchase orders due to no longer being needed.
- The actual amounts expended for undistributed expenditures-required maintenance for school facilities for cleaning, repair and maintenance services were less than the final budget by approximately \$241,000 or 45% as a result of approximately \$174,000 in encumbrances due to timing.
- The actual amounts expended for unallocated benefits for health benefits were less than the final budget by approximately \$235,000 or 2% as a result of the District over budgeting instead of using the prior year actual as the current year budgeted amount.

### **Capital Assets**

At the end of the fiscal years ended June 30, 2017 and 2016, the District had \$86,813,147 and \$88,656,862, respectively, net invested in land, construction in progress, land improvements, building and building improvements and machinery and equipment and vehicles, net of accumulated depreciation or amortization.

|                                    | Capital Assets (Net of Depreciation) |                      |                          |                   |
|------------------------------------|--------------------------------------|----------------------|--------------------------|-------------------|
|                                    | Governmental Activities              |                      | Business-type Activities |                   |
|                                    | 2017                                 | 2016                 | 2017                     | 2016              |
| Land                               | \$ 195,190                           | \$ 195,190           |                          |                   |
| Construction in progress           | 74,261                               | 176,708              |                          |                   |
| Building and building improvements | 84,385,004                           | 86,062,833           |                          |                   |
| Machinery and equipment            | 2,008,389                            | 2,050,921            | \$ 150,303               | \$ 171,210        |
| <b>Total</b>                       | <b>\$ 86,662,844</b>                 | <b>\$ 88,485,652</b> | <b>\$ 150,303</b>        | <b>\$ 171,210</b> |

The decrease in capital assets, net is due to capital asset additions being less than depreciation expense during the 2016-17 year. For more detailed information, please refer to Note 4 to the basic financial statements.

### **Debt Administration and Long-Term Liabilities**

At June 30, 2017, the District had \$73,915,482 of outstanding long-term liabilities. Of this amount, \$40,347,557 is for the net pension liability, \$5,524,507 is for compensated absences; \$27,000,000 of serial bonds for school construction; and \$1,043,518 is for the unamortized premium on bonds. The District paid \$4,635,000 of the principal balance of outstanding bonds during the 2016-17 fiscal year and no additional bonds were issued. The legal debt margin at June 30, 2017 is \$280,724,150.

Additional information on Princeton Public Schools' long-term liabilities can be found in Note 5 to the basic financial statements.

### **Economic Factors and Next Year's Budget**

- The District budgeted \$3,601,453 of its 2017 fund balance to partially fund 2017-2018 operations, an increase of \$1,059,556 from the prior year.
- The 2017-2018 tax levy was increased in accordance with state regulations.

All of the above factors were considered in preparing the District's 2017-18 fiscal year budget.

### **Requests for Information**

This financial report is designed to provide a general overview of Princeton Public Schools finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the School Business Administrator, 25 Valley Road, Princeton, New Jersey 08540.

## PRINCETON PUBLIC SCHOOLS

## STATEMENT OF NET POSITION

JUNE 30, 2017

|   | Governmental<br>Activities | Business-type<br>Activities | Total                |
|---|----------------------------|-----------------------------|----------------------|
| <b>Assets</b>                                   |                            |                             |                      |
| Cash and cash equivalents                       | \$ 6,181,257               | \$ 354,807                  | \$ 6,536,064         |
| Accounts receivable                             | 2,518,598                  | 24,889                      | 2,543,487            |
| Internal balances                               | 13,647                     | (13,647)                    | -                    |
| Inventories                                     |                            | 16,765                      | 16,765               |
| Restricted assets:                              |                            |                             |                      |
| Cash and cash equivalents                       | 2,274,167                  |                             | 2,274,167            |
| Capital assets, non-depreciable                 | 269,451                    |                             | 269,451              |
| Capital assets, depreciable, net                | 86,393,393                 | 150,303                     | 86,543,696           |
| Total assets                                    | <u>97,650,513</u>          | <u>533,117</u>              | <u>98,183,630</u>    |
| <b>Deferred Outflows of Resources</b>           |                            |                             |                      |
| Deferred loss on defeasance of debt             | 888,456                    |                             | 888,456              |
| Pension deferrals                               | 15,103,510                 |                             | 15,103,510           |
| Total deferred outflows of resources            | <u>15,991,966</u>          |                             | <u>15,991,966</u>    |
| Total assets and deferred outflows of resources | <u>113,642,479</u>         | <u>533,117</u>              | <u>114,175,596</u>   |
| <b>Liabilities</b>                              |                            |                             |                      |
| Accounts payable                                | 2,068,167                  | 16,972                      | 2,085,139            |
| Accrued interest payable                        | 400,688                    |                             | 400,688              |
| Intergovernmental payables:                     |                            |                             |                      |
| State   | 88,414                     |                             | 88,414               |
| Unearned revenue                                | 58,585                     | 57,847                      | 116,432              |
| Other liabilities                               | 16,420                     |                             | 16,420               |
| Net pension liability                           | 40,347,557                 |                             | 40,347,557           |
| Current portion of long-term obligations        | 5,214,369                  |                             | 5,214,369            |
| Noncurrent portion of long-term obligations     | 28,353,656                 |                             | 28,353,656           |
| Total liabilities                               | <u>76,547,856</u>          | <u>74,819</u>               | <u>76,622,675</u>    |
| <b>Net position</b>                             |                            |                             |                      |
| Net investment in capital assets                | 59,712,054                 | 150,303                     | 59,862,357           |
| Restricted for:                                 |                            |                             |                      |
| Capital reserve                                 | 2,274,167                  |                             | 2,274,167            |
| Capital projects                                | 1,155,824                  |                             | 1,155,824            |
| Excess Surplus-current year                     | 193,609                    |                             | 193,609              |
| Excess Surplus-prior year                       | 711,742                    |                             | 711,742              |
| Unrestricted (deficit)                          | <u>(26,952,773)</u>        | <u>307,995</u>              | <u>(26,644,778)</u>  |
| Total net position                              | <u>\$ 37,094,623</u>       | <u>\$ 458,298</u>           | <u>\$ 37,552,921</u> |

See accompanying notes to the basic financial statements.

## PRINCETON PUBLIC SCHOOLS

## STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

| Functions/Programs                          | Expenses       | Program Revenues        |  | Net (Expense) Revenue and<br>Changes in Net Position |                            | Total           |                             |
|---|----------------|-------------------------|--|--|----------------------------|-----------------|-----------------------------|
|   |                | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions               | Governmental<br>Activities |                 | Business-type<br>Activities |
| <b>Governmental activities</b>              |                |                         |  |  |                            |                 |                             |
| Instruction                                 | \$ 66,875,881  | \$ 5,150,332            | \$ 1,530,226                             | \$ 274,997   | \$ (59,920,326)            | \$ (59,920,326) |                             |
| Support services:                           |                |                         |  |  |                            |                 |                             |
| Attendance/social work                      | 457,074        |                         |  | 1,743  | (455,331)                  | (455,331)       |                             |
| Health services                             | 1,486,377      |                         |  | 5,825  | (1,480,552)                | (1,480,552)     |                             |
| Other support services                      | 12,087,016     |                         | 906,456                                  | 51,152   | (11,129,408)               | (11,129,408)    |                             |
| Improvement of instruction                  | 398,589        |                         |  | 1,629  | (396,960)                  | (396,960)       |                             |
| Other support: instructional staff          | 2,471,468      |                         |  | 9,074  | (2,462,394)                | (2,462,394)     |                             |
| School library                              | 3,026,047      |                         |  | 13,513   | (3,012,534)                | (3,012,534)     |                             |
| General administration                      | 1,354,304      |                         |  | 6,669  | (1,347,635)                | (1,347,635)     |                             |
| School administration                       | 4,926,312      |                         |  | 19,425   | (4,906,887)                | (4,906,887)     |                             |
| Central services                            | 2,059,619      |                         |  | 8,482  | (2,051,137)                | (2,051,137)     |                             |
| Admin info technology                       | 191,128        |                         |  | 727  | (190,401)                  | (190,401)       |                             |
| Required maintenance of plant services      | 1,755,275      |                         |  | 8,730  | (1,746,545)                | (1,746,545)     |                             |
| Operation of plant                          | 7,322,755      |                         |  | 35,900   | (7,286,855)                | (7,286,855)     |                             |
| Student transportation                      | 3,794,242      | 170,061                 |  | 21,102   | (3,603,079)                | (3,603,079)     |                             |
| Charter schools                             | 4,745,777      |                         |  |  | (4,745,777)                | (4,745,777)     |                             |
| Interest on long-term debt                  | 1,241,805      |                         |  |  | (1,241,805)                | (1,241,805)     |                             |
| Total governmental activities               | 114,193,669    | 5,320,393               | 2,436,682                                | 458,968  | (105,977,626)              | (105,977,626)   |                             |
| <b>Business-type activities</b>             |                |                         |  |  |                            |                 |                             |
| Food service                                | 1,029,485      | 754,998                 | 312,002                                  |  | \$ 37,515                  | 37,515          |                             |
| Total business-type activities              | 1,029,485      | 754,998                 | 312,002                                  |  | 37,515                     | 37,515          |                             |
| Total primary government                    | \$ 115,223,154 | \$ 6,075,391            | \$ 2,748,684                             | \$ 458,968   | (105,977,626)              | 37,515          | (105,940,111)               |
| <b>General revenues:</b>                    |                |                         |  |  |                            |                 |                             |
| Property taxes, levied for general purposes |                |                         |  |  | 70,148,719                 | 70,148,719      |                             |
| Property taxes, levied for debt service     |                |                         |  |  | 5,447,926                  | 5,447,926       |                             |
| Federal and state sources                   |                |                         |  |  | 28,887,329                 | 28,887,329      |                             |
| Investment earnings                         |                |                         |  |  | 83,404                     | 1,731           | 85,135                      |
| Miscellaneous income                        |                |                         |  |  | 457,106                    |                 | 457,106                     |
| Total general revenues                      |                |                         |  |  | 105,024,484                | 1,731           | 105,026,215                 |
| Change in net position                      |                |                         |  |  | (953,142)                  | 39,246          | (913,896)                   |
| Net position—beginning                      |                |                         |  |  | 38,047,765                 | 419,052         | 38,466,817                  |
| Net position—ending                         |                |                         |  |  | \$ 37,094,623              | \$ 458,298      | \$ 37,552,921               |

See accompanying notes to the basic financial statements.

**PRINCETON PUBLIC SCHOOLS  
GOVERNMENTAL FUNDS**

**BALANCE SHEET**

JUNE 30, 2017

|   | Major Funds         |                            |                             |                         | Total<br>Governmental<br>Funds |
|---|---------------------|----------------------------|-----------------------------|-------------------------|--------------------------------|
|   | General<br>Fund     | Special<br>Revenue<br>Fund | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund |                                |
| <b>Assets</b>                                 |                     |                            |                             |                         |                                |
| Cash and cash equivalents                     | \$ 4,803,150        | \$ 176,917                 | \$ 1,201,190                |                         | \$ 6,181,257                   |
| Accounts receivable:                          |                     |                            |                             |                         |                                |
| State   | 1,522,307           | 2,239                      | 480,717                     |                         | 2,005,263                      |
| Federal                                       |                     | 143,598                    |                             |                         | 143,598                        |
| Local   | 170,061             | 1,655                      |                             |                         | 171,716                        |
| Interfund                                     | 257,505             |                            |                             | \$ 239,972              | 497,477                        |
| Other   | 73,021              |                            |                             |                         | 73,021                         |
| Restricted cash and cash equivalents          | 2,274,167           |                            |                             |                         | 2,274,167                      |
| <b>Total assets</b>                           | <u>\$ 9,100,211</u> | <u>\$ 324,409</u>          | <u>\$ 1,681,907</u>         | <u>\$ 239,972</u>       | <u>\$ 11,346,499</u>           |
| <b>Liabilities and fund balances</b>          |                     |                            |                             |                         |                                |
| Liabilities:                                  |                     |                            |                             |                         |                                |
| Accounts payable                              | \$ 598,422          | \$ 181,540                 | \$ 77,953                   |                         | \$ 857,915                     |
| Intergovernmental payables:                   |                     |                            |                             |                         |                                |
| State   |                     | 88,414                     |                             |                         | 88,414                         |
| Interfunds payable                            |                     |                            | 243,858                     | \$ 239,972              | 483,830                        |
| Unearned revenue                              |                     | 58,585                     |                             |                         | 58,585                         |
| Other liabilities                             | 15,600              | 820                        |                             |                         | 16,420                         |
| <b>Total liabilities</b>                      | 614,022             | 329,359                    | 321,811                     | 239,972                 | 1,505,164                      |
| Fund balances:                                |                     |                            |                             |                         |                                |
| Restricted for:                               |                     |                            |                             |                         |                                |
| Capital reserve                               | 2,274,167           |                            |                             |                         | 2,274,167                      |
| Capital projects                              |                     |                            | 1,360,096                   |                         | 1,360,096                      |
| Excess surplus-current year                   | 193,609             |                            |                             |                         | 193,609                        |
| Excess surplus-prior year                     | 711,742             |                            |                             |                         | 711,742                        |
| Assigned to:                                  |                     |                            |                             |                         |                                |
| Designated for subsequent year expenditures   | 2,888,589           |                            |                             |                         | 2,888,589                      |
| Designated for subsequent year expenditures - |                     |                            |                             |                         |                                |
| ARRA SEMI                                     | 1,122               |                            |                             |                         | 1,122                          |
| Other purposes                                | 257,362             |                            |                             |                         | 257,362                        |
| Unassigned (deficit)                          | 2,159,598           | (4,950)                    |                             |                         | 2,154,648                      |
| <b>Total fund balances</b>                    | <u>8,486,189</u>    | <u>(4,950)</u>             | <u>1,360,096</u>            | <u>-</u>                | <u>9,841,335</u>               |
| <b>Total liabilities and fund balances</b>    | <u>\$ 9,100,211</u> | <u>\$ 324,409</u>          | <u>\$ 1,681,907</u>         | <u>\$ 239,972</u>       |                                |

Amounts reported for *governmental activities* in the statement of net position (A-1) are different because:

|   |                      |
|---|----------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$127,840,243 and the accumulated depreciation is \$41,177,399. (See Note 4)                                    | 86,662,844           |
| Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported as a liability in the funds.  | (400,688)            |
| Long-term liabilities, including bonds payable and compensated absences are not due in the current period and therefore are not liabilities in the funds.   | (33,568,025)         |
| Losses arising from the issuance of refunding bonds that are a result of the difference in the carrying value of the refunded bonds and the new bonds are deferred and amortized over the life of the bonds.  | 888,456              |
| Legal settlement is a receivable in the statement of activities, but not reported in the funds.   | 125,000              |
| Deferred pension costs in governmental activities are not financial resources and are therefore not reported in the funds.  | 15,103,510           |
| Accrued pension contributions for the June 30, 2017 plan year end are not paid with current economic resources and are therefore not reported as a liability in the funds, but are included in accounts payable in the government-wide statement of net position. | (1,210,252)          |
| Net pension liability is not due and payable in the current period and therefore is not reported as a liability in the funds.   | (40,347,557)         |
| <b>Net position of governmental activities</b>  | <u>\$ 37,094,623</u> |

See accompanying notes to the basic financial statements.

PRINCETON PUBLIC SCHOOLS  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2017

|   | Major Funds     |                            |                             |                         | Total<br>Governmental<br>Funds |
|---|-----------------|----------------------------|-----------------------------|-------------------------|--------------------------------|
|   | General<br>Fund | Special<br>Revenue<br>Fund | Capital<br>Projects<br>Fund | Debt<br>Service<br>Fund |                                |
| <b>Revenues:</b>  |                 |                            |                             |                         |                                |
| Local sources:  |                 |                            |                             |                         |                                |
| Local tax levy  | \$ 70,148,719   |                            |                             | \$ 5,447,926            | \$ 75,596,645                  |
| Tuition   | 5,150,332       |                            |                             |                         | 5,150,332                      |
| Interest on investments                                   | 72,275          |                            | \$ 11,129                   |                         | 83,404                         |
| Transportation-hazardous routes                           | 170,061         |                            |                             |                         | 170,061                        |
| Miscellaneous   | 457,106         | \$ 47,587                  |                             |                         | 504,693                        |
| Total local sources                                       | 75,998,493      | 47,587                     | 11,129                      | 5,447,926               | 81,505,135                     |
| State sources   | 13,617,048      | 806,078                    | 458,968                     |                         | 14,882,094                     |
| Federal sources   | 3,730           | 1,583,017                  |                             |                         | 1,586,747                      |
| Total revenues  | 89,619,271      | 2,436,682                  | 470,097                     | 5,447,926               | 97,973,976                     |
| <b>Expenditures:</b>                                      |                 |                            |                             |                         |                                |
| Current:  |                 |                            |                             |                         |                                |
| Instruction   | 34,041,310      |                            |                             |                         | 34,041,310                     |
| Support services:   |                 |                            |                             |                         |                                |
| Instruction   | 2,594,751       | 1,530,226                  |                             |                         | 4,124,977                      |
| Attendance/social work                                    | 241,931         |                            |                             |                         | 241,931                        |
| Health services   | 808,401         |                            |                             |                         | 808,401                        |
| Support services  | 6,192,862       | 906,456                    |                             |                         | 7,099,318                      |
| Improvement of instruction                                | 226,120         |                            |                             |                         | 226,120                        |
| Other support: instructional staff                        | 1,259,391       |                            |                             |                         | 1,259,391                      |
| School library  | 1,875,472       |                            |                             |                         | 1,875,472                      |
| General administration                                    | 925,642         |                            |                             |                         | 925,642                        |
| School administration                                     | 2,695,930       |                            |                             |                         | 2,695,930                      |
| Central services  | 1,177,230       |                            |                             |                         | 1,177,230                      |
| Administration information technology                     | 100,957         |                            |                             |                         | 100,957                        |
| Required maintenance of plant services                    | 1,211,611       |                            |                             |                         | 1,211,611                      |
| Operation of plant-custodial services                     | 4,391,677       |                            |                             |                         | 4,391,677                      |
| Care & upkeep of grounds                                  | 434,988         |                            |                             |                         | 434,988                        |
| Security  | 155,794         |                            |                             |                         | 155,794                        |
| Student transportation                                    | 2,928,654       |                            |                             |                         | 2,928,654                      |
| Employee benefits   | 13,848,964      |                            |                             |                         | 13,848,964                     |
| On-behalf pension contributions                           | 6,428,046       |                            |                             |                         | 6,428,046                      |
| On-behalf TPAF social security contributions              | 2,419,735       |                            |                             |                         | 2,419,735                      |
| Contribution to charter schools - current                 | 4,745,777       |                            |                             |                         | 4,745,777                      |
| Capital outlay  |                 |                            | 1,322,626                   |                         | 1,322,626                      |
| Debt Service:   |                 |                            |                             |                         |                                |
| Principal   | 239,765         |                            |                             | 4,635,000               | 4,874,765                      |
| Interest  |                 |                            |                             | 1,079,600               | 1,079,600                      |
| Total expenditures  | 88,945,008      | 2,436,682                  | 1,322,626                   | 5,714,600               | 98,418,916                     |
| Excess (Deficiency) of revenues over (under) expenditures | 674,263         | -                          | (852,529)                   | (266,674)               | (444,940)                      |
| Other financing sources (uses):                           |                 |                            |                             |                         |                                |
| Transfers in  | 3,886           |                            |                             | 239,972                 | 243,858                        |
| Transfers out   |                 |                            | (243,858)                   |                         | (243,858)                      |
| Total other financing sources (uses)                      | 3,886           |                            | (243,858)                   | 239,972                 | -                              |
| Change in fund balances before special item               | 678,149         | -                          | (1,096,387)                 | (26,702)                | (444,940)                      |
| Special item-legal settlement                             |                 |                            | 125,000                     |                         | 125,000                        |
| Net change in fund balances                               | 678,149         | -                          | (971,387)                   | (26,702)                | (319,940)                      |
| Fund balances (deficit), July 1                           | 7,808,040       | (4,950)                    | 2,331,483                   | 26,702                  | 10,161,275                     |
| Fund balances (deficit), June 30                          | \$ 8,486,189    | \$ (4,950)                 | \$ 1,360,096                | \$ -                    | \$ 9,841,335                   |

The reconciliation of the fund balances of governmental funds to the net position of governmental activities in the statement of activities is presented in an accompanying schedule (B-3).

**PRINCETON PUBLIC SCHOOLS  
GOVERNMENTAL FUNDS**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

**Total net change in fund balances - governmental funds (from B-2)** \$ (319,940)

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

Capital outlays are reported in governmental funds as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital assets additions in the period.

|                         |                  |             |
|-------------------------|------------------|-------------|
| Depreciation expense    | \$ (3,596,371)   |             |
| Capital asset additions | <u>1,773,563</u> | (1,822,808) |

In the statement of activities, interest on long-term debt is accrued, regardless of when due. In the governmental funds, interest is reported when due.

The amount presented is the change from prior year. 49,145

Repayments of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is not reported in the statement of activities.

4,635,000

Governmental funds report the effect of premiums and similar items when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

This represents the current year amortization related to the deferred interest costs. 206,104

Governmental funds report the effect of refunding transactions when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.

This represents the current year amortization related to the deferred loss on refunding. (177,690)

In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year.

In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). The amount presented is the change from the prior year.

19,833

Legal settlement was recorded as revenue in the statement of activities in the prior year, but not reported in the governmental funds until collected. The amount presented is the current year collections of legal settlement receivable.

(125,000)

Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Pension expense (3,417,786)

**Change in net position of governmental activities (A-2)**

\$ (953,142)

*See accompanying notes to the basic financial statements.*

**PRINCETON PUBLIC SCHOOLS  
ENTERPRISE FUND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2017**

|                                  | Major Fund      |
|----------------------------------|-----------------|
|                                  | Food<br>Service |
| <b>Assets</b>                    |                 |
| Current assets:                  |                 |
| Cash and cash equivalents        | \$ 354,807      |
| Accounts receivable:             |                 |
| State                            | 592             |
| Federal                          | 19,757          |
| Other                            | 4,540           |
| Inventories                      | 16,765          |
| Total current assets             | 396,461         |
| Non-current assets:              |                 |
| Capital assets:                  |                 |
| Equipment                        | 871,278         |
| Accumulated depreciation         | (720,975)       |
| Total capital assets, net        | 150,303         |
| Total assets                     | 546,764         |
| <b>Liabilities</b>               |                 |
| Current liabilities:             |                 |
| Accounts payable                 | 16,972          |
| Unearned revenue                 | 57,847          |
| Interfund payable                | 13,647          |
| Total current liabilities        | 88,466          |
| <b>Net position</b>              |                 |
| Net investment in capital assets | 150,303         |
| Unrestricted                     | 307,995         |
| Total net position               | \$ 458,298      |

*See accompanying notes to the basic financial statements.*



**PRINCETON PUBLIC SCHOOLS  
ENTERPRISE FUND**

**STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION**

**YEAR ENDED JUNE 30, 2017**

|  | Major Fund      |
|--|-----------------|
|  | Food<br>Service |
|  |                 |
| Operating revenues:                        |                 |
| Local sources:                             |                 |
| Daily food sales-reimbursable programs     | \$ 333,809      |
| Daily food sales-non-reimbursable programs | 351,284         |
| Special event income                       | 27,933          |
| Miscellaneous income                       | 41,972          |
| Total operating revenues                   | 754,998         |
| Operating expenses:                        |                 |
| Salaries                                   | 418,490         |
| Employee benefits                          | 53,536          |
| Other purchased services                   | 31,191          |
| Supplies and materials                     | 39,040          |
| Depreciation                               | 41,207          |
| Cost of sales- non-program revenues        | 133,488         |
| Cost of sales- program revenues            | 241,731         |
| Management and administrative fees         | 63,413          |
| Miscellaneous                              | 7,389           |
| Total operating expenses                   | 1,029,485       |
| Operating loss                             | (274,487)       |
| Nonoperating revenues:                     |                 |
| State sources:                             |                 |
| State school lunch program                 | 7,265           |
| Federal sources:                           |                 |
| National school breakfast program          | 30,122          |
| National school lunch program              | 217,999         |
| Food donation program                      | 56,616          |
| Interest                                   | 1,731           |
| Total nonoperating revenues                | 313,733         |
| Change in net position                     | 39,246          |
| Total net position-beginning               | 419,052         |
| Total net position-ending                  | \$ 458,298      |

*See accompanying notes to the basic financial statements.*

**PRINCETON PUBLIC SCHOOLS  
ENTERPRISE FUND**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2017**

|  | Major Fund      |
|--|-----------------|
|  | Food<br>Service |
| <b>Cash flows from operating activities</b>  |                 |
| Receipts from customers  | \$ 763,628      |
| Payments to employees  | (418,490)       |
| Payments for employee benefits   | (53,536)        |
| Payments to suppliers  | (495,084)       |
| Net cash used in operating activities  | (203,482)       |
| <b>Cash flows from noncapital financing activities</b>                               |                 |
| Cash received from state and federal reimbursements                                  | 253,071         |
| Receipts from food donation program  | 56,711          |
| Net cash provided by noncapital financing activities                                 | 309,782         |
| <b>Cash flows from capital and related financing activities</b>                      |                 |
| Acquisition of capital assets  | (20,300)        |
| Net cash used in capital and related financing activities                            | (20,300)        |
| <b>Cash flows from investing activities</b>  |                 |
| Interest received  | 1,731           |
| Net cash provided by investing activities  | 1,731           |
| Net increase in cash and cash equivalents  | 87,731          |
| Cash and cash equivalents, beginning of year   | 267,076         |
| Cash and cash equivalents, end of year   | \$ 354,807      |
| <b>Reconciliation of operating loss to net cash<br/>used in operating activities</b> |                 |
| Operating loss   | \$ (274,487)    |
| Adjustments to reconcile operating loss to net cash used in operating activities:    |                 |
| Depreciation   | 41,207          |
| Change in assets and liabilities:  |                 |
| Increase in accounts receivable  | (1,965)         |
| Increase in inventory  | (2,203)         |
| Increase in accounts payable   | 9,724           |
| Increase in interfund payable  | 13,647          |
| Increase in unearned revenue   | 10,595          |
| Net cash used in operating activities  | \$ (203,482)    |

***Noncash noncapital financing activities:***

The District received \$56,711 of food commodities from the U.S. Department of Agriculture for the year ended June 30, 2017.

*See accompanying notes to the basic financial statements.*

**PRINCETON PUBLIC SCHOOLS  
FIDUCIARY FUNDS**

**STATEMENT OF FIDUCIARY NET POSITION**

JUNE 30, 2017

|  | Private-<br>Purpose<br>Scholarship<br>Funds | Unemployment<br>Compensation<br>Trust | Agency<br>Funds |
|--|---|---------------------------------------|-----------------|
| <b>Assets</b>  |   |                                       |                 |
| Cash and cash equivalents                                | \$ 20,550                                   | \$ 510,669                            | \$ 1,319,333    |
| Total assets   | 20,550                                      | 510,669                               | \$ 1,319,333    |
| <b>Liabilities</b>                                       |   |                                       |                 |
| Accounts payable   |   | 13,943                                |                 |
| Payroll deductions and withholdings payable              |   |                                       | \$ 500,900      |
| Summer savings payable                                   |   |                                       | 334,000         |
| Due to student groups                                    |   |                                       | 484,433         |
| Total liabilities  |   | 13,943                                | \$ 1,319,333    |
| <b>Net Position</b>                                      |   |                                       |                 |
| Held in trust for scholarships                           | \$ 20,550                                   |                                       |                 |
| Held in trust for unemployment claims and other purposes |   | \$ 496,726                            |                 |

*See accompanying notes to the basic financial statements.*

**PRINCETON PUBLIC SCHOOLS  
FIDUCIARY FUNDS**

**STATEMENT OF FIDUCIARY NET POSITION**

**YEAR ENDED JUNE 30, 2017**

|                               | <u>Private-<br/>Purpose<br/>Scholarship<br/>Fund</u> | <u>Unemployment<br/>Compensation<br/>Trust</u> |
|-------------------------------|--|--|
| <b>Additions</b>              |  |  |
| Contributions:                |  |  |
| Plan member contributions     |  | \$ 72,401                                      |
| Total contributions           |  | <u>72,401</u>                                  |
| Investment earnings:          |  |  |
| Interest                      | \$ 142   | <u>2,910</u>                                   |
| Total additions               | <u>142</u>   | <u>75,311</u>                                  |
| <b>Deductions</b>             |  |  |
| Unemployment benefit payments |  | 105,340  |
| Scholarship payments          | <u>5,000</u>   |  |
| Total deductions              | <u>5,000</u>   | <u>105,340</u>                                 |
| Change in net position        | (4,858)  | (30,029)                                       |
| Net position-beginning        | <u>25,408</u>  | <u>526,755</u>                                 |
| Net position-ending           | <u>\$ 20,550</u>                                     | <u>\$ 496,726</u>                              |

*See accompanying notes to the basic financial statements.*

# PRINCETON PUBLIC SCHOOLS

## NOTES TO THE BASIC FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

### 1. Summary of Significant Accounting Policies

The financial statements of the Board of Education (the "Board") of Princeton Public Schools (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the District's accounting policies are disclosed below:

#### A. Reporting Entity

The financial reporting entity consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

The District, as the primary government for financial reporting entity purposes, has oversight responsibility and control over all activities related to Princeton Public Schools in Princeton, New Jersey. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

The District has no component units that are required to be included within the reporting entity, as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 1. Summary of Significant Accounting Policies (continued)

##### B. Government-Wide and Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements. The New Jersey Department of Education requires that all funds be reported as major to promote consistency of reporting among the school districts in the State of New Jersey.

##### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers all revenue to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, certain legal settlements and capital leases, are recorded only when payment is due.

Property taxes, interest, and state aid associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when the District receives cash.

The District has reported the following major governmental funds:

*General Fund:* The general fund is the general operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund. Included are certain expenditures for vehicles and movable instructional or noninstructional equipment, which are classified in the capital outlay subfund.

*Special Revenue Fund:* The District maintains one special revenue fund, which includes the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes, other than debt service or capital projects.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 1. Summary of Significant Accounting Policies (continued)

*Capital Projects Fund:* The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to an expenditure for capital outlays, including the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds). The financial resources are derived from temporary notes or serial bonds and state aid that are specifically authorized by the voters as a separate question on the ballot either during the annual election or at a special election.

*Debt Service Fund:* The debt service fund accounts for and reports financial resources that are restricted, committed, or assigned to an expenditure for the principal and interest on long-term general obligation debt of governmental funds.

The District reports the following major proprietary fund:

*Food Service Enterprise Fund:* The food service enterprise fund accounts for all revenues and expenses pertaining to cafeteria operations. This fund is utilized to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that the cost (i.e., expenses including depreciation and indirect costs) of providing goods and services to the students or other entities on a continuing basis are financed or recovered primarily through user charges.

Additionally, the District reports the following fiduciary fund types:

Fiduciary Funds of the District include the unemployment compensation trust fund, private-purpose scholarship trust funds and agency funds. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurements of results of operations. The following is a description of the fiduciary funds of the District:

*Trust and Agency Funds:* The trust and agency funds are used to account for assets held by the District on behalf of outside parties, including other governments, or on behalf of other funds within the District.

*Trust Funds:* The unemployment compensation and private-purpose scholarship funds are accounted for in essentially the same manner as governmental funds. The unemployment compensation fund is used to account for contributions from employees and interest earned on the balance as well as payments to the State for reimbursement of unemployment claims. The private-purpose scholarship fund is utilized to provide scholarships to students and to account for the related transactions.

*Agency Funds (Payroll and Student Activity Fund):* Agency funds are used to account for the assets that the District holds on behalf of others as their agent. Agency funds are custodial in nature and do not involve measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) fees charged to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

# PRINCETON PUBLIC SCHOOLS

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

### 1. Summary of Significant Accounting Policies (continued)

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges for sales of food and program fees. Operating expenses for enterprise funds include the cost of sales, administrative expenses, and depreciation on capital assets, if applicable. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District reports unearned revenue on its balance sheets and statement of net position. Unearned revenue arises when resources are received by the District before it has legal claim to them, as when federal assistance is received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheets and statements of net position and revenue is recognized.

Ad Valorem (Property) taxes are susceptible to accrual as, under New Jersey State Statute, a municipality is required to remit to its school district the entire balance of taxes in the amount voted upon or certified prior to the end of the school year. The District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year, since the revenue is both measurable and available. The District is entitled to receive moneys under the established payment schedule and the unpaid amount is considered to be an "accounts receivable."

The County Board of Taxation is responsible for the assessment of properties and the Township Tax Collector is responsible for collection of taxes. Assessments are certified and taxes are levied on January 1; taxes are due February 1, May 1, August 1 and November 1. Unpaid taxes are considered delinquent the following January 1 and are then subject to lien.

### D. Budgets/Budgetary Control

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue and debt service funds and submitted to the county office. In accordance with P.L. 2011, c. 202, which became effective January 17, 2012, the District elected to move the annual School Board election to the date of the November general election thereby eliminating the vote on the annual base budget. Budgets are prepared using the modified accrual basis of accounting and the special revenue fund uses a non-GAAP budget (budgetary basis). The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referred in N.J.A.C. 6A:23. All budget amendments must be approved by School Board resolution and certain others require approval by the County Superintendent of Schools. Budgetary transfers were made during the current year in accordance with statutory guidelines. The amendments made by the District were part of the normal course of operations.

The over-expenditures related to on-behalf payments in the general fund are due to the inclusion of the non-budgeted on-behalf payments made by the State of New Jersey as District expenditures. These amounts are offset by related revenues and as such do not represent budgetary over-expenditures.



# PRINCETON PUBLIC SCHOOLS

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

### 1. Summary of Significant Accounting Policies (continued)

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and accounting principles generally accepted in the United States of America with the exception of the legally mandated revenue recognition in the general fund of the last two state aid payments for budgetary purposes and the treatment of encumbrances in the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

The accounting records of the special revenue fund are maintained on the grant accounting budgetary basis. The grant accounting budgetary basis differs from GAAP in that the grant accounting budgetary basis recognizes encumbrances as expenditures and also recognizes the related revenues, whereas the GAAP basis does not. Sufficient supplemental records are maintained to allow for the presentation of GAAP basis financial reports.

#### E. Cash, Cash Equivalents and Investments

Cash and cash equivalents include petty cash, amounts on deposit, money market accounts, and short-term investments with original maturities of three months or less.

Investments are stated at fair value in accordance with the Governmental Accounting Standards Board (GASB). The District classifies certificates of deposit, which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments and are stated at cost. All other investments are stated at fair value.

#### F. Interfund Receivables/Payables

Interfund receivables/payables represent amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the District and that are due within one year.

#### G. Inventories

Inventories that benefit future periods, other than those recorded in the enterprise fund, are recorded as an expenditure during the year of purchase.

The food service enterprise fund inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. At June 30, 2017, the unused Food Donation Program commodities of \$1,980 are reported as unearned revenue in the Enterprise Fund.

#### H. Capital Assets

Capital assets, which include land, construction in progress, land improvements, buildings and building improvements and machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or through estimation procedures performed by an independent appraisal company. Donated capital assets are valued at their estimated fair value on the date of donation.

PRINCETON PUBLIC SCHOOLS

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

**1. Summary of Significant Accounting Policies (continued)**

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Capital assets, being depreciated, of the District are depreciated using the straight-line method. The following estimated useful lives are used to compute depreciation:

|                                     | <u>Years</u> |
|-------------------------------------|--------------|
| Land improvements                   | 20           |
| Buildings and building improvements | 25-50        |
| Machinery and equipment             | 5-20         |
| Vehicles                            | 5-10         |
| Computer software                   | 5            |

**I. Accrued Salaries and Wages**

Certain District employees who provided services to the District over the ten-month academic year have the option to have their salaries evenly disbursed during the entire twelve-month year. New Jersey statutes require that these earned but not disbursed amounts be retained in a separate bank account. As of June 30, 2017, the amount earned by these employees but not disbursed was \$334,000 and is included in liabilities – summer savings payable in the fiduciary fund.

**J. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense / expenditure) until then. Currently, the District has two items that qualify for reporting in this category, including deferred amounts from the refunding of debt and deferred amounts related to pensions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The District does not have any items that qualify for reporting in this category.

**K. Compensated Absences**

A liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits. The District uses the “vesting method” for estimating its accrued sick and vacation leave liability.

District employees earn vacation and sick leave in varying amounts under the District’s existing collective bargaining agreements. In the event of termination, an employee is reimbursed for accumulated vacation. Sick leave benefits provide for ordinary sick pay and begin vesting with the employee after one year of service.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 1. Summary of Significant Accounting Policies (continued)

The liability for vested compensated absences of the District is recorded in the government-wide financial statements amounted to \$5,524,507 at June 30, 2017. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

#### L. Deferred Loss on Defeasance of Debt

Deferred loss on defeasance of debt arising from the issuance of the refunding bonds is recorded as a deferred outflow of resources. It is amortized in a systematic and rational manner over the duration of the related debt as a component of interest expense. As of June 30, 2017, the District has recorded an unamortized balance of \$888,456 as a deferred outflow of resources. Amortization expense for the year ended June 30, 2017 was \$177,690.

#### M. Unearned Revenue

Unearned revenue in the special revenue fund represents cash which has been received but not yet earned. Unearned revenue in the food service enterprise fund represents unused food donation commodities and student deposits made for the use of purchasing food in a future period.

#### 1. Summary of Significant Accounting Policies (continued)

#### N. Long-Term Obligations

In the government-wide financial statements, and enterprise fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or enterprise fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

#### O. Fund Balances

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54") established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under GASB 54, fund balances in the governmental funds financial statements are reported under the modified accrual basis of accounting and classified into the following five categories, as defined below:

- 1) Nonspendable - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Assets included in this fund balance category include prepaid assets, inventories, long-term receivables, and corpus of any permanent funds.

# PRINCETON PUBLIC SCHOOLS

## NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

### 1. Summary of Significant Accounting Policies (continued)

- 2) Restricted - includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- 3) Committed - includes amounts that can be used only for the specific purposes imposed by a formal action of the government's highest level of decision-making authority. The District's highest level of decision-making authority is the Board of Education (the "Board") and formal action is taken by resolution of the Board at publicly held meetings. Once committed, amounts cannot be used for other purposes unless the Board revises or changes the specified use by taking the same action (resolution) taken to originally commit these funds.
- 4) Assigned - amounts intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. Interest is expressed by either the Board or Business Administrator, to whom the Board has delegated the authority to assign amounts to be used for specific purposes, including the encumbering of funds.
- 5) Unassigned - includes all spendable amounts not contained in the other classifications in the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In the other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. For the unrestricted fund balance, the District first spends committed funds, then assigned funds, and finally, unassigned funds.

Of the \$8,486,189 of fund balance in the General Fund, \$2,274,167 has been restricted in the capital reserve account, \$193,609 has been restricted for excess surplus-current year, \$711,742 of prior year excess surplus has been restricted for subsequent year's expenditures, \$257,362 of encumbrances is assigned to other purposes, \$2,888,589 has been classified as assigned fund balance designated for subsequent year's expenditures, \$1,122 is designated for subsequent year – ARRA SEMI, and \$2,159,598 is unassigned. The Capital Projects Fund fund balance is \$1,360,096, which is restricted for capital projects.

### P. Calculation of Excess Surplus

The designation for restricted fund balance - excess surplus is a required calculation pursuant to N.J.S.A. 18A:7F-7, as amended. New Jersey school districts are required to reserve fund balance of the general fund at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The District has excess fund balance generated during the 2017 fiscal year in the amount of \$193,609, which will be designated and appropriated in the 2018-19 budget.

### Q. Net Position

Net position represents the difference between assets, deferred outflows of resources, deferred inflows of resources and liabilities in the Government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net positions are reported as restricted in the Government-wide and fund financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**1. Summary of Significant Accounting Policies (continued)**

**R. Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**S. On-Behalf Payments**

Revenues and expenditures of the general fund include payments made or reimbursed by the State of New Jersey for social security and post-retirement pension and medical contributions for certified teachers and other members of the New Jersey Teachers Pension and Annuity Fund. Additionally, revenues and expenses related to on-behalf pension contributions in the government-wide financial statements have been increased by \$15,266,551 to adjust for the full accrual basis expense incurred by the State of New Jersey during the most recent measurement period. The amounts are not required to be included in the District's annual budget.

**T. GASB Pronouncements**

**Recently Issued and Adopted Accounting Principles**

The GASB issued Statement No. 77, *Tax Abatement Disclosures* in August 2015. This Statement is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. As the District is not a taxing government, the Statement did not result in a change in the District's assets, revenues or fund balance. However, certain required disclosures were included in Note 19.

**Recently Issued Accounting Pronouncements**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). This Statement replaces the requirements of Statement 45 and the primary objective of this Statement is to improve accounting and reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers about financial support for OPEB that is provided by other entities. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017. Management has not yet determined the impact of the Statement on the financial statements.

**U. Subsequent Events**

Management has reviewed and evaluated all events and transactions that occurred between June 30, 2017 and October 18, 2017, the date that the financial statements were available for issuance, for possible disclosure and recognition in the financial statements, and no items have come to the attention of the District that would require disclosure.

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**2. Reconciliation of Government-Wide and Fund Financial Statements**

**Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position**

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

The details of this \$33,568,025 difference are as follows:

|   |                      |
|---|----------------------|
| Bonds payable   | \$ 27,000,000        |
| Unamortized premium on bonds  | 1,043,518            |
| Compensated absences  | <u>5,524,507</u>     |
| Net adjustment to reduce fund balance-total governmental funds<br>to arrive at net position – governmental activities | <u>\$ 33,568,025</u> |

**3. Deposits and Investments**

Cash and cash equivalents include petty cash, change funds, amounts on deposit and short-term investments with original maturities of three months or less.

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts. Additionally, the District has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and savings banks, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

**Deposits**

New Jersey statutes require that school districts deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. School districts are also permitted to deposit public funds in the State of New Jersey Cash Management Fund and the New Jersey Asset and Rebate Management Fund.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 3. Deposits and Investments (continued)

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

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

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

The District's cash and cash equivalents are classified below to inform financial statement users about the extent to which the District's deposits and investments are exposed to custodial credit risk.

At June 30, 2017, the District's carrying value of its deposits was \$10,660,782 and the bank balance was \$12,063,436. Based on levels of risk, \$250,000 of the District's cash deposits on June 30, 2017 were secured by federal depository insurance and \$10,909,929 was covered by the New Jersey Governmental Unit Deposit Protection Act (GUDPA). \$903,508 held in the District's agency accounts are not covered by GUDPA.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the District's operating cash accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of failure of the counterparty the District would not be able to recover the value of its deposits and investments). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. The District does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At least five percent of the District's deposits were fully collateralized by funds held by financial institutions, but not in the name of the District. Due to the nature of GUDPA, further information is not available regarding the full amount that is collateralized.

#### Investments

New Jersey statutes permit the District to purchase the following types of securities:

- a. Bonds and other obligations of the United States or obligations guaranteed by the United States.
- b. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank, which have a maturity date not greater than twelve months from the date of purchase.
- c. New Jersey Cash Management Fund and New Jersey Asset and Rebate Management Fund.

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**3. Deposits and Investments (continued)**

*Custodial Credit Risk:* The District does not have a policy for custodial credit risk other than to maintain a safekeeping account for the securities at a financial institution.

*Credit Risk:* The District does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government.

*Concentration of Credit Risk:* The District places no limit on the amount the District may invest in any one issuer. At June 30, 2017, the District had no investments.

*Interest Rate Risk:* The District does not have a policy to limit interest rate risk. The District did not have any funds held as investments during the year ended June 30, 2017.

**4. Capital Assets**

The following schedule is a summarization of the governmental activities changes in capital assets for the year ended June 30, 2017:

|   | Beginning<br>Balance | Increases     | Reclasses   | Ending<br>Balance |
|---|----------------------|---------------|-------------|-------------------|
| <b>Governmental activities</b>              |                      |               |             |                   |
| Capital assets, not being depreciated       |                      |               |             |                   |
| Land  | \$ 195,190           |               |             | \$ 195,190        |
| Construction in progress                    | 176,708              | \$ 70,245     | \$(172,692) | 74,261            |
| Total capital assets, not being depreciated | 371,898              | 70,245        | (172,692)   | 269,451           |
| Capital assets, being depreciated           |                      |               |             |                   |
| Land improvements                           | 596,300              |               |             | 596,300           |
| Buildings and building improvements         | 118,401,947          | 1,305,401     | 99,995      | 119,807,343       |
| Machinery, equipment, and vehicles          | 6,696,535            | 397,917       | 72,697      | 7,167,149         |
| Total capital assets being depreciated      | 125,694,782          | 1,703,318     | 172,692     | 127,570,792       |
| Less accumulated depreciation for:          |                      |               |             |                   |
| Land improvements                           | 596,300              |               |             | 596,300           |
| Buildings and building improvements         | 32,339,114           | 3,083,225     |             | 35,422,339        |
| Machinery, equipment, and vehicles          | 4,645,614            | 513,146       |             | 5,158,760         |
| Total accumulated depreciation              | 37,581,028           | 3,596,371     |             | 41,177,399        |
| Total capital assets being depreciated, net | 88,113,754           | (1,893,053)   | 172,692     | 86,393,393        |
| Governmental activities capital assets, net | \$ 88,485,652        | \$(1,822,808) | \$ -        | \$86,662,844      |



**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**4. Capital Assets (continued)**

Depreciation expense was charged to functions/programs of the District as follows:

|  |                     |
|--|---------------------|
| Instruction                            | \$ 2,154,811        |
| Attendance/social work                 | 13,659              |
| Health services                        | 45,641              |
| Other support services                 | 400,817             |
| Improvement of instruction             | 12,766              |
| Other support – instructional staff    | 71,103              |
| School library                         | 105,886             |
| General administration                 | 52,260              |
| School administration                  | 152,208             |
| Central services                       | 66,465              |
| Information technology                 | 5,700               |
| Required maintenance of plant services | 68,406              |
| Operation of plant                     | 281,302             |
| Student transportation                 | 165,347             |
|  | <u>\$ 3,596,371</u> |

The following is a summary of business-type activities changes in capital assets for the year ended June 30, 2017.

|   | Beginning<br>Balance | Increases          | Ending<br>Balance |
|---|----------------------|--------------------|-------------------|
| <b>Business-type activities</b>                       |                      |                    |                   |
| Capital assets, being depreciated:                    |                      |                    |                   |
| Equipment   | \$ 850,978           | \$ 20,300          | \$ 871,278        |
| Less accumulated<br>depreciation for:                 |                      |                    |                   |
| Equipment   | 679,768              | 41,207             | 720,975           |
| Total business-type activities capital<br>assets, net | <u>\$ 171,210</u>    | <u>\$ (20,907)</u> | <u>\$ 150,303</u> |

**5. Long-Term Liabilities**

**Bonds Payable**

Bonds are authorized in accordance with State law by the voters of the municipalities through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the District are general obligation bonds.

Bonds payable at June 30, 2017 are comprised of the following issues:

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**5. Long-Term Liabilities (continued)**

\$40,165,000, 2009 refunding bonds, due in annual installments ranging from \$3,690,000 to \$4,360,000 through February 1, 2022 at interest rates ranging from 4.00% to 4.75%. These bonds were issued to provide resources to refund a portion of the District's outstanding debt. As of June 30, 2017, \$20,090,000 of this debt remains outstanding.

\$10,980,000, 2013 school improvement bonds, due in annual installments ranging from \$1,080,000 to \$1,225,000 through February 1, 2023 at interest rates ranging from 1.25% to 2.00%. These bonds were issued to finance the school facilities project approved in September 2012. As of June 30, 2017, \$6,910,000 of this debt remains outstanding.

Principal and interest due on all serial bonds outstanding are as follows:

|                             | Principal            | Interest            | Total                |
|-----------------------------|----------------------|---------------------|----------------------|
| Fiscal year ending June 30: |                      |                     |                      |
| 2018                        | \$ 4,770,000         | \$ 961,650          | \$ 5,731,650         |
| 2019                        | 4,955,000            | 800,550             | 5,755,550            |
| 2020                        | 5,150,000            | 632,875             | 5,782,875            |
| 2021                        | 5,345,000            | 458,088             | 5,803,088            |
| 2022                        | 5,555,000            | 252,512             | 5,807,512            |
| 2023                        | 1,225,000            | 24,500              | 1,249,500            |
|                             | <u>\$ 27,000,000</u> | <u>\$ 3,130,175</u> | <u>\$ 30,130,175</u> |

**Bonds Authorized But Not Issued**

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

**Changes in Long-term Liabilities**

|  | Beginning<br>Balance | Additions            | Reductions          | Ending<br>Balance    | Due within<br>One Year |
|--|----------------------|----------------------|---------------------|----------------------|------------------------|
| Governmental activities:                             |                      |                      |                     |                      |                        |
| Bonds payable  | \$ 31,635,000        |                      | \$ 4,635,000        | \$ 27,000,000        | \$ 4,770,000           |
| Premium on bonds                                     | 1,249,622            |                      | 206,104             | 1,043,518            | 206,104                |
| Compensated absences                                 | 5,544,340            | \$ 218,863           | 238,696             | 5,524,507            | 238,265                |
| Subtotal   | <u>38,428,962</u>    | <u>218,863</u>       | <u>5,079,800</u>    | <u>33,568,025</u>    | <u>5,214,369</u>       |
| Net pension liability                                | 27,491,446           | 12,856,111           |                     | 40,347,557           |                        |
| Total governmental activity<br>long-term liabilities | <u>\$ 65,920,408</u> | <u>\$ 13,074,974</u> | <u>\$ 5,079,800</u> | <u>\$ 73,915,482</u> | <u>\$ 5,214,369</u>    |

Compensated absences and the net pension liability are liquidated by expenditures charged to the general fund. Bonds payable are liquidated by expenditures charged to the debt service fund.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 6. Pension Plans

##### Description of Systems

Substantially all of the Board's employees participate in one of the following contributory defined benefit public employee retirement systems which have been established by State statute: the Teachers' Pension and Annuity Fund (TPAF) or the Public Employees' Retirement System (PERS). These systems are sponsored and administered by the State of New Jersey. The Teachers' Pension and Annuity Fund Retirement System is considered a cost-sharing multiple-employer plan, with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the Board and the system's other related non-contributing employers. The Public Employees' Retirement System is considered a cost-sharing multiple-employer plan.

##### Teachers' Pension and Annuity Fund

The Teachers' Pension and Annuity Fund was established in January 1955 under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full time public school employees in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for health care coverage. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be 1/55<sup>th</sup> of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively, with an annual benefit generally determined to be 1/60<sup>th</sup> of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

##### Public Employee's Retirement System

The Public Employees' Retirement System was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school Board or public agency provided the employee is not a member of another State-administered retirement system. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be 1/55<sup>th</sup> of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be 1/60<sup>th</sup> of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 6. Pension Plans (continued)

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information for TPAF and PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

#### Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for TPAF and PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased through July 2018 that will bring the total pension contribution rate to 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate in both the TPAF and PERS. The actuarially determined contribution includes funding for noncontributory death benefits and post-retirement medical premiums. Under current statute the District is a non-contributing employer of the TPAF.

During the year ended June 30, 2017, the State of New Jersey contributed \$6,428,046 to the TPAF for post-retirement medical benefits, disability insurance and pensions on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66, the State of New Jersey reimbursed the District \$2,419,735 during the year ended June 30, 2017 for the employer's share of social security contributions for TPAF members as calculated on their base salaries. These amounts have been included in the Government-wide and fund financial statements.

The District's actuarially determined contributions to PERS for the years ended June 30, 2017, 2016 and 2015 were \$1,210,252, \$1,052,890, and \$989,595, respectively, equal to the required contributions for each year.

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

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

##### *Public Employee's Retirement System (PERS)*

At June 30, 2017, the District reported a liability of \$40,347,557 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 July 1, 2015, which was rolled forward to June 30, 2016. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At June 30, 2016, the District's proportion was 0.1362304658 percent, which was an increase of 0.0137632039 from its proportion measured as of June 30, 2015.

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**6. Pension Plans (continued)**

For the year ended June 30, 2017, the District recognized full accrual pension expense of \$4,628,038 in the government-wide financial statements. At June 30, 2017, the District reported deferred outflows of resources related to PERS from the following sources:

|  | Deferred<br>Outflows of<br>Resources |
|--|--------------------------------------|
| Difference between expected and actual experience  | \$ 750,342                           |
| Changes of assumptions   | 8,357,859                            |
| Net difference between projected and actual earnings<br>on pension plan investments                                | 1,538,489                            |
| Changes in proportion and differences between<br>District contributions and proportionate share of<br>contribution | 3,246,568                            |
| District contributions subsequent to the<br>measurement date   | 1,210,252                            |
|  | <u>\$ 15,103,510</u>                 |

\$1,210,252 is reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30: |                      |
|---------------------|----------------------|
| 2018                | \$ 3,172,878         |
| 2019                | 3,172,881            |
| 2020                | 3,507,721            |
| 2021                | 2,977,721            |
| 2022                | 1,062,057            |
|                     | <u>\$ 13,893,258</u> |

**Additional Information**

*Actuarial Assumptions*

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

|                               |              |
|-------------------------------|--------------|
| Inflation rate                | 3.08%        |
| Salary increases through 2026 | 1.65 - 4.15% |
| Thereafter                    | 2.65 - 5.15% |
|                               | based on age |
| Investment rate of return     | 7.65%        |

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 6. Pension Plans (continued)

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

##### *Mortality Rates*

Pre-retirement mortality rates were based on the RP-2000 Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality 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).

##### *Long-Term Rate of Return*

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

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**6. Pension Plans (continued)**

| Asset Class                   | Target Allocation | Long-Term Expected Real Rate of Return |
|-------------------------------|-------------------|--|
| Cash                          | 5.00%             | 0.87%                                  |
| U.S. Treasuries               | 1.50%             | 1.74%                                  |
| Investment Grade Credit       | 8.00%             | 1.79%                                  |
| Mortgages                     | 2.00%             | 1.67%                                  |
| High Yield Bonds              | 2.00%             | 4.56%                                  |
| Inflation-Indexed Bonds       | 1.50%             | 3.44%                                  |
| Broad US Equities             | 26.00%            | 8.53%                                  |
| Developed Foreign Markets     | 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 ex US             | 5.00%             | -0.25%                                 |
| REIT                          | 5.25%             | 5.63%                                  |
|                               | <u>100.00%</u>    |  |

*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 their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate*

The following presents the District's proportionate share of the net pension liability as of June 30, 2016 calculated using the discount rate as disclosed on the previous page as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98 percent) or 1-percentage-point higher (4.98 percent) than the current rate:

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**6. Pension Plans (continued)**

|   | At 1%<br>Decrease<br>(2.98%) | At Current<br>Discount Rate<br>(3.98%) | At 1%<br>Increase<br>(4.98%) |
|---|------------------------------|--|------------------------------|
| State's proportionate share of<br>the net pension liability<br>associated with the District | \$ 49,441,222                | \$ 40,347,557                          | \$ 32,839,948                |

*Pension Plan Fiduciary Net Position*

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report for the State of New Jersey Public Employees Retirement System.

*Additional Information*

Collective balances of the Local Group at June 30, 2016 are as follows:

|                                |                   |
|--------------------------------|-------------------|
| Deferred outflows of resources | \$ 8,685,338,380  |
| Deferred inflows of resources  | \$ 870,133,595    |
| Net pension liability          | \$ 29,617,131,759 |
| <br>District's Proportion      | <br>0.1362304658% |

Collective pension expense for the Local Group for the measurement period ended June 30, 2016 is \$2,830,763,540.

The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined at July 1, 2015 (the beginning of the measurement period ended June 30, 2016) is 5.57 years and 5.72 years for the measurement period ended June 30, 2015.

*Teachers Pensions and Annuity Fund (TPAF)*

The employer contributions for local participating employers are legally required to be funded by the State in accordance with N.J.S.A. 18:66-33. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the net pension liability that is associated with the local participating employer. The State's proportionate share of the TPAF net pension liability associated with the District as of June 30, 2016 was \$249,808,990. The District's proportionate share was \$0.



PRINCETON PUBLIC SCHOOLS

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

6. Pension Plans (continued)

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The State's proportionate share of the net pension liability associated with the District was based on a projection of the State's long-term contributions to the pension plan associated with the District relative to the projected contributions by the State associated with all participating school districts, actuarially determined. At June 30, 2016, the State's proportionate share of the TPAF net pension liability associated with the District was 0.3175550101 percent, which was a decrease of 0.0019318683 from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized on-behalf pension expense and revenue in the government-wide financial statements of \$18,769,670 for contributions incurred by the State.

*Actuarial assumptions*

The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

|                           |                            |
|---------------------------|----------------------------|
| Inflation rate            | 2.50%                      |
| Salary increases          |                            |
| 2012-2021                 | Varies based on experience |
| Thereafter                | Varies based on experience |
| Investment rate of return | 7.65%                      |

*Mortality Rates*

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

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

*Long-Term Expected Rate of Return*

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

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**6. Pension Plans (continued)**

Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2016 are summarized in the following table:

| Asset Class                  | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------------|-------------------|--|
| Cash                         | 5.00%             | 0.39%                                  |
| US Government Bonds          | 1.50%             | 1.28%                                  |
| US Credit Bonds              | 13.00%            | 2.76%                                  |
| US Mortgages                 | 2.00%             | 2.38%                                  |
| US Inflation-Indexed Bonds   | 1.50%             | 1.41%                                  |
| US High Yield Bonds          | 2.00%             | 4.70%                                  |
| US Equity Market             | 26.00%            | 5.14%                                  |
| Foreign-Developed Equity     | 13.25%            | 5.19%                                  |
| Emerging Market Equity       | 6.50%             | 8.16%                                  |
| Private Real Estate Property | 5.25%             | 3.64%                                  |
| Timber                       | 1.00%             | 3.86%                                  |
| Farmland                     | 1.00%             | 4.39%                                  |
| Private Equity               | 9.00%             | 8.97%                                  |
| Commodities                  | 0.50%             | 2.87%                                  |
| Hedge Funds - MultiStrategy  | 5.00%             | 3.70%                                  |
| Hedge Funds - Equity Hedge   | 3.75%             | 4.72%                                  |
| Hedge Funds - Distressed     | 3.75%             | 3.49%                                  |
|                              | <u>100.00%</u>    |  |

*Discount Rate*

The discount rate used to measure the total pension liability was 3.22% as of June 30, 2016. This single blended discount rate was based on the long-term 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 contributed 30% of the actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2029. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2029, and the municipal

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**6. Pension Plans (continued)**

bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of the State's proportionate share of the net pension liability associated with the District to changes in the discount rate*

The following presents the State's proportionate share of the net pension liability associated with the District as of June 30, 2016 calculated using the discount rate as disclosed above as well as what the State's proportionate share of the net pension liability associated with the District would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

|   | At 1%<br>Decrease<br>(2.22%) | At Current<br>Discount Rate<br>(3.22%) | At 1%<br>Increase<br>(4.22%) |
|---|------------------------------|--|------------------------------|
| State's proportionate share of<br>the net pension liability<br>associated with the District | \$ 298,327,760               | \$ 249,808,990                         | \$ 210,187,153               |

*Pension plan fiduciary net position*

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

**Additional Information**

Collective balances of the Local Group at June 30, 2016 are as follows:

|                                |                   |
|--------------------------------|-------------------|
| Deferred outflows of resources | \$ 17,440,003,201 |
| Deferred inflows of resources  | \$ 195,027,919    |
| Net pension liability          | \$ 78,666,367,052 |

|   |               |
|---|---------------|
| State's proportionate share associated with<br>the District | 0.3175550101% |
|---|---------------|

Collective pension expense-Local Group for the plan for the measurement period ended June 30, 2016 is \$5,915,082,656.

The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined at July 1, 2015 (the beginning of the measurement period ended June 30, 2016) is 8.3 years.

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 7. Post-Retirement Benefits

##### Plan Description

The School District contributes to the New Jersey State Health Benefits Program (the "SHBP"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of New Jersey Division of Pension and Benefits. SHBP provide medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Program Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pension and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SHBP. That report may be obtained by writing to Division of Pension and Benefits, PO Box 295, Trenton, NJ 08625-0295.

##### Funding Policy

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

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid

\$321.1 million toward Chapter 126 benefits for 20,045 eligible retired members in fiscal year 2016. The State will set the contribution rate based on the *annual required contribution of the employers* (ARC), an amount actuarially determined in accordance with parameters of GASB 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to the SHBP Fund for TPAF retirees' post-retirement benefits on behalf of the District for the years ended June 30, 2017, 2016 and 2015 were \$2,918,896, \$3,027,379, and \$2,742,031, respectively, which equaled the required contributions for each year. The State's contributions to the SHBP Fund for PERS retirees' post-retirement benefits on behalf of the District was not determined or made available by the State of New Jersey.

PRINCETON PUBLIC SCHOOLS

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

**8. Risk Management**

The District is exposed to various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; employee health and accident claims; and natural disasters.

**Property and Liability Insurance**

The District participates in the Burlington County Joint Insurance Fund for its insurance coverage for property, liability, student accident and other types of liabilities and does not retain risk of loss. Under the JIF, the District is assessed an annual premium. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverages over the past three years.

**New Jersey Unemployment Compensation Insurance**

The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State.

**9. Deferred Compensation**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, which are administered by the District and various insurance companies, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

Participants' rights under the plan are equal to those of general creditors in an amount equal to the fair market value of the deferred account of each participant. The District has no liability for losses under the plan.

**10. Interfund Receivables and Payables**

The total interfund accounts receivable and payable for the District at June 30, 2017 are as follows:

|                              | Interfund<br>Receivable | Interfund<br>Payable |
|------------------------------|-------------------------|----------------------|
| General Fund                 | \$ 257,505              |                      |
| Capital Projects Fund        |                         | \$ 243,858           |
| Debt Service Fund            | 239,972                 | 239,972              |
| Food Service Enterprise Fund |                         | 13,647               |
|                              | <u>\$ 497,477</u>       | <u>\$ 497,477</u>    |

## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 10. Interfund Receivables and Payables (continued)

The interfunds between the capital projects fund, general fund and debt service fund represent interest earned on investments in the capital projects fund that were transferred to the general fund and debt service fund, as required by statute and completed capital projects transferred back to the original funding sources. The interfund between the food service enterprise fund and the general fund relates to the covering of repairs to food service equipment by the general fund. All interfunds are expected to be repaid within one year.

#### 11. Economic Dependency

The District receives a substantial amount of its support from federal and state governments. A significant reduction in the level of support, if this were to occur, could have an effect on the District's programs and activities.

#### 12. Contingent Liabilities

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at June 30, 2017 may be impaired. In addition, the District received funding from the New Jersey Schools Development Authority (NJSDA), in connection with certain approved projects. The costs associated with the funding received from the NJSDA are subject to a final review of eligible costs and compliance by the New Jersey Department of Education and the NJSDA. To the extent that the District has not complied with the rules and regulations governing the NJSDA funds or has not met the final eligible costs requirements, refunds of any money received may be required.

In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations or final eligible cost requirements governing the respective grants or funding; therefore, no provisions have been recorded in the accompanying basic financial statements for such contingencies.

#### 13. Capital Reserve Account

A capital reserve account was established by the District by inclusion of \$1,275,000 in June 2002 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

Funds placed in the capital reserve account are restricted to capital projects in the District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the Department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes or by transfer by board resolution at year end (June 1 to June 30) of any unanticipated revenue or unexpended line – item appropriation amounts, or both. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6A:23A-14.1(g), the balance in the account cannot at any time exceed the local support costs of uncompleted capital projects in its approved LRFP.

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**13. Capital Reserve Account (continued)**

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

|   |                     |
|---|---------------------|
| Beginning balance July 1, 2016                            | \$ 2,222,937        |
| Withdrawals:  |                     |
| Capital Outlay – Budgeted Withdrawal                      | (370,000)           |
| Deposits:   |                     |
| Unspent capital outlay funds not utilized in 2016-17      | 35,483              |
| Interest earned on capital reserve funds                  | 37,747              |
| Deposit into Capital Reserve (June 2017 Board Resolution) | 348,000             |
| Ending balance, June 30, 2017                             | <u>\$ 2,274,167</u> |

Of the balance of \$2,274,167 at June 30, 2017, \$1,000,000 has been appropriated in the 2017-18 approved budget. The balance in the capital reserve does not exceed the LRF balance of local support costs of uncompleted capital projects at June 30, 2017.

**14. Deficit Fund Balances**

The District has a deficit fund balance of \$4,950 in the Special Revenue Fund as of June 30, 2017 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record the last state aid payment as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditures asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the last two state aid payments in the subsequent fiscal year, the school district cannot recognize the last state aid payments on the GAAP financial statements until the year the State records the payable.

**15. Transfers**

The following presents a reconciliation of transfers during the 2017 fiscal year:

|                              | Transfers<br>In   | Transfers Out     |
|------------------------------|-------------------|-------------------|
| General Fund                 | \$ 3,886          |                   |
| Capital Projects Fund        |                   | \$ 243,858        |
| Debt Service Fund            | 239,972           |                   |
| Food Service Enterprise Fund |                   | 13,647            |
|                              | <u>\$ 257,505</u> | <u>\$ 257,505</u> |

**PRINCETON PUBLIC SCHOOLS**

**NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2017**

**15. Transfers (continued)**

The transfer out of the general fund relates to the amount of local funds that were transferred to the capital projects fund for capital projects that were partially funded by New Jersey Schools Development Authority grants. The transfer out of capital projects fund to the general fund relates to a transfer of interest in the amount of \$3,886. \$239,972 of the transfer out of the capital projects fund to the debt service fund relates to a portion of fund balance remaining from a completed project (the remaining balance will be transferred over a 3 year period, as allowable to debt service fund). The remaining \$13,647 transferred in the general fund from the food service enterprise fund is related to the repairs for food service equipment paid by the general fund. The District is not permitted to spend the interest earned on capital projects, but the District may use the interest to pay down the debt or use for general fund purposes.

**16. Restricted Assets**

The funds set aside for the capital reserve are classified as restricted assets (cash and cash equivalents) as they are restricted for use for future capital requirements.

**17. Commitments**

The District also has contracts with several vendors for goods and services that have not been received as of June 30, 2017. These encumbrances, in the amount of \$257,362 are recorded as assigned to other purposes on the general fund balance sheet.

**18. Net Position - Net Investment in Capital Assets**

Net investment in capital assets, Governmental Activities, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. The net investment in capital assets of \$59,712,054 indicated as part of the Governmental Activities net position is calculated as follows:

|   |                      |
|---|----------------------|
| Capital assets, net of depreciation                     | \$ 86,662,844        |
| Bonds payable (used to build or acquire capital assets) | (26,795,728)         |
| Deferred loss on defeasance of debt                     | 888,456              |
| Unamortized deferred premium                            | (1,043,518)          |
| Total net investment in capital assets                  | <u>\$ 59,712,054</u> |

**19. Tax Abatements**

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



## PRINCETON PUBLIC SCHOOLS

### NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2017

#### 19. Tax Abatements (continued)

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

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

The Municipality of Princeton recognized revenue of \$1,454,581 from the annual service charge in lieu of payment of taxes in 2016 and taxes in 2016 that otherwise would have been due on these long-term tax exemptions amounted to \$5,863,900, based upon the assessed valuations of the long-term tax exemptions properties. A portion of the \$4,409,319 abatement would have been allocated to the District.

#### 20. Legal Settlement-Special Item

The District received a legal settlement during the current fiscal year in the amount of \$125,000, which has been recorded as a special item in the capital projects fund.

PRINCETON PUBLIC SCHOOLS

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
PUBLIC EMPLOYEE'S RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

|   | Year Ended June 30. |              |              |              |              |              |               |               |               |               |
|---|---------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
|   | 2008                | 2009         | 2010         | 2011         | 2012         | 2013         | 2014          | 2015          | 2016          | 2017          |
| District's proportion of the net pension liability (asset) - Local Group  | N/A                 | N/A          | N/A          | N/A          | N/A          | N/A          | 0.1131855499% | 0.1200403097% | 0.1224672619% | 0.1362304658% |
| District's proportionate share of the net pension liability (asset)   | N/A                 | N/A          | N/A          | N/A          | N/A          | N/A          | \$ 21,632,007 | \$ 22,474,829 | \$ 27,491,446 | \$ 40,347,557 |
| District's covered-employee payroll   | \$ 6,932,474        | \$ 7,642,663 | \$ 8,327,261 | \$ 8,321,725 | \$ 7,612,134 | \$ 7,555,725 | \$ 7,927,404  | \$ 8,239,488  | \$ 9,157,896  | \$ 8,864,968  |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | N/A                 | N/A          | N/A          | N/A          | N/A          | N/A          | 272.88%       | 272.77%       | 300.19%       | 455.13%       |
| Plan fiduciary net position as a percentage of the total pension liability - Local Group                            | N/A                 | N/A          | N/A          | N/A          | N/A          | N/A          | 48.72%        | 52.08%        | 47.93%        | 40.14%        |

Note to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 5.39% as of June 30, 2014 to 4.90% as of June 30, 2015.

The discount rate changed from 4.90% as of June 30, 2015 to 3.98% as of June 30, 2016.

PRINCETON PUBLIC SCHOOLS

SCHEDULE OF DISTRICT CONTRIBUTIONS  
PUBLIC EMPLOYEE'S RETIREMENT SYSTEM

LAST TEN FISCAL YEARS

|  | Year Ended June 30, |              |              |              |              |              |              |              |              |              |
|--|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|  | 2008                | 2009         | 2010         | 2011         | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         |
| Contractually required contribution                                  | \$ 421,582          | \$ 712,982   | \$ 954,454   | \$ 996,498   | \$ 858,227   | \$ 852,830   | \$ 989,595   | \$ 1,052,890 | \$ 1,210,252 | \$ 1,210,252 |
| Contributions in relation to the contractually required contribution | (421,582)           | (712,982)    | (954,454)    | (996,498)    | (858,227)    | (852,830)    | (989,595)    | (1,052,890)  | (1,210,252)  | (1,210,252)  |
| Contribution deficiency (excess)                                     | \$ -                | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         | \$ -         |
| District's covered-employee payroll                                  | \$ 7,642,663        | \$ 8,327,261 | \$ 8,321,725 | \$ 7,612,134 | \$ 7,555,725 | \$ 7,927,404 | \$ 8,239,488 | \$ 9,157,896 | \$ 8,864,968 | \$ 9,192,234 |
| Contributions as a percentage of covered-employee payroll            | 5.52%               | 8.56%        | 11.47%       | 13.09%       | 11.36%       | 10.76%       | 12.01%       | 11.50%       | 13.65%       | 13.17%       |

PRINCETON PUBLIC SCHOOLS

SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE  
NET PENSION LIABILITY ASSOCIATED WITH THE DISTRICT  
TEACHERS' PENSION AND ANNUITY FUND

LAST TEN FISCAL YEARS\*

|  | Year Ended June 30,   |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 2015                  | 2016                  | 2017                  |
| State's proportion of the net pension liability (asset) associated with the District - Local Group | 0.3126860786%         | 0.3194868784%         | 0.3175550101%         |
| District's proportionate share of the net pension liability (asset)                                | \$ -                  | \$ -                  | \$ -                  |
| State's proportionate share of the net pension liability (asset) associated with the District      | \$ 167,120,532        | \$ 201,929,350        | \$ 249,808,990        |
| Total proportionate share of the net pension liability (asset) associated with the District        | <u>\$ 167,120,532</u> | <u>\$ 201,929,350</u> | <u>\$ 249,808,990</u> |
| Plan fiduciary net position as a percentage of the total pension liability                         | 33.64%                | 28.71%                | 22.33%                |

The amounts presented for each fiscal year were determined as of the previous fiscal year-end.

\* This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, governments should present information for those years for which information is available.

Covered payroll information is not presented since the Teachers' Pension and Annuity Fund is a special funding situation in which the District does not make contributions to this plan.

Notes to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 4.68% as of June 30, 2014 to 4.13% as of June 30, 2015.

The discount rate changed from 4.13% as of June 30, 2015 to 3.22% as of June 30, 2016.

**BOARD OF EDUCATION  
PRINCETON PUBLIC SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017**

|  | Original<br>Budget | Budget<br>Transfers | Final<br>Budget   | Actual            | Variance<br>Final to<br>Actual |
|--|--------------------|---------------------|-------------------|-------------------|--------------------------------|
| <b>REVENUES:</b>   |                    |                     |                   |                   |                                |
| Local Sources:   |                    |                     |                   |                   |                                |
| Local Tax Levy   | \$ 70,148,719      |                     | \$ 70,148,719     | \$ 70,148,719     |                                |
| Tuition  | 5,144,980          |                     | 5,144,980         | 5,150,332         | \$ 5,352                       |
| Hazardous Routes   | 175,729            |                     | 175,729           | 170,061           | (5,668)                        |
| Interest Earned on Investments                             | 78,702             |                     | 78,702            | 72,275            | (6,427)                        |
| Miscellaneous  | 344,500            |                     | 344,500           | 457,106           | 112,606                        |
| Total - Local Sources                                      | <u>75,892,630</u>  |                     | <u>75,892,630</u> | <u>75,998,493</u> | <u>105,863</u>                 |
| State Sources:   |                    |                     |                   |                   |                                |
| Categorical Special Education Aid                          | 2,140,906          |                     | 2,140,906         | 2,140,906         |                                |
| Transportation Aid   | 845,567            |                     | 845,567           | 845,567           |                                |
| Security Aid   | 300,916            |                     | 300,916           | 300,916           |                                |
| Adjustment Aid   | 107,606            |                     | 107,606           | 107,606           |                                |
| PARCC Readiness Aid  | 34,020             |                     | 34,020            | 34,020            |                                |
| Per Pupil Growth Aid                                       | 34,020             |                     | 34,020            | 34,020            |                                |
| Aid for Adult & Post-Grad Programs                         | 35,810             |                     | 35,810            | 35,810            |                                |
| Non-Public Transportation Aid                              |                    |                     |                   | 44,892            | 44,892                         |
| Extraordinary Aid  | 460,000            |                     | 460,000           | 1,238,062         | 778,062                        |
| TPAF Pension (On-Behalf - Non-Budgeted)                    |                    |                     |                   | 3,503,119         | 3,503,119                      |
| TPAF Post Retirement Medical (On-behalf - Non-Budgeted)    |                    |                     |                   | 2,918,896         | 2,918,896                      |
| TPAF Non-contributory Insurance (On-behalf - Non-Budgeted) |                    |                     |                   | 6,031             | 6,031                          |
| TPAF Social Security (Reimbursed - Non-Budgeted)           |                    |                     |                   | 2,419,735         | 2,419,735                      |
| Total State Sources  | <u>3,958,845</u>   |                     | <u>3,958,845</u>  | <u>13,629,580</u> | <u>9,670,735</u>               |
| Federal Sources:   |                    |                     |                   |                   |                                |
| Medical Assistance Program                                 | 38,427             |                     | 38,427            | 3,730             | (34,697)                       |
| Total - Federal Sources                                    | <u>38,427</u>      |                     | <u>38,427</u>     | <u>3,730</u>      | <u>(34,697)</u>                |
| <b>Total Revenues</b>                                      | <u>79,889,902</u>  |                     | <u>79,889,902</u> | <u>89,631,803</u> | <u>9,741,901</u>               |
| <b>EXPENDITURES:</b>                                       |                    |                     |                   |                   |                                |
| Current Expense:   |                    |                     |                   |                   |                                |
| <b>Regular Programs - Instruction</b>                      |                    |                     |                   |                   |                                |
| Preschool - Salaries of Teachers                           | 109,620            | \$ 2,208            | 111,828           | 111,828           |                                |
| Kindergarten - Salaries of Teachers                        | 835,004            | 116,309             | 951,313           | 951,310           | 3                              |
| Grades 1-5 - Salaries of Teachers                          | 7,171,984          | (89,361)            | 7,082,623         | 7,042,009         | 40,614                         |
| Grades 6-8 - Salaries of Teachers                          | 3,816,054          | 64,473              | 3,880,527         | 3,880,523         | 4                              |
| Grades 9-12 - Salaries of Teachers                         | 8,989,512          | (28,803)            | 8,960,709         | 8,949,772         | 10,937                         |
| <b>Regular Programs - Home Instruction</b>                 |                    |                     |                   |                   |                                |
| Salaries of Teachers                                       | 45,000             |                     | 45,000            | 30,915            | 14,085                         |
| Purchased Professional-Educational Services                | 45,000             |                     | 45,000            | 32,126            | 12,874                         |
| <b>Regular Programs - Undistributed Instruction</b>        |                    |                     |                   |                   |                                |
| Other Salaries for Instruction                             | 1,099,499          | (320,551)           | 778,948           | 756,060           | 22,888                         |
| Purchased Professional-Educational Services                | 210,262            | (200)               | 210,062           | 163,862           | 46,200                         |
| Purchased Technical Services                               |                    | 8,900               | 8,900             | 8,900             |                                |
| Other Purchased Services                                   | 314,288            | (33,686)            | 280,602           | 230,677           | 49,925                         |
| General Supplies   | 1,217,934          | 33,307              | 1,251,241         | 1,196,360         | 54,881                         |
| Textbooks  | 222,714            | (80,863)            | 141,851           | 122,547           | 19,304                         |
| Other Objects  | 143,478            | 46,762              | 190,240           | 171,142           | 19,098                         |
| <b>TOTAL REGULAR PROGRAMS - INSTRUCTION</b>                | <u>24,220,349</u>  | <u>(281,505)</u>    | <u>23,938,844</u> | <u>23,648,031</u> | <u>290,813</u>                 |
| <b>SPECIAL EDUCATION - INSTRUCTION</b>                     |                    |                     |                   |                   |                                |
| Learning and/or Language Disabilities                      |                    |                     |                   |                   |                                |
| Salaries of Teachers                                       | 237,728            | 48,325              | 286,053           | 280,315           | 5,738                          |
| Other Salaries for Instruction                             | 131,390            | (20,185)            | 111,205           | 109,412           | 1,793                          |
| General Supplies   | 1,475              | (686)               | 789               | 789               |                                |
| Other Objects  | 875                | (750)               | 125               |                   | 125                            |
| <b>Total Learning and/or Language Disabilities</b>         | <u>371,468</u>     | <u>26,704</u>       | <u>398,172</u>    | <u>390,516</u>    | <u>7,656</u>                   |
| Behavioral Disabilities                                    |                    |                     |                   |                   |                                |
| Salaries of Teachers                                       | 54,999             |                     | 54,999            | 54,999            |                                |
| <b>Total Behavioral Disabilities</b>                       | <u>54,999</u>      |                     | <u>54,999</u>     | <u>54,999</u>     |                                |

BOARD OF EDUCATION  
PRINCETON PUBLIC SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017

|  | Original<br>Budget | Budget<br>Transfers | Final<br>Budget   | Actual            | Variance<br>Final to<br>Actual |
|--|--------------------|---------------------|-------------------|-------------------|--------------------------------|
| <b>Resource Room/Resource Center</b>                   |                    |                     |                   |                   |                                |
| Salaries of Teachers                                   | \$ 3,167,655       | \$ 97,724           | \$ 3,265,379      | \$ 3,247,944      | \$ 17,435                      |
| Other Salaries for Instruction                         | 1,288,473          | 136,557             | 1,425,030         | 1,381,714         | 43,316                         |
| General Supplies                                       | 38,250             | (19,497)            | 18,753            | 17,272            | 1,481                          |
| Textbooks  | 1,000              | (987)               | 13                |                   | 13                             |
| <b>Total Resource Room/Resource Center</b>             | <b>4,495,378</b>   | <b>213,797</b>      | <b>4,709,175</b>  | <b>4,646,930</b>  | <b>62,245</b>                  |
| <b>Autism:</b>   |                    |                     |                   |                   |                                |
| Salaries of Teachers                                   | 538,762            | (9,817)             | 528,945           | 522,201           | 6,744                          |
| Other Salaries for Instruction                         | 742,102            | 30,132              | 772,234           | 770,712           | 1,522                          |
| General Supplies                                       | 9,652              | (2,542)             | 7,110             | 3,828             | 3,282                          |
| Other Objects  | 2,875              | (1,014)             | 1,861             | 1,127             | 734                            |
| <b>Total Autism</b>                                    | <b>1,293,391</b>   | <b>16,759</b>       | <b>1,310,150</b>  | <b>1,297,868</b>  | <b>12,282</b>                  |
| <b>Preschool Disabilities - Part-Time</b>              |                    |                     |                   |                   |                                |
| General Supplies                                       |                    | 1,014               | 1,014             | 1,014             |                                |
| <b>Total Preschool Disabilities - Part-Time</b>        |                    | <b>1,014</b>        | <b>1,014</b>      | <b>1,014</b>      |                                |
| <b>Preschool Disabilities - Full-Time</b>              |                    |                     |                   |                   |                                |
| Salaries of Teachers                                   | 302,388            | 1,406               | 303,794           | 303,793           | 1                              |
| Other Salaries for Instruction                         | 207,050            | 18,955              | 226,005           | 226,005           |                                |
| General Supplies                                       | 5,900              | (5,900)             |                   |                   |                                |
| <b>Total Preschool Disabilities - Full-Time</b>        | <b>515,338</b>     | <b>14,461</b>       | <b>529,799</b>    | <b>529,798</b>    | <b>1</b>                       |
| <b>TOTAL SPECIAL EDUCATION - INSTRUCTION</b>           | <b>6,730,574</b>   | <b>272,735</b>      | <b>7,003,309</b>  | <b>6,921,125</b>  | <b>82,184</b>                  |
| <b>Basic Skills/Remedial - Instruction</b>             |                    |                     |                   |                   |                                |
| Salaries of Teachers                                   | 1,148,677          | 26,962              | 1,175,639         | 1,175,195         | 444                            |
| Other Salaries for Instruction                         | 80,828             | 7,260               | 88,088            | 72,570            | 15,518                         |
| <b>Total Basic Skills/Remedial - Instruction</b>       | <b>1,229,505</b>   | <b>34,222</b>       | <b>1,263,727</b>  | <b>1,247,765</b>  | <b>15,962</b>                  |
| <b>Bilingual Education - Instruction</b>               |                    |                     |                   |                   |                                |
| Salaries of Teachers                                   | 779,348            | (66,512)            | 712,836           | 712,836           |                                |
| Other Salaries for Instruction                         | 130,362            | (11,000)            | 119,362           | 119,361           | 1                              |
| General Supplies                                       | 1,441              | (600)               | 841               | 688               | 153                            |
| Textbooks  | 1,190              |                     | 1,190             | 1,187             | 3                              |
| <b>Total Bilingual Education - Instruction</b>         | <b>912,341</b>     | <b>(78,112)</b>     | <b>834,229</b>    | <b>834,072</b>    | <b>157</b>                     |
| <b>School-Spon. Cocurricular Actvts. - Inst.</b>       |                    |                     |                   |                   |                                |
| Salaries   | 264,356            |                     | 264,356           | 249,432           | 14,924                         |
| Purchased Services                                     | 5,000              |                     | 5,000             | 5,000             |                                |
| Supplies and Materials                                 | 9,217              |                     | 9,217             | 6,655             | 2,562                          |
| Other Objects  | 5,940              | 41                  | 5,981             | 5,843             | 138                            |
| <b>Total School-Spon. Cocurricular Actvts. - Inst.</b> | <b>284,513</b>     | <b>41</b>           | <b>284,554</b>    | <b>266,930</b>    | <b>17,624</b>                  |
| <b>School-Spon. Athletics</b>                          |                    |                     |                   |                   |                                |
| Salaries   | 908,867            | (59,092)            | 849,775           | 797,018           | 52,757                         |
| Purchased Services                                     | 126,211            | 971                 | 127,182           | 104,637           | 22,545                         |
| Supplies and Materials                                 | 82,466             | 6,313               | 88,779            | 86,324            | 2,455                          |
| Other Objects  | 24,855             | (1,332)             | 23,523            | 19,156            | 4,367                          |
| <b>Total School-Spon. Athletics</b>                    | <b>1,142,399</b>   | <b>(53,140)</b>     | <b>1,089,259</b>  | <b>1,007,135</b>  | <b>82,124</b>                  |
| <b>Behavioral Disabilities</b>                         |                    |                     |                   |                   |                                |
| Salaries of Reading Specialists                        | 73,645             |                     | 73,645            | 73,645            |                                |
| <b>Total Behavioral Disabilities</b>                   | <b>73,645</b>      |                     | <b>73,645</b>     | <b>73,645</b>     |                                |
| <b>TOTAL INSTRUCTION</b>                               | <b>34,593,326</b>  | <b>(105,759)</b>    | <b>34,487,567</b> | <b>33,998,703</b> | <b>488,864</b>                 |

BOARD OF EDUCATION  
PRINCETON PUBLIC SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017

|   | Original<br>Budget | Budget<br>Transfers | Final<br>Budget  | Actual           | Variance<br>Final to<br>Actual |
|---|--------------------|---------------------|------------------|------------------|--------------------------------|
| <b>Undistributed Expenditures - Instruction</b>                           |                    |                     |                  |                  |                                |
| Tuition to County Voc. School Dist. - Regular                             | \$ 201,520         | \$ (83,020)         | \$ 118,500       | \$ 104,490       | \$ 14,010                      |
| Tuition to CSSD & Regional Day Schools                                    | 950,000            | (185,807)           | 764,193          | 677,902          | 86,291                         |
| Tuition to Private Schools for the Disabled - Within State                | 1,519,651          | (29,841)            | 1,489,810        | 1,390,951        | 98,859                         |
| Tuition to Priv. Sch. Disabled & Other LEAs-Spl, O/S                      | 272,341            |                     | 272,341          | 179,008          | 93,333                         |
| Tuition - Other   | 266,660            | (8,000)             | 258,660          | 242,400          | 16,260                         |
| <b>Total Undistributed Expenditures - Instruction</b>                     | <b>3,210,172</b>   | <b>(306,668)</b>    | <b>2,903,504</b> | <b>2,594,751</b> | <b>308,753</b>                 |
| <b>Undistributed Expend. - Attend. &amp; Social Work</b>                  |                    |                     |                  |                  |                                |
| Salaries  | 203,136            | 39,685              | 242,821          | 240,820          | 2,001                          |
| Other Purchased Services  | 1,600              | (85)                | 1,515            | 1,111            | 404                            |
| <b>Total Undistributed Expend. - Attend. &amp; Social Work</b>            | <b>204,736</b>     | <b>39,600</b>       | <b>244,336</b>   | <b>241,931</b>   | <b>2,405</b>                   |
| <b>Undist. Expend. - Health Services</b>                                  |                    |                     |                  |                  |                                |
| Salaries  | 682,188            | 75,360              | 757,548          | 756,418          | 1,130                          |
| Purchased Professional and Technical Services                             | 37,000             | (10,900)            | 26,100           | 23,800           | 2,300                          |
| Supplies and Materials  | 29,163             | (854)               | 28,309           | 28,183           | 126                            |
| <b>Total Undistributed Expenditures - Health Services</b>                 | <b>748,351</b>     | <b>63,606</b>       | <b>811,957</b>   | <b>808,401</b>   | <b>3,556</b>                   |
| <b>Undist. Expend. - Other Supp. Serv. Students - Related Serv.</b>       |                    |                     |                  |                  |                                |
| Salaries  | 1,101,596          | 22,131              | 1,123,727        | 1,123,692        | 35                             |
| Purchased Professional - Educational Services                             |                    | 21,900              | 21,900           | 21,900           |                                |
| Supplies and Materials  | 18,908             | (15,676)            | 3,232            | 3,157            | 75                             |
| <b>Total Undist. Expend. - Other Supp. Serv. Students - Related Serv.</b> | <b>1,120,504</b>   | <b>28,355</b>       | <b>1,148,859</b> | <b>1,148,749</b> | <b>110</b>                     |
| <b>Undist. Expend. - Other Supp. Serv. Students - Extra Serv.</b>         |                    |                     |                  |                  |                                |
| Salaries  | 103,086            |                     | 103,086          | 103,086          |                                |
| <b>Total Undist. Expend. - Other Supp. Serv. Students - Extra Serv.</b>   | <b>103,086</b>     |                     | <b>103,086</b>   | <b>103,086</b>   |                                |
| <b>Undist. Expend. - Guidance</b>   |                    |                     |                  |                  |                                |
| Salaries of Other Professional Staff                                      | 1,415,698          | 38,658              | 1,454,356        | 1,454,039        | 317                            |
| Salaries of Secretarial and Clerical Assistants                           | 225,739            | (1,058)             | 224,681          | 224,678          | 3                              |
| Other Salaries  | 29,950             | 2,602               | 32,552           | 32,551           | 1                              |
| Other Purchased Services  | 5,375              | (1,295)             | 4,080            | 3,199            | 881                            |
| Supplies and Materials  | 9,909              | 595                 | 10,504           | 8,098            | 2,406                          |
| Other Objects   | 1,105              | (400)               | 705              | 510              | 195                            |
| <b>Total Undist. Expend. - Guidance</b>                                   | <b>1,687,776</b>   | <b>39,102</b>       | <b>1,726,878</b> | <b>1,723,075</b> | <b>3,803</b>                   |
| <b>Undist. Expend. - Child Study Team</b>                                 |                    |                     |                  |                  |                                |
| Salaries of Other Professional Staff                                      | 1,885,113          | 35,026              | 1,920,139        | 1,910,420        | 9,719                          |
| Salaries of Secretarial and Clerical Assistants                           | 161,223            | 1                   | 161,224          | 161,224          |                                |
| Other Salaries  | 186,287            | 63,769              | 250,056          | 210,183          | 39,873                         |
| Purchased Prof. - Educational Services                                    | 689,825            | 299,157             | 988,982          | 812,177          | 176,805                        |
| Residential Costs   | 132,252            | (122,917)           | 9,335            | 8,961            | 374                            |
| Miscellaneous Purchased Services  | 35,397             | (10,548)            | 24,849           | 21,505           | 3,344                          |
| Supplies and Materials  | 63,414             | 12,250              | 75,664           | 69,851           | 5,813                          |
| Other Objects   | 2,000              |                     | 2,000            | 429              | 1,571                          |
| <b>Total Undist. Expend. - Child Study Team</b>                           | <b>3,155,511</b>   | <b>276,738</b>      | <b>3,432,249</b> | <b>3,194,750</b> | <b>237,499</b>                 |
| <b>Undist. Expend. - Improvement of Inst. Serv.</b>                       |                    |                     |                  |                  |                                |
| Salaries of Supervisors of Instruction                                    | 88,202             | (1,281)             | 86,921           | 86,921           |                                |
| Other Salaries  | 131,527            | (27,125)            | 104,402          | 104,402          |                                |
| Other Purchased Services  | 14,300             | 1,895               | 16,195           | 3,787            | 12,408                         |
| General Supplies  | 9,887              |                     | 9,887            | 6,938            | 2,949                          |
| Other Objects   | 24,405             |                     | 24,405           | 24,072           | 333                            |
| <b>Total Undist. Expend. - Improvement of Inst. Serv.</b>                 | <b>268,321</b>     | <b>(26,511)</b>     | <b>241,810</b>   | <b>226,120</b>   | <b>15,690</b>                  |

BOARD OF EDUCATION  
PRINCETON PUBLIC SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017

|   | Original<br>Budget | Budget<br>Transfers | Final<br>Budget  | Actual           | Variance<br>Final to<br>Actual |
|---|--------------------|---------------------|------------------|------------------|--------------------------------|
| <b>Undist. Expend. - Edu. Media Serv./Sch. Library</b>            |                    |                     |                  |                  |                                |
| Salaries  | \$ 1,354,743       | \$ 7,579            | \$ 1,362,322     | \$ 1,362,317     | \$ 5                           |
| Unused Vacation Payment to Term/Ret Staff                         |                    | 20,160              | 20,160           | 20,160           |                                |
| Purchased Professional & Technical Services                       | 64,000             | 164                 | 64,164           | 63,158           | 1,006                          |
| Other Purchased Services  | 134,500            | (32,658)            | 101,842          | 95,126           | 6,716                          |
| Supplies and Materials  | 331,819            | 8,819               | 340,638          | 334,394          | 6,244                          |
| Other Objects   |                    | 317                 | 317              | 317              |                                |
| <b>Total Undist. Expend. - Edu. Media Serv./Sch. Library</b>      | <b>1,885,062</b>   | <b>4,381</b>        | <b>1,889,443</b> | <b>1,875,472</b> | <b>13,971</b>                  |
| <b>Undist. Expend. - Instructional Staff Training Serv.</b>       |                    |                     |                  |                  |                                |
| Salaries of Supervisors of Instruction                            | 1,025,602          | 5,894               | 1,031,496        | 1,030,566        | 930                            |
| Salaries - Other Professional Staff                               | 105,978            | 173                 | 106,151          | 106,151          |                                |
| Salaries - Secretaries and Clerical Assistants                    | 124,033            | (4,155)             | 119,878          | 119,878          |                                |
| <b>Total Undist. Expend. - Instructional Staff Training Serv.</b> | <b>1,255,613</b>   | <b>1,912</b>        | <b>1,257,525</b> | <b>1,256,595</b> | <b>930</b>                     |
| <b>Undist. Expend. - Supp. Serv. - General Admin.</b>             |                    |                     |                  |                  |                                |
| Salaries - Supervisor of Instruction                              | 427,158            | 29,104              | 456,262          | 455,949          | 313                            |
| Legal Services  | 176,000            | 30,293              | 206,293          | 184,381          | 21,912                         |
| Audit Fees  | 84,000             | (4,501)             | 79,499           | 79,185           | 314                            |
| Other Purchased Professional Services                             | 11,000             | 4,225               | 15,225           | 15,225           |                                |
| Communications/Telephone  | 100,000            | (10,272)            | 89,728           | 86,110           | 3,618                          |
| Board of Education Other Purchased Services                       | 1,000              | (442)               | 558              |                  | 558                            |
| Other Purchased Services  | 32,430             | (1,155)             | 31,275           | 28,776           | 2,499                          |
| General Supplies  | 79,561             | (34,648)            | 44,913           | 41,811           | 3,102                          |
| Miscellaneous Expenditures  | 10,000             |                     | 10,000           | 7,542            | 2,458                          |
| Board of Education Dues and Fees                                  | 33,000             | (6,000)             | 27,000           | 26,663           | 337                            |
| <b>Total Undist. Expend. - Supp. Serv. - General Admin.</b>       | <b>954,149</b>     | <b>6,604</b>        | <b>960,753</b>   | <b>925,642</b>   | <b>35,111</b>                  |
| <b>Undist. Expend. - Support Serv. - School Admin.</b>            |                    |                     |                  |                  |                                |
| Salaries of Principals/Assistant Principals                       | 1,665,376          | 68,657              | 1,734,033        | 1,734,030        | 3                              |
| Salaries of Secretarial and Clerical Assistants                   | 798,978            | (54,737)            | 744,241          | 744,218          | 23                             |
| Other Salaries  | 6,975              | 3,226               | 10,201           | 8,225            | 1,976                          |
| Unused Vacation Payment to Term/Ret Staff                         |                    | 85,767              | 85,767           | 82,333           | 3,434                          |
| Other Purchased Services  | 57,734             | (29,993)            | 27,741           | 25,187           | 2,554                          |
| Supplies and Materials  | 73,219             | (4,259)             | 68,960           | 57,973           | 10,987                         |
| Other Objects   | 49,430             | 1,720               | 51,150           | 43,964           | 7,186                          |
| <b>Total Undist. Expend. - Support Serv. - School Admin.</b>      | <b>2,651,712</b>   | <b>70,381</b>       | <b>2,722,093</b> | <b>2,695,930</b> | <b>26,163</b>                  |
| <b>Undist. Expend. - Central Services</b>                         |                    |                     |                  |                  |                                |
| Salaries  | 917,484            | 67,620              | 985,104          | 977,748          | 7,356                          |
| Unused Vacation Payment to Term/Ret Staff                         |                    | 1,199               | 1,199            | 1,199            |                                |
| Purchased Professional Services                                   | 36,900             | 4,386               | 41,286           | 38,712           | 2,574                          |
| Purchased Technical Services                                      | 53,500             | (5,153)             | 48,347           | 37,754           | 10,593                         |
| Miscellaneous Purchased Services                                  | 73,650             | 12,001              | 85,651           | 72,311           | 13,340                         |
| Supplies and Materials  | 67,490             | (14,062)            | 53,428           | 34,788           | 18,640                         |
| Miscellaneous Expenditures  | 7,570              | (1,400)             | 6,170            | 3,179            | 2,991                          |
| <b>Total Undist. Expend. - Central Services</b>                   | <b>1,156,594</b>   | <b>64,591</b>       | <b>1,221,185</b> | <b>1,165,691</b> | <b>55,494</b>                  |
| <b>Undist. Expend. - Technology Admin.</b>                        |                    |                     |                  |                  |                                |
| Salaries  | 100,839            | 118                 | 100,957          | 100,957          |                                |
| <b>Total Undist. Expend. - Technology Admin.</b>                  | <b>100,839</b>     | <b>118</b>          | <b>100,957</b>   | <b>100,957</b>   |                                |
| <b>Undist. Expend. - Required Maint. for Sch. Facil.</b>          |                    |                     |                  |                  |                                |
| Salaries  | 512,405            | 68,111              | 580,516          | 576,245          | 4,271                          |
| Cleaning, Repair and Maintenance Services                         | 641,821            | 139,759             | 781,580          | 540,371          | 241,209                        |
| Travel  | 600                | (456)               | 144              | 144              |                                |
| General Supplies  | 119,091            | (25,605)            | 93,486           | 86,298           | 7,188                          |
| Other Objects   | 6,500              | (23)                | 6,477            | 6,427            | 50                             |
| <b>Total Undist. Expend. - Required Maint. for Sch. Facil.</b>    | <b>1,280,417</b>   | <b>181,786</b>      | <b>1,462,203</b> | <b>1,209,485</b> | <b>252,718</b>                 |



**BOARD OF EDUCATION  
PRINCETON PUBLIC SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017**

|   | Original<br>Budget | Budget<br>Transfers | Final<br>Budget   | Actual            | Variance<br>Final to<br>Actual |
|---|--------------------|---------------------|-------------------|-------------------|--------------------------------|
| <b>Undist. Expend. - Custodial Services</b>                               |                    |                     |                   |                   |                                |
| Salaries  | \$ 2,089,441       | \$ (66,208)         | \$ 2,023,233      | \$ 1,980,103      | \$ 43,130                      |
| Salaries of Non-Instructional Aides                                       | 117,751            | (3,600)             | 114,151           | 96,409            | 17,742                         |
| Purchased Professional - Technical Services                               | 36,705             | 35,514              | 72,219            | 51,617            | 20,602                         |
| Cleaning, Repair and Maintenance Services                                 | 77,840             | (6,737)             | 71,103            | 67,043            | 4,060                          |
| Other Purchased Property Services   | 135,000            | (24,114)            | 110,886           | 110,886           |                                |
| Insurance   | 290,748            | 74,039              | 364,787           | 364,366           | 421                            |
| General Supplies  | 171,428            | 14,115              | 185,543           | 184,405           | 1,138                          |
| Miscellaneous Purchased Services  | 600                | 1,077               | 1,677             | 1,677             |                                |
| Natural Gas   | 475,000            | (122,109)           | 352,891           | 340,204           | 12,687                         |
| Electricity   | 1,145,000          | (95,221)            | 1,049,779         | 910,101           | 139,678                        |
| Energy  | 14,000             | 600                 | 14,600            | 13,077            | 1,523                          |
| <b>Total Undist. Expend. - Custodial Services</b>                         | <b>4,553,513</b>   | <b>(192,644)</b>    | <b>4,360,869</b>  | <b>4,119,888</b>  | <b>240,981</b>                 |
| <b>Undist. Expend. - Care and Upkeep of Grounds</b>                       |                    |                     |                   |                   |                                |
| Salaries  | 304,965            | 1                   | 304,966           | 302,090           | 2,876                          |
| Cleaning, Repair and Maintenance Services                                 | 20,000             | (9,457)             | 10,543            | 9,022             | 1,521                          |
| General Supplies  | 30,000             | 5,081               | 35,081            | 32,587            | 2,494                          |
| <b>Total Undist. Expend. - Care and Upkeep of Grounds</b>                 | <b>354,965</b>     | <b>(4,375)</b>      | <b>350,590</b>    | <b>343,699</b>    | <b>6,891</b>                   |
| <b>Undist. Expend. - Security</b>   |                    |                     |                   |                   |                                |
| Salaries  | 128,934            |                     | 128,934           | 114,495           | 14,439                         |
| Cleaning, Repair and Maintenance Services                                 | 7,500              |                     | 7,500             | 6,299             | 1,201                          |
| General Supplies  | 35,000             |                     | 35,000            | 35,000            |                                |
| <b>Total Undist. Expend. - Security</b>                                   | <b>171,434</b>     |                     | <b>171,434</b>    | <b>155,794</b>    | <b>15,640</b>                  |
| <b>Undist. Expend. - Student Transportation Serv.</b>                     |                    |                     |                   |                   |                                |
| Salaries for Non-Instructional Aids                                       | 104,263            | 56,159              | 160,422           | 160,050           | 372                            |
| Salaries for Pupil Trans. (Between Home & School) - Regular               | 251,887            | 99,788              | 351,675           | 351,674           | 1                              |
| Salaries for Pupil Trans. (Between Home & School) - Sp. Ed.               | 282,534            | 32,983              | 315,517           | 310,399           | 5,118                          |
| Salaries for Pupil Trans. Other than Between Home & School                | 46,200             | 25,285              | 71,485            | 41,541            | 29,944                         |
| Cleaning, Repair & Maintenance Services                                   | 92,300             | 25,000              | 117,300           | 106,682           | 10,618                         |
| Lease Purchase Payments-School Buses                                      | 10,000             | (7,000)             | 3,000             | 969               | 2,031                          |
| Contracted Services Aid In Lieu of Payment for Non-public School Students | 163,000            | 14,000              | 177,000           | 176,048           | 952                            |
| Contracted Services (Between Home and School) - Vendors                   | 960,042            | (98,913)            | 861,129           | 835,201           | 25,928                         |
| Contracted Services (Other than Between Home and School) - Vendors        | 284,630            | (27,090)            | 257,540           | 196,212           | 61,328                         |
| Contracted Services (Sp. Ed.) - Vendors                                   | 603,928            | (178,600)           | 425,328           | 331,118           | 94,210                         |
| Contracted Services (Sp. Ed.) - Joint Agreements                          | 300,000            | (169,417)           | 130,583           | 80,943            | 49,640                         |
| Miscellaneous Purchased Services - Transportation                         | 40,000             | 1,128               | 41,128            | 38,456            | 2,672                          |
| General Supplies  | 114,100            | (42,800)            | 71,300            | 29,102            | 42,198                         |
| Transportation Supplies   | 17,500             |                     | 17,500            | 1,662             | 15,838                         |
| Miscellaneous Expenditures  | 7,250              |                     | 7,250             | 2,869             | 4,381                          |
| <b>Total Undist. Expend. - Student Transportation Serv.</b>               | <b>3,277,634</b>   | <b>(269,477)</b>    | <b>3,008,157</b>  | <b>2,662,926</b>  | <b>345,231</b>                 |
| <b>Unallocated Benefits</b>   |                    |                     |                   |                   |                                |
| Social Security Contributions   | 1,120,000          | 131,634             | 1,251,634         | 1,185,297         | 66,337                         |
| Other Retirement Contributions - Regular                                  | 1,192,890          | 50,647              | 1,243,537         | 1,233,566         | 9,971                          |
| Workmen's Compensation  | 369,252            | (38,303)            | 330,949           | 330,949           |                                |
| Health Benefits   | 10,547,755         | (296,993)           | 10,250,762        | 10,016,471        | 234,291                        |
| Tuition Reimbursement   | 95,000             |                     | 95,000            | 59,219            | 35,781                         |
| Other Employee Benefits   | 906,000            |                     | 906,000           | 859,874           | 46,126                         |
| Unused Vac. Payment to Term/Ret. Staff                                    | 100,000            | 69,413              | 169,413           | 163,588           | 5,825                          |
| <b>Total Unallocated Benefits</b>   | <b>14,330,897</b>  | <b>(83,602)</b>     | <b>14,247,295</b> | <b>13,848,964</b> | <b>398,331</b>                 |
| On-behalf TPAF Pension Contributions (non-budgeted)                       |                    |                     |                   | 3,503,119         | (3,503,119)                    |
| TPAF Post Retirement Medical (On-behalf - Non-Budgeted)                   |                    |                     |                   | 2,918,896         | (2,918,896)                    |
| TPAF Non-contributory Insurance (On-behalf - Non-Budgeted)                |                    |                     |                   | 6,031             | (6,031)                        |
| Reimbursed TPAF Social Security Contributions (non-budgeted)              |                    |                     |                   | 2,419,735         | (2,419,735)                    |
| <b>Total On-behalf Contributions</b>                                      |                    |                     |                   | <b>8,847,781</b>  | <b>(8,847,781)</b>             |
| <b>TOTAL UNDISTRIBUTED EXPENDITURES</b>                                   | <b>42,471,286</b>  | <b>(106,103)</b>    | <b>42,365,183</b> | <b>49,249,687</b> | <b>(6,884,504)</b>             |
| <b>TOTAL GENERAL CURRENT EXPENSE</b>                                      | <b>77,064,612</b>  | <b>(211,862)</b>    | <b>76,852,750</b> | <b>83,248,390</b> | <b>(6,395,640)</b>             |

BOARD OF EDUCATION  
PRINCETON PUBLIC SCHOOLS  
BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
GENERAL FUND  
YEAR ENDED JUNE 30, 2017

|  | Original<br>Budget    | Budget<br>Transfers | Final<br>Budget       | Actual              | Variance<br>Final to<br>Actual |
|--|-----------------------|---------------------|-----------------------|---------------------|--------------------------------|
| <b>CAPITAL OUTLAY</b>  |                       |                     |                       |                     |                                |
| <b>Equipment</b>   |                       |                     |                       |                     |                                |
| <b>Regular Programs-Instruction:</b>   |                       |                     |                       |                     |                                |
| Grades 1-5   | \$ 4,000              |                     | \$ 4,000              | \$ 3,920            | \$ 80                          |
| Grades 6-8   |                       | \$ 18,503           | 18,503                | 18,503              |                                |
| Grades 9-12  |                       | 7,434               | 7,434                 | 7,434               |                                |
| <b>Special Education-Instruction:</b>  |                       |                     |                       |                     |                                |
| School- Spons. & Other Instruction Program   |                       | 12,950              | 12,950                | 12,750              | 200                            |
| <b>Undistributed Expenditures:</b>   |                       |                     |                       |                     |                                |
| Support Services - Students-Reg.   | 25,000                | (9,516)             | 15,484                | 6,710               | 8,774                          |
| Support Services - Students-Spec.  |                       | 16,492              | 16,492                | 16,492              |                                |
| Support Services - Instructional Staff   |                       | 2,796               | 2,796                 | 2,796               |                                |
| Central Services   |                       | 11,540              | 11,540                | 11,539              | 1                              |
| Undistributed Exp.-Req. Maint. of School Facilities  |                       | 15,626              | 15,626                | 2,126               | 13,500                         |
| Undistributed Exp.-Care and Upkeep of Grounds  | 39,500                | 51,790              | 91,290                | 91,289              | 1                              |
| <b>Undistributed Exp.-Non-Instructional Services</b>   |                       |                     |                       |                     |                                |
| School buses-regular   |                       | 272,000             | 272,000               | 265,728             | 6,272                          |
| <b>Total Equipment</b>   | <b>68,500</b>         | <b>399,615</b>      | <b>468,115</b>        | <b>439,287</b>      | <b>28,828</b>                  |
| <b>Facilities Acquisition and Construction Services</b>  |                       |                     |                       |                     |                                |
| Architectural/Engineering Services   | 85,000                |                     | 85,000                | 22,272              | 62,728                         |
| Construction Services  |                       | 285,000             | 285,000               | 249,517             | 35,483                         |
| Other Objects - Debt Service Assessment  | 239,765               |                     | 239,765               | 239,765             |                                |
| <b>Total Facilities Acquisition and Construction Services</b>  | <b>324,765</b>        | <b>285,000</b>      | <b>609,765</b>        | <b>511,554</b>      | <b>98,211</b>                  |
| <b>TOTAL CAPITAL OUTLAY</b>  | <b>393,265</b>        | <b>684,615</b>      | <b>1,077,880</b>      | <b>950,841</b>      | <b>127,039</b>                 |
| <b>Contribution to Charter Schools</b>   | <b>5,050,122</b>      | <b>(87,510)</b>     | <b>4,962,612</b>      | <b>4,745,777</b>    | <b>216,835</b>                 |
| <b>TOTAL EXPENDITURES</b>  | <b>82,507,999</b>     | <b>385,243</b>      | <b>82,893,242</b>     | <b>88,945,008</b>   | <b>(6,051,766)</b>             |
| <b>(Deficiency) Excess of Revenues (Under) Over Expenditures</b>   | <b>(2,618,097)</b>    | <b>(385,243)</b>    | <b>(3,003,340)</b>    | <b>686,795</b>      | <b>3,690,135</b>               |
| <b>Other Financing Sources (Uses):</b>   |                       |                     |                       |                     |                                |
| Transfer In  |                       |                     |                       | 3,886               | 3,886                          |
| Transfer Out   | (285,000)             | 285,000             |                       |                     |                                |
| <b>Total Other Financing Sources (Uses)</b>  | <b>(285,000)</b>      | <b>285,000</b>      |                       | <b>3,886</b>        | <b>3,886</b>                   |
| <b>(Deficiency) Excess of Revenues (Under) Over Expenditures and Other Financing Sources (Uses)</b>                    | <b>(2,903,097)</b>    | <b>(100,243)</b>    | <b>(3,003,340)</b>    | <b>690,681</b>      | <b>3,694,021</b>               |
| <b>Fund Balance, July 1</b>  | <b>8,060,809</b>      |                     | <b>8,060,809</b>      | <b>8,060,809</b>    |                                |
| <b>Fund Balance, June 30</b>   | <b>\$ 5,157,712</b>   | <b>\$ (100,243)</b> | <b>\$ 5,057,469</b>   | <b>\$ 8,751,490</b> | <b>\$ 3,694,021</b>            |
| <b>Recapitulation of (Deficiency) Excess of Revenues and Other Financing Sources (uses) (Under) Over Expenditures:</b> |                       |                     |                       |                     |                                |
| Budgeted Fund Balance  | \$ (2,541,897)        |                     | \$ (2,541,897)        | \$ 739,694          | \$ 3,281,591                   |
| Adjustment for Prior Year Encumbrances   |                       | \$ (100,243)        | (100,243)             | (100,243)           |                                |
| (Decrease) Increase in Capital Reserve   | (361,200)             |                     | (361,200)             | 51,230              | 412,430                        |
| <b>Total</b>   | <b>\$ (2,903,097)</b> | <b>\$ (100,243)</b> | <b>\$ (3,003,340)</b> | <b>\$ 690,681</b>   | <b>\$ 3,694,021</b>            |
| <b>Recapitulation of Fund Balance:</b>   |                       |                     |                       |                     |                                |
| Restricted Fund Balance:   |                       |                     |                       |                     |                                |
| Excess Surplus Designated for Subsequent Year's Expenditures   |                       |                     |                       | \$ 711,742          |                                |
| Excess Surplus-current year  |                       |                     |                       | 193,609             |                                |
| Capital Reserve  |                       |                     |                       | 2,274,167           |                                |
| Assigned to:   |                       |                     |                       |                     |                                |
| Designated for Subsequent Year's Expenditures  |                       |                     |                       | 2,888,589           |                                |
| Designated for Subsequent Year's Expenditures-Assigned-SEMI ARRA   |                       |                     |                       | 1,122               |                                |
| Year End Encumbrances  |                       |                     |                       | 257,362             |                                |
| Unassigned Fund Balance  |                       |                     |                       | 2,424,899           |                                |
|  |                       |                     |                       | 8,751,490           |                                |
| <b>Reconciliation of Budgetary Fund Balance to GAAP Fund Balance:</b>  |                       |                     |                       |                     |                                |
| Final State Aid Payments Not Realized on GAAP Basis  |                       |                     |                       | (265,301)           |                                |
| Fund balance per Government Funds (GAAP)   |                       |                     |                       | \$ 8,486,189        |                                |

**PRINCETON PUBLIC SCHOOLS  
SPECIAL REVENUE FUND**

**BUDGETARY COMPARISON SCHEDULE  
(BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2017**

|   | Original<br>Budget | Budget<br>Transfers | Final<br>Budget  | Actual           | Variance<br>Final<br>to Actual |
|---|--------------------|---------------------|------------------|------------------|--------------------------------|
| <b>Revenues</b>   |                    |                     |                  |                  |                                |
| State sources   | \$ 790,500         | \$ 96,718           | \$ 887,218       | \$ 801,043       | \$ (86,175)                    |
| Federal sources   | 1,555,000          | 424,434             | 1,979,434        | 1,570,572        | (408,862)                      |
| Local sources   | 88,965             | 88,965              | 88,965           | 47,587           | (41,378)                       |
| Total revenues  | <u>2,345,500</u>   | <u>610,117</u>      | <u>2,955,617</u> | <u>2,419,202</u> | <u>(536,415)</u>               |
| <b>Expenditures</b>                                       |                    |                     |                  |                  |                                |
| Current expenditures:                                     |                    |                     |                  |                  |                                |
| Instruction:  |                    |                     |                  |                  |                                |
| Salaries:   |                    |                     |                  |                  |                                |
| Salaries of teachers                                      | 394,500            | (79,767)            | 314,733          | 280,627          | 34,106                         |
| Purchased professional services                           | 197,000            | 10,677              | 207,677          | 167,204          | 40,473                         |
| Other purchased services                                  | 1,043,329          | (207,480)           | 835,849          | 768,644          | 67,205                         |
| General supplies  | 195,531            | 195,531             | 195,531          | 104,240          | 91,291                         |
| Textbooks   | 145,000            | (438)               | 144,562          | 130,739          | 13,823                         |
| Other objects   | 67,000             | 1,178               | 68,178           | 66,652           | 1,526                          |
| Total instruction   | <u>1,846,829</u>   | <u>(80,299)</u>     | <u>1,766,530</u> | <u>1,518,106</u> | <u>248,424</u>                 |
| Support services:   |                    |                     |                  |                  |                                |
| Salaries  | 166,671            | (84,950)            | 81,721           | 77,238           | 4,483                          |
| Personal services—employee benefits                       | 41,732             | 41,732              | 41,732           | 38,806           | 2,926                          |
| Purchased professional services                           | 260,000            | 536,212             | 796,212          | 574,644          | 221,568                        |
| Other purchased professional services                     | 55,662             | 55,662              | 55,662           | 33,835           | 21,827                         |
| Supplies and materials                                    | 55,562             | 55,562              | 55,562           | 24,424           | 31,138                         |
| Other objects   | 72,000             | 86,198              | 158,198          | 152,149          | 6,049                          |
| Total support services                                    | <u>498,671</u>     | <u>690,416</u>      | <u>1,189,087</u> | <u>901,096</u>   | <u>287,991</u>                 |
| Total expenditures  | <u>2,345,500</u>   | <u>610,117</u>      | <u>2,955,617</u> | <u>2,419,202</u> | <u>536,415</u>                 |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ -</u>        | <u>\$ -</u>         | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>                    |

**PRINCETON PUBLIC SCHOOLS  
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**

**BUDGET TO GAAP RECONCILIATION**

**YEAR ENDED JUNE 30, 2017**

|   | <u>General<br/>Fund</u> | <u>Special<br/>Revenue<br/>Fund</u> |
|---|-------------------------|-------------------------------------|
| <b>Sources/inflows of resources</b>   |                         |                                     |
| Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule (C-1, C-2)  | \$ 89,631,803           | \$ 2,419,202                        |
| Differences - Budgetary to GAAP:  |                         |                                     |
| Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.  |                         |                                     |
| Prior year  |                         | 39,930                              |
| Current year  |                         | (22,450)                            |
| State aid payments recognized for budgetary purposes, not recognized for GAAP statements.   |                         |                                     |
| Prior year  | 252,769                 | 4,950                               |
| Current year  | <u>(265,301)</u>        | <u>(4,950)</u>                      |
| Total revenues as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds (B-2)   | <u>\$ 89,619,271</u>    | <u>\$ 2,436,682</u>                 |
| <b>Uses/outflows of resources</b>   |                         |                                     |
| Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule (C-1, C-2)   | \$ 88,945,008           | \$ 2,419,202                        |
| Differences - Budgetary to GAAP:  |                         |                                     |
| Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes. |                         |                                     |
| Prior year  |                         | 39,930                              |
| Current year  |                         | <u>(22,450)</u>                     |
| Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds (B-2)  | <u>\$ 88,945,008</u>    | <u>\$ 2,436,682</u>                 |

**APPENDIX C**

**FORM OF APPROVING LEGAL OPINION**

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\_\_\_\_\_, 2019

The Board of Education of  
Princeton in the County of  
Mercer, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of Princeton in the County of Mercer, New Jersey (the “Board of Education”) in connection with the issuance by the Board of Education of \$26,928,000 School Bonds dated the date hereof (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 (i) Title 18A, Education, Chapter 24 of the New Jersey Statutes, (ii) a proposal adopted by the Board of Education on October 9, 2018 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on December 11, 2018 and (iii) a resolution duly adopted by the Board of Education on December 18, 2018. The Bonds are secured under the provisions of the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c.72 , approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003).

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 Board of Education, and the Board of Education has the power and is obligated to levy *ad valorem* taxes upon all the taxable real property within the school district for the payment of the Bonds and the interest thereon without limitation as to rate or amount.

On the date hereof, the Board of Education 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 Board of Education continuously

complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Board of Education 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. 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,