

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 13, 2016

NEW ISSUE – Book-Entry Only

Ratings: See “RATINGS” herein

In the opinion of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey (“Bond Counsel”), under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants described herein, interest on the Bonds (as herein defined) (i) is not includable in gross income for Federal income tax purposes pursuant to section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not treated as a preference item under Section 57 of the Code for purposes of computing the Federal alternative minimum tax imposed on individuals and corporations. Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof are not includable in gross income under the New Jersey Gross Income Tax Act, as amended. See “TAX EXEMPTION” herein.

\$5,829,000

SCHOOL BONDS, SERIES 2016

**THE BOARD OF EDUCATION OF THE SOMERSET HILLS REGIONAL SCHOOL DISTRICT
IN THE COUNTY OF SOMERSET, NEW JERSEY
(New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended)**

**CALLABLE
BANK-QUALIFIED**

Dated: Date of Delivery

Due: September 15, as shown below

The \$5,829,000 aggregate principal amount of School Bonds, Series 2016 (the “Bonds”), of The Board of Education of the Somerset Hills Regional School District in the County of Somerset, New Jersey (the “Board” when referring to the governing body and the “School District” when referring to the territorial boundaries governed by the Board) are valid and legally binding general 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. Payment of the principal of and interest on the Bonds is also secured under the provisions of the New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended.

The Bonds will be issued as fully registered bonds in book-entry only form (without certificates) 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 and held by Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in the principal amount of \$1,000 each or any integral multiple thereof with a minimum purchase of \$5,000 required, through book-entries made on the books and 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 Bond 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.

The Bonds shall bear interest from their date of delivery, which interest shall be payable semi-annually on the fifteenth day of March and September in each year, commencing September 15, 2016, until maturity or prior redemption. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each immediately preceding September 1 and March 1 (the “Record Dates” for the payment of interest on the Bonds).

The Bonds are subject to redemption prior to their stated maturities as set forth herein. See “DESCRIPTION OF THE BONDS – Redemption” herein.

**MATURITY SCHEDULE,
INTEREST RATES AND YIELDS**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2017	\$250,000			2024	\$440,000		
2018	260,000			2025	450,000		
2019	370,000			2026	465,000		
2020	385,000			2027	485,000		
2021	395,000			2028	500,000		
2022	410,000			2029	500,000		
2023	425,000			2030	494,000		

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 approval of legality by the law firm of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel to the Board, and certain other conditions described herein. Certain legal matters will be passed upon for the Board by Adams Gutierrez & Lattiboudere, LLC, Newark, New Jersey, General Counsel to the Board. Phoenix Advisors, LLC, Bordentown, New Jersey, served as financial advisor in connection with the Bonds. Delivery of the Bonds in definitive form to DTC in Jersey City, New Jersey, is anticipated to occur on or about February 10, 2016.

ELECTRONIC SUBMISSIONS FOR THE BONDS, IN ACCORDANCE WITH THE FULL NOTICE OF SALE, MUST BE MADE VIA PARITY AT 11:00 A.M. EASTERN STANDARD TIME ON JANUARY 20, 2016. FOR MORE DETAILS ON HOW TO BID ELECTRONICALLY, VIEW THE FULL NOTICE OF SALE POSTED AT WWW.PROSPECTUSHUB.COM

This is a Preliminary Official Statement, complete with the exception of the specific information permitted to be omitted by Rule 15c2-12 of the Securities and Exchange Commission. The Board has authorized distribution of this Preliminary Official Statement to prospective purchasers and others. In accordance with Rule 15c2-12, this Preliminary Official Statement is deemed final. Upon the sale of the Bonds described herein, the Board will deliver a final Official Statement within the earlier of seven (7) business days following such sale or to accompany the purchaser's confirmations requesting payment for the Bonds.

**THE BOARD OF EDUCATION OF THE
SOMERSET HILLS REGIONAL SCHOOL DISTRICT
IN THE COUNTY OF SOMERSET, NEW JERSEY**

BOARD MEMBERS

President – Robert Baker
Vice President – Louis Palma

Donna Coons
Greg DiGiacchino
Julie Goetz
Mindy Hoppe
Nancy Palazzolo
Sara Sooy
Janis Virtue
Vacancy

SUPERINTENDENT

Dr. Frances Wood

BUSINESS ADMINISTRATOR/BOARD SECRETARY

Nancy Lee Hunter

BOARD ATTORNEY

Adams Gutierrez & Lattiboudere, LLC
Newark, New Jersey

BOARD AUDITOR

Suplee, Clooney & Company
Westfield, New Jersey

FINANCIAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

BOND COUNSEL

Wilentz, Goldman & Spitzer, P.A.
Woodbridge, 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 Board. 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.

The information contained herein has been provided by the Board, DTC and other sources deemed reliable by the Board; however, such information is not guaranteed as to its accuracy or completeness and such information is not to be construed as a representation or warranty by the Board, as to information from sources other than itself. The Board has not confirmed the accuracy or completeness of information relating to DTC, which information has been provided by DTC.

This Official Statement is not to be construed as a contract or agreement among the Board, the Underwriter and the owners of any of the Bonds. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

References in this Official Statement to the Constitution of the State of New Jersey, laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents or laws are qualified in their entirety by reference to the particular source, 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.

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.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities law, but the Underwriter does not guarantee the accuracy or completeness of such information.

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OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION OF THE
SOMERSET HILLS REGIONAL SCHOOL DISTRICT
IN THE COUNTY OF SOMERSET, NEW JERSEY

\$5,829,000
SCHOOL BONDS, SERIES 2016
(NEW JERSEY SCHOOL BOND RESERVE ACT, 1980 N.J. Laws c. 72, as amended)

CALLABLE
BANK-QUALIFIED

INTRODUCTION

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by The Board of Education of the Somerset Hills Regional School District in the County of Somerset, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the offering, sale and issuance of its \$5,829,000 aggregate principal amount of School Bonds, Series 2016 (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 offering and 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 their date of delivery and shall mature on September 15 in each of the years and in the amounts set forth on the cover page hereof. The Bonds shall bear interest from their date of delivery which interest shall be payable semi-annually on the fifteenth day of March and September (each an "Interest Payment Date"), commencing on September 15, 2016, in each of the years and at the interest rates set forth on the cover page hereof until maturity or prior redemption by check mailed by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each September 1 and March 1 immediately preceding the respective Interest Payment Date (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the 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 the Bonds maturing in each year, and when issued, will be registered in the name of and held by Cede & Co., as nominee of DTC. DTC will act as Securities Depository for the Bonds (the "Securities Depository"). 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 each, or any integral multiple thereof with a minimum purchase of \$5,000 required, through book-entries made on the books and 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 of this issue maturing prior to September 15, 2024 are not subject to redemption prior to their stated maturities. The Bonds of this issue maturing on or after September 15, 2024 are redeemable at the option of the Board in whole or in part on any date on or after September 15, 2023 upon notice as required herein at one hundred percent (100%) of the principal amount being redeemed (the "Redemption Price"), plus accrued interest to the date fixed for redemption.

Notice of Redemption

Notice of redemption ("Notice of Redemption") shall be given by mailing such notice at least thirty (30) days but not more than sixty (60) days before the date fixed for redemption by first class mail in a sealed envelope with postage prepaid to the registered owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the Board or a duly appointed Bond Registrar. So long as DTC (or any successor thereto) acts as Securities Depository for the Bonds, Notice of Redemption shall be sent to such Securities Depository and shall not be sent to the beneficial owners of the Bonds. Any failure of the Securities Depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any Notice of Redemption shall not affect the validity of the redemption proceedings. If the Board determines to redeem a portion of the Bonds prior to maturity, such Bonds 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 the Bonds after the date fixed for redemption.

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 real property within the School District without limitation as to rate or amount. The Bonds are additionally secured by the New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended.

School Bond Reserve Act (1980 N.J. Laws c. 72)

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")). The 2003

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 (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 (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 Treasurer of the State of New Jersey (the "State") 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. On September 10, 2014, Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, downgraded the School Bond Reserve rating from "A+" to "A" (stable). On June 10, 2015, Moody's Investors Service, Inc. downgraded the School Bond Reserve rating from "Aa3" to "A2" (negative).

Authorization and Purpose

The Bonds have been authorized and are issued pursuant to Title 18A, Chapter 24 of the New Jersey Statutes, Chapter 271 of the Laws of 1967, as amended and supplemented, (ii) a proposal adopted by the Board on August 25, 2015, and approved by the affirmative vote of a majority of the legal voters present and voting at the annual school district election held on November 3, 2015 and (iii) a resolution duly adopted by the Board on December 9, 2015 (the "Resolution").

The proceeds of the Bonds will be used to finance various capital improvements in and for the School District (the "Project") and to pay the costs of issuance associated with the issuance of the Bonds. The State has awarded the School District aid for the Project in the amount of 40% of the eligible costs of

such Project. As such, the State has agreed to pay 40% of the annual debt service on the eligible costs financed by the Bonds each year.

BOOK-ENTRY ONLY SYSTEM

The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal and interest, and other payments on the Bonds to DTC Participants or Beneficial Owners (as such terms are defined or used herein), 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, as set forth on the inside front cover hereof, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be

the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Notices of Redemption 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 the Bonds, unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 corresponding detail information from the Board or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct and Indirect Participant and not of DTC, nor its nominee, 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 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 and Indirect Participants.

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

Paying Agent, upon direction of 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 system has been obtained from sources that the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

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 or its paying agent; (ii) the transfer of any Bonds may be registered on the books maintained by the registrar for such purposes only upon the surrender thereof to the Board or its paying agent together with the duly executed assignment in form satisfactory to the Board or its paying agent; and (iii) for every exchange or registration of transfer of Bonds, the Board or its 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 Dates.

THE SCHOOL DISTRICT AND THE BOARD

The Board is a ten (10) member board with members elected for staggered three (3) year terms. The Superintendent of Schools is the chief administrative officer of the School District. The Business Administrator/Board Secretary is the chief financial officer of the School District and oversees the Board's business functions. The Business Administrator/Board Secretary reports through the Superintendent of Schools.

The School District provides a full range of educational services appropriate to Pre-Kindergarten (Pre-K) through grade twelve (12), including regular and special education programs for the students of the constituent municipalities of the Borough of Bernardsville, Borough of Far Hills and Borough of Peapack & Gladstone (the "Constituent Municipalities"). The School District also receives high school students from the Township of Bedminster on a tuition basis. The School District operates one (1) elementary school for grades Kindergarten (K) through grade four (4), one (1) middle school for grades six (6) through eight (8) and one (1) high school for grades nine (9) through twelve (12). See "APPENDIX A – Certain Economic and Demographic Information Relating to The Board of Education of the Somerset Hills Regional School District in the County of Somerset, New Jersey."

THE STATE'S ROLE IN PUBLIC EDUCATION

The Constitution of the State of New Jersey provides that the State shall provide for the maintenance and support of a thorough and efficient ("T&E") system of free public schools for the instruction of all children 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 State 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, to acquire land and other property and to decide appeals from decisions of the Commissioner (as hereinafter defined) on matters of school law or State Board regulations.

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 approved 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 with the advice and consent of the State Senate. The County Superintendent is the local representative of 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 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 classified 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. The 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, and approves all fiscal matters;

(2) Type II, in which the registered voters within a school district elect the members of a board of education and either (a) the registered voters also vote upon all fiscal matters with the exception set forth in the new Budget Election Law (as hereinafter defined in "School Budgetary Process"), 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, and approves all fiscal matters;

(3) Regional and consolidated school districts comprising the territorial boundaries of more than one municipality in which the registered voters within the school district elect members of the board of education and vote upon all fiscal matters with certain exceptions. 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 all 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, 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 district, or the board of education in a Type II 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.

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 if such certified budget is less than or equal to the maximum T&E budget and may appeal to the Commissioner if such certified budget amount is in excess of the maximum T&E budget. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

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. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing bodies of the constituent municipalities must develop the school budget by May 19 of each year. Should the governing bodies be unable to do so, the Commissioner establishes the local school budget.

The New Budget Election Law (P.L. 2011, c. 202, effective January 17, 2012) (the "Budget Election Law") establishes 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 fifteen percent (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 (4) years.

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

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 which 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 (as defined herein) 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 limitations were 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 (the "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 (the "CEIFA"), as amended by P.L. 2004, c. 732, effective July 1, 2004 and P.L. 2010, c. 44, effective July 13, 2010, which followed QEA, also limits the annual increase in a school district's general fund tax levy which does not exceed the school district's adjusted tax levy, defined as the amount raised by property taxation for the purposes of the school district, excluding any debt service payments (the "Adjusted Tax Levy"). The CEIFA limited the amount school districts can increase their annual current expense and capital outlay budgets (the "Spending Growth Limitations"). Generally, budgets could increase either by two and one-half percent (2.5%) or the consumer price index, whichever is greater. Prior amendments to the CEIFA decreased the budget cap to two and one-half percent (2.5%) from three percent (3%). As a result of recent amendments to CEIFA, the budget presented to the voters may not have an increase in the Adjusted Tax Levy that exceeds the pre-budget year Adjusted Tax Levy and an adjustment for enrollment by two percent (2%). See the description of the New Cap Law (as defined herein) below. A school district is required to submit, as applicable, to the board of school estimate or to the voters of the district at the annual school budget election, a general fund tax levy if it exceeds the school district's Adjusted Tax Levy as calculated by N.J.S.A. 18A:7F-38 and 39. Any school district may also submit at the annual school budget election, a separate proposal or proposals for additional funds, including interpretive statements, specifically identifying the program purposes for which the proposed funds shall be used. The Executive County Superintendent may prohibit the submission of such a separate proposal if he or she determines that the district has not implemented all potential efficiencies in the administrative operations of the district, which efficiencies would eliminate the need for such additional funds. Parts of the CEIFA have been found to be unconstitutional. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

P.L. 2010, c. 44, effective July 13, 2010 (the "New Cap Law"), further provides limitations on school district spending by limiting the amount a school district can raise for school district purposes through the property tax levy by two percent (2%) over the prior year's tax levy. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein. The New Cap Law provides for certain adjustments to the tax levy cap for specific circumstances relating to enrollment increases, health care cost increases and increases in amounts for certain normal and accrued liability pension contributions.

The New Cap Law provides that school districts may submit to voters during April school elections or on other dates set by regulation of the Commissioner, a proposal or proposals to increase the Adjusted Tax Levy by more than the allowable amount authorized pursuant to N.J.S.A. 18A:7F-38. The proposal or proposals to increase the Adjusted Tax Levy shall be approved if a majority of the people voting shall vote affirmatively. For school districts with boards of school estimate, the additional Adjusted

Tax Levy shall be authorized only if a quorum is present for the vote and a majority of those board members who are present vote affirmatively to authorize the Adjusted Tax Levy.

Debt service on bonds, such as the Bonds, is not limited either by the two percent (2%) cap on the tax levy increase imposed by the New Cap Law.

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) 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 (iii) 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.

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 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. School districts must include in each annual budget the amount of interest due and payable in each fiscal year on all outstanding temporary notes.

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 agreements cannot exceed five (5) years except for certain energy-saving equipment which may be leased for up to fifteen (15) years if paid from energy savings. Lease purchase agreements 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, repealed the authorization to enter into facilities leases in excess of five (5) years. The payment of rent on an equipment lease and on a five (5) year and under facilities lease is treated as a current expense and within the cap on the school district's budget. Under the CEIFA, lease purchase payments on leases in excess of five (5) years issued under prior law 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 tax levy cap.

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 grades Kindergarten (K) through twelve (12) school district, the School District can borrow up to 4% of the average equalized valuation of taxable property in the School District. The School District has not exceeded its 4% debt limit. See "APPENDIX A – Certain Economic and Demographic Information Relating to The Board of Education of the Somerset Hills Regional School District in the County of Somerset, New Jersey."

Exceptions to Debt Limitation

A Type II school district (other than a regional 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.

Energy Saving Obligations

Under P.L. 2009, c. 4, approved January 21, 2009 and effective 60 days thereafter, school districts may issue "energy savings obligations" without voter approval to fund certain improvements that result in reduced energy use, facilities for production of renewable energy or water conservation improvements provided that the amount of the savings will cover the cost of the improvements.

SUMMARY OF STATE AID TO SCHOOL DISTRICTS

In 1973, the Supreme Court of the State of New Jersey (the "Court") 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 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") (as 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, as 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 ("Abbott 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.

The School District is not an "Abbott District".

The legislative response to *Abbott v. Burke* was the passage of the QEA (now repealed). The QEA established a new formula for the distribution of State aid for public education, beginning with the 1991-92 fiscal year. The QEA provided a formula that took into account property values and personal income to determine a school district's capacity to raise money for public education. A budgetary limitation, or "CAP" on expenditures, was also provided in the law. The "CAP" was intended to control the growth in local property taxes. 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.

On July 12, 1994, the Court declared the school aid formula under the QEA unconstitutional on several grounds as it applied to the 28 Abbott Districts in the ongoing litigation commonly known as *Abbott v. Burke II*. No specific remediation was ordered, but the Court ultimately held that the Legislature and the Governor were required to have a new funding formula in effect by December 31, 1996 so that any new formula would be implemented during the 1997-1998 fiscal period and thereafter.

In keeping with the Court's deadline, the Governor signed the CEIFA into law on December 20, 1996. The CEIFA departed from other funding formulas adopted in the State by defining what constituted a "thorough and efficient" education, as is required by the Constitution of the State. The CEIFA further established the costs necessary provide each student with such an education.

In defining what constitutes a "thorough" education, the State Board adopted a set of Core Curriculum Content Standards (the "Core Curriculum Content Standards"). The purpose of the Core Curriculum Content Standards is to provide all students with the knowledge and skills that will enable them to be productive citizens when they graduate from any State high school, regardless of the school's location or socioeconomic condition. The CEIFA provided State funding assistance in the form of Core Curriculum Content Standards Aid based on a school district's financial ability to raise sufficient tax revenue for its students to achieve the Core Curriculum Content Standards.

On May 14, 1997, the Court held that the CEIFA was unconstitutional as applied to the Abbott Districts because (1) its funding provisions failed to assure that students in such districts would receive a

thorough and efficient education and (2) supplemental programs to increase student performance in such districts were neither adequately identified nor funded. The Court recognized the Core Curriculum Content Standards as a valid means of identifying a "thorough and efficient" education under the State Constitution, but found that the State did not adequately determine or provide the adequate funding level to allow those standards to be met in the Abbott Districts. To bridge the gap between Abbott Districts and non-special needs districts, the Court ordered the parity remedy, designed as an interim remedy whereby the State would provide parity aid and supplemental funding to Abbott Districts. The CEIFA has not been used to calculate State aid for public schools since the 2001-2002 school year.

Pursuant to the Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 (the "EFCFA"), which became law on July 18, 2000, the State provides aid to school facilities projects. Under the EFCFA, the State provides one hundred percent (100%) State funding for school facilities projects undertaken by Abbott Districts; for non-Abbott Districts, the State provides aid in an amount equal to the greater of the district aid percentage or forty percent (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 the aid is established prior to the authorization of the project.

Since the 2010-2011 fiscal year, the State has funded debt service aid at eighty-five (85%) of the amount that school districts were entitled to receive under the EFCFA. See "Recent Developments in the Reduction of State Aid" herein.

The School Funding Reform Act of 2008

The School Funding Reform Act of 2008 (the "SFRA") was signed into law in January 2008 and is a five-year product of the State's latest effort to craft a redesigned school funding formula that satisfies the constitutional standard. While the SFRA maintains the Core Curriculum Content Standards established by the CEIFA, it repeals the provisions of the CEIFA which established State aid formulas for programs to support the Core Curriculum Content Standards and has established new formulas. Essentially, the SFRA provides State aid to school districts while also requiring certain levels of local funding. It is a weighted school funding formula which identifies a base cost associated with the education of an elementary pupil without any particular special needs. Once the per-pupil amount is identified, the amount is increased to reflect factors that increase the cost of education, such as (i) grade level, and whether the pupil is (ii) an at-risk pupil (eligible for free or reduced-price lunch), (iii) a Limited English Proficiency ("LEP") pupil, or (iv) a special education student of mild, moderate or severe classification.

The formula is further comprised of several funding mechanisms, the central component being the Adequacy Budget, a wealth equalized budget based on the school district's ability to provide funding through local resources (the "Adequacy Budget"). The Adequacy Report (the "Adequacy Report") establishes the base pupil cost necessary to provide the thorough and efficient education for an elementary school student. Such amount will be adjusted to reflect the differing cost of education a student at the middle and high school levels and various other factors as set forth in the SFRA. Based upon the school district's property and personal income wealth, a local share of such Adequacy Budget is determined. State aid will be provided for that portion of the Adequacy Budget which cannot be supported locally. The SFRA guarantees a minimum two percent (2%) increase in State aid for each school district.

The Department must provide an Adequacy Report every three (3) years addressing the weighted factors that comprise the Adequacy Budget and the various additional components of the SFRA: equalization aid, categorical aid, preschool aid, extraordinary aid, adjustment aid and education adequacy aid.

The constitutionality of the SFRA was challenged and was held to be constitutional by the Court on May 28, 2009.

Recent Developments in the Reduction of State Aid

The State provides aid to school districts in accordance with amounts provided annually in the State budget. Such aid includes equalization aid, special education categorical aid, transportation aid, preschool education aid, supplemental core curriculum standards aid, choice aid, education adequacy aid, security aid, adjustment aid and other aid as determined in the discretion of the Commissioner.

The State has reduced debt service aid by fifteen percent (15%) since fiscal year 2011. As a result of the debt service aid reduction for such years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, for such years, 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 such years' budgets representing fifteen percent (15%) of the school district's proportionate share of such respective years' principal and interest payments on the outstanding EDA bonds issued to fund such grants.

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 Elementary and Secondary Education Act of 1965, as amended and restated by the No Child Left Behind Act of 2001, 20 U.S.C.A. § 6301 et seq., 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, N.J.S.A. 40A:2-1 et seq. (the "Local Bond Law"), governs the issuance of bonds and notes to finance certain municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects financed and that bonds be retired in serial installments. A five percent (5%) cash down payment is generally required toward the financing of expenditures for municipal purposes. All bonds and notes issued by the Constituent Municipalities are general full faith and credit obligations.

The authorized bonded indebtedness of each of the Constituent Municipalities is limited by statute, subject to certain exceptions noted below, to an amount equal to 3.5% of its average equalized valuation basis. The average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within each respective constituent municipality as annually determined by the New Jersey Board of Taxation are set forth in APPENDIX A.

Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit.

A municipality may exceed its debt limit with the approval of 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, a 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 makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the municipality to fund certain notes, to provide for self-liquidating purposes, and, in each fiscal year, 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 "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as it may be amended and supplemented, creating such capital expenditure. A local unit's bond anticipation notes may be issued for periods not exceeding one (1) year. 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 amount required for the first year's principal payment for a bond issue.

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

The foundation of the 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, New Jersey Department of Community Affairs (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it has been certified by the Director of the Division (the "Director"), or in the case of a local unit's examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the Chief Financial Officer and governing body of the local unit. The Local Budget Law, N.J.S.A. 40A:4-1 et seq. (the "Local Budget Law") requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit, may review the adequacy of such appropriations.

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 in which they were issued.

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

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

A provision in the Local Budget Law, N.J.S.A. 40A:4-26, provides that: "[n]o miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the director shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit."

No budget or amendment thereof shall 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 a municipality's calendar fiscal year. However, grant revenue is generally not realized until received in cash.

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

and payable in the preceding fiscal year that was received in cash by December 31 of that year. The budget also must provide for any cash deficits of the prior year.

Emergency appropriations (those made after the adoption of the budget and the determination of the tax rate) may be authorized by the governing body. 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 (i) the repair and reconstruction of streets, roads or bridges damaged by snow, ice, frost, or floods, which may be amortized over three (3) years, and (ii) the repair and reconstruction of streets, roads, bridges or other public property damaged by flood or hurricane, where such expense was unforeseen at the time of budget adoption, the repair and reconstruction of private property damaged by flood or hurricane, tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, drainage map preparation for flood control purposes, studies and planning associated with the construction and installation of sanitary sewers, authorized expenses of a consolidated commission, contractually required severance liabilities resulting from the layoff or retirement of employees and the preparation of sanitary and storm system maps, all of which projects set forth in this section (ii) may be amortized over five (5) years. N.J.S.A. 40A:4-53, -54, -55, -55.1. Emergency appropriations for capital projects may be financed through the adoption of a bond ordinance and amortized over the useful life of the project as described above.

Budget transfers provide a degree of flexibility and afford a control mechanism. Pursuant to N.J.S.A. 40A:4-58, transfers between appropriation accounts are prohibited until the last two (2) months of the year. Appropriation reserves may be transferred during the first three (3) months of the year, to the previous year's budget. N.J.S.A. 40A:4-59. Both types of transfers require a 2/3 vote of the full membership of the governing body. Although sub-accounts within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval. Certain types of appropriations are excluded from the provisions permitting transfers. Generally, transfers cannot be made from the down payment account, interest or debt redemption charges or the capital improvement fund or for contingent expenses.

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

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 (6) years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next six (6) years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget if the terms were detailed.

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. The audit must be performed by a licensed public school accountant no later than five (5) months after the end of the school 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.

Fiscal Year Adjustment Law (1991 N.J. Laws c. 75)

Chapter 75 of the Laws of New Jersey of 1991, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year. Municipalities that change fiscal years must adopt a six (6) month transition budget for January 1 through June 30. Since expenditures would be expected to exceed revenues primarily because State aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the act authorizes the issuance of Fiscal Year Adjustment Bonds to fund the one time deficit for the six (6) month transition budget. The law provides that the deficit in the six (6) month transition budget may be funded initially with bond anticipation notes based on the estimated deficit in the six (6) month transition budget. Notes issued in anticipation of Fiscal Year Adjustment Bonds, including renewals, can only be issued for up to one (1) year unless the Local Finance Board permits the municipality to renew them for a longer period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue Fiscal Year Adjustment Bonds to finance the deficit on a permanent basis. The purpose of the act is to assist municipalities that are heavily dependent on State aid and that have had to issue tax anticipation notes to fund operating cash flow deficits each year. While the law does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue Fiscal Year Adjustment Bonds as well.

State Supervision

State law authorizes State officials to supervise fiscal administration in any municipality which is in default on its obligations; which experiences severe tax collection problems for two (2) successive years; which has a deficit greater than four percent (4%) of its tax levy for two (2) successive years; which has failed to make payments due and owing to the State, county, school district or special district for two (2) consecutive years; which has an appropriation in its annual budget for the liquidation of debt which exceeds twenty-five percent (25%) of its total operating appropriations (except dedicated revenue appropriations) for the previous budget year; or which has been subject to a judicial determination of gross failure to comply with the Local Bond Law, the Local Budget Law, or the Local Fiscal Affairs Law, N.J.S.A. 40A:5-1 et seq., which substantially jeopardizes its fiscal integrity. State officials are authorized to continue such supervision for as long as any of the conditions exist and until the municipality operates for a fiscal year without incurring a cash deficit.

Appropriations “Cap”

The New Jersey “Cap Law” (the “Cap Law”) (N.J.S.A. 40A:4-45.1 et seq.) places limits on municipal tax levies and expenditures. The Cap Law provides that a local unit shall limit any increase in its budget to two and one-half percent (2.5%) or the Cost-Of-Living Adjustment (as defined in the Cap Law), whichever is less, of the previous year’s final appropriations, subject to certain exceptions. The Cost-Of-Living Adjustment is defined as the rate of annual percentage increase, rounded to the nearest half percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services produced by the United States Department of Commerce for the year preceding the current year as announced by the Director. However, in each year in which the Cost-Of-Living Adjustment is equal to or less than two and one-half percent (2.5%), a local unit may, by ordinance, approved by a majority vote of the full membership of the governing body, provide that the final appropriations of the local unit for such year be increased by a percentage rate that is greater than the Cost-Of-Living Adjustment, but not more than three and one-half percent (3.5%) over the previous year’s final appropriations. In addition, N.J.S.A. 40A:4-45.15a restored “CAP” banking to the Local Budget Law. Municipalities are permitted to appropriate available “CAP Bank” in either of the next two (2) succeeding years’ final appropriations. Along with the permitted increases for total general appropriations there are certain items that are allowed to increase outside the “CAP”.

Additionally, P.L. 2010, c.44, effective July 13, 2010, imposes a two percent (2%) 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 include increases required to be raised for capital expenditures, including debt service, increases in pension contributions in excess of 2%, certain increases in health care over 2%, and extraordinary costs incurred by a local unit directly related

to a declared emergency. The governing body of a local unit may request approval, through a public question submitted to the legal voters residing in its territory, to increase the amount to be raised by taxation, and voters may approve increases above 2% not otherwise permitted under the law by an affirmative vote of 50%.

The Division has advised that counties and municipalities must comply with both the budget "CAP" and the tax levy limitation. Neither the tax levy limitation nor the "CAP" law, however, limits the obligation of the county or municipality to levy *ad valorem* taxes upon all taxable property within its boundaries to pay debt service on its bonds and notes.

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. However, a divergence of the assessment ratio to true value is typically due to changes in market value over time.

Upon the filing of certified adopted budgets by the local unit, the local school district and the county, the tax rate is struck by the county Board of Taxation based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provisions for the assessment of property, 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 the State for various special services rendered to the properties located within the special districts.

Generally, tax bills are mailed annually in June of the current fiscal year. The taxes are payable in four quarterly installments on February 1, May 1, August 1 and November 1. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged for the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either one-quarter or one-half of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) per annum on the first \$1,500.00 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500.00. Pursuant to 1991 N.J. Laws c. 75, the governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000.00 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed six percent (6%) of the amount of the delinquency. These penalties and interest rates are the highest permitted under State statutes. Delinquent taxes open for one (1) year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

State statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. The taxpayer has a right to petition the county Board of Taxation on or before April 1 of the current year for review. The county Board of Taxation has the authority after a hearing to decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer feels his petition was unsatisfactorily reviewed by the county Board of Taxation, appeal may be made to the Tax Court of the State of New Jersey (the "State Tax Court") 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 nonbudgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies 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's "Requirements of Audit," includes recommendations for improvement of the local unit's financial procedures. The audit report must be filed with the Director. A synopsis of the report, together with all recommendations made, must be published in a local newspaper within thirty (30) days of the local unit's receipt of the audit report.

FINANCIAL STATEMENTS

The audited financial statements of the Board as of and for the fiscal year ended June 30, 2015 together with the notes to the financial statements have been provided by Suplee, Clooney & Company, Westfield, New Jersey (the "Auditor"), and are presented in APPENDIX B to this Official Statement (the "Financial Statements"). See "APPENDIX B – Financial Statements of the Somerset Hills Regional School District as of and for the Fiscal Year Ended June 30, 2015."

FINANCIAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Financial Advisor to the Board with respect to the issuance of the Bonds (the "Financial Advisor"). The Financial 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 Financial Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

LITIGATION

To the knowledge of the Board Attorney, Adams Gutierrez & Lattiboudere, LLC, Newark, New Jersey (the "Board Attorney"), without independent inquiry or investigation and based upon the representation of the Board's Business Administrator/Board Secretary, there is no litigation of any nature now pending or threatened against the Board, 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, without independent inquiry or investigation and based upon the representation of the Board's Business Administrator/Board Secretary, no litigation is presently pending or threatened that, in the opinion of the Board Attorney, would have a materially 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) of the Bonds at the closing.

TAX EXEMPTION

Federal Income Tax Treatment

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance of the Bonds in order for the interest thereon to be and remain excluded from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause such interest to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. 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.

In the opinion of Wilentz, Goldman & Spitzer, P.A., Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the Board with the requirements of the Code described above, interest on the Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item under Section 57 of the Code for purposes of computing the Federal alternative minimum tax imposed on individuals and corporations.

Premium Bonds

[The Bonds [maturing on September 15 of the years 20__ through 20__, inclusive (collectively, the "Premium Bonds")], have been sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the [Premium] Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a [Premium] Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a [Premium] Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such [Premium] Bonds and not as interest.]

Discount Bonds

[We are also of the opinion that the difference between the stated principal amount of the Bonds maturing on September 15 in the years 20__ through 20__, inclusive (collectively, the "Discount Bonds") and their respective initial public offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which prices a substantial amount of the [Discount] Bonds of the same maturity and interest rate were sold, constitutes original issue discount which is treated as interest and is excludable from gross income for federal income tax purposes to the same extent described above. In the case of any holder of the [Discount] Bonds, the amount of such original issue discount which is treated as having accrued with respect to the [Discount] Bonds is added to the cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, redemption or payment at maturity). Holders of the [Discount] Bonds should consult their tax advisors for an explanation of the original issue discount rules.]

Additional Federal Income Tax Consequences Relating to 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 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 insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Bonds should also consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

State Taxation

Bond Counsel is also of the opinion that interest on the Bonds, and any gain on the sale of the Bonds, are not includable in gross income under the existing New Jersey Gross Income Tax Act, 1976 N.J. Laws c. 47, as amended. Except as provided above, no opinion is expressed with respect to other State and local tax consequences of owning the Bonds. See "APPENDIX C – Form of Approving Legal Opinion" for the complete text of the proposed form of Bond Counsel's approving legal opinion.

Prospective Tax Law Changes

Federal, state or local legislation, administrative pronouncements or court decisions may affect the Federal and State tax-exempt status of interest on the Bonds and the State tax-exempt status of interest on the Bonds, gain from the sale or other disposition of the Bonds, the market value of the Bonds or the marketability of the Bonds. The effect of any legislation, administrative pronouncements or court decisions cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters.

Other Tax Consequences

Except as described above, Bond Counsel expresses no opinion with respect to any Federal, State, local or foreign tax consequences of ownership of the Bonds. Bond Counsel renders its opinion under existing statutes, regulations, rulings and court decisions as of the date of issuance of the Bonds and assumes no obligation to update its opinion after such date of issuance to reflect any future action, fact, circumstance, change in law or interpretation, or otherwise. Bond Counsel expresses no opinion as to the effect, if any, on the tax status of the interest on the Bonds paid or to be paid as a result of any action hereafter taken or not taken in reliance upon an opinion of other counsel.

See APPENDIX C for the complete text of the proposed form of Bond Counsel's legal opinion with respect to the Bonds.

PROSPECTIVE PURCHASERS OF THE BONDS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO ALL TAX CONSEQUENCES (INCLUDING BUT NOT LIMITED TO THOSE LISTED ABOVE) OF HOLDING THE BONDS.

BANK-QUALIFIED BONDS

The Bonds will be designated as "qualified tax-exempt obligations" under Section 265 of the Code by the Issuer for an exemption from the denial of deduction for interest paid by financial institutions to purchase or carry tax-exempt obligations. The Board will furnish to the Underwriter (as herein after defined) at the time of delivery of any payment for the Bonds, a certificate executed by the Business Administrator/Board Secretary of the Board designating the Bonds "qualified tax-exempt obligations" within the meaning of section 265(b)(3)(B)(ii) of the Code, and in such certificate the Board will represent that it reasonably expects that, collectively, neither it nor its subordinate entities, if any, will issue more than \$10,000,000 of tax-exempt obligations in the current calendar year.

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.

RISK TO HOLDERS OF BONDS

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

Municipal Bankruptcy

THE BOARD HAS NOT AUTHORIZED THE FILING OF A BANKRUPTCY PETITION. THIS REFERENCE TO THE BANKRUPTCY CODE OR THE STATE STATUTE SHOULD NOT CREATE ANY IMPLICATION THAT THE BOARD EXPECTS TO UTILIZE THE BENEFITS OF ITS PROVISIONS, OR

THAT IF UTILIZED, SUCH ACTION WOULD BE APPROVED BY THE LOCAL FINANCE BOARD, OR THAT ANY PROPOSED PLAN WOULD INCLUDE A DILUTION OF THE SOURCE OF PAYMENT OF AND SECURITY FOR THE BONDS, OR THAT THE BANKRUPTCY CODE COULD NOT BE AMENDED AFTER THE DATE HEREOF.

The undertakings of the Board should be considered with reference to 11 U.S.C. §101 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 priority to certain debts owed, and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of at least one (1) impaired 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 political subdivision 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, special revenues acquired by the debtor after commencement of the case shall continue to be available to pay debt service secured by those revenues. 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 be avoided pursuant to certain preferential transfer provisions set forth in such act.

Reference should also be made to N.J.S.A. 52:27-40 et seq. which provides that a political subdivision, including the Board, 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 Local Finance Board, as successor to the Municipal Finance Commission, must be obtained.

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. Certain legal matters will be passed upon for the Board by its 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 by a certificate signed by the Board President and Business Administrator/Board Secretary. See "CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT" herein.

Bond Counsel has participated in the preparation and review of this Official Statement but has not participated in the collection of financial, statistical or demographic information contained in this Official Statement nor verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto.

The Financial Advisor has participated in the preparation and review of this Official Statement and in the collection of financial, statistical or demographic information contained in this Official Statement but has not verified the accuracy, completeness or fairness thereof, and, accordingly, takes no responsibility and expresses no opinion with respect thereto.

The Auditor has not participated in the preparation of the information contained in this Official Statement and has not verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto, but takes responsibility for the Financial Statements to the extent specified in the Independent Auditors' Report appearing in APPENDIX B hereto.

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

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

RATINGS

Moody's Investor's Service, Inc. (the "Rating Agency") has assigned an underlying rating on the Bonds of "Aa1." In addition, the Rating Agency has assigned a rating on the Bonds of "A2" based upon the additional security provided by the New Jersey School Bond Reserve Act.

The ratings reflect only the views of the Rating Agency and an explanation of the significance of such ratings may only be obtained from the Rating Agency at the following address: 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The Board forwarded to the Rating Agency certain information and materials concerning the Bonds and the School District. There can be no assurance that the ratings will be maintained for any given period of time or that the ratings will not be raised, lowered or withdrawn entirely if, in the Rating Agency's judgment, circumstances so warrant. Any downward change in or withdrawal of such ratings may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITING

The Bonds are being purchased from the Board by _____ (the "Underwriter"), at a price of \$_____. The purchase price of the Bonds reflects the par amount of Bonds equal to \$5,829,000.00, minus an Underwriter's discount of \$_____ less/plus a[n] [net] original issue discount/premium of \$_____. The Underwriter is obligated to purchase all of the Bonds if any Bonds are so purchased.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The 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 investment trusts) at yields higher than the public offering yields set forth on the cover page, and such public offering yields may be changed, from time to time, by the Underwriter without prior notice. The Underwriter may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

SECONDARY MARKET DISCLOSURE

The Board has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Board by no later than each January 31 after the end of each fiscal year, commencing with the fiscal year ending June 30, 2015 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Board with the Municipal Securities Rulemaking Board (the "MSRB") or any other entity designated by the MSRB. The notices of material events will be filed by the Board with the MSRB through its Electronic Municipal Market Access ("EMMA") system and with any other entity designated by the MSRB, as applicable. The nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX D - Form of Continuing Disclosure Certificate." These

covenants have been made in order to assist the underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

The Board previously failed to file, in accordance with Rule 15c2-12, in a timely manner under previous filing requirements, certain operating data and annual financial information for fiscal year ended June 30, 2013. Additionally, the Board acknowledges that it previously failed to file material event notices and late filing notices in connection with (i) its timely filings of annual financial information and (ii) certain rating changes. Such notices of material events and late filings have been filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system as of the date of this Official Statement. The Board appointed Phoenix Advisors, LLC to serve as continuing disclosure agent.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to the Business Administrator/Board Secretary, Nancy Lee Hunter, (908) 204-1930, ext. 1117, or to Lisa A. Gorab, Esq., Wilentz, Goldman & Spitzer, P.A., Bond Counsel to the Board, (732) 855-6459.

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 or more of its authorized officials to the effect that he/she has 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 his 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 the light of the circumstances under which they were made, not misleading and (ii) between the date of the 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 the 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 Board has authorized the preparation of this final Official Statement containing pertinent information relative to the Bonds, and this Official Statement is deemed to be the final Official Statement as required by Rule 15c2-12, promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended and supplemented. By awarding the Bonds to the Underwriter, the Board agrees that, within the earlier of seven (7) business days following the date of such award or to accompany the purchasers' confirmations requesting payment for the Bonds, it shall provide without cost to the Underwriter, for distribution purposes, copies of this final Official Statement. The underwriter agrees that (i) it shall accept such designation, and (ii) it shall assure the distribution of the final Official Statement.

**THE BOARD OF EDUCATION OF THE SOMERSET HILLS
REGIONAL SCHOOL DISTRICT IN THE COUNTY OF
SOMERSET, NEW JERSEY**

**NANCY LEE HUNTER,
Business Administrator/Board Secretary**

DATED: _____, 2016

APPENDIX A

**Certain Economic and Demographic Information Relating to the
Somerset Hills Regional School District
in the County of Somerset, New Jersey**

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INFORMATION REGARDING THE SCHOOL DISTRICT¹

Type

The School District is a Type II school district that is coterminous with the borders of the Borough of Bernardsville, Borough of Far Hills and Borough of Peapack and Gladstone (the “Board”). The School District provides a full range of educational services appropriate to kindergarten (K) through the twelfth (12) grades.

The Board is composed of nine (9) members elected by the legally qualified voters in the School District to terms of three (3) years on a staggered basis. The President and Vice President are chosen for one (1) year terms from among the members of the Board.

The Board is the policy making body of the School District and has the general responsibility for providing an education program, the power to establish policies and supervise the public schools in the School District, the responsibility to develop the annual School District budget and present it to the legally registered voters in the School District. The Board's fiscal year ends each June 30.

The Board appoints a Superintendent and Board Secretary/Business Administrator who are responsible for budgeting, planning and the operational functions of the School District. The administrative structure of the Board gives final responsibility for both the educational process and the business operation to the Superintendent.

Description of Facilities

The Board presently operates the following school facilities:

Facility	Construction Date	Grade Level	Student Enrollment (As of 6/30/15)
Bedwell Elementary School	1960	K - 4	779
Bernardsville Elementary School	1969	5 - 8	585
Bernards High School	1930	9 - 12	646

Source: Comprehensive Annual Financial Report of the School District

¹ Source: The Board, unless otherwise indicated.

Staff

The Superintendent is the chief executive officer of the Board and is in charge of carrying out Board policies. The Board Secretary/Business Administrator 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.

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Teaching Professionals	198	195	192	192	192
Support Staff	<u>91</u>	<u>87</u>	<u>85</u>	<u>85</u>	<u>84</u>
Total Full & Part Time Employees	<u>289</u>	<u>282</u>	<u>277</u>	<u>277</u>	<u>276</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 five (5) school years.

Pupil Enrollments	
<u>School Year</u>	<u>Enrollment</u>
2014-2015	2,023
2013-2014	2,010
2012-2013	2,014
2011-2012	2,052
2010-2011	2,059

Source: School District and Comprehensive Annual Financial Report of the 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 2015-16 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 the school 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 the Board 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 2015-2016 fiscal year is \$36,209,588. The major sources of revenue are \$29,549,127 from the local tax levy and \$916,848 from state aid.

Source: Annual User-Friendly Budget of the School District

Budget History

As noted, prior to the Board's budget for its 2012-2013 fiscal year, the Board was required to submit its budget for voter approval. The results of the last five budget elections of the Board are as follows:

<u>Budget Year</u>	<u>Amount Raised in Taxes</u>	<u>Budget Amount</u>	<u>Election Result</u>
2015-2016	\$29,549,127	\$36,209,588	N/A
2014-2015	28,969,733	37,531,318	N/A
2013-2014	28,163,596	35,315,822	N/A
2012-2013	27,611,369	34,062,386	N/A
2011-2012	27,069,970	33,309,405	Approved

Source: Annual User-Friendly Budget of the School District and NJ State DOE Website – School Election Results

Financial Operations

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2010 through June 30, 2014 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:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES					
Local Sources:					
Local Tax Levy	\$28,969,733	\$28,163,596	\$27,611,369	\$27,069,970	\$26,539,186
Other Local Revenue	<u>5,060,220</u>	<u>4,508,781</u>	<u>4,472,266</u>	<u>4,298,105</u>	<u>4,303,537</u>
Total revenues-local sources	34,029,953	32,672,377	32,083,635	31,368,075	30,842,723
State Sources	4,622,159	4,146,564	4,724,510	3,882,376	3,128,597
Federal Sources	<u>0</u>	<u>0</u>	<u>0</u>	<u>46,258</u>	<u>0</u>
Total Revenues	\$38,652,112	\$36,818,941	\$36,808,145	\$35,296,710	\$33,971,320
EXPENDITURES					
General Fund:					
Instruction	\$15,485,147	\$14,733,514	\$21,533,204	\$20,624,652	\$20,833,663
Undistributed Expenditures	19,934,480	21,606,893	13,977,128	13,837,622	13,911,472
Capital Outlay	<u>419,249</u>	<u>433,589</u>	<u>416,582</u>	<u>0</u>	<u>207,677</u>
Total Expenditures	\$35,838,876	\$36,773,996	\$35,926,914	\$34,462,274	\$34,952,812
Excess (Deficiency) of Revenues					
Over/(Under) Expenditures	815,236	44,945	881,231	509,115	(981,492)
Other Financing Sources (Uses):					
Proceeds of Capital Lease	0	100,000	132,134	48,798	106,879
Accounts Payable Canceled	0	61,674	9,765	0	0
Transfers in	(699,429)	0	0	0	0
Transfers out	<u>0</u>	<u>(945,529)</u>	<u>(200,000)</u>	<u>(320,000)</u>	<u>129,545</u>
Total other financing sources (uses)	(699,429)	(783,855)	(58,101)	(271,202)	236,424
Net Change in Fund Balance	115,807	(738,910)	823,130	237,913	(745,067)
Fund Balance, July 1	<u>4,083,568</u>	<u>4,822,478</u>	<u>4,055,529</u>	<u>3,817,616</u>	<u>4,562,684</u>
Fund Balance, June 30	<u>\$4,199,375</u>	<u>\$4,083,568</u>	<u>\$4,878,659</u>	<u>\$4,055,529</u>	<u>\$3,817,616</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, 2015, the Board has capital leases outstanding with payments due through year ending June 30, 2026, totaling \$2,671,855.79.

Source: Comprehensive Annual Financial Report of the School District

Operating Leases

As of June 30, 2015, the Board has no operating leases outstanding.

Source: Comprehensive Annual Financial Report of the School District

Short Term Debt

As of June 30, 2015, the Board has no short term debt outstanding.

Source: Comprehensive Annual Financial Report of the School District

Long Term Debt

The following table outlines the outstanding long term debt of the Board as of June 30, 2015.

<u>Fiscal Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$2,140,000	\$1,121,755	\$3,261,755
2017	2,210,000	1,049,738	3,259,738
2018	1,965,000	969,480	2,934,480
2019	2,345,000	892,419	3,237,419
2020	2,045,000	807,000	2,852,000
2021	2,050,000	755,100	2,805,100
2022	2,150,000	652,600	2,802,600
2023	2,250,000	545,100	2,795,100
2024	2,345,000	432,600	2,777,600
2025	2,320,000	338,800	2,658,800
2026	2,700,000	246,000	2,946,000
2027	1,110,000	138,000	1,248,000
2028	1,145,000	93,600	1,238,600
2029	<u>1,195,000</u>	<u>47,800</u>	<u>1,242,800</u>
TOTALS	<u>\$27,970,000</u>	<u>\$8,089,992</u>	<u>\$36,059,992</u>

Source: Comprehensive Annual Financial Report of the School District

Debt Limit of the Board

The debt limitation of the Board is established by the 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 School Debt Limitations”). The following is a summation of the Board’s debt limitations as of June 30, 2015:

Average Equalized Real Property Valuation (2013, 2014, and 2015)	\$3,499,995,694
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School District Debt Analysis

Permitted Debt Limitation (4% of AEVP)	\$139,999,828
Less: Bonds and Notes Authorized and Outstanding	<u>27,970,000</u>
Remaining Limitation of Indebtedness	\$112,029,828
Percentage of Net School Debt to Average Equalized Valuation	0.80%

Source: Comprehensive Annual Financial Report of the School District

INFORMATION REGARDING THE BOROUGH OF BERNARDSVILLE²

The following material presents certain economic and demographic information of the Borough of Bernardsville (the “Borough” or “Bernardsville”), in the County of Somerset (the “County”), State of New Jersey (the “State”).

General Information

The Borough covers 12.9 square miles in the part of County known as Somerset Hills, and Bernardsville is 4.2% of the total land area of County. It is south of Morristown, north of Somerville and about 25 miles west of Newark. It is bounded on the north by Mendham Borough and Township, on the east by Harding Township and on the west by Far Hills and Peapack and Gladstone.

Bernardsville is a semi-rural residential community settled by the Scotch, Irish and English, Bernardsville was originally a section of Bernards Township known as Vealtown. In 1840, Vealtown became Bernardsville, named after Sir Francis Bernard, colonial governor of New Jersey from 1758 to 1760. Bernardsville did not become a separate borough until 1924, when it split from Bernards Township.

Form of Government

The Borough operates a form of government with a Mayor and six council members who meet monthly. The Mayor is elected at large to a 4 year term with the council members also elected at large for three-year staggered terms. The Borough Council is responsible for both administration and legislative policy for the municipality, and their standing committees have oversight of Boards, Committees, and Commissions within the Borough. Along with conducting ongoing municipal business, the Borough Council adopts an annual budget that sets the local municipal tax rate.

Defined by local ordinance with delegated authority, a professional Administrator is the chief executive officer of the municipality and manages the day-to-day operations of the Borough. The Administrator serves as the liaison between the Borough Council, staff, professionals, and members of the public.

Retirement Systems

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

² Source: The Borough, unless otherwise indicated.

Pension Information³

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. The Borough's share of pension costs in 2014, which is based upon the annual billings received from the State, amounted to \$312,258 for PERS and \$382,785 for PFRS.

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2014	4,038	3,878	160	4.0%
2013	4,026	3,826	200	5.0%
2012	4,092	3,868	224	5.5%
2011	4,591	4,261	330	7.2%
2010	4,240	4,000	240	5.7%
2009	4287	4151	136	3.2%
<u>County</u>				
2014	173,968	165,075	8,893	5.1%
2013	173,782	162,866	10,916	6.3%
2012	176,094	163,106	12,988	7.4%
2011	174,622	161,803	12,819	7.3%
2010	173,699	160,521	13,178	7.6%
2009	182709	169460	13249	7.3%
<u>State</u>				
2014	4,518,715	4,218,423	300,277	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
2012	4,595,500	4,159,300	436,200	9.5%
2011	4,556,200	4,131,800	424,400	9.3%
2010	4,502,400	4,076,700	425,700	9.5%
2009	4,550,600	4,138,600	412,100	9.1%

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

³ Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Income (as of 2010)

	<u>Borough</u>	<u>County</u>	<u>State</u>
Median Household Income	\$128,333	\$97,440	\$71,180
Median Family Income	141,510	115,214	86,779
Per Capita Income	70,141	47,067	35,768

Source: US Bureau of the Census 2010

Population

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

	<u>Borough</u>		<u>County</u>		<u>State</u>	
<u>Year</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	7,707	4.93%	323,444	8.72%	8,791,894	4.49%
2000	7,345	11.34	297,490	23.81	8,414,350	8.85
1990	6,597	-1.76	240,279	18.29	7,730,188	4.96
1980	6,715	0.95	203,129	2.40	7,365,001	2.75
1970	6,652	20.62	198,372	37.84	7,168,164	18.15

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2015 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Bernardsville Centre, LLC.	\$15,104,300	0.65%
Mine Mount Land Co.	10,050,000	0.44%
Falcon Crest 21, LLC.	8,500,000	0.37%
Private Residence	8,085,200	0.35%
Upton Pynes Real Estate, LLC.	8,013,100	0.35%
Private Residence	7,694,000	0.33%
Private Residence	6,907,000	0.30%
Thomson Reuters Property Tax S	6,389,400	0.28%
Private Residence	6,326,500	0.27%
Private Residence	<u>6,267,800</u>	<u>0.27%</u>
Total	<u>\$83,337,300</u>	<u>3.61%</u>

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

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year % of Collection</u>
2014	\$41,459,708	\$40,870,763	98.58%
2013	40,523,652	40,034,028	98.79%
2012	39,623,126	39,127,473	98.75%
2011	38,975,944	38,045,891	97.61%
2010	38,464,863	38,085,290	99.01%

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2014	\$4,764	\$560,416	\$565,180	1.36%
2013	4,570	451,540	456,110	1.13%
2012	4,384	468,086	472,471	1.19%
2011	4,200	423,799	427,999	1.10%
2010	4,011	354,651	358,662	0.93%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2014	\$13,100
2013	13,100
2012	13,100
2011	13,100
2010	13,100

Source: Annual Audit Reports of the Borough

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

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

<u>Year</u>	<u>Municipal</u>	<u>Local School</u>	<u>County</u>	<u>Total Taxes</u>
2015	\$0.437	\$1.046	\$0.354	\$1.837
2014	0.433	1.040	0.356	1.829
2013	0.421	1.017	0.351	1.789
2012	0.410	0.990	0.340	1.740
2011	0.397	0.954	0.335	1.686

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>
2015	\$2,304,426,800	\$2,298,680,100	100.25%	\$4,281,431	\$2,302,961,531
2014	2,261,741,200	2,365,838,075	95.60	4,310,168	2,370,148,243
2013	2,250,832,400	2,350,738,799	95.75	5,294,599	2,356,033,398
2012	2,265,568,600	2,417,122,159	93.73	6,572,663	2,423,694,822
2011	2,302,020,300	2,453,917,813	93.81	6,729,224	2,460,647,037

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

Classification of Ratables

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

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2015	\$27,932,300	\$1,947,237,300	\$137,471,500	\$167,902,200	\$20,104,500	\$3,779,000	\$2,304,426,800
2014	30,005,100	1,907,856,800	134,172,500	166,017,800	19,881,600	3,807,400	2,261,741,200
2013	30,468,300	1,901,669,600	131,560,000	163,455,700	19,872,200	3,806,600	2,250,832,400
2012	31,488,100	1,916,662,700	128,749,900	164,244,800	20,640,800	3,782,300	2,265,568,600
2011	33,023,300	1,950,806,000	125,543,300	168,061,800	20,786,800	3,799,100	2,302,020,300

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

Financial Operations

The following table summarizes budgeted information on changes in financial resources and fund balance for the last five (5) fiscal years for the Current Fund. This summary should be used in conjunction with the tables from which it is derived.

Budgeted Information of Operations and Changes in Fund Balances for the Years Ended December 31

<u>Anticipated Revenues</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Fund Balance	\$1,600,000	\$1,550,000	\$1,570,000	\$1,570,000	\$1,570,000
Miscellaneous Revenues	1,784,234	1,922,825	2,461,140	2,843,733	1,718,475
Receipts from Delinquent Taxes	320,000	340,000	460,000	445,000	460,000
Amount to be Raised by Taxes for Support of Municipal Budget	8,731,697	8,903,847	9,081,926	9,374,853	9,650,213
Total Revenue:	<u>\$12,435,931</u>	<u>\$12,716,672</u>	<u>\$13,573,066</u>	<u>\$14,233,586</u>	<u>\$13,398,688</u>
<u>Appropriations</u>					
General Appropriations	\$8,486,250	\$8,605,150	\$8,957,609	\$9,184,358	\$9,448,298
Operations	1,049,893	1,004,159	1,022,477	980,742	965,180
Deferred Charges and Statutory Expenditures	0	0	500,000	1,012,920	0
Judgments	0	0	0	0	0
Capital Improvement Fund	60,000	175,000	90,427	240,427	425,000
Municipal Debt Service	1,255,849	1,316,845	1,368,909	1,142,329	878,234
Reserve for Uncollected Taxes	<u>1,583,939</u>	<u>1,615,518</u>	<u>1,633,644</u>	<u>1,672,810</u>	<u>1,681,976</u>
Total Appropriations:	<u>\$12,435,931</u>	<u>\$12,716,672</u>	<u>\$13,573,066</u>	<u>\$14,233,586</u>	<u>\$13,398,688</u>

Source: Annual Adopted Budgets of the Borough

Fund Balance

	<u>Fund Balance - Current Fund</u>	
<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2014	\$2,000,599	\$1,570,000
2013	1,946,698	1,570,000
2012	1,640,289	1,570,000
2011	1,608,214	1,550,000
2010	1,755,840	1,600,000

<u>Fund Balance - Sewer Utility Operating Fund</u>		
	Balance	Utilized in Budget
<u>Year</u>	<u>12/31</u>	<u>of Succeeding Year</u>
2014	\$488,874	\$60,000
2013	424,663	69,850
2012	341,032	47,450
2011	170,320	0
2010	104,346	41,699

Source: Annual Audit Reports of the Borough

Borough Indebtedness as of December 31, 2014

General Purpose Debt

Serial Bonds	\$2,669,000
Bond Anticipation Notes	7,343,300
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$10,012,300

Regional School District Debt

Serial Bonds	\$19,715,682
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$19,715,682

Self-Liquidating Debt

Serial Bonds	\$325,000
Bond Anticipation Notes	1,130,000
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$1,455,000

TOTAL GROSS DEBT

\$31,182,982

Less: Statutory Deductions	
General Purpose Debt	\$0
Regional School District Debt	19,715,682
Self-Liquidating Debt	<u>1,455,000</u>
Total:	\$21,170,682

TOTAL NET DEBT

\$10,012,300

Source: Annual Debt Statement of the Borough

Overlapping Debt (as of December 31, 2014)⁴

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Regional School District	\$29,355,000	67.00%	\$19,715,682
County	170,821,882	4.10%	<u>7,001,738</u>
Net Indirect Debt			\$26,717,419
Net Direct Debt			<u>10,012,300</u>
Total Net Direct and Indirect Debt			<u>\$36,729,719</u>

Debt Limit

Average Equalized Valuation Basis (2012, 2013, 2014)	\$2,377,899,678
Permitted Debt Limitation (3 1/2%)	83,226,489
Less: Net Debt	<u>10,012,300</u>
Remaining Borrowing Power	<u>\$73,214,189</u>
Percentage of Net Debt to Average Equalized Valuation	0.42%
 Gross Debt Per Capita based on 2010 population of 7,707	 \$4,046
Net Debt Per Capita based on 2010 population of 7,707	\$1,299

Source: Annual Debt Statement of the Borough

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

INFORMATION REGARDING THE BOROUGH FAR HILLS⁵

The following material presents certain economic and demographic information of the Borough of Far Hills (the “Borough” or “Far Hills”), in the County of Somerset (the “County”), State of New Jersey (the “State”).

General Information

Far Hills was incorporated as a borough on April 7, 1921, from portions of Bernards Township and covers 4.9 square miles in Somerset. It is bounded by Mendham Borough and Township, Harding Township, Bernardsville Borough and Peapack and Gladstone.

Form of Government

The government consists of a Mayor and a Borough Council comprising six council members, with all positions elected at large. A Mayor is elected directly by the voters to a four-year term of office. The Borough Council consists of six members elected to serve three-year terms on a staggered basis, with two seats coming up for election each year.

Retirement Systems

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

Pension Information⁶

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. The Borough's share of pension costs in 2014, which is based upon the annual billings received from the State, amounted to \$22,845 for PERS and \$138,890 for PFRS.

⁵ Source: The Borough, unless otherwise indicated.

⁶ Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2014	475	454	21	4.4%
2013	472	448	24	5.1%
2012	482	453	29	6.0%
2011	479	458	21	4.4%
2010	385	368	17	4.4%
<u>County</u>				
2014	173,968	165,075	8,893	5.1%
2013	173,782	162,866	10,916	6.3%
2012	176,094	163,106	12,988	7.4%
2011	174,622	161,803	12,819	7.3%
2010	173,699	160,521	13,178	7.6%
<u>State</u>				
2014	4,518,715	4,218,423	300,277	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
2012	4,595,500	4,159,300	436,200	9.5%
2011	4,556,200	4,131,800	424,400	9.3%
2010	4,502,400	4,076,700	425,700	9.5%

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

Income (as of 2010)

	<u>Borough</u>	<u>County</u>	<u>State</u>
Median Household Income	\$102,143	\$98,571	\$71,180
Median Family Income	136,667	117,533	86,779
Per Capita Income	88,248	47,985	35,768

Source: US Bureau of the Census 2010

Population

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

<u>Year</u>	<u>Borough</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	919	6.98%	323,444	8.72%	8,791,894	4.49%
2000	859	30.75	297,490	23.81	8,414,350	8.85
1990	657	-2.95	240,279	18.29	7,730,188	4.96
1980	677	-13.21	203,129	2.40	7,365,001	2.75
1970	780	11.11	198,372	37.84	7,168,164	18.15

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2015</u>	<u>% of Total</u>
	<u>Assessed Valuation</u>	<u>Assessed Valuation</u>
Farrendale Properties	\$7,511,800	1.69%
Jebara, Mouna	6,007,300	1.35%
Sompolski, Timothy & Christine	6,000,400	1.35%
Niedbeduer, Duncan & Alison	5,629,500	1.26%
Greenwich Investors	5,492,400	1.23%
Fournier, Alan & Jennifer	5,465,700	1.23%
Grohowski, Leo & Nancy	5,287,100	1.19%
Infusino, Charles & Susan Et al	5,213,500	1.17%
Diassi, Marianne	5,196,100	1.17%
Chernaya, Rina	<u>4,594,700</u>	<u>1.03%</u>
Total	<u>\$56,398,500</u>	<u>12.67%</u>

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

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year</u>	<u>Current Year</u>
		<u>Collection</u>	<u>% of Collection</u>
2014	\$5,611,254	\$5,569,754	99.26%
2013	5,560,109	5,486,965	98.68%
2012	5,378,223	5,316,692	98.86%
2011	5,260,783	5,204,399	98.93%
2010	5,057,159	4,991,721	98.71%

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2014	\$0	\$100,943	\$100,943	1.80%
2013	0	68,083	68,083	1.22%
2012	0	61,487	61,487	1.14%
2011	0	51,839	51,839	0.99%
2010	0	65,421	65,421	1.29%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2014	\$0
2013	0
2012	0
2011	0
2010	0

Source: Annual Audit Reports of the Borough

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

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

<u>Year</u>	<u>Municipal</u>	<u>Regional School</u>	<u>County</u>	<u>Total Taxes</u>
2015	\$0.528	\$0.423	\$0.348	\$1.299
2014	0.529	0.422	0.352	1.303
2013	0.519	0.429	0.349	1.297
2012	0.476	0.417	0.339	1.232
2011	0.476	0.414	0.330	1.220

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>
2015	\$444,636,800	\$445,527,856	99.80%	\$406,763	\$445,934,619
2014	434,472,900	439,838,935	98.78	395,756	440,234,691
2013	423,802,310	439,857,094	96.35	501,983	440,359,077
2012	434,708,310	448,522,813	96.92	480,124	449,002,937
2011	430,696,210	469,833,326	91.67	496,676	470,330,002

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

Classification of Ratables

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

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2015	\$6,190,800	\$276,938,100	\$130,283,900	\$28,053,000	\$0	\$3,171,000	\$444,636,800
2014	6,536,700	272,925,600	123,977,600	27,895,100	0	3,137,900	434,472,900
2013	5,655,700	266,527,300	120,921,850	27,605,660	0	3,091,800	423,802,310
2012	5,971,700	277,220,000	120,016,610	28,290,400	0	3,209,600	434,708,310
2011	6,651,500	274,393,200	117,913,910	28,529,200	0	3,208,400	430,696,210

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

Financial Operations

The following table summarizes budgeted information on changes in financial resources and fund balance for the last two (2) fiscal years for the Current Fund. This summary should be used in conjunction with the tables from which it is derived.

Budgeted Information of Operations and Changes in Fund Balances for the Year Ended December 31

<u>Anticipated Revenues</u>	<u>2014</u>	<u>2015</u>
Fund Balance	\$360,000	\$320,000
Miscellaneous Revenues	263,798	180,014
Receipts from Delinquent Taxes	45,000	45,000
Amount to be Raised by Taxes for Support of Municipal Budget	<u>2,305,072</u>	<u>2,352,796</u>
Total Revenue:	<u>\$2,973,869</u>	<u>\$2,897,810</u>
<u>Appropriations</u>		
General Appropriations	\$2,238,845	\$2,250,066
Operations	177,497	182,161
Deferred Charges and Statutory Expenditures	0	0
Judgments	0	0
Capital Improvement Fund	275,400	275,400
Municipal Debt Service	168,478	74,613
Reserve for Uncollected Taxes	<u>113,650</u>	<u>115,570</u>
Total Appropriations:	<u>\$2,973,869</u>	<u>\$2,897,810</u>

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Borough Indebtedness as of December 31, 2014

General Purpose Debt

Serial Bonds	\$0
Bond Anticipation Notes	415,691
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$415,691

Local School District Debt

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

Regional School District Debt

Serial Bonds	\$3,670,850
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$3,670,850

Self-Liquidating Debt

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

TOTAL GROSS DEBT

\$415,691

Less: Statutory Deductions

General Purpose Debt	\$0
Local School District Debt	0
Self-Liquidating Debt	<u>0</u>
Total:	\$0

TOTAL NET DEBT

\$415,691

Source: Annual Debt Statement of the Borough

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Overlapping Debt (as of December 31, 2014)⁷

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Regional School District	\$29,355,000	13.00%	\$3,670,850
County	170,821,882	0.76%	<u>1,300,513</u>
Net Indirect Debt			\$4,971,363
Net Direct Debt			<u>415,691</u>
Total Net Direct and Indirect Debt			<u>\$5,387,054</u>

Debt Limit

Average Equalized Valuation Basis (2012, 2013, 2014)	\$442,739,614
Permitted Debt Limitation (3 1/2%)	15,495,886
Less: Net Debt	<u>415,691</u>
Remaining Borrowing Power	<u>\$15,080,195</u>
Percentage of Net Debt to Average Equalized Valuation	0.09%
Gross Debt Per Capita based on 2010 population of 919	\$452
Net Debt Per Capita based on 2010 population of 919	\$452

Source: Annual Debt Statement of the Borough

⁷ Borough percentage of County debt is based on the Borough's share of total equalized valuation in the County

INFORMATION REGARDING THE BOROUGH OF PEAPACK AND GLADSTONE⁸

The following material presents certain economic and demographic information of the Borough of Peapack and Gladstone (the “Borough” or “Peapack and Gladstone”), in the County of Somerset (the “County”), State of New Jersey (the “State”).

General Information

The Borough was incorporated from parts of Bedminster Township on March 28, 1912, although the earliest known history of the Dutch settlement in the Peapack Valley reaches back to 1708.

The Borough occupies approximately 5.9 square miles in the Somerset Region called the Somerset Hills area. This area is a group of low density rural and country estate communities extending north of Route 22 and continuing into Chester and the Mendham area of Morris County. Combining great natural beauty with accessibility to the New York commuting routes, this area has a long history of containing the most valuable and sought after estate properties in New Jersey.

Form of Government

The Borough is governed by a six member Council and a Mayor. This form of government has been in effect since the Borough was incorporated in 1912. The six members of the Council are elected for three year over-lapping terms and the Mayor is elected for a four year term. Each member receives a nominal stipend for the year. The Mayor and Council is a legislative body to formulate policy, appropriate funds and adopt ordinances and resolutions for the conduct of municipal business.

The Borough Clerk/ Administrator serves as chief administrative officer under the Mayor and Council. The statutory duties include Secretary to the governing body, Secretary to the municipality and Election Official.

The Clerk's office records all official minutes, ordinances, and resolutions, assists in the preparation of the annual municipal budget with the assistance of the Chief Financial Officer and the Municipal Auditor, advertises the budget and records the final adoption thereof with the State of New Jersey, prepares all legal advertisements, and specifications for material and equipment bids. The Borough Clerk/ Administrator also processes and records all municipal personnel records, and is the liaison between the public and the governing body.

Retirement Systems

All full-time permanent or qualified Borough employees who began employment after 1944 must enroll in one of two retirement systems depending upon their employment status. These systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are set by State law. The Division of Pensions,

⁸ Source: The Borough, unless otherwise indicated.

within the New Jersey Department of Treasury (the “Division”), is the administrator of the funds with the benefit and contribution levels set by the State. The Borough is enrolled in the Public Employees' Retirement System (“PERS”) and the Police and Firemen's Retirement System (“PFRS”).

Pension Information⁹

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. The Borough's share of pension costs in 2014, which is based upon the annual billings received from the State, amounted to \$110,367 for PERS and \$154,546 for PFRS.

Employment and Unemployment Comparisons

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

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2014	1,274	1,211	63	4.9%
2013	1,266	1,195	71	5.6%
2012	1,281	1,205	76	5.9%
2011	1,316	1,180	136	10.3%
2010	1,295	1,168	127	9.8%
<u>County</u>				
2014	173,968	165,075	8,893	5.1%
2013	173,782	162,866	10,916	6.3%
2012	176,094	163,106	12,988	7.4%
2011	174,622	161,803	12,819	7.3%
2010	173,699	160,521	13,178	7.6%
<u>State</u>				
2014	4,518,715	4,218,423	300,277	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
2012	4,595,500	4,159,300	436,200	9.5%
2011	4,556,200	4,131,800	424,400	9.3%
2010	4,502,400	4,076,700	425,700	9.5%

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

⁹ Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Income (as of 2010)

	<u>Borough</u>	<u>County</u>	<u>State</u>
Median Household Income	\$127,792	\$98,571	\$71,180
Median Family Income	154,000	117,533	86,779
Per Capita Income	63,715	47,985	35,768

Source: US Bureau of the Census 2010

Population

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

	<u>Borough</u>		<u>County</u>		<u>State</u>	
<u>Year</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2010	2,582	6.12%	323,444	8.72%	8,791,894	4.49%
2000	2,433	15.25	297,490	23.81	8,414,350	8.85
1990	2,111	3.58	240,279	18.29	7,730,188	4.96
1980	2,038	5.93	203,129	2.40	7,365,001	2.75
1970	1,924	6.65	198,372	37.84	7,168,164	18.15

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

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2015 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
Pharmacia & Upjohn	\$85,392,312	12.12%
Somerset County Improvement Authority	11,779,800	1.67%
Jessica Associates	8,898,300	1.26%
Komline Sanderson Engineering	6,693,200	0.95%
Ferris Corp.	5,980,100	0.85%
Individual Taxpayer	5,929,450	0.84%
Individual Taxpayer	4,901,420	0.70%
Ellistan Hold C/O Quaterwatch LLC	4,652,400	0.66%
Pacesetter Hold C/O Homes Inc	4,158,850	0.59%
Individual Taxpayer	<u>3,660,700</u>	<u>0.52%</u>
Total	<u>\$142,046,532</u>	<u>20.16%</u>

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

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year % of Collection</u>
2014	\$13,078,329	\$12,935,886	98.91%
2013	12,923,919	12,632,639	97.75%
2012	12,825,907	12,693,774	98.97%
2011	12,868,822	12,750,676	99.08%
2010	12,920,256	12,780,074	98.92%

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2014	\$0	\$130,305	\$130,305	1.00%
2013	0	284,787	284,787	2.20%
2012	0	128,843	128,843	1.00%
2011	0	115,417	115,417	0.90%
2010	0	128,791	128,791	1.00%

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2014	\$139,900
2013	139,900
2012	139,900
2011	139,900
2010	139,900

Source: Annual Audit Reports of the Borough

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

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

	Regional			Total
<u>Year</u>	<u>Municipal</u>	<u>School</u>	<u>County</u>	<u>Taxes</u>
2015	\$0.566	\$0.916	\$0.402	\$1.884
2014	0.566	0.931	0.403	1.900
2013	0.556	0.944	0.401	1.901
2012	0.558	0.926	0.388	1.872
2011	0.549	0.923	0.394	1.866

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>
2015	\$704,520,587	\$734,411,120	95.93%	\$0	\$734,411,120
2014	685,552,087	717,254,747	95.58	0	717,254,747
2013	670,749,522	707,840,357	94.76	0	707,840,357
2012	680,264,122	734,467,849	92.62	1,230,516	735,698,365
2011	682,170,577	744,890,344	91.58	1,294,482	746,184,826

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

Classification of Ratables

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

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2015	\$12,672,200	\$470,962,100	\$87,964,787	\$120,940,500	\$6,200,000	\$5,781,000	\$704,520,587
2014	13,109,600	452,536,600	84,968,487	123,126,700	6,200,000	5,610,700	685,552,087
2013	11,889,800	441,885,300	81,711,122	123,552,600	6,200,000	5,510,700	670,749,522
2012	11,547,800	447,633,500	77,840,722	131,049,700	6,555,000	5,637,400	680,264,122
2011	11,958,400	443,333,800	79,953,077	134,443,300	6,780,000	5,702,000	682,170,577

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

Financial Operations

The following table summarizes budgeted information on changes in financial resources and fund balance for the last five (5) fiscal years for the Current Fund. This summary should be used in conjunction with the tables from which it is derived.

Budgeted Information of Operations and Changes in Fund Balances for the Years Ended December 31

<u>Anticipated Revenues</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Fund Balance	\$2,139,000	\$2,220,000	\$2,160,000	\$2,000,000	\$2,100,000
Miscellaneous Revenues	299,442	301,453	409,672	506,561	403,152
Receipts from Delinquent Taxes	100,000	100,000	100,000	100,000	100,000
Amount to be Raised by Taxes for Support of Municipal Budget	<u>3,547,927</u>	<u>3,603,889</u>	<u>3,541,374</u>	<u>3,680,362</u>	<u>3,778,807</u>
Total Revenue:	<u>\$6,086,368</u>	<u>\$6,225,342</u>	<u>\$6,211,046</u>	<u>\$6,286,923</u>	<u>\$6,381,960</u>
<u>Appropriations</u>					
General Appropriations	\$4,231,279	\$4,382,506	\$4,484,594	\$4,526,230	\$4,559,452
Operations	127,755	117,320	79,354	87,512	79,803
Deferred Charges and Statutory Expenditures	0	7,000	0	0	17,000
Judgments	0	0	0	0	0
Capital Improvement Fund	100,000	100,000	40,000	40,000	80,000
Municipal Debt Service	336,342	334,427	332,361	337,702	332,324
Reserve for Uncollected Taxes	<u>1,290,993</u>	<u>1,284,089</u>	<u>1,274,737</u>	<u>1,295,479</u>	<u>1,313,381</u>
Total Appropriations:	<u>\$6,086,368</u>	<u>\$6,225,342</u>	<u>\$6,211,046</u>	<u>\$6,286,923</u>	<u>\$6,381,960</u>

Source: Annual Adopted Budgets of the Borough

Fund Balance

<u>Year</u>	<u>Fund Balance - Current Fund</u>	
	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2014	\$2,449,244	\$2,100,000
2013	2,418,444	2,000,000
2012	2,606,353	2,160,000
2011	2,719,049	2,220,000
2010	2,748,385	2,139,000

Fund Balance - Sewer Utility Operating Fund

<u>Year</u>	<u>Balance 12/31</u>	<u>Utilized in Budget of Succeeding Year</u>
2014	\$543,169	\$120,000
2013	497,767	319,293
2012	375,683	283,743
2011	514,602	345,021
2010	649,700	369,601

Source: Annual Audit Reports of the Borough

Borough Indebtedness as of December 31, 2014**General Purpose Debt**

Serial Bonds	\$3,804,000
Bond Anticipation Notes	1,191,000
Bonds and Notes Authorized but Not Issued	233,000
Other Bonds, Notes and Loans	<u>174,969</u>
Total:	\$5,402,969

Local School District Debt

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

Regional School District Debt

Serial Bonds	\$5,968,468
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$5,968,468

Self-Liquidating Debt

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

TOTAL GROSS DEBT**\$11,371,437**

Less: Statutory Deductions	
General Purpose Debt	\$0
Local School District Debt	0
Regional School District Debt	5,968,468
Self-Liquidating Debt	<u>0</u>
Total:	\$5,968,468

TOTAL NET DEBT**\$5,402,969**

Source: Annual Debt Statement of the Borough

Overlapping Debt (as of December 31, 2014)¹⁰

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Regional School District	\$29,355,000	20.00%	\$5,968,468
County	170,821,882	1.24%	<u>2,118,867</u>
Net Indirect Debt			\$8,087,335
Net Direct Debt			<u>5,402,969</u>
Total Net Direct and Indirect Debt			<u>\$13,490,305</u>

Debt Limit

Average Equalized Valuation Basis (2012, 2013, 2014)	\$719,854,318
Permitted Debt Limitation (3 1/2%)	25,194,901
Less: Net Debt	<u>5,402,969</u>
Remaining Borrowing Power	<u>\$19,791,932</u>
Percentage of Net Debt to Average Equalized Valuation	0.75%
 Gross Debt Per Capita based on 2010 population of 2,582	 \$4,404
Net Debt Per Capita based on 2010 population of 2,582	\$2,093

Source: Annual Debt Statement of the Borough

¹⁰ Borough percentage of County debt is based on the Borough's share of total equalized valuation in the County

APPENDIX B

**Financial Statements of The Board of Education of the
Somerset Hills Regional School District
in the County of Somerset, New Jersey as of and for
the Fiscal Year Ended June 30, 2015**

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SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
Somerset Hills School District
County of Somerset
Bernardsville, New Jersey 07924

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 the Somerset Hills School District, County of Somerset, New Jersey as of and for the year ended June 30, 2015 and 2014, 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.

Auditor's Responsibility

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

SUPLEE, CLOONEY & COMPANY

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Somerset Hills School District, County of Somerset, New Jersey as of June 30, 2015 and 2014, 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.

Emphasis of Matter

Change in Accounting Principle

As discussed in Note 6 to the basic financial statements, in 2015, the District adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68). Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 3, 2015 on our consideration of the Somerset Hills School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Somerset Hills School District's internal control over financial reporting and compliance.

SUPLEE, CLOONEY & COMPANY
Certified Public Accountants

/s/ Robert B. Cagnassola
Robert B. Cagnassola, C.P.A., P.S.A

December 3, 2015

FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED JUNE 30, 2015

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SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2015

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash and cash equivalents	\$ 3,355,628.05	\$ 187,326.62	\$ 3,542,954.67
Receivables, net	804,929.03	7,947.12	812,876.15
Inventory		6,612.48	6,612.48
Internal receivable	210,988.15		210,988.15
Restricted assets:			
Restricted cash and cash equivalents	592,693.99		592,693.99
Capital assets, net			
Non-depreciable	2,660,692.72		2,660,692.72
Depreciable - net	58,663,866.14	43,126.16	58,706,992.30
Total assets	66,288,798.08	245,012.38	66,533,810.46
DEFERRED OUTFLOW OF RESOURCES:			
Pension Related	867,528.00		867,528.00
	867,528.00		867,528.00
LIABILITIES:			
Accounts payable	440,549.89	28,414.14	468,964.03
Payable to other governments	24,317.00		24,317.00
Internal payable		170,945.80	170,945.80
Unearned revenue	63,137.48	819.61	63,957.09
Accrued interest payable	338,376.00		338,376.00
Noncurrent liabilities:			
Due within one year	2,422,551.65		2,422,551.65
Due beyond one year:			
Bonds Payable	25,830,000.00		25,830,000.00
Compensated Absences Payable	1,447,304.60		1,447,304.60
Capital Leases Payable	2,176,869.71		2,176,869.71
Net Pension Liability	8,660,189.00		8,660,189.00
Total liabilities	41,403,295.33	200,179.55	41,603,474.88
DEFERRED INFLOW OF RESOURCES:			
Pension Related	516,100.00		516,100.00
Gain on Refunding of Long-Term Debt	1,416,085.40		1,416,085.40
Total Deferred Inflow of Resources	1,932,185.40		1,932,185.40
NET POSITION:			
Net investment in capital assets	30,895,137.50	43,126.16	30,938,263.66
Restricted for:			
Capital projects	580,722.27		580,722.27
Debt service (deficit)	(282,194.20)		(282,194.20)
Other purposes	1,067,818.91		1,067,818.91
Unrestricted (deficit)	(8,440,639.13)	1,706.67	(8,438,932.46)
Total Net Position	\$ 23,820,845.35	\$ 44,832.83	\$ 23,865,678.18

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2015

Functions/Programs	Expenses	Indirect Expense Allocation	Programs Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
			Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities
Governmental activities:							
Instruction:							
Regular	\$ 15,004,381.49	\$ 4,333,100.49	\$ 4,908,964.57	\$ 4,755,697.39		\$ (9,672,820.02)	\$ (9,672,820.02)
Special	2,771,539.66	806,254.51		1,920,010.35	10,445.00	(1,647,338.82)	(1,647,338.82)
Other instruction	1,855,954.86	502,388.83		508,805.81		(1,849,537.88)	(1,849,537.88)
Support services:							
Tuition	1,400,904.85					(1,400,904.85)	(1,400,904.85)
Student and instruction related services	4,712,099.30	1,386,352.40		1,012,260.22		(5,086,191.48)	(5,086,191.48)
General administrative services	665,647.41	171,081.02		82,272.27		(754,456.16)	(754,456.16)
School administrative services	1,609,533.83	505,115.32		392,057.59		(1,722,591.56)	(1,722,591.56)
Central services and info technology	631,654.65	254,862.12				(886,516.77)	(886,516.77)
Plant operations and maintenance	2,551,940.90	551,529.75				(3,103,470.65)	(3,103,470.65)
Pupil transportation	1,899,686.85	138,578.61	89,888.00	194,766.00		(1,753,611.46)	(1,753,611.46)
Unallocated Benefits	8,588,715.62	(8,588,715.62)				(1,099,099.88)	(1,099,099.88)
Interest on long-term debt	1,099,099.88					(1,809,529.31)	(1,809,529.31)
Unallocated depreciation and amortization	1,870,076.74	(60,547.43)				(30,786,068.84)	(30,786,068.84)
Total governmental activities	44,661,236.04		4,998,852.57	8,865,869.63	10,445.00		
Business-type activities							
Food service	650,409.20		466,385.96	151,984.59			(32,038.65)
Total business-type activities	650,409.20		466,385.96	151,984.59			(32,038.65)
Total primary government	\$ 45,311,645.24		5,465,238.53	\$ 9,017,854.22	10,445.00	\$ (30,786,068.84)	\$ (30,818,107.49)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net						\$ 28,969,733.00	\$ 28,969,733.00
Taxes levied for debt service						3,240,188.00	3,240,188.00
Federal and state aid not restricted						160,012.00	160,012.00
Federal and state aid restricted						132,965.65	132,965.65
Miscellaneous income						63,367.77	63,592.32
Total general revenues and transfers						32,566,266.42	32,566,490.97
Change in net position						1,780,197.58	1,748,383.48
Net position beginning (as restated)						22,040,647.77	22,117,294.70
Net position ending						\$ 23,820,845.35	\$ 23,865,678.18

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

SOMERSET HILLS SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 2,318,390.94	\$ 24,532.49	\$ 914,185.80	\$ 98,078.50	\$ 3,355,187.73
Cash, maintenance reserve	135,000.00				135,000.00
Cash, capital reserve	457,693.99				457,693.99
Other receivables		51,775.28			51,775.28
Receivables from other governments	496,909.55	199,803.55	56,440.65		753,153.75
Due from other funds	<u>830,493.21</u>				<u>830,493.21</u>
Total assets	<u>\$ 4,238,487.69</u>	<u>\$ 276,111.32</u>	<u>\$ 970,626.45</u>	<u>\$ 98,078.50</u>	<u>\$ 5,583,303.96</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 39,112.91	\$ 1,392.98	\$	\$	\$ 40,505.89
Payable to state government		24,317.00			24,317.00
Due to other funds		187,704.18	389,904.18	41,896.70	619,505.06
Unearned Revenue		<u>62,697.16</u>			<u>62,697.16</u>
Total liabilities	<u>39,112.91</u>	<u>276,111.32</u>	<u>389,904.18</u>	<u>41,896.70</u>	<u>747,025.11</u>
Fund balances:					
Restricted:					
Capital reserve account	607,693.99				607,693.99
Maintenance reserve account	135,000.00				135,000.00
Excess surplus	1,320,448.30				1,320,448.30
Excess surplus - designated for subsequent years expenditures	929,462.86				929,462.86
Capital projects fund					
Committed - Encumbrances			580,722.27		580,722.27
Assigned:					
Designated for subsequent years expenditures	92,650.14				92,650.14
Encumbrances	325,124.92				325,124.92
Unassigned	<u>788,994.57</u>			<u>56,181.80</u>	<u>845,176.37</u>
Total fund balances	<u>4,199,374.78</u>		<u>580,722.27</u>	<u>56,181.80</u>	<u>4,836,278.85</u>
Total liabilities and fund balances	<u>\$ 4,238,487.69</u>	<u>\$ 276,111.32</u>	<u>\$ 970,626.45</u>	<u>\$ 98,078.50</u>	

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

SOMERSET HILLS SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

Total Fund Balances (Brought Forward)			\$4,836,278.85
Amounts Reported for Governmental Activities in the Statement of Net Assets (A-1) are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Cost of Assets		\$82,412,165.30	
Accumulated Depreciation		<u>(21,087,606.44)</u>	
			61,324,558.86
Long term liabilities, including bonds payable, and other related amounts that are not due and payable in the current period and therefore are not reported as liabilities in the funds.			
Net Pension Liability		(8,660,189.00)	
Compensated Absences		(1,447,304.60)	
Bonds Payable	(27,970,000.00)		
Unamortized of Refunding Bond Premium	<u>(1,416,085.40)</u>		
		(29,386,085.40)	
Capital Leases		<u>(2,459,421.36)</u>	
			(41,953,000.36)
Deferred Outflows and Inflows of resources are applicable to future periods and therefore are not reported in the funds.			
Pensions:			
Deferred Outflows			
Pension Related		467,484.00	
Employer Contribution related to pensions		<u>400,044.00</u>	
Pension expense			867,528.00
Deferred Inflows:			
Pension Related			(516,100.00)
Certain liabilities are not due and payable in the current period and therefore, are not reported in the governmental funds.			
Accounts Payable - Pension Related		(400,044.00)	
Accrued Interest Payable		<u>(338,376.00)</u>	
			<u>(738,420.00)</u>
Net Position of Governmental Activities			<u>\$23,820,845.35</u>

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Local sources:					
Local tax levy	\$ 28,969,733.00	\$	\$	\$ 3,240,188.00	\$ 32,209,921.00
Tuition	4,908,964.57				4,908,964.57
Transportation fees from individuals	89,888.00				89,888.00
Miscellaneous	63,367.77	124,739.30			188,107.07
Total - local sources	34,031,953.34	124,739.30		3,240,188.00	37,396,880.64
State sources	4,622,158.88	197,797.00	56,440.65	76,525.00	4,952,921.53
Federal sources		531,490.45			531,490.45
Total revenues	38,654,112.22	854,026.75	56,440.65	3,316,713.00	42,881,292.62
EXPENDITURES:					
Current expense:					
Regular instruction	11,836,290.59	359,196.30			12,195,486.89
Special instruction	2,119,059.16	377,194.00			2,496,253.16
Other Instruction	1,529,797.18				1,529,797.18
Support services:					
Tuition	1,400,904.85				1,400,904.85
Student and instruction related services	4,222,999.34	107,191.45			4,330,190.79
General administration	628,415.62				628,415.62
School administration	1,419,874.65				1,419,874.65
Central services and technology	733,502.90				733,502.90
Plant operations and maintenance	2,958,283.18				2,958,283.18
Pupil transportation	1,977,190.85				1,977,190.85
Unallocated Benefits	8,593,308.62				8,593,308.62
Debt service:					
Principal				2,070,000.00	2,070,000.00
Interest				1,190,531.50	1,190,531.50
Capital outlay	419,249.14	10,445.00	919,458.15		1,349,152.29
Total expenditures	37,838,876.08	854,026.75	919,458.15	3,260,531.50	42,872,892.48
Excess (deficiency) of revenues over (under) expenditures	815,236.14		(863,017.50)	56,181.50	8,400.14
Other financing sources (uses):					
Transfers in (out)	(699,429.16)		699,429.16		
Total other financing sources (uses)	(699,429.16)		699,429.16		
Net change in fund balances	115,806.98		(163,588.34)	56,181.50	8,400.14
Fund balances, July 1, 2014	4,083,567.80		744,310.61	0.30	4,827,878.71
Fund balances, June 30, 2015	\$ 4,199,374.78	\$ -0-	\$ 580,722.27	\$ 56,181.80	\$ 4,836,278.85

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

SOMERSET HILLS SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

Total net change in fund balances - governmental funds (from B-2)	\$	8,400.14
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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 capital outlays exceeded depreciation in the period

Capital outlays		1,349,152.29
Less: Capital outlays not capitalized		(89,846.00)
Depreciation expense		(1,870,076.74)

Repayment of long-term debt is an expenditure 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.

Payment of bond principal		2,070,000.00
Payment of capital lease principal		273,320.80

Proceeds from debt issues are a financing source in governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net position.

Original Issue Premium on Refunding Bonds		318,374.39
Deferred Amount on Refunding Bond Payments to Escrow Agent		(217,567.30)

In the statement of activities, interest on long-term debt is accrued, regardless of when due. In governmental funds, interest is reported when due. The accrued interest decrease is an addition in the reconciliation.

33,451.00

District pension contributions are reported as expenditures in the governmental funds when made. However, they are reported as deferred outflows of resources in the Statement of Net Position because the reported net pension liability is measured a year before the District's report date. Pension expense, which is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions, is reported in the Statement of Activities.

District pension contributions		381,319.00	
Less: Pension expense		(480,923.00)	
			(99,604.00)

In the statement of activities, certain expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+).

4,593.00

Change in net position of governmental activities	\$	<u>1,780,197.58</u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS (MAJOR)
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 187,326.62
Accounts receivable:	
State	326.80
Federal	7,620.32
Inventories	6,612.48
Total current assets	201,886.22
Noncurrent assets:	
Furniture, machinery and equipment	299,458.62
Less accumulated depreciation	(256,332.46)
Total noncurrent assets	43,126.16
Total assets	\$ 245,012.38
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 28,414.14
Interfund payable	170,945.80
Unearned Revenue	819.61
Total current liabilities	200,179.55
Total liabilities	200,179.55
NET POSITION:	
Net investment in capital assets	43,126.16
Unrestricted	1,706.67
Total net position	\$ 44,832.83

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS (MAJOR)
OPERATING REVENUES:	
Charges for services:	
Daily sales	\$ 466,385.96
Total operating revenues	466,385.96
OPERATING EXPENSES:	
Cost of sales	297,732.23
Salaries	187,772.23
Employee benefits	48,769.23
Other purchase service	12,067.00
Supplies and materials	91,028.64
Depreciation	13,039.87
Total operating expenses	650,409.20
Operating (loss)	(184,023.24)
NON-OPERATING REVENUES (EXPENSES):	
State sources	
State school lunch program	5,024.51
Federal sources	
National school lunch program	114,159.40
Interest earned	224.55
National food distribution commodities	32,800.68
Total non-operating revenues	152,209.14
Net income (loss)	(31,814.10)
Change in net position	(31,814.10)
Total net position - beginning	76,646.93
Total net position - ending	\$ 44,832.83

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS (MAJOR)
Cash flows from operating activities:	
Receipts from customers	\$ 466,385.96
Payments to employees	(187,772.23)
Payments for employee benefits	(48,769.23)
Payments to suppliers	(338,349.61)
	<hr/>
Net cash provided by (used for) operating activities)	(108,505.11)
	<hr/>
Cash flows from noncapital financing activities:	
State sources	5,306.53
Federal sources	113,168.78
Transfers from/(to) other funds	23,889.65
	<hr/>
Net cash provided by noncapital financing activities:	142,364.96
	<hr/>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(5,969.54)
	<hr/>
Net cash provided by (used for) capital and related financing activities	(5,969.54)
	<hr/>
Cash flows from investing activities:	
Interest earned	224.55
	<hr/>
Net cash provided by investing activities	224.55
	<hr/>
Net decrease in cash and cash equivalents	28,114.86
	<hr/>
Cash and cash equivalents, July 1, 2014	159,211.76
	<hr/>
Cash and cash equivalents, June 30, 2015	\$ 187,326.62
	<hr/> <hr/>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating (loss)	\$ (184,023.24)
Adjustments to reconciling operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	13,039.87
Federal commodities	32,863.61
Change in assets and liabilities:	
Increase (decrease) in Unearned Revenue	(62.93)
(Increase) decrease in inventories	1,550.65
Increase (decrease) in accounts payable	28,126.93
	<hr/>
	75,518.13
	<hr/>
Net cash provided by (used for) operating activities	\$ (108,505.11)
	<hr/> <hr/>

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	STATE UNEMPLOYMENT COMPENSATION TRUST FUND	PRIVATE PURPOSE AWARD FUND	AGENCY FUNDS
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and cash equivalents	\$ 60,293.33	\$ 153,179.13	\$ 472,094.27
	<u>60,293.33</u>	<u>153,179.13</u>	<u>472,094.27</u>
Total Assets			
	<u>60,293.33</u>	<u>153,179.13</u>	<u>472,094.27</u>
LIABILITIES:			
Interfund payable			40,042.35
Payroll deductions and withholdings			148,002.23
Due to student groups			284,049.69
	<u> </u>	<u> </u>	<u>284,049.69</u>
Total Liabilities			\$ 472,094.27
	<u> </u>	<u> </u>	<u>\$ 472,094.27</u>
NET POSITION:			
Held in trust for unemployment claims	60,293.33		
Held in trust for scholarships		153,179.13	
	<u>60,293.33</u>	<u>153,179.13</u>	
Total Net Position	\$ 60,293.33	\$ 153,179.13	
	<u>\$ 60,293.33</u>	<u>\$ 153,179.13</u>	

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>PRIVATE PURPOSE AWARD FUND SCHOLARSHIP FUND</u>	<u>STATE UNEMPLOYMENT COMPENSATION TRUST FUND</u>
ADDITIONS:		
Contributions:		
Other	\$ 922.68	\$ 31,640.88
Total contributions	<u>922.68</u>	<u>31,640.88</u>
Investment earnings:		
Interest	<u>154.92</u>	<u>65.22</u>
Net investment earnings	<u>154.92</u>	<u>65.22</u>
Total additions	<u>1,077.60</u>	<u>31,706.10</u>
DEDUCTIONS:		
Awards granted	9,104.00	
Unemployment claims		<u>46,181.20</u>
Total deductions	<u>9,104.00</u>	<u>46,181.20</u>
Change in net position	<u>(8,026.40)</u>	<u>(14,475.10)</u>
Net position beginning of year	<u>161,205.53</u>	<u>74,768.43</u>
Net position end of year	<u>\$ 153,179.13</u>	<u>\$ 60,293.33</u>

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

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FINANCIAL STATEMENTS AS OF AND
FOR THE YEAR ENDED JUNE 30, 2014

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	<u>GOVERNMENTAL</u> <u>ACTIVITIES</u>	<u>BUSINESS-TYPE</u> <u>ACTIVITIES</u>	<u>TOTAL</u>
ASSETS:			
Cash and cash equivalents	\$ 3,788,053.05	\$ 159,211.76	\$ 3,947,264.81
Receivables, net	710,237.37	7,238.52	717,475.89
Inventory		8,100.20	8,100.20
Internal receivable	247,286.30		247,286.30
Restricted assets:			
Restricted cash and cash equivalents	237,789.05		237,789.05
Capital assets, net			
Non-depreciable	2,291,486.29		2,291,486.29
Depreciable - net	59,643,843.02	50,196.49	59,694,039.51
Total assets	66,918,695.08	224,746.97	67,143,442.05
LIABILITIES:			
Accounts payable	30,615.61	287.21	30,902.82
Payable to other governments	20,600.55		20,600.55
Internal payable		147,056.15	147,056.15
Unearned revenue	104,270.90	756.68	105,027.58
Accrued interest payable	371,827.00		371,827.00
Noncurrent liabilities:			
Due within one year	2,343,320.80		2,343,320.80
Due beyond one year	31,881,318.96		31,881,318.96
Total liabilities	34,751,953.82	148,100.04	34,900,053.86
DEFERRED INFLOWS OF RESOURCES			
Premium on Refunding of Long-Term Debt	1,516,892.49		1,516,892.49
NET POSITION:			
Net investment in capital assets	29,162,587.15	50,196.49	29,212,783.64
Restricted for:			
Capital projects	744,310.61		744,310.61
Debt service (deficit)	(371,826.70)		(371,826.70)
Other purposes	237,789.05		237,789.05
Unrestricted	876,988.66	26,450.44	903,439.10
Total Net Position	\$ 30,649,848.77	\$ 76,646.93	\$ 30,726,495.70

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
JUNE 30, 2014

Functions/Programs	Expenses	Indirect Expense Allocation	Programs Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	
			Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-type Activities
Governmental activities:							
Instruction:							
Regular	\$ 11,940,161.38	\$ 4,156,723.45	\$ 4,318,976.70	\$ 2,392,405.65	\$ 726.40	\$ (9,385,502.48)	\$ (9,385,502.48)
Special	2,211,614.56	622,992.50		1,582,403.28		(1,251,477.38)	(1,251,477.38)
Other instruction	1,389,788.79	417,222.46		80,060.58		(1,726,950.67)	(1,726,950.67)
Support services:							
Tuition	1,378,171.26	1,228,928.90				(2,607,100.16)	(2,607,100.16)
Student and instruction related services	4,581,598.30	90,807.00		462,205.57		(4,210,199.73)	(4,210,199.73)
General administrative services	861,880.05	147,786.65		75,186.59		(934,480.11)	(934,480.11)
School administrative services	1,377,312.43	454,487.21		161,449.95		(1,670,349.69)	(1,670,349.69)
Central services and info technology	535,202.64	149,246.20				(684,448.84)	(684,448.84)
Plant operations and maintenance	2,606,981.23	532,665.46				(3,139,646.69)	(3,139,646.69)
Pupil transportation	2,097,715.01	31,667.92	100,182.00	200,682.00		(1,828,518.93)	(1,828,518.93)
Unallocated Benefits	7,805,621.01	(7,805,621.01)					
Interest on long-term debt	1,484,329.31					(1,484,329.31)	(1,484,329.31)
Unallocated depreciation and amortization	1,847,058.57	(26,906.74)			726.40	(1,820,151.83)	(1,820,151.83)
Total governmental activities	40,117,434.54	0.00	4,419,158.70	4,954,393.62		(30,743,155.82)	(30,743,155.82)
Business-type activities							
Food service	648,818.00		457,756.19	135,101.74		(55,960.07)	(55,960.07)
Total business-type activities	648,818.00		457,756.19	135,101.74		(55,960.07)	(55,960.07)
Total primary government	\$ 40,766,252.54		4,876,914.89	\$ 5,089,495.36	\$ 726.40	\$ (30,743,155.82)	\$ (30,799,115.89)
General revenues:							
Taxes:							
Property taxes, levied for general purposes, net							
Taxes levied for debt service							
Federal and state aid not restricted							
Federal and state aid restricted							
Prior year accounts payable canceled							
Miscellaneous income							
Donated Assets							
Total general revenues and transfers							
Change in net position							
Net position beginning							
Net position ending							

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

SOMERSET HILLS SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and cash equivalents	\$ 2,486,069.26	\$ 125,872.00	\$ 1,134,214.79	\$ 41,897.00	\$ 3,788,053.05
Cash, maintenance reserve	135,000.00				135,000.00
Cash, capital reserve	102,789.05				102,789.05
Other receivables		39,552.80			39,552.80
Receivables from other governments	520,552.73	150,131.84			670,684.57
Due from other funds	866,791.36				866,791.36
Total assets	<u>\$ 4,111,202.40</u>	<u>\$ 315,556.64</u>	<u>\$ 1,134,214.79</u>	<u>\$ 41,897.00</u>	<u>\$ 5,602,870.83</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 27,634.60	\$ 2,981.01	\$	\$	\$ 30,615.61
Payable to state government		20,600.55			20,600.55
Due to other funds		187,704.18	389,904.18	41,896.70	619,505.06
Unearned Revenue		104,270.90			104,270.90
Total liabilities	<u>27,634.60</u>	<u>315,556.64</u>	<u>389,904.18</u>	<u>41,896.70</u>	<u>774,992.12</u>
Fund balances:					
Restricted:					
Capital reserve account	102,789.05				102,789.05
Maintenance reserve account	135,000.00				135,000.00
Excess surplus	929,462.86				929,462.86
Excess surplus - designated for subsequent years expenditures	1,830,627.90				1,830,627.90
Capital projects fund			601,072.25		601,072.25
Committed - Encumbrances			143,238.36		143,238.36
Assigned:					
Designated for subsequent years expenditures	178,756.10				178,756.10
Encumbrances	138,032.71				138,032.71
Unassigned	768,899.18			0.30	768,899.48
Total fund balances	<u>4,083,567.80</u>		<u>744,310.61</u>	<u>0.30</u>	<u>4,827,878.71</u>
Total liabilities and fund balances	<u>\$ 4,111,202.40</u>	<u>\$ 315,556.64</u>	<u>\$ 1,134,214.79</u>	<u>\$ 41,897.00</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 assets is \$81,152,859.01 and the accumulated depreciation is \$19,217,529.70 61,935,329.31

Long term liabilities, including bonds and interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Bonds payable	\$ 30,040,000.00	
Unamortized balance of refunding bonds	1,516,892.49	
Capital leases payable	2,732,742.16	
Compensated absences payable	1,451,897.60	
Accrued interest payable	<u>371,827.00</u>	
		<u>(36,113,359.25)</u>
		<u>\$ 30,649,848.77</u>

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Local sources:					
Local tax levy	\$ 28,163,596.00	\$	\$	\$ 3,163,854.00	\$ 31,327,450.00
Tuition	4,318,976.70				4,318,976.70
Transportation fees from individuals	100,182.00				100,182.00
Miscellaneous	89,622.42	155,939.45			245,561.87
Total - local sources	32,672,377.12	155,939.45		3,163,854.00	35,992,170.57
State sources	4,146,563.70	167,314.45		76,816.00	4,390,694.15
Federal sources		604,646.42			604,646.42
Total revenues	36,818,940.82	927,900.32		3,240,670.00	40,987,511.14
EXPENDITURES:					
Current expense:					
Regular instruction	11,479,337.24	467,663.62			11,947,000.86
Special instruction	1,864,387.56	347,227.00			2,211,614.56
Other Instruction	1,389,788.79				1,389,788.79
Support services:					
Tuition	1,378,171.26				1,378,171.26
Student and instruction related services	4,471,057.00	112,283.30			4,583,340.30
General administration	861,880.05				861,880.05
School administration	1,377,312.43				1,377,312.43
Central services and technology	535,202.64				535,202.64
Plant operations and maintenance	2,918,640.12				2,918,640.12
Pupil transportation	2,164,083.55				2,164,083.55
Unallocated Benefits	7,900,546.01				7,900,546.01
Debt service:					
Principal				2,000,000.00	2,000,000.00
Interest				1,254,954.00	1,254,954.00
Capital outlay	433,589.16	726.40	431,632.86		865,948.42
Total expenditures	36,773,995.81	927,900.32	431,632.86	3,254,954.00	41,388,482.99
Excess (deficiency) of revenues over (under) expenditures	44,945.01		(431,632.86)	(14,284.00)	(400,971.85)
Other financing sources (uses):					
Transfers in (out)	(945,529.00)		945,529.00		
Proceeds from capital leases	100,000.00				100,000.00
Accounts payable canceled	61,673.80				61,673.80
Total other financing sources (uses)	(783,855.20)		945,529.00		161,673.80
Net change in fund balances	(738,910.19)		513,896.14	(14,284.00)	(239,298.05)
Fund balances, July 1, 2013	4,822,477.99		230,414.47	14,284.30	5,067,176.76
Fund balances, June 30, 2014	\$ 4,083,567.80	\$ -0-	\$ 744,310.61	\$ 0.30	\$ 4,827,878.71

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

SOMERSET HILLS SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Total net change in fund balances - governmental funds (from B-2) \$ (239,298.05)

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 capital outlays exceeded depreciation in the period

Capital outlays	865,948.42
Donated Capital Assets	75,000.00
Less: Capital outlays not capitalized	(90,572.40)
Depreciation expense	(1,847,058.57)

Repayment of long-term debt is an expenditure 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.

Payment of bond principal	2,000,000.00
Payment of capital lease principal	427,952.17

Proceeds from debt issues are a financing source in governmental funds. They are not revenue in the statement of activities; issuing debt increases long-term liabilities in the statement of net position.

Original Issue Premium on Refunding Bonds	289,520.10
Deferred Amount on Refunding Bond Payments to Escrow Agent	(194,071.94)
Proceeds from Capital lease financing	(100,000.00)

In the statement of activities, interest on long-term debt is accrued, regardless of when due. In governmental funds, interest is reported when due. The accrued interest decrease is an addition in the reconciliation.

8,699.00

Bond issue costs are reported in the governmental funds as expenditures in the year the bonds are issued. However, on the statement of activities the costs are amortized over the life of the bonds.

(284,293.33)

In the statement of activities, certain expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is a reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+).

Decrease in Compensated Absences payable	94,925.00
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Change in net position of governmental activities	\$ 1,006,750.40
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The accompanying Notes to the Financial Statements are an integral part of this statement.

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS (MAJOR)
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 159,211.76
Accounts receivable:	
State	608.82
Federal	6,629.70
Inventories	8,100.20
Total current assets	174,550.48
Noncurrent assets:	
Furniture, machinery and equipment	293,489.08
Less accumulated depreciation	(243,292.59)
Total noncurrent assets	50,196.49
Total assets	\$ 224,746.97
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 287.21
Interfund payable	147,056.15
Unearned Revenue	756.68
Total current liabilities	148,100.04
Total liabilities	148,100.04
NET POSITION:	
Net investment in capital assets	50,196.49
Unrestricted	26,450.44
Total net position	\$ 76,646.93

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS (MAJOR)
OPERATING REVENUES:	
Charges for services:	
Daily sales	\$ 457,756.19
Total operating revenues	<u>457,756.19</u>
OPERATING EXPENSES:	
Cost of sales	290,597.00
Salaries	189,477.63
Employee benefits	51,960.06
Other purchase service	12,067.00
Supplies and materials	89,344.05
Depreciation	<u>15,372.26</u>
Total operating expenses	<u>648,818.00</u>
Operating (loss)	<u>(191,061.81)</u>
NON-OPERATING REVENUES (EXPENSES):	
State sources	
State school lunch program	5,410.45
Federal sources	
National school lunch program	98,630.42
Interest earned	220.75
National food distribution commodities	<u>31,060.87</u>
Total non-operating revenues	<u>135,322.49</u>
Net income (loss)	(55,739.32)
Change in net position	(55,739.32)
Total net position - beginning	<u>132,386.25</u>
Total net position - ending	<u>\$ 76,646.93</u>

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS (MAJOR)
Cash flows from operating activities:	
Receipts from customers	\$ 457,756.19
Payments to employees	(189,477.63)
Payments for employee benefits	(51,960.06)
Payments to suppliers	(388,935.12)
	<hr/>
Net cash provided by (used for) operating activities)	(172,616.62)
	<hr/>
Cash flows from noncapital financing activities:	
State sources	5,120.88
Federal sources	98,169.14
Transfers from/(to) other funds	41,880.81
	<hr/>
Net cash provided by noncapital financing activities:	145,170.83
	<hr/>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(6,069.09)
	<hr/>
Net cash provided by (used for) capital and related financing activities	(6,069.09)
	<hr/>
Cash flows from investing activities:	
Interest earned	220.75
	<hr/>
Net cash provided by investing activities	220.75
	<hr/>
Net decrease in cash and cash equivalents	(33,294.13)
	<hr/>
Cash and cash equivalents, July 1, 2013	192,505.89
	<hr/>
Cash and cash equivalents, June 30, 2014	\$ 159,211.76
	<hr/>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating (loss)	\$ (191,061.81)
Adjustments to reconciling operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	15,372.26
Federal commodities	31,060.87
Change in assets and liabilities:	
Increase (decrease) in Unearned Revenue	(749.03)
(Increase) decrease in inventories	1,699.01
Increase (decrease) in accounts payable	(28,937.92)
	<hr/>
	18,445.19
	<hr/>
Net cash provided by (used for) operating activities	\$ (172,616.62)
	<hr/>

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	STATE UNEMPLOYMENT COMPENSATION TRUST FUND	PRIVATE PURPOSE AWARD FUND	AGENCY FUNDS
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and cash equivalents	\$ 74,768.43	\$ 161,205.53	\$ 364,593.69
	<u>74,768.43</u>	<u>161,205.53</u>	<u>364,593.69</u>
Total Assets			
	<u>74,768.43</u>	<u>161,205.53</u>	<u>364,593.69</u>
LIABILITIES:			
Interfund payable			100,230.15
Payroll deductions and withholdings			15,712.51
Due to student groups			248,651.03
	<u> </u>	<u> </u>	<u>248,651.03</u>
Total Liabilities			\$ 364,593.69
	<u> </u>	<u> </u>	<u>\$ 364,593.69</u>
NET POSITION:			
Held in trust for unemployment claims	74,768.43		
Held in trust for scholarships		161,205.53	
	<u>74,768.43</u>	<u>161,205.53</u>	
Total Net Position	\$ 74,768.43	\$ 161,205.53	
	<u>74,768.43</u>	<u>161,205.53</u>	

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

SOMERSET HILLS SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	<u>PRIVATE PURPOSE AWARD FUND SCHOLARSHIP FUND</u>	<u>STATE UNEMPLOYMENT COMPENSATION TRUST FUND</u>
ADDITIONS:		
Contributions:		
Other	\$ 1,000.00	\$ 31,179.06
Total contributions	<u>1,000.00</u>	<u>31,179.06</u>
Investment earnings:		
Interest	<u>61.95</u>	<u>70.76</u>
Net investment earnings	<u>61.95</u>	<u>70.76</u>
Total additions	<u>1,061.95</u>	<u>31,249.82</u>
DEDUCTIONS:		
Awards granted	11,750.00	
Unemployment claims		39,164.09
Total deductions	<u>11,750.00</u>	<u>39,164.09</u>
Change in net position	<u>(10,688.05)</u>	<u>(7,914.27)</u>
Net position beginning of year	<u>171,893.58</u>	<u>82,682.70</u>
Net position end of year	<u>\$ 161,205.53</u>	<u>\$ 74,768.43</u>

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

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Somerset Hills School District (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 described below:

Reporting Entity

The School District is a Type II District located in Somerset County, New Jersey. The School District is an instrumentality of the State of New Jersey, established to function as an educational institution. The Somerset Hills School District is governed by a ten member board, including nine individuals elected to three year terms from the Boroughs of Bernardsville, Peapack & Gladstone and Far Hills, along with one appointed member from the Bedminster Board of Education. The Board is the primary governing authority of the District. A superintendent is appointed by the Board and is responsible for the administrative control of the District.

The primary criterion for including activities within the District's reporting entity, are set forth in Statement No. 39 of the Governmental Accounting Standards Board entitled "*Determining Whether Certain Organizations are Component Units*" (GASB 39) as codified in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

Organizations that are legally separate, tax-exempt entities and that meet *all* of the following criteria should be discretely presented as component units. These criteria are:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government.
2. The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources of the organization.
3. The economic resources received or held by an *individual organization* that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The operations of the District include one elementary school, one intermediate school and a High School. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the District is not includable in any other reporting entity on the basis of such criteria.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation, Basis of Accounting

The District's basic financial statements consist of District-wide statements, including a statement of net position and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Basis of Presentation

District-Wide Statements: The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the overall District, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish generally between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of net position presents the financial condition of the governmental and business-type activities of the District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for the business-type activity of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirement of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the District.

Fund Financial Statements: During the fiscal year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements are presented for each fund category-governmental, proprietary, and fiduciary. The New Jersey Department of Education (NJDOE) has elected to require New Jersey districts to treat each governmental fund as a major fund in accordance with the option noted in GASB No. 34, paragraph 76. The NJDOE as the oversight entity believes that the presentation of all funds as major is important for the public interest and to promote consistency among District financial reporting models.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds

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

As required by the New Jersey Statement Department of Education, the District includes budgeted capital outlay in this fund. U.S. Generally Accepted Accounting Principles as they pertain to governmental entities state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues. Resources for budgeted capital outlay purposes are normally derived from State of New Jersey Aid, district taxes, and appropriated fund balance. Expenditures are those that result in the acquisition of or additions to capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to or remodeling of buildings and the purchase of built-in equipment. These resources can be transferred from and to the current expense by Board resolution; in certain instances approval by the County Superintendent of Schools may also be required.

Special Revenue Fund The special revenue fund is used to account for the proceeds of specific revenue sources from State and Federal Government (other than those for major capital projects, debt service or proprietary funds) and local appropriations that are restricted or committed to expenditures for specified purposes.

Capital Projects Funds The capital projects fund is used to account for and report all financial resources that are restricted, committed or assigned to expenditures for capital outlays including the acquisition or construction of major capital facilities or other capital assets.

Debt Service Fund The debt service fund is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

Enterprise Fund The enterprise fund accounts for all revenues and expenses pertaining to the District's Food Service program operations. These funds are 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 or services to the students on a continuing basis are financed or recovered primarily through user charges.

Fiduciary Funds

Agency Funds The 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. The agency funds included are as follows:

Payroll and Student Activities Funds These are agency funds 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.

Private Purpose Trust Funds These trust funds are used to account for assets donated by individuals that will provide for the payment of awards and other purposes.

Unemployment Insurance Trust Funds An expendable trust fund used to account for unemployment compensation claims as they arise.

Basis of Accounting-Measurement Focus

Basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements.

District-Wide, Proprietary, and Fiduciary Fund Financial Statements

The District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation for expenses versus expenditures. 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.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting-Measurement Focus (Continued)

The District is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. "Measurable" means the amount of the transactions can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from the issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

All governmental and business type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Account Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets/Budgetary Control

In accordance with P.L. 2011, c. 202, which became effective January 17, 2012, the District elected to move the April school Board election to the date of the November general election thereby eliminating the vote in the annual base budget. Annual appropriated budgets are prepared in the spring of each year for the general, special revenue, and debt service funds. The budgets are submitted to the county office for approval. Budgets are prepared using the modified accrual basis of accounting. 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 referenced in N.J.A.C. 6A:23. All budget amendments and transfers must be approved by School Board resolution. 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.

All budget amounts presented in the accompanying supplementary information reflect the original budget and the amended budget (which have been adjusted for legally authorized revisions of the annual budgets during the year).

Appropriations, except remaining project appropriations, encumbrances, and unexpended grant appropriations, lapse at the end of each fiscal year. The capital projects fund presents the remaining project appropriations compared to current year expenditures. Formal budgetary integration into the accounting system is employed as a management control device during the fiscal year. For governmental funds, there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles (GAAP) with the exception of the legally mandated (NJSA 18A:22-44.2) revenue recognition of deferred State Aid payments for budgetary purposes only and the accounting treatment of encumbrances in the special revenue fund as described 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.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets/Budgetary Control (Continued)

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 recognized 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 records.

Encumbrance Accounting

Under encumbrance accounting purchase orders, contracts and other commitments for the expenditures of resources are recorded to reserve a portion of the applicable appropriation. Open encumbrances in governmental funds other than the special revenue fund are reported as assigned fund balances at fiscal year end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services.

Open encumbrances in the special revenue and capital project funds for which the District has received advances are reflected in the balance sheet as deferred revenues at fiscal year end. The encumbered appropriation authority carries over into the next fiscal year. An entry will be made at the beginning of the next fiscal year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current fiscal year end.

Interfunds

Interfund receivables and payables arise from transactions between particular funds and are considered short term in duration. The interfund transactions are recorded by all funds affected in the period in which the transactions are executed and are part of the district's available spendable resources.

Inventories and Prepaid Expenses

Inventories of materials and supplies held for consumption in the governmental funds are recorded as expenditures at the time of purchase and year end balances are not reported in the financial statements.

Inventories of food and/or supplies in the food service fund are recorded at cost on a first-in, first-out basis or, in the case of Food Distribution Commodities, at stated value which approximates market.

Prepaid expenses which benefit future periods, other than those recorded in the enterprise fund, are recorded as expenditures in the year of purchase.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The District has an established formal system of accounting for its capital assets. Capital Assets used for governmental purposes, which include land, buildings and improvements and furniture and equipment, are only reported in the district-wide financial statements. The District generally defines capital assets as assets with an initial cost of \$2,000.00 or more and an estimated useful life in excess of one year. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated in the district-wide statements using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
School Buildings	50
Building Improvements	20
Electrical/Plumbing	30
Vehicles	8
Office and Computer Equipment	5-10
Instructional Equipment	10
Grounds Equipment	15

Compensated Absences

The District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences." A liability for compensated absences attributable to services already rendered and 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.

District employees are granted varying amounts of vacation and sick leave in accordance with the District's personnel policy and/or collective bargaining unit contracts. Upon termination, employees are paid for accrued vacation. Sick leave benefits provide for ordinary sick pay and begin vesting with the employee after four years of service.

The liability for compensated absences was accrued using the termination payment method, whereby the liability is calculated based on the amount of sick leave and vacation days that are expected to become eligible for payment upon termination. The District estimates its accrued compensated absences liability based on the accumulated sick and vacation days at the balance sheet date by those employees who are currently eligible to receive termination payments.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences (Continued)

For the district-wide statements, the current portion is the amount estimated to be used in the following year. For the governmental funds in the fund financial statements, a liability is reported only for to the extent of the amount actually due at year end as a result of employee resignations/retirements. Compensated absences are a reconciling item between the fund level and district-wide presentations.

Unearned Revenue

Unearned revenue in the special revenue and capital projects funds represents funds which have been received but not yet earned. A corresponding accounts receivable has also been established for any open encumbrances at year end which is an allowable practice under generally accepted accounting principles.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the district-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, contractually required pension contributions and compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Long term debt is recognized as a liability on the fund financial statements when due.

Net Position

GASB 63 provides guidance for reporting net position in the statement of financial position and related disclosures. In compliance with GASB 63, the Statement of Net Position has been renamed the Statement of Net Position. Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance Restrictions

Under GASB 54, in the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation. The District reports the Capital Reserve, Maintenance Reserve and Excess Surplus as Restricted Fund Balance.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to resolutions passed by the Board of Education, the District's highest level of decision making authority. Commitments may be modified or rescinded only through resolutions approved by the Board of Education. The District reports amounts Designated for Subsequent Year's Expenditures as Committed Fund Balance.

Assigned – includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's policy, amounts may be assigned by the Business Administrator. The District reports Year End Encumbrances as Assigned Fund Balance.

Unassigned – includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund. The District reports all amounts that meet the unrestricted General Fund Balance Policy described below as unassigned:

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

The general fund is the only fund that will report a negative unassigned fund balance. For all other governmental funds the amount of a residual deficit would be classified as unassigned.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means within sixty days of the fiscal year end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from property taxes is recognized in the period in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: property taxes available as an advance, interest, and tuition.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the District, these revenues are sales in the Enterprise Funds. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the enterprise fund.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Indirect Expenses

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses are allocated to functions but are reported separately in the Statement of Activities. Employee benefits, including the employer's share of social security, workers compensation, and medical and dental benefits, were allocated based on salaries of the program. Depreciation expense, where practicable, is specifically identified by function and is included in the indirect expense column of the Statement of Activities. Depreciation expense that could not be attributed to a specific function is considered an indirect expense and is reported separately on the Statement of Activities.

Extraordinary and Special Items

Extraordinary items are transactions or events that are unusual in nature and infrequent of occurrence. Special items are transactions or events that are within control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred during the fiscal year.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make assumptions that affect the amounts reported as revenue and expenditures/expenses during the reporting period. These estimates may differ from actual results.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions

In fiscal year 2015, the District implemented GASB 68. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement is effective for periods beginning after June 15, 2014.

The District has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (continued)

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the District has only one item that qualify for reporting in this category, deferred amounts related to pensions.

In addition to liabilities, the statement of financial 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify in this category, deferred amounts related to pension and deferred amounts from refunding debt.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS

The District considers petty cash, change funds, cash in banks, deposits in the New Jersey Cash Management Fund and short term investments with original maturities of three months or less as cash and cash equivalents. Investments are stated at fair value.

Deposits

New Jersey statutes permit the deposit of public funds in public depositories which are located in New Jersey and which meet the requirements of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA requires a bank that accepts public funds to be a public depository. A public depository is defined as a state bank, a national bank, or a savings bank, which is located in the State of New Jersey, the deposits of which are insured by the Federal Deposit Insurance Corporation. The statutes also require public depositories to maintain collateral for deposits of public funds that exceed certain insurance limits. Each depository participating in the GUDPA system must pledge collateral equal to 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of 75% of its capital funds. No collateral is required for amounts covered by FDIC insurance. The collateral which may be pledged to support these deposits includes obligations of the State and federal governments, insured securities and other collateral approved by the Department. When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the Department of Banking and Insurance requires additional collateral to be pledged. Under (GUDPA), 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 the deposits to the governmental unit.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The District does not have a specific deposit policy for custodial credit risk other than those policies that adhere to the requirements of statute. As of June 30, 2015, based upon the coverage provided by FDIC and NJGUDPA, no amount of the bank balance was exposed to custodial credit risk. Of the cash on balance in the bank of \$6,450,167.53, \$250,000.00 was covered by Federal Depository Insurance and \$6,200,167.53 was covered under the provisions of NJGUDPA.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 2: CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Deposits (Continued)

As of June 30, 2015, cash and cash equivalents of the District consisted of the following:

Fund Type:	<u>Bank Balance</u>	Reconciling Items:		<u>Reconciled Balance</u>
		<u>Additions</u>	<u>Deletions</u>	
Governmental	\$5,243,994.38	\$38,335.59	\$1,334,448.25	\$3,947,881.72
Proprietary	220,634.71	\$5,027.50	38,335.59	187,326.62
Fiduciary	985,538.44		299,971.71	685,566.73
	<u>\$6,450,167.53</u>	<u>\$43,363.09</u>	<u>\$1,672,756.55</u>	<u>\$4,820,775.07</u>

Investments

The types of investments which may be purchased by the District are strictly limited by the express authority of the N.J.S.A. 18A:20-37 Education, Administration of School Districts. Permitted investments include any of the following type of securities:

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
2. Government money market mutual funds which are purchased from an investment company or investment trust which is registered with the Securities and Exchange Commission under the "Investment Company Act of 1940," 15 U.S.C. 80a1 et seq., and operated in accordance with 17 C.F.R. § 270.2a7 and which portfolio is limited to U.S. Government securities that meet the definition of an eligible security pursuant to 17 C.F.R. § 270.2a7 and repurchase agreements that are collateralized by such U.S. Government securities in which direct investment may be made pursuant to paragraphs (1) and (3) of N.J.S.A. 18A:2037. These funds are also required to be rated by a nationally recognized statistical rating organization.
3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
4. Bonds or other obligations of the Local Unit or bonds or other obligations of school districts of which the Local Unit is a part or within which the school district is located.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 2: CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

Investments (Continued)

5. Bonds or other obligations, having a maturity date not more than 397 days from date of purchase, approved by the Division of Investment of the Department of Treasury for investment by School Districts;
6. Local government investment pools that are fully invested in U.S. Government securities that meet the definition of eligible security pursuant to 17 C.F.R. § 270a7 and repurchase agreements that are collateralized by such U.S. Government securities in which direct investment may be made pursuant to paragraphs (1) and (3) of N.J.S.A. 18A:20-37. This type of investment is also required to be rated in the highest category by a nationally recognized statistical rating organization.
7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 C. 52:18A-90.4); or
8. Agreements for the repurchase of fully collateralized securities if:
 - a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection;
 - b. the custody of collateral is transferred to a third party;
 - c. the maturity of the agreement is not more than 30 days;
 - d. the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 C. 17:1941); and
 - e. a master repurchase agreement providing for the custody and security of collateral is executed.

At June 30, 2015, the District had no outstanding investments that were not considered "cash equivalents".

Based upon the limitation set forth by New Jersey Statutes 18A:20-37 and its existing investment practices, the District is generally not exposed to credit risks, custodial credit risks, concentration of credit risks and interest rate risks for its investments, nor is it exposed to foreign currency risks for its deposits and investments.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 3: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	Ending <u>Balance</u>
Governmental Activities:			
Capital assets not being depreciated:			
Land	\$1,980,000.00		\$1,980,000.00
Construction in progress	311,486.29	\$369,206.43	680,692.72
Total Capital Assets not being depreciated	<u>2,291,486.29</u>	<u>369,206.43</u>	<u>2,660,692.72</u>
Site Improvements	3,252,170.16	419,334.92	3,671,505.08
Buildings & Building Improvements	73,668,783.81	348,022.64	74,016,806.45
Machinery & Equipment	<u>1,940,418.75</u>	<u>122,742.30</u>	<u>2,063,161.05</u>
Totals at historical cost	<u>78,861,372.72</u>	<u>890,099.86</u>	<u>79,751,472.58</u>
Gross Assets (Memo only)	<u>81,152,859.01</u>	<u>1,259,306.29</u>	<u>82,412,165.30</u>
Less: Accumulated Depreciation			
Site Improvements	(1,783,339.08)	(151,516.10)	(1,934,855.18)
Buildings & Building Improvements	(16,311,990.83)	(1,579,535.80)	(17,891,526.63)
Machinery & Equipment	<u>(1,122,199.79)</u>	<u>(139,024.84)</u>	<u>(1,261,224.63)</u>
Total Depreciation	<u>(19,217,529.70)</u>	<u>(1,870,076.74)</u>	<u>(21,087,606.44)</u>
Total capital assets being depreciated, net of depreciation	<u>59,643,843.02</u>	<u>(979,976.88)</u>	<u>58,663,866.14</u>
Total Governmental Fund Activities	<u><u>\$61,935,329.31</u></u>	<u><u>(\$610,770.45)</u></u>	<u><u>\$61,324,558.86</u></u>
Proprietary Activities:			
Machinery & Equipment	<u>\$293,489.08</u>	<u>\$5,969.54</u>	<u>\$299,458.62</u>
Totals at historical cost	<u>293,489.08</u>	<u>5,969.54</u>	<u>299,458.62</u>
Less: Accumulated Depreciation			
Machinery & Equipment	<u>(243,292.59)</u>	<u>(13,039.87)</u>	<u>(256,332.46)</u>
Total Depreciation	<u>(243,292.59)</u>	<u>(13,039.87)</u>	<u>(256,332.46)</u>
Total Proprietary Fund Activities	<u><u>\$50,196.49</u></u>	<u><u>(\$7,070.33)</u></u>	<u><u>\$43,126.16</u></u>

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 3: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functional expenses areas of the District as follows:

Support Services:

Student & Instruction Related Services	\$27,778.39
General Administrative Services	27,647.51
School Administrative Services	1,341.51
Central Services/Technology	1,239.20
Plant Operations and Maintenance	2,540.82
Direct Expense of Various Functions	<u>1,809,529.31</u>
	<u><u>\$1,870,076.74</u></u>

NOTE 4: LONG-TERM LIABILITIES

Bonds are issued by the District pursuant to the provisions of Title 18A, Education, of the New Jersey Statutes and are required to be approved by the voters of the municipality through referendum. The proceeds of bonds are recorded in the Capital Projects Fund and are restricted to the use for which they were approved in the bond referendum. All bonds are retired in annual installments within the statutory period of usefulness

School Bonds issued by the District are entitled to and benefit from the provision of the New Jersey School Board Reserve Act P.L. 1980 c.72. Statutorily, funds are held by the State of New Jersey within its State Fund for the Support of Free Public Schools as a school bond reserve pledged by law to secure payment of principal and interest due on such bonds in the event of the inability of the issuer to make payments.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

The following is a summary of transactions that affect long-term liabilities for the year ended June 30, 2015:

	Balance, <u>June 30, 2014</u>	<u>Additions</u>	<u>Reductions</u>	Balance, <u>June 30, 2015</u>	Due Within <u>One Year</u>
Bonds Payable	\$30,040,000.00		(\$2,070,000.00)	\$27,970,000.00	\$2,140,000.00
Compensated Absence	1,451,897.60		(4,593.00)	1,447,304.60	
Net Pension Liability	8,609,201.00	\$50,988.00		8,660,189.00	
Capital Leases Payable	<u>2,732,742.16</u>		<u>(273,320.80)</u>	<u>2,459,421.36</u>	<u>282,551.65</u>
Total	<u>\$42,833,840.76</u>	<u>\$50,988.00</u>	<u>(\$2,347,913.80)</u>	<u>\$40,536,914.96</u>	<u>\$2,422,551.65</u>

Debt Capacity

Under New Jersey Statutes the District may incur debt in an amount not to exceed 4% of the averaged equalized valuation basis of real property. For the fiscal year ended June 30, 2015, the District borrowing capacity under N.J.S. 18A:24-19 is as follows:

<u>Year</u>	<u>Equalized Valuation of Real Property</u>
2014	\$3,522,931,757
2013	3,498,436,250
2012	<u>3,600,112,821</u>
	<u>\$10,621,480,828</u>
Average equalized valuation	<u>\$3,540,493,609</u>
School borrowing margin (4% of \$3,540,493,609)	\$141,619,744
Net school debt as of June 30, 2015	<u>27,970,000</u>
School borrowing power available	<u>\$113,649,744</u>

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

Debt Service Requirements:

The annual requirements to amortize all debt outstanding as of June 30, 2015, including interest payments on issued debt, are as follows:

Fiscal Year			
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	2,140,000.00	1,121,755.25	3,261,755.25
2017	2,210,000.00	1,049,737.75	3,259,737.75
2018	1,965,000.00	969,479.75	2,934,479.75
2019	2,345,000.00	892,418.75	3,237,418.75
2020	2,045,000.00	807,000.00	2,852,000.00
2021-2025	11,115,000.00	2,970,200.00	14,085,200.00
2026-2029	<u>6,150,000.00</u>	<u>279,400.00</u>	<u>6,429,400.00</u>
	<u>\$27,970,000.00</u>	<u>\$8,089,991.50</u>	<u>\$36,059,991.50</u>

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

General obligation school and refunding bonds payable with their outstanding balances are comprised of the following individual issues:

<u>Issue</u>	<u>Amount Outstanding June 30, 2015</u>
\$3,500,000.00 in Refunding Bonds dated December 1, 2003, due in remaining annual installments ranging between \$365,000.00 and \$380,000 beginning August 15, 2011 and ending August 15, 2016 with interest of 4.50%	745,000.00
\$3,305,000.00 in 2008 Refunding Bonds due in remaining annual installments ranging between \$345,000.00 and \$375,000.00 beginning August 15, 2011 and ending August 15, 2018 with interest at 3.53%	1,440,000.00
\$9,875,000.00 in 2011 Refunding Bonds due in remaining annual installments ranging between \$550,000.00 and \$1,970,000.00 beginning March 15, 2013 and ending March 15, 2029 with interest at 3.0% to 4.0%	7,025,000.00
\$19,205,000.00 in 2012 Refunding Bonds due in remaining annual installments ranging between \$1,110,000.00 and \$2,700,000.00 beginning March 15, 2013 and ending March 15, 2029 with interest at 2.0% to 5.0%	<u>18,760,000.00</u>
	<u>\$27,970,000.00</u>

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 4: LONG-TERM LIABILITIES (CONTINUED)

Capital Leases Payable

The District is leasing vehicles, copiers, energy improvements and maintenance equipment totaling \$3,460,954.95 under capital leases. This capital leases are for up to fifteen years. The following is a schedule of the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2015:

Fiscal Year Ended	
<u>June 30,</u>	<u>Amount</u>
2016	322,113.19
2017	287,829.35
2018	245,384.88
2019	228,899.40
2020	236,003.40
2021-2025	1,315,267.09
2026	36,358.48
Total Minimum Lease Payments	2,671,855.79
Less: Amount Representing Interest	<u>(212,434.43)</u>
Present Value of Lease Payments	<u><u>\$2,459,421.36</u></u>

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 5: PENSION PLANS

Description of Plans All required employees of the District are covered by either the Public Employees' Retirement System or the Teachers' Pension and Annuity Fund which have been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of both Systems will be assumed by the State of New Jersey should the Systems terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and the Teachers' Pension and Annuity Fund. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

Teachers' Pension and Annuity Fund (TPAF) The Teachers' Pension and Annuity Fund was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide retirement benefits, death, disability and medical benefits to certain qualified members. The Teachers' Pension and Annuity Fund 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 District and the system's other related non-contributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

Public Employees' Retirement System (PERS) The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provision of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey 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.

Defined Contribution Retirement Program (DCRP) The Defined Contribution Retirement Program (DCRP) was established under the provision of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 to provide coverage elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one year of membership.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 5: PENSION PLANS (CONTINUED)

Significant Legislation

Effective June 28, 2011, P.L. 2011, c. 78 enacted certain changes in the operations and benefit provisions of the TPAF and the PERS systems.

Pension Plan Design Changes

Effective June 28, 2011, P.L. 2011, c. 78, new members of TPAF and PERS, hired on or after June 28, 2011, will need 30 years of creditable service and have attained the age of 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. New members will be eligible for a service retirement benefit at age 65.

Funding Changes

Under the new legislation, the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS, and TPAF. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30 year period and paid in level dollars. Beginning with the July 1, 2019 actuarial valuation (July 1, 2018 for PFRS), the UAAL will be amortized over a closed 30 year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20 year period.

COLA Suspension

The payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries are suspended until reactivated as permitted by this law.

Vesting and Benefit Provisions The vesting and benefit provisions of PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:6C for TPAF. All benefits vest after ten years of service, except for post-retirement healthcare benefits that vest after 25 years of service.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 5: PENSION PLANS (CONTINUED)

Contribution Requirements The contribution policy is set by N.J.S.A. 43:15A and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation.

Effective June 28, 2011, P.L. 2011, c. 78 provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for TPAF and PERS.

Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the District is a non-contributing employer of TPAF (i.e., the State of New Jersey makes the employer contribution on behalf of public school districts).

Three Year Trend Information for PERS

Year Ended <u>June 30,</u>	Annual Pension Cost <u>(APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
2015	\$381,319.00	100.00%	\$381,319.00
2014	342,591.15	100.00%	342,591.15
2013	396,554.00	100.00%	396,554.00

During the fiscal years ended June 30, 2015, 2014 and 2013, the State of New Jersey contributed \$839,936.00, \$647,237.00 and \$1,037,096.00 respectively to the TPAF pension system on behalf of the District.

Also, in accordance with N.J.S.A. 18A:66-66 during the years ended June 30, 2015, 2014 and 2013, the State of New Jersey reimbursed the District \$1,130,641.88, \$1,131,203.70 and \$1,128,083.68 respectively for the employer's share of social security contributions for TPAF members, as calculated on their base salaries. This amount has been included in the basic financial statements, and the combining and individual fund statements and schedules as a revenue and expenditure in accordance with GASB 68 reflect the District's liabilities at June 30, 2015.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68

Public Employees Retirement System (PERS)

At June 30, 2015, the District reported a liability of \$8,660,189.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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, 2014, the District's proportion was 0.0462549334 percent, which was a increase of 0.0012088550 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$480,923.00. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>
Changes of assumptions		\$ 272,323.00
Net difference between projected and actual earnings on pension plan investments	\$ 516,100.00	
Changes in proportion and differences between District contributions and proportionate share of contributions		195,161.00
District contributions subsequent to the measurement date		400,044.00
	<u>\$ 516,100.00</u>	<u>\$ 867,528.00</u>

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(Continued)

Public Employees Retirement System (PERS) (Continued)

The \$400,044.00 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2015, the plan measurement date is June 30, 2014) will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. 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 <u>June 30</u>	<u>Amount</u>
2016	(\$78,965.71)
2017	(\$78,965.71)
2018	(\$78,965.71)
2019	\$50,059.34
Thereafter	\$22,026.11

Additional Information

Collective balances at June 30, 2014 and 2013 are as follows

	<u>12/31/2014</u>	<u>12/31/2013</u>
Collective deferred outflows of resources	\$1,452,705,538	Not Available
Collective deferred inflows of resources	2,146,719,012	Not Available
Collective net pension liability	38,849,838,953	38,410,610,030
District's Proportion	0.0462549334%	0.0450460784%

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

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

Inflation	3.01 Percent
Salary Increases	
2012-2021	2.15-4.40 Percent (based on age)
Thereafter	3.15-5.40 Percent (based on age)
Investment Rate of Return	7.90 Percent

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

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback one year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	6.00%	0.80%
Core Bond	1.00%	2.49%
Intermediate Term Bonds	11.20%	2.26%
Mortgages	2.50%	2.17%
High Yield Bonds	5.50%	4.82%
Inflation Indexed Bonds	2.50%	3.51%
Broad U.S. Equities	25.90%	8.22%
Developed Foreign Markets	12.70%	8.12%
Emerging Market Equities	6.50%	9.91%
Private Equity	8.25%	13.02%
Hedge Funds/Absolute Returns	12.25%	4.92%
Real Estate (Property)	3.20%	5.80%
Commodities	2.50%	5.35%
	<u>100.00%</u>	

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.39% and 5.55% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, 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 average of the last five years of contributions made in relation to the last five years of recommended 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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2014 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1-percentage-point higher than the current rate:

	June 30, 2014		
	1%	At Current	1%
	Decrease	Discount Rate	Increase
	<u>4.39%</u>	<u>5.39%</u>	<u>6.39%</u>
District's proportionate share of the pension liability	10,894,812.00	8,660,189.00	6,783,674.00

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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 (PERS).

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 portion of the TPAF Net Pension Liability that was associated with the District recognized at June 30, 2015 was as follows:

Net Pension Liability:	
Districts proportionate share	-0-
State's proportionate share associated with the District	<u>\$81,771,552</u>
	<u><u>\$81,771,552</u></u>

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013. The net pension liability associated with the District 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 and the State, actuarially determined. At June 30, 2014, the proportion of the TPAF net pension liability associated with the District was .1529963162%.

For the year ended June 30, 2015, the District recognized on-behalf pension expense and revenue of \$4,400,077 for contributions provided by the State.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (continued)

Actuarial Assumptions

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

Inflation rate	2.50%
Salary increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment rate of return	7.90%

Mortality rates

Mortality rates were based on the RP-2000 Health Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. Pre-retirement mortality improvements for active members are projected using Scale AA from the base year of 2000 until the valuation date plus 15 years to account for future mortality improvement. Post-retirement mortality improvements for non-disabled annuitants are projected using Scale AA from the base year of 2000 for males and 2003 for females until the valuation date plus 7 years to account for future mortality improvement. The actuarial assumptions used in the July 1, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2009 to June 30, 2012.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments 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. Best estimates of arithmetic real rates of return for each major asset class included in TPAF's target asset allocation as of June 30, 2014 are summarized in the following table:

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (continued)

Actuarial Assumptions (Continued)

Long-Term Expected Rate of Return (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	6.00%	0.50%
Core Fixed Income	0.00%	2.19%
Core Bonds	1.00%	1.38%
Short-Term Bonds	0.00%	1.00%
Intermediate- Term Bonds	11.20%	2.60%
Long-Term Bonds	0.00%	3.23%
Mortgages	2.50%	2.84%
High Yield Bonds	5.50%	4.15%
Non-US Fixed Income	0.00%	1.41%
Inflation-Indexed Bonds	2.50%	1.30%
Broad US Equities	25.90%	5.88%
Large Cap US Equities	0.00%	5.62%
Mid cap US Equities	0.00%	6.39%
Small Cap US Equities	0.00%	7.39%
Developed Foreign Equities	12.70%	6.05%
Emerging Market Equities	6.50%	8.90%
Private Equity	8.25%	9.15%
Hedge Funds Absolute Return	12.25%	3.85%
Real Estate (Property)	3.20%	4.43%
Real Estate (REITS)	0.00%	5.58%
Commodities	2.50%	3.60%
Long Credit Bonds	0.00%	3.74%
	<u>100.00%</u>	

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 6: ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68 (CONTINUED)

Teachers Pensions and Annuity Fund (TPAF) (Continued)

Actuarial Assumptions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.68% and 4.95% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, 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 average of the last five years. 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 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability,

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Because the District's proportionate share of the net pension liability is zero, consideration of potential changes in the discount rate is not applicable to the District.

NOTE 7: OTHER POST-RETIREMENT BENEFITS

For eligible retired employees, the School District participates in the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 *et seq.*, to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 7: OTHER POST-RETIREMENT BENEFITS (CONTINUED)

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

P.L. 1987, c. 384 and P.L. 1990, c.6 required Teachers' Pensions 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, 2014 there were 103,432 retirees eligible for post-retirement medical benefits and the State contributed \$1.04 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 \$165.8 million toward Chapter 126 benefits for 18,122 eligible retired members in Fiscal Year 2014.

The State will set the contribution rate based on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The State's contributions to the State Health Benefits Program Fund for TPAF retirees' post-retirement benefits on behalf of the School District for the years ended June 30, 2015, 2014 and 2013 were \$1,333,399.00, \$1,061,225.00 and \$1,190,066.00, respectively, which equaled the required contributions for each year. The State's contributions to the State Health Benefits Program Fund for PERS retirees' post-retirement benefits on behalf of the School District was not determined or made available by the State of New Jersey.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 8: LITIGATION

The District's counsel advises that there is no litigation, pending litigation, claims, contingent liabilities, unasserted claims or assessments or statutory violations which involve the School District and which might materially affect the District's financial position, except as described below.

The District is involved in litigation regarding its school facilities construction project. The District is involved in suits and countersuits involving its general contractor and sub-contractors. Each of these various parties has alleged damages due to design, construction, delays, etc. The District's construction counsel has advised that the amount of recovery, if any which the District may receive and the amount of damages, if any for which the District may be liable, cannot presently be estimated.

NOTE 9: CONTINGENCIES

The District receives financial assistance from the State of New Jersey and the U.S. Government in the form of grants. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. The State and Federal grants received and expended in the 2014-2015 fiscal year were subject to the U.S. OMB Circular A-133 and New Jersey OMB Circular 04-04 which mandates that grant revenues and expenditures be audited in conjunction with the District's annual audit if expenditures for federal or state programs exceed \$500,000.00. Findings and questioned costs, if any, relative to federal and state financial assistance programs are discussed in the Single Audit Section, Schedule of Findings and Questioned Costs. In addition, all grants and cost reimbursements are subject to financial and compliance audits by the grantors. The District's management does not believe any such audit would result in material amounts of disallowed costs.

NOTE 10: RISK MANAGEMENT

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

Property and Liability Insurance The District maintains insurance coverage covering each of those risks of loss. The administration believes such coverage is sufficient to preclude any significant uninsured losses to the District. Claims have not exceeded the insurance coverage in any of the past three fiscal years.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 10: RISK MANAGEMENT (Continued)

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. The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's fiduciary trust fund for the current and previous two years:

Year Ended	Employer	Employee	Amount	Ending
<u>June 30.</u>	<u>Contributions</u>	<u>Contributions</u>	<u>Reimbursed</u>	<u>Balance</u>
2015	\$65.22	\$31,640.88	\$46,181.20	\$60,293.33
2014	70.76	31,179.06	39,164.09	74,768.43
2013	98.79	28,748.97	45,131.76	82,682.70

NOTE 11: COMPENSATED ABSENCES

The District accounts for compensated absences (e.g. unused vacation and sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences". A liability for compensated absences attributable to services already rendered and 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.

District employees are granted varying amounts of vacation and sick leave in accordance with the District's personnel policy. Upon termination, employees are paid for accrued vacation. The District's policy permits employees to accumulate unused sick leave and carry forward the amount to subsequent years. Upon retirement, employees shall be paid by the District for the unused sick leave in accordance with the Districts agreements with the various employee unions.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 11: COMPENSATED ABSENCES (CONTINUED)

The liability for vested compensated absences of the governmental fund types are recorded in the district - wide statement of net position. As of June 30, 2015, a liability existed for compensated absences for governmental fund-types in the district- wide Statement of Net Position of \$1,447,304.60.

The liability for vested compensated absences of the proprietary fund types is recorded within those funds as the benefits accrue to employees. As of June 30, 2015 no liability existed for compensated absences in the proprietary funds.

For additional descriptive information see Note 1, Summary of Significant Accounting Policies.

NOTE 12: FUND BALANCE APPROPRIATED

General Fund Of the \$4,199,374.78 in General Fund Balance at June 30, 2015, \$325,124.92 has been assigned for encumbrances; \$607,693.99 has been restricted in the Capital Reserve account; \$135,000.00 has been restricted for maintenance and \$2,249,911.16 has been restricted for excess surplus in accordance with N.J.S.A. 18A:7F-7. \$929,462.86 of the total restricted for excess surplus has been appropriated and included as anticipated revenue for the year ended June 30, 2016; \$92,650.14 has been appropriated and included as anticipated revenue for the year ended June 30, 2016; and \$788,994.57 is unassigned.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 13: CALCULATION OF EXCESS SURPLUS – BUDGETARY BASIS

Calculation of Excess Surplus In accordance with N.J.S.A.18A:7F-7, as amended by P.L. 2004,c.73 (S1701), the Restricted Fund Balance - Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve General Fund fund balance 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 excess fund balance at June 30, 2015 is \$2,249,911.16 consisting of \$929,462.86 from June 30, 2014 and \$1,320,448.30 from June 30, 2015 as calculated below:

EXCESS SURPLUS CALCULATION

Section 1- 2% Calculation of Excess Surplus

2014-15 General Fund Expenditures per	
the CAFR (Exhibit C-1)	37,838,876.08
Increased by:	
Transfer from Capital Reserve to Capital Projects Fund	699,429.16
Decreased by:	
On-behalf TPAF Pension & Social Security	3,303,976.88
Adjusted 2014-15 General Fund Expenditures	<u>37,838,876.08</u>
 Greater of 2% or \$250,000	 704,686.57
 Greater of 2% or \$250,000	
Increased by: Allowable Adjustment	<u>162,136.00</u>
 Maximum Unassigned Fund Balance	 <u>866,822.57</u>
 Total Unassigned Fund Balance	 <u>2,187,270.87</u>

Section 3

Restricted Fund Balance- Excess Surplus	<u>1,320,448.30</u>
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Based on the above calculation as of June 30, 2015, \$929,462.86 is reported as Reserved Fund Balance-Excess Surplus Designated for Subsequent Year's Expenditure and was required to be appropriated for property tax relief in the 2015-16 budget. \$1,320,448.30 is reported as Reserved Fund Balance-Excess Surplus and is required to be appropriated for property tax relief in the 2016-17 budget.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 14: INTERFUND RECEIVABLES AND PAYABLES

The following interfund balances remained on the balance sheet at June 30, 2015:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund	\$830,493.21	
Special Revenue Fund		\$187,704.18
Capital Projects Fund		389,904.18
Debt Service Fund		41,896.70
Enterprise Funds		170,945.80
Fiduciary Funds		40,042.35
	<u>\$830,493.21</u>	<u>\$830,493.21</u>

All balances resulted from the time lag between the dates that short-term loans were disbursed and payments between funds were received.

NOTE 15: CAPITAL RESERVE ACCOUNT

A capital reserve account was established by the District 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 of Education, 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 appropriations, or both. A district may also appropriate additional amounts when the express approval of the voters has been obtained by either a separate proposal at budget time or by a special question at one of the four special election dates authorized by 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.

Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 15: CAPITAL RESERVE ACCOUNT (CONTINUED)

The activity of the capital reserve during the year ended June 30, 2015, is as follows:

Balance, July 1, 2014	\$102,789.05
Interest Earnings	1,208.05
Deposits:	
Budgeted	500,000.00
Board Resolution dated 6/25/15	800,000.00
Cancel open balances in Capital Projects Fund	\$58,009.89
Withdrawals:	
Budgeted	<u>854,313.00</u>
Balance, June 30, 2015	<u><u>\$607,693.99</u></u>

NOTE 16: MAINTENANCE RESERVE ACCOUNT

A maintenance reserve account was established by the District in the amount of \$135,000.00 for the accumulation of funds for use as maintenance expenditures in subsequent fiscal years. The maintenance reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

The maintenance reserve account is used to accumulate funds for the required maintenance of a facility in accordance with EFCFA (N.J.S.A. 18A:7G-9). The passage of S1701 also impacts deposits into maintenance reserve. EFCFA requires that upon the district completion of school facilities project, the district must submit a plan for the maintenance of that facility. The activity of the maintenance reserve for the July 1, 2014 to June 30, 2015 year is as follows:

Balance, July 1, 2014 and June 30, 2015	<u><u>\$135,000.00</u></u>
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Somerset Hills School District
Notes to the Financial Statements
For the Fiscal Year Ending June 30, 2015

NOTE 17: INVENTORY

Inventory in the Food Service Fund at June 30, 2015 consisted of the following:

Food and Supplies	<u>\$6,612.48</u>
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The value of Federal donated commodities as reflected on Schedule A (required by the Single Audit Law of 1996) is the difference between market value and cost of the commodities at the date of purchase and has been included as an item of non-operating revenue in the financial statements.

NOTE 18: COMMITMENTS

The District has active construction projects as of June 30, 2015 relating to the approved referendum projects, which include additions and renovations at various schools. At June 30, 2015, the District's commitments with contractors amounted to \$580,722.27, which is reported as restricted for capital projects on the balance sheet in the capital projects fund.

NOTE 19: SUBSEQUENT EVENTS

The District has evaluated material subsequent events occurring after the financial statement date through December 3, 2015 which is the date the financial statements were available to be issued. The District has determined that there are no material subsequent events needed to be disclosed.

NOTE 20: RESTATEMENT

As stated in Note 6 in FY2015 the District implemented GASB 68. As a result the District's Net Position at June 30, 2014 was restated as follows:

	Governmental Activities
Beginning Net Position 06/30/14	\$ 30,649,848.77
Adjustments:	
Recognition of Net Pension Liability	<u>(8,609,201.00)</u>
Beginning Net Position 06/30/14 (As restated)	\$ <u>22,040,647.77</u>

APPENDIX C

Form of Bond Counsel's Approving Legal Opinion

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90 Woodbridge Center Drive
Suite 900 Box 10
Woodbridge, NJ 07095-0958
732.636.8000

_____, 2016

The Board of Education of the
Somerset Hills Regional School District
Bernardsville, New Jersey

Ladies and Gentlemen:

We have served as bond counsel in connection with the authorization, sale and issuance of \$5,829,000 aggregate principal amount of School Bonds, Series 2016 (the "Bonds") of The Board of Education of the Somerset Hills Regional School District in the County of Somerset, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board).

The Bonds are issued pursuant to: (i) Title 18A, Chapter 24 of the New Jersey Statutes, as amended and supplemented (the "Education Law"); (ii) a proposal adopted by the Board on August 25, 2015 (the "Proposal") and approved by the affirmative vote of a majority of the legal voters present and voting at the annual School District election held on November 3, 2015 and (iii) a resolution adopted by the Board on December 9, 2015 (the "Resolution").

The Bonds are issued in fully registered book-entry only form, without coupons, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearing house for securities transactions. Purchases of the Bonds will be made in book-entry only form in principal amounts of \$1,000 each or any integral multiple thereof with a minimum purchase of \$5,000 required, through book entries made on the books and records of DTC and its participants. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board directly to Cede & Co., as nominee for DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners of the Bonds is the responsibility of DTC participants.

The Bonds are dated their date of delivery and shall bear interest from such date, which interest shall be payable commencing September 15, 2016 and semi-annually thereafter on the fifteenth day of March and September in each year, and shall mature on September 15 of the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2017	\$250,000		2024	\$440,000	
2018	260,000		2025	450,000	
2019	370,000		2026	465,000	
2020	385,000		2027	485,000	
2021	395,000		2028	500,000	
2022	410,000		2029	500,000	
2023	425,000		2030	494,000	

The Bonds of this issue are subject to optional redemption prior to their stated maturities.

We have examined such matters of law, certified copies of the proceedings, including the bond referendum proceedings, and other documents and proofs relative to the issuance and sale of the Bonds as we have deemed necessary or appropriate for the purposes of the opinion rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

We are of the opinion that: (i) such proceedings and proofs show lawful authority for the sale and issuance of the Bonds pursuant to the Education Law, the Proposal and the Resolution; (ii) the Bonds are valid and legally binding obligations of the Board; and (iii) all the taxable real property within the School District is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest thereon to be and remain excludable from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of the issuance of the Bonds. The Board has covenanted to maintain the exclusion of the interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

In our opinion, under existing law, and assuming continuing compliance by the Board with the aforementioned covenant, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is not includable for Federal income tax purposes in the gross income of the owners of the Bonds pursuant to Section 103 of the Code. The Bonds are not "specified private activity bonds" within the meaning of Section 57 of the Code and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of

computing the Federal alternative minimum tax imposed by Section 55 of the Code. However, the interest on the Bonds owned by corporations will be included in such corporations' "adjusted current earnings" (as defined in Section 56(g) of the Code) in calculating such corporations' alternative minimum taxable income for purposes of determining the Federal alternative minimum tax.

[The Bonds [maturing on September 15 in the years 20__ through 20__, inclusive (the "Premium Bonds")], have been sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the [Premium] Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a [Premium] Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a [Premium] Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such [Premium] Bonds and not as interest.]

[We are also of the opinion that the difference between the stated principal amount of the Bonds [maturing on September 15 in the years 20__ through 20__, inclusive (the "Discount Bonds")], and their initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers), at which price a substantial amount of the [Discount] Bonds was sold, constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the [Discount] Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each [Discount] Bond and the basis of each [Discount] Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.]

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

We are further of the opinion that the Bonds constitute "qualified tax-exempt obligations" within the meaning of section 265(b)(3)(B) of the Code and, therefore, will be treated as if they were acquired on August 7, 1986 for purposes of the limitations on deductibility by financial institutions of interest expense allocable to tax-exempt interest.

Except as stated in the preceding [five (5)] paragraphs, we express no opinion as to any Federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences

with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

This opinion is qualified to the extent that the enforceability of the rights or remedies with respect to the Bonds may be limited by bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors' rights or remedies heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have examined one of the executed Bonds and, in our opinion, its form and execution are regular and proper.

Very truly yours,

WILENTZ, GOLDMAN & SPITZER, P.A.

APPENDIX D

Form of Continuing Disclosure Certificate

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated as of _____, 2016 (the "Disclosure Certificate") is executed and delivered by The Board of Education of the Somerset Hills Regional School District in the County of Somerset, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the issuance of its \$5,829,000 aggregate principal amount of School Bonds, Series 2016 dated their date of delivery (the "Bonds"). The Bonds are being by virtue of a proposal adopted by the Board on August 25, 2015 and approved by the affirmative vote of a majority of the legal voters present and voting at the annual School District election held on November 3, 2015 and pursuant to a resolution entitled, "RESOLUTION DETERMINING THE FORM AND OTHER DETAILS OF \$5,829,000 AGGREGATE PRINCIPAL AMOUNT OF SCHOOL BONDS, SERIES 2016 OF THE BOARD OF EDUCATION OF THE SOMERSET HILLS REGIONAL SCHOOL DISTRICT IN THE COUNTY OF SOMERSET, NEW JERSEY, PROVIDING FOR THEIR SALE AND DETERMINING OTHER MATTERS IN CONNECTION THEREWITH", duly adopted by the Board on December 9, 2015 (the "Bond Resolution"). The Board covenants and agrees as follows:

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

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

"Annual Report" shall mean any Annual Report provided by the Board pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

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

“Disclosure Representative” shall mean the Business Administrator/Board Secretary of the Board or his/her designee, or such other person as the Board shall designate in writing from time to time for the purposes of this Disclosure Certificate.

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

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

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

“MSRB” shall mean the Municipal Securities Rulemaking Board.

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

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

“SEC Release No. 34-59062” shall mean Release No. 34-59062 of the SEC dated December 5, 2008.

“State” shall mean the State of New Jersey.

“Underwriters” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the purchase of the Bonds.

SECTION 3. Provision of Annual Reports. (a) The Board shall provide or cause to be provided to the Dissemination Agent not later than December 31 of each year, commencing December 31, 2016 (for the fiscal year ending June 30, 2016), an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Board may be submitted separately from the balance of the Annual Report; and provided, further, that if the audited financial statements of the Board are not available by December 31, the Board shall include unaudited financial statements with its Annual Report and when such audited financial statements become available to the Board, the same shall be submitted to the Dissemination Agent no later than thirty (30) days after the receipt of the same by the Board.

(b) Not later than January 31 of each year (commencing January 31, 2017) the Dissemination Agent shall provide to EMMA a copy of the Annual Report received by the Dissemination Agent pursuant to subsection (a) hereof.

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

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

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

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

- (1) The audited financial statements of the Board.

The audited financial statements are to be prepared in accordance with generally accepted accounting principles (GAAP).

- (2) The general financial information and operating data of the Board consistent with the information set forth in the Official Statement dated _____, 2016, prepared in connection with the sale of the Bonds (the "Official Statement") in Appendix A.

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

SECTION 5. Reporting of Significant Events. (a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment 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 rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances of the Bonds;
- (10) Release, substitution or sale of property securing repayment of the Bonds, if material
- (11) Ratings changes rating to the Bonds.
- (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 for the Bonds or the change of name of a trustee for the Bonds, if material.

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

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

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

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

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

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

SECTION 7. Compliance with the Rule. The Board had previously failed to comply with its previous undertakings, to provide secondary market disclosure pursuant to the Rule. As of the date hereof, however, the Board is in compliance.

SECTION 8. Dissemination Agent; Compensation. The Board may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Board. The Board shall compensate the Dissemination Agent (which shall be appointed) for the performance of its obligations hereunder in accordance with an agreed upon fee structure.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Board may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, if such amendment or waiver

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

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

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

SECTION 11. Default. In the event of a failure of the Board to comply with any provision of this Disclosure Certificate, the Holders of at least 25% aggregate principal amount of Outstanding Bonds or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Board to comply with its obligations

under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default on the Bonds and the sole remedy under this Disclosure Certificate in the event of any failure of the Board to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of the Dissemination Agent.

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

SECTION 13. Beneficiaries.

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

SECTION 14. Notices.

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

(a) If to the Board of Education:

The Board of Education of the
Somerset Hills Regional School District
25 Olcott Avenue
Bernardsville, New Jersey 07924
Attention: Business Administrator/Board Secretary

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

The Board of Education of the
Somerset Hills Regional School District
25 Olcott Avenue
Bernardsville, New Jersey 07924
Attention: Business Administrator/Board Secretary

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

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

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

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

**THE BOARD OF EDUCATION OF THE
SOMERSET HILLS REGIONAL SCHOOL
DISTRICT**

By: _____
NANCY LEE HUNTER,
Business Administrator/
Board Secretary

EXHIBIT A

**NOTICE TO EMMA OF FAILURE
TO FILE ANNUAL REPORT**

Name of Issuer: The Board of Education of the
 Somerset Hills Regional School District
 in the County of Somerset, New Jersey

Name of Issue: \$5,829,000 School Bonds, Series 2016
 Dated: _____, 2016
 (CUSIP Number: _____)

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the above designated Board has not provided an Annual Report with respect to the above-named Bonds as required by the Bond Resolution and a Continuing Disclosure Certificate for the Bonds dated as of _____, 2016 executed by the Board.

DATED: _____

DISSEMINATION AGENT
(on behalf of the Board)

cc: The Board

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