

**PRELIMINARY OFFICIAL STATEMENT DATED MARCH 29, 2016**

*In the opinion of McManimon, Scotland & Baumann, LLC, Bond Counsel to the Board (as defined herein), pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code") interest on the Bonds (as defined herein) is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. It is also the opinion of Bond Counsel that interest on the Bonds held by corporate taxpayers is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. In addition, in the opinion of Bond Counsel, interest on and any gain from the sale of the Bonds is not includable as gross income under the New Jersey Gross Income Tax Act. Bond Counsel's opinions described herein are given in reliance on representations, certifications of fact, and statements of reasonable expectation made by the Board in its Tax Certificate (as defined herein), assuming continuing compliance by the Board with certain covenants set forth in its Tax Certificate, and are based on existing statutes, regulations, administrative pronouncements and judicial decisions. See "TAX MATTERS" herein.*

**THE BOARD OF EDUCATION OF THE  
TOWNSHIP OF LOWER  
IN THE COUNTY OF CAPE MAY, NEW JERSEY  
\$5,121,000 SCHOOL BONDS  
(Book-Entry-Only) (Callable) (Bank-Qualified)**

**Dated:** Date of Delivery**Due:** April 1, as shown below

The \$5,121,000 School Bonds (the "Bonds") of The Board of Education of the Township of Lower in the County of Cape May, New Jersey (the "Board" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) will be issued in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on April 1 and October 1 in each year until maturity, or earlier redemption, commencing on October 1, 2016. Principal of and interest on the Bonds will be paid to DTC by the Board or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding March 15 and September 15 (the "Record Dates" for the payment of interest on the Bonds). The Bonds shall be subject to redemption prior to their stated maturities. See "DESCRIPTION OF THE BONDS- Redemption" herein.

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

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIPS</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIPS</u>
2018	\$160,000	%	%		2028	\$320,000	%	%	
2019	160,000				2029	320,000			
2020	160,000				2030	320,000			
2021	200,000				2031	320,000			
2022	225,000				2032	320,000			
2023	250,000				2033	320,000			
2024	250,000				2034	320,000			
2025	275,000				2035	320,000			
2026	275,000				2036	306,000			
2027	300,000								

*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 the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey has served as financial advisor in connection with the issuance of the Bonds. Delivery is anticipated to be via DTC in New York, New York on or about April 20, 2016.*

**ELECTRONIC SUBMISSIONS FOR THE SCHOOL BONDS WILL BE RECEIVED VIA PARITY AT 11:00 A.M. ON  
APRIL 6, 2016. FOR MORE DETAILS ON HOW TO BID ELECTRONICALLY, VIEW THE NOTICE OF SALE  
POSTED AT WWW.PROSPECTUSHUB.COM**

**THE BOARD OF EDUCATION OF  
TOWNSHIP OF LOWER  
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

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**FINANCIAL ADVISOR**

Phoenix Advisors, LLC  
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**BOND COUNSEL**

McManimon, Scotland & Baumann, LLC  
Roseland, New Jersey

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

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

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

# TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTION .....	1
DESCRIPTION OF THE BONDS .....	1
Terms and Interest Payment Dates .....	1
Redemption .....	2
Security for the Bonds .....	2
New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 <u>et seq.</u> ) .....	2
AUTHORIZATION AND PURPOSE .....	3
BOOK-ENTRY-ONLY SYSTEM .....	4
Discontinuance of Book-Entry-Only System .....	6
THE SCHOOL DISTRICT AND THE BOARD .....	6
THE STATE'S ROLE IN PUBLIC EDUCATION .....	6
STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY .....	7
Categories of School Districts .....	7
School Budgetary Process (N.J.S.A. 18A:22-1 <u>et seq.</u> ) .....	8
Spending Growth Limitation .....	8
SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT .....	8
Levy and Collection of Taxes .....	8
Budgets and Appropriations .....	9
Tax and Spending Limitations .....	9
Issuance of Debt .....	10
Annual Audit (N.J.S.A. 18A:23-1 <u>et seq.</u> ) .....	10
Temporary Financing (N.J.S.A. 18A:24-3) .....	10
Debt Limitation (N.J.S.A. 18A:24-19) .....	11
Exceptions to Debt Limitation .....	11
Capital Lease Financing .....	11
Energy Saving Obligations .....	11
Promissory Notes for Cash Flow Purposes .....	11
SUMMARY OF STATE AID TO SCHOOL DISTRICTS .....	12
SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS .....	13
MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES .....	13
Local Bond Law (N. J. S. A. 40A:2-1 <u>et seq.</u> ) .....	13
Local Budget Law (N. J. S. A. 40A:4-1 <u>et seq.</u> ) .....	14
Tax Assessment and Collection Procedure .....	15
Tax Appeals .....	16
Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 <u>et seq.</u> ) .....	16
FINANCIAL STATEMENTS .....	16
LITIGATION .....	17
TAX MATTERS .....	17
Certain Federal Tax Consequences Relating to the Bonds .....	17
Bank Qualification .....	17
New Jersey Gross Income Tax .....	18
Future Events .....	18
MUNICIPAL BANKRUPTCY .....	18
APPROVAL OF LEGAL PROCEEDINGS .....	19
PREPARATION OF OFFICIAL STATEMENT .....	19
RATINGS .....	19
FINANCIAL ADVISOR .....	19
SECONDARY MARKET DISCLOSURE .....	20
ADDITIONAL INFORMATION .....	21
CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT .....	21
MISCELLANEOUS .....	22
 Certain Economic and Demographic Information about the School District and the Township of Lower .....	 Appendix A
Lower Board of Education Financial Statements .....	Appendix B
Form of Approving Legal Opinion .....	AppendixC

**OFFICIAL STATEMENT  
OF  
THE BOARD OF EDUCATION OF THE  
TOWNSHIP OF LOWER  
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

**\$5,121,000  
SCHOOL BONDS  
(BOOK-ENTRY-ONLY ISSUE) (CALLABLE) (BANK-QUALIFIED)**

**INTRODUCTION**

This Official Statement, which includes the front cover page and the appendices attached hereto, has been prepared by The Board of Education of Township of Lower in the County of Cape May, New Jersey (the "Board" or "Board of Education" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the sale and issuance of its \$5,121,000 School Bonds (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the Business Administrator/Board Secretary and its distribution and use in connection with the sale of the Bonds have been authorized by the Board.

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

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

**DESCRIPTION OF THE BONDS**

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

**Terms and Interest Payment Dates**

The Bonds shall be dated the date of delivery and shall mature on April 1 in each of the years and in the amounts set forth on the front cover page hereof. The Bonds shall bear interest from the date of delivery, which interest shall be payable semi-annually on the first day of April and October, commencing on October 1, 2016 (each an "Interest Payment Date"), in each of the years and at the interest rates set forth on the front cover page hereof in each year until maturity, or earlier redemption, by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each March 15 and September 15 immediately preceding the respective Interest Payment Dates (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee Cede & Co. (or any successor or assign) is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

## **Redemption**

The Bonds maturing prior to April 1, 2027 are not subject to optional redemption. The Bonds maturing on or after April 1, 2027 shall be subject to redemption at the option of the Board, in whole or in part, on any date on or after April 1, 2026 at the par amount of bonds to be refunded, plus unpaid accrued interest to the date fixed for redemption.

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

If notice of redemption has been given as provided herein, the Bonds or the portion thereof called for redemption shall be due and payable on the date fixed for redemption at the Redemption Price, together with accrued interest to the date fixed for redemption. Interest shall cease to accrue on and after such redemption date.

## **Security for the Bonds**

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable property within the School District without limitation as to rate or amount.

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

All school bonds are secured by the School Bond Reserve established in the Fund for the Support of Free Public Schools of the State of New Jersey (the "Fund") in accordance with the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c. 72, approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003 (the "Act")). Amendments to the Act provide that the Fund will be divided into two School Bond Reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1-1/2% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes

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

The Act provides that the School Bond Reserve shall be composed entirely of direct obligations of the United States government or obligations guaranteed by the full faith and credit of the United States government. Securities representing at least one-third of the minimal market value to be held in the School Bond Reserve shall be due to mature within one year of issuance or purchase. Beginning with the fiscal year ending on June 30, 2003 and continuing on each June 30 thereafter, the State Treasurer shall calculate the amount necessary to fully fund the Old School Bond Reserve Account and the New School Bond Reserve Account as required pursuant to the Act. To the extent moneys are insufficient to maintain each account in the Reserve at the required levels, the State agrees that the State Treasurer shall, no later than September 15 of the fiscal year following the June 30 calculation date, pay to the trustees for deposit in the School Bond Reserve such amounts as may be necessary to maintain the Old School Bond Reserve Account and the New School Bond Reserve Account at the levels required by the Act. No moneys may be borrowed from the Fund to provide liquidity to the State unless the Old School Bond Reserve Account and 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 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 11, 2014 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, downgraded the School Bond Reserve rating from "A+" (stable) to "A" (stable). Moody's Investors Service, Inc. has downgraded the School Bond Reserve rating from "Aa3" (stable) to "A2" (negative).

### **AUTHORIZATION AND PURPOSE**

The Bonds have been authorized and are being issued pursuant to Title 18A, Chapter 24 of the New Jersey Statutes (N.J.S.A. 18A:24-1 et seq.), a proposal adopted by the Board on January 5, 2016 and approved by a majority of the legal voters present and voting at the school district election held on January 26, 2016 and by a resolution duly adopted by the Board on February 23, 2016 (the "Resolution").

The purpose of the Bonds is to provide funds (a) to undertake various improvements and renovations to the Maud Abrams School, Carl T. Mitnick School, and Charles W. Sandman School; and (b) to acquire the necessary equipment as well as undertake any associated site work. The total cost of the project is \$5,121,473 which will be funded through the issuance of the Bonds. The Board also expects to receive 40% debt service aid on the eligible costs of the projects.

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no

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



knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct Participants or Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

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

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

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

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

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

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

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

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

The School District is a Type II school district without a board of school estimate coterminous with the boundaries of the Township of Lower (the "Township") located in the County of Cape May, New Jersey (the "State"). The school district serves Kindergarten through 6<sup>th</sup> grade.

The Board consists of nine (9) elected members. Pursuant to State statute, the Board appoints a Superintendent and a Business Administrator/Board Secretary. *See* "APPENDIX A – Certain Economic and Demographic Information About the School District and the Township of Lower."

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

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

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

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

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

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

### **Categories of School Districts**

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

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

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

(3) Regional and consolidated school districts comprising the territorial boundaries of more than one municipality in which the registered voters in the school district elect members of the board of education and may vote upon fiscal matters. Regional school districts may be "All Purpose Regional School Districts" or "Limited Purpose Regional School Districts";

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

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

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

There is a procedure whereby a Type I school district or a Type II school district may change from one type to the other after an approving public referendum. Such a public referendum must be held whenever directed by the municipal governing body or board of education in a Type I school district, or the board of education in a Type II 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.

In a Type II school district, the elected board of education develops the budget proposal and, at or after a public hearing, submits it for voter approval unless the board of education has moved its annual election to November as described below. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing bodies of the Township 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) 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 or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters, is filed with the Board. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four years.

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

### **Spending Growth Limitation**

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

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

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

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

## **Budgets and Appropriations**

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

## **Tax and Spending Limitations**

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

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

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

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

P.L. 2007, c. 62 was deemed to supersede the prior limitations on the amount school districts could increase their annual current expenses and capital outlay budgets, created by CEIFA (as amended by P.L.

2004, c.73, effective July 1, 2004). However, Chapter 62 was in effect only through fiscal year 2012. Without an extension of Chapter 62 by the legislature, the Spending Growth Limitations on the general fund and capital outlay budget would be in effect.

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

The previous legislation has now been amended by P.L. 2010, c. 44, approved July 13, 2010 and applicable to the next local budget year following enactment. The new law limits the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election. The process for obtaining waivers from the Commissioner for additional increases over the tax levy or Spending Growth Limitations has been eliminated under Chapter 44.

The restrictions are solely on the tax levy for the general fund and are not applicable to the debt service fund. There are no restrictions on a local school district's ability to raise funds for debt service, and nothing would limit the obligation of a school district to levy *ad valorem* taxes upon all taxable real property within the school district to pay debt service on its bonds or notes.

### **Issuance of Debt**

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

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

Every board is required to provide an annual audit of the school district's accounts and financial transactions. Beginning with the year ended June 30, 2010, a licensed public school accountant must complete the annual audit no later than five months (5) after the end of the fiscal year. P.L. 2010, c. 49 amended N.J.S.A. 18A:23-1 to provide an additional month for the completion of a school district's audit. Previously the audit was required to be completed within four months. The audit, in conformity with statutory requirements, must be filed with the board of education and the Commissioner. Additionally, the audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days following receipt of the annual audit by such board of education.

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

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

## **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 Kindergarten (K) through grade twelve (12) school district, the Board can borrow up to 4% of the average equalized valuation of taxable property in the School District. The Board has not exceeded its 4% debt limit. See “APPENDIX A – Debt Limit of the Board.”

## **Exceptions to Debt Limitation**

A Type II school district (other than a regional school district) may also utilize its constituent municipality's remaining statutory borrowing power (i.e., the excess of 3.5% of the average equalized valuation of taxable property within the constituent municipality over the constituent municipality's net debt). The School District has not utilized the municipality's borrowing margin. A school district may also authorize debt in excess of this limit with the consent of the Commissioner and the Local Finance Board.

## **Capital Lease Financing**

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

## **Energy Saving Obligations**

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

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

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

## SUMMARY OF STATE AID TO SCHOOL DISTRICTS

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

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

Since that time there has been much litigation and many cases affecting the State's responsibilities to fund public education and many legislative attempts to distribute State aid in accordance with the court cases and the constitutional requirement. The cases addressed not only current operating fund aid but also addressed the requirement to provide facilities aid as well. The legislation has included the QEA (now repealed), CEIFA and EFCFA, which became law on July 18, 2000. For many years aid was simply determined in the State Budget, which itself is an act of the legislature, based upon amounts provided in prior years. The most current school funding formula, provided in the School Funding Reform Act of 2008, P.L. 2007, c. 260 approved January 1, 2008 (A500), removed the special status given to certain school districts known as Abbott Districts after the school funding cases and instead has funding follow students with certain needs and provides aid in a way that takes into account the ability of the local school district to raise local funds to support the budget in amounts deemed adequate to provide for a thorough and efficient education as required by the State constitution. This legislation was challenged in the Court, and the Court held that the State's current plan for school aid is a "constitutionally adequate scheme".

Notwithstanding over 35 years of litigation, the State provides State aid to school districts of the State in amounts provided in the State Budget each year. These now include equalization aid, educational adequacy aid, special education categorical aid, transportation aid, preschool education aid, school choice aid, security aid, adjustment aid and other aid determined in the discretion of the Commissioner.

State law requires that the State will provide aid for the construction of school facilities in an amount equal to the greater of the district aid percentage or 40% times the eligible costs determined by the Commissioner either in the form of a grant or debt service aid as determined under the Educational Facilities Construction and Financing Act of 2001. The amount of the aid to which a school district is entitled is established prior to the authorization of the project. Grant funding is provided by the State up front and debt service aid must be appropriated annually by the State.

The State reduced debt service aid by fifteen percent (15%) for the fiscal years 2011 through 2016 and has proposed the same reduction for 2016. As a result of the debt service aid reduction for those fiscal years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, school districts which received grants under the EFCFA, which grants were financed through the New Jersey Economic Development Authority (the "EDA"), were assessed an amount in their fiscal year 2011, 2012, 2013, 2014, 2015 and 2016 budgets representing 15% of the school district's proportionate share of the principal and interest payments on the outstanding EDA bonds issued to fund such grants.



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

The authorized bonded indebtedness of the Township for municipal purposes is limited by statute, subject to the exceptions noted below, to an amount equal to 3-1/2% of its average equalized valuation basis. The Township has not exceeded its statutory debt limit for the year ended December 31, 2014.

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

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

The Township may sell short-term "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. A local unit's bond anticipation notes must mature within one year, but may be renewed or rolled over. Bond anticipation notes, including renewals, must mature and be paid no later than the first day of the fifth month following the close of the tenth fiscal year next following the date of the original notes. For bond ordinances adopted on or after February 3, 2003, notes may only be renewed beyond the third anniversary date of the original notes if a minimum payment equal to the first year's required principal payment on the bonds is paid to retire a portion of the notes on or before each subsequent anniversary date from funds other than the proceeds of bonds or notes. For bond ordinances adopted prior to February 3, 2003, the governing body may elect to make such minimum principal payment only when the notes are renewed beyond the third and fourth anniversary dates.

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

The foundation of the New Jersey local finance system is the annual cash basis budget. The Township, which operate on a calendar year (January 1 to December 31), must adopt a budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the “Division”). Certain items of revenue and appropriation are regulated by law and the proposed budget must be certified by the director of the Division (the “Director”) prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations, among others, for certification.

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

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

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

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

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

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

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

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

Budget transfers provide a degree of flexibility and afford a control mechanism. Transfers between appropriation accounts may be made only during the last two months of the year. Appropriation reserves

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

A provision of law known as the New Jersey "Cap Law" (N.J.S.A. 40A:4-45.1 *et seq.*) imposes limitations on increases in municipal appropriations subject to various exceptions. The payment of debt service is an exception from this limitation. The Cap formula is somewhat complex, but basically, it permits a municipality to increase its overall appropriations by the lesser of 2.5% or the "Index Rate". The "Index Rate" is the rate of annual percentage increase, rounded to the nearest one-half percent, in the Implicit Price Deflator for State and Local Government purchases of goods and services computed by the U.S. Department of Commerce. Exceptions to the limitations imposed by the Cap Law also exist for other things including capital expenditures; extraordinary expenses approved by the Local Finance Board for implementation of an interlocal services agreement; expenditures mandated as a result of certain emergencies; and certain expenditures for services mandated by law. Counties are also prohibited from increasing their tax levies by more than the lesser of 2.5% or the Index Rate subject to certain exceptions. Municipalities by ordinance approved by a majority of the full membership of the governing body may increase appropriations up to 3.5% over the prior year's appropriation, and counties by resolution approved by a majority of the full membership of the governing body may increase the tax levy up to 3.5% over the prior year's tax levy in years when the Index Rate is 2.5% or less.

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

Neither the tax levy limitation nor the "Cap Law" limits, including the provisions of the recent legislation, would limit the obligation of the Township to levy *ad valorem* taxes upon all taxable real property within the Township to pay debt service on its bonds or notes.

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

### **Tax Assessment and Collection Procedure**

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

Upon the filing of certified adopted budgets by the local unit, the local school district and the county, the tax rate is struck by the Cape May County Board of Taxation based on the certified amounts in

each of the taxing districts for collection to fund the budgets. The statutory provision for the assessment of property, the levying of taxes and the collection thereof are set forth in N.J.S.A. 54:4-1 et seq. Special taxing districts are permitted in New Jersey for various special services rendered to the properties located within the special districts.

Tax bills are mailed annually in June by the Tax Collector. The taxes are due August 1 and November 1, respectively, and are adjusted to reflect the current calendar year's total tax liability. The preliminary taxes due February 1 and May 1 of the succeeding year are based upon one-half of the current year's total tax.

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum on the first \$1,500.00 of the delinquency and 18% per annum on any amount in excess of \$1,500.00. These interest and penalties are the highest permitted under New Jersey statutes. If a delinquency is in excess of \$10,000.00 and remains in arrears after December 31st, an additional penalty of 6% shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

### **Tax Appeals**

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

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

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

An independent examination of each local unit's accounts must be performed annually by a licensed registered municipal accountant. The audit, conforming to the Division of Local Government Services' "Requirements of Audit", includes recommendations for improvement of the local unit's financial procedures and must be filed with the Director. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its submission.

## **FINANCIAL STATEMENTS**

The financial statements of the Board for the fiscal year ended June 30, 2015 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Inverso & Stewart, LLC, Marlton, New Jersey, an independent auditor, as stated in the reports appearing in Appendix B to this Official Statement. See "APPENDIX B –Lower Board of Education Financial Statements".

## **LITIGATION**

To the knowledge of the Board Attorney, Comegno Law Group, P.C., Moorestown, New Jersey (the "Board Attorney"), there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Board or the School District or the title of any of the present officers. To the knowledge of the Board Attorney, no litigation is presently pending or threatened that, in the opinion of the Board Attorney, would have a material adverse impact on the financial condition of the Board if adversely decided. A certificate to such effect will be executed by the Board Attorney and delivered to the Underwriter of the Bonds at the closing.

## **TAX MATTERS**

Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that interest on the Bonds is not included in gross income for federal income tax purposes if various requirements set forth in the Code are met. The Board has covenanted in its Arbitrate and Tax Certificate (the "Tax Certificate"), delivered in connection with the issuance of the Bonds, to comply with these continuing requirements and has made certain representations, certifications of fact, and statements of reasonable expectation in connection with the issuance of the Bonds to assure this exclusion. Pursuant to Section 103(a) of the Code, failure to comply with these requirements could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

In the opinion of McManimon, Scotland & Baumann, LLC ("Bond Counsel"), pursuant to Section 103(a) of Code, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. Bond Counsel is also of the opinion that interest on the Bonds held by corporate taxpayers is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. Bond Counsel's opinions described herein are given in reliance on the representations, certifications of fact, and statements of reasonable expectation made by the Board in its Tax Certificate, assume continuing compliance by the Board with certain covenants set forth in its Tax Certificate, and are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

### **Certain Federal Tax Consequences Relating to the Bonds**

Although, pursuant to Section 103(a) of the Code, interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions and certain recipients of Social Security benefits, are advised to consult their own tax advisors as to the tax consequences of purchasing or holding the Bonds.

### **Bank Qualification**

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

The Code denies the interest deduction for certain indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations. The denial to such institutions of one hundred percent (100%) of the deduction for interest paid on funds allocable to tax-exempt obligations applies to those tax-exempt obligations acquired by such institutions after August 7, 1986. For certain issues, which are eligible to be designated and which are designated by the issuer as qualified under Section 265 of the Code, eighty percent (80%) of such interest may be deducted as a business expense by such institutions.

### **New Jersey Gross Income Tax**

In the opinion of Bond Counsel, the interest on the Bonds and any gain realized on the sale of the Bonds is not includable as gross income under the New Jersey Gross Income Tax Act.

### **Future Events**

Tax legislation, administrative action taken by tax authorities, and court decisions, whether at the federal or State level, may adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, or the exclusion of interest on and any gain realized on the sale of the Bonds under the existing New Jersey Gross Income Tax Act, and any such legislation, administrative action or court decisions and even proposals for change could adversely affect the market price or marketability of the Bonds.

ALL POTENTIAL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY CHANGES IN THE STATUTES, PROPOSED FEDERAL OR NEW JERSEY STATE TAX LEGISLATION, ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, COURT DECISIONS OR PROPOSALS FOR CHANGE ON THE TAX AND MARKET IMPLICATIONS OF OWNERSHIP OF THE BONDS.

### **MUNICIPAL BANKRUPTCY**

The undertakings of the Board should be considered with reference to 11 U.S.C. 401 et seq., as amended and supplemented (the "Bankruptcy Code"), and other bankruptcy laws affecting creditors' rights and municipalities in general. The Bankruptcy Code permits the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants certain priority to debt owed for services or material; and provides that the plan must be accepted in writing by or on behalf of classes of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of such class. The Bankruptcy Code specifically does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Code.

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

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

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

### **APPROVAL OF LEGAL PROCEEDINGS**

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

### **PREPARATION OF OFFICIAL STATEMENT**

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

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

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

### **RATINGS**

Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business (the "Rating Agency") has assigned its rating of "A+" to the Bonds based upon the underlying credit of the School District. The Rating Agency has also assigned its rating of "A" to the Bonds based upon the additional security provided by the School Bond Reserve Act.

The ratings reflect only the view 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: 55 Water Street, New York, New York 10041. 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 may not be raised, lowered or withdrawn entirely, if in the Rating Agency's judgment, circumstances so warrant. Any downward change in, or withdrawal of such ratings, may have an adverse effect on the marketability or market price of the Bonds.

### **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.

## SECONDARY MARKET DISCLOSURE

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

(a) On or prior to February 1 of each year, beginning February 1, 2017, electronically to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system or such other repository designated by the SEC to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the Board of Education consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the Board of Education and certain financial information and operating data consisting of (1) Board of Education indebtedness; (2) property valuation information; and (3) tax rate, levy and collection data. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

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

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



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

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

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

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

(f) In the event that the Board fails to comply with the Rule requirements or the written contracts or undertakings specified in the Resolution, the Board shall not be liable for monetary damages, remedy being hereby specifically limited to specific performance of the Rule requirements or the written contracts or undertakings therefor.

The Board currently does not have undertakings with regard to continuing disclosure for prior obligations issued. The Board has appointed Phoenix Advisors, LLC, Bordentown, New Jersey to act as Continuing Disclosure Agent to assist in the filing of certain information on EMMA as required under its future obligations.

### **ADDITIONAL INFORMATION**

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Frank A. Onorato, Business Administrator/Board Secretary, at 905 Seashore Road, Cape May, NJ 08204, (856) 540-6200, or to the Financial Advisor, Phoenix Advisors, LLC, at 4 West Park Street, Bordentown, New Jersey 08505, (609) 291-0130.

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

At the time of the original delivery of the Bonds, the Board will deliver a certificate of one of its authorized officials to the effect that he 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 this Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or otherwise), financial condition or results or operations of the Board except as set forth in or contemplated by the this Official Statement.

## **MISCELLANEOUS**

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

### **THE BOARD OF EDUCATION OF THE TOWNSHIP OF LOWER IN THE COUNTY OF CAPE MAY, NEW JERSEY**

By: \_\_\_\_\_  
**Frank A. Onorato, Business Administrator/Board Secretary**

**Date:** April \_\_, 2016

## **APPENDIX A**

### **CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION ABOUT THE SCHOOL DISTRICT AND THE TOWNSHIP OF LOWER**

## **INFORMATION REGARDING THE SCHOOL DISTRICT<sup>1</sup>**

### **Type**

The School District is a Type II school district that is coterminous with the borders of the Township of Lower (the “Board”). The School District provides a full range of educational services appropriate to Kindergarten through grade six (6).

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:

<b><u>Facility</u></b>	<b><u>Construction Date</u></b>	<b><u>Grade Level</u></b>	<b><u>Student Enrollment (As of 6/30/15)</u></b>
David C Douglass Veterans Memorial School	1979	PreK - K	424
Carl T. Mitnick School	1989	1 - 2	482
Maud T. Abrams School	1966	3 - 4	439
Charles W Sandman Consolidated	1929	5 - 6	443

Source: Comprehensive Annual Financial Report of the School District

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<sup>1</sup> 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.

The following table presents the number of full and part-time teaching professionals and support staff of the School District as of June 30, 2015, for each of the past five (5) years.

<b>Facility</b>	<b>Construction Date</b>	<b>Grade Level</b>	<b>Student Enrollment (As of 6/30/15)</b>
David C Douglass Veterans Memorial School	1979	PreK - K	424
Carl T. Mitnick School	1989	1 - 2	482
Maud T. Abrams School	1966	3 - 4	439
Charles W Sandman Consolidated	1929	5 - 6	443

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 and projections of pupil enrollment.

<b>Pupil Enrollments</b>	
<b><u>School Year</u></b>	<b><u>Enrollment</u></b>
2015-2016	1,812
2014-2015	1,806
2013-2014	1,822
2012-2013	1,804
2011-2012	1,841

<b>Projected Future Enrollments</b>	
<b><u>School Year</u></b>	<b><u>Enrollment</u></b>
2017-2018	1,812
2016-2017	1,812

Source: School District and Comprehensive Annual Financial Report of the School District

## **Labor Relations**

<b><u>Labor Contract</u></b>	<b><u>Date of Contract</u></b>
<b><u>Representing</u></b>	<b><u>Expiration</u></b>
Education Association	6/30/2016
Administrators	6/30/2018
Support Staff	6/30/2016

Source: School District

## **Pensions**

Those employees of the School District who are eligible for pension coverage are enrolled in one of the two State-administered multi-employer pension systems (the “Pension System”). The Pension System was established by an act of the State Legislature. The Board of Trustees for the Pension System is responsible for the organization and administration of the Pension System. The two State-administered pension funds are: (1) the Teacher's Pension and Annuity Fund (“TPAF”) and (2) the Public Employee's Retirement System (“PERS”). The Division of Pensions and Benefits, within the State of New Jersey Department of the Treasury (the “Division”), charges the participating school districts annually for their respective contributions. The School District raises its contributions through taxation and the State contributes the employer's share of the annual Social Security and Pension contribution for employees enrolled in the TPAF. The Pension System is a cost sharing multiple employer contributory defined benefit plan. The Pension System's designated purpose is to provide retirement and medical benefits for qualified retirees and other benefits to its members. Membership in the Pension System is mandatory for substantially all full-time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State administered retirement system or other state or local jurisdiction.

## **Fiscal 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 a school district has opted to move its annual election to November, it is no longer required to submit the budget to voters for approval if the budget is at or below the two-percent (2%) property tax levy cap as provided for under New Cap Law (P.L. 2010, c. 44). If a school district proposes to spend above the two-percent (2%) property tax levy cap, it is then required to submit its budget to voters at the annual school election in November. The Board has chosen under the Election Law to move its annual school election to November.

The General Fund budget is the sum of all state aid (exclusive of pension aid and social security aid) and the local tax levy (exclusive of debt service). The Board's General Fund Budget for the 2015-2016 fiscal year is \$26,966,491. The major sources of revenue are \$16,317,286 from the local tax levy and \$10,161,297 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. A summary of the last five (5) budget years of the Board is presented below:

<b><u>Budget Year</u></b>	<b><u>Amount Raised in Taxes</u></b>	<b><u>Budget Amount</u></b>	<b><u>Election Result</u></b>
2015-2016	\$16,317,286	\$26,966,491	N/A
2014-2015	15,806,595	26,543,058	N/A
2013-2014	15,251,564	26,185,058	N/A
2012-2013	14,952,514	25,792,412	N/A
2011-2012	14,659,327	25,350,890	Approved

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

*[Remainder of Page Intentionally Left Blank]*

## **Financial Operations**

The following table summarizes information on the changes in general fund revenues and expenditures for the school years ending June 30, 2011 through June 30, 2015 for the general fund. This summary should be used in conjunction with the tables in the sourced documents from which it is derived (see Appendix B). Beginning with the 1993-94 fiscal year, school districts in the State of New Jersey have begun to prepare their financial statements in accordance with Generally Accepted Accounting Principles in the United States.

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

	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
<b>REVENUES</b>					
Local Sources:					
Local Tax Levy	\$15,806,595	\$15,251,564	\$14,952,514	\$14,659,327	\$14,371,889
Other Local Revenue	<u>65,329</u>	<u>159,011</u>	<u>172,280</u>	<u>1,841,324</u>	<u>118,102</u>
Total revenues-local sources	15,871,924	15,410,575	15,124,794	16,500,651	14,489,991
State Sources	12,618,761	12,210,854	12,402,111	11,736,708	11,007,004
Federal Sources	<u>128,486</u>	<u>73,803</u>	<u>69,346</u>	<u>433,772</u>	<u>78,606</u>
Total Revenues	\$28,619,171	\$27,695,232	\$27,596,251	\$28,671,131	\$25,575,601
<b>EXPENDITURES</b>					
General Fund:					
Instruction	\$10,255,216	\$9,994,352	\$10,689,646	\$10,948,073	\$10,391,138
Undistributed Expenditures	17,819,325	18,004,687	17,677,258	15,855,764	15,066,496
Capital Outlay	<u>323,862</u>	<u>179,613</u>	<u>52,754</u>	<u>148,285</u>	<u>36,194</u>
Total Expenditures	\$28,398,403	\$28,178,652	\$28,419,658	\$26,952,122	\$25,493,828
Excess (Deficiency) of Revenues Over/(Under) Expenditures	220,768	(483,420)	(823,407)	80,009	81,773
Other Financing Sources (Uses):					
Proceeds of Capital Lease	99,577	0	0	0	0
Transfers in	0	0	0	53,322	0
Transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	99,577	0	0	53,322	0
Net Change in Fund Balance	320,345	(483,420)	(823,407)	133,331	81,773
Fund Balance, July 1	<u>784,497</u>	<u>1,267,917</u>	<u>2,091,324</u>	<u>1,957,993</u>	<u>1,876,220</u>
Fund Balance, June 30	<u>\$1,104,842</u>	<u>\$784,497</u>	<u>\$1,267,917</u>	<u>\$2,091,324</u>	<u>\$1,957,993</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 lease(s) outstanding with payments due through year ending June 30, 2019, totaling \$83,476.

Source: Comprehensive Annual Financial Report of the School District

### **Operating Leases**

As of June 30, 2015, the Board has operating leases outstanding with payments due through year ending June 30, 2019, totaling \$103,973.

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 Board currently does not have any long term debt outstanding as of June 30, 2015.

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 2.5% 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” herein). The following is a summation of the Board’s debt limitation as of June 30, 2015:

Average Equalized Real Property Valuation (2013, 2014, and 2015)	\$3,719,924,185
<b>School District Debt Analysis</b>	
Permitted Debt Limitation (2.5% of AEVP)	\$92,998,105
Less: Bonds and Notes Authorized and Outstanding	<u>0</u>
Remaining Limitation of Indebtedness	\$92,998,105
Percentage of Net School Debt to Average Equalized Valuation	0.00%

Source: Comprehensive Annual Financial Report of the School District

## **INFORMATION REGARDING THE TOWNSHIP OF LOWER<sup>1</sup>**

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

### **General Information**

The Township is located at the southern tip of New Jersey and although it is the smallest township in the county, it is home to roughly 20,000 people. The Township's community consists of historic towns including Cold Spring, Erma, Fishing Creek, Villas, Schellenger's Landing, North Cape May and Townbank.

The Township is home to the Cape May County Airport and the Cape May - Lewes Ferry. It is rich with historic sites, including Naval Air Station Wildwood, Historic Cold Spring Village and the Cape May Lighthouse. Another great attraction is The Atlantis, a concrete ship from World War I which has been a beautiful landmark at Sunset Beach.

### **History of the Township**

The Township was formed as a precinct on April 2, 1723, and was incorporated as one of New Jersey's initial 104 townships by an Act of the New Jersey Legislature on February 21, 1798. Portions of the Township were taken to form Cape Island Borough (March 8, 1848, now known as Cape May City), Cape May Point borough (created April 19, 1878, restored to the Township on April 8, 1896, recreated April 6, 1908), Holly Beach (April 14, 1885, now part of Wildwood City), South Cape May (August 27, 1894, restored to the Township on April 30, 1945), Wildwood Crest (April 6, 1910) and North Cape May (March 19, 1928, restored to the Township on April 30, 1945).

### **Government and Employees of the Township**

Lower Township adopted the Council-Manager form of government in 1984. The council is composed of five council members (Mayor, Council Member-at-Large, and 3 Wards), each elected on partisan basis, serving the Township for a four-year term. Because the terms overlap, elections to council are held every two years.

The Mayor presides at all Council meetings and has a voice and vote in the proceedings. Powers are limited to those expressly conferred by the Charter. The Manager serves the Council for an indefinite term of office and may be removed by a majority vote of the Council. The Manager is the chief executive and administrator of the Township.

### **Retirement Systems**

All full-time permanent or qualified Township 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

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<sup>1</sup> Source: The Township, unless otherwise indicated.

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 Township is enrolled in the Public Employees' Retirement System (“PERS”) and the Police and Firemen's Retirement System (“PFRS”).

### **Pension Information<sup>2</sup>**

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 Township’s share of pension costs in 2014, which is based upon the annual billings received from the State, amounted to \$577,202 for PERS and \$870,440 for PFRS.

### **Employment and Unemployment Comparisons**

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

	<b><u>Total Labor Force</u></b>	<b><u>Employed Labor Force</u></b>	<b><u>Total Unemployed</u></b>	<b><u>Unemployment Rate</u></b>
<b><u>Township</u></b>				
2014	12,011	10,493	1,518	12.6%
2013	14,078	12,398	1,680	11.9%
2012	14,120	12,271	1,849	13.1%
2011	13,981	12,118	1,863	13.3%
2010	13,935	12,262	1,673	12.2%
<b><u>County</u></b>				
2014	48,961	43,068	5,893	12.0%
2013	57,125	50,256	6,869	12.0%
2012	57,300	49,740	7,560	13.2%
2011	57,166	49,923	7,243	12.7%
2010	58,357	51,223	7,134	12.2%
<b><u>State</u></b>				
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

<sup>2</sup> Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

### **Income (as of 2010)**

	<b><u>Township</u></b>	<b><u>County</u></b>	<b><u>State</u></b>
Median Household Income	\$51,101	\$54,292	\$71,180
Median Family Income	62,587	69,978	86,779
Per Capita Income	28,175	33,571	35,768

Source: US Bureau of the Census 2010

### **Population**

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

	<b><u>Township</u></b>		<b><u>County</u></b>		<b><u>State</u></b>	
<b><u>Year</u></b>	<b><u>Population</u></b>	<b><u>% Change</u></b>	<b><u>Population</u></b>	<b><u>% Change</u></b>	<b><u>Population</u></b>	<b><u>% Change</u></b>
2010	22,866	-0.34%	97,265	-4.95%	8,791,894	4.49%
2000	22,945	10.21	102,326	7.61	8,414,350	8.85
1990	20,820	21.72	95,089	15.59	7,730,188	4.96
1980	17,105	68.46	82,266	38.14	7,365,001	2.75
1970	10,154	60.36	59,554	22.65	7,168,164	18.15

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

### **Largest Taxpayers**

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

<b><u>Taxpayers</u></b>	<b><u>2015 Assessed Valuation</u></b>	<b><u>% of Total Assessed Valuation</u></b>
Harbortown Resort Marina	\$15,318,900	0.42%
Achristavest Pier 6600, LLC	10,375,000	0.29%
Shaw Limited partnership	10,101,400	0.28%
Diamond Beach West	10,026,900	0.28%
Sun Lake Laurie RV Resort, LLC	8,800,000	0.24%
Bayshore Mall, LLC	8,512,700	0.24%
Sun Seashore RV, LLC	7,500,000	0.21%
Jenio Corp. & Harlo Inc.	6,500,000	0.18%
Beachcomber Campground Inc	6,436,200	0.18%
Cape Island Associates	<u>6,021,400</u>	<u>0.17%</u>
<b>Total</b>	<b><u>\$89,592,500</u></b>	<b><u>2.48%</u></b>

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

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

<b><u>Year</u></b>	<b><u>Tax Levy</u></b>	<b><u>Current Year Collection</u></b>	<b><u>Current Year % of Collection</u></b>
2014	\$58,504,842	\$57,522,655	98.32%
2013	57,677,481	56,642,986	98.21%
2012	55,662,328	54,111,898	97.21%
2011	55,571,637	54,386,398	97.87%
2010	55,353,130	54,118,126	97.77%

Source: Annual Audit Reports of the Township

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

<b><u>Year</u></b>	<b><u>Amount of Tax Title Liens</u></b>	<b><u>Amount of Delinquent Tax</u></b>	<b><u>Total Delinquent</u></b>	<b><u>% of Tax Levy</u></b>
2014	\$190,794	\$930,261	\$1,121,054	1.92%
2013	165,194	810,150	975,344	1.69%
2012	148,878	1,173,015	1,321,893	2.37%
2011	134,332	1,094,143	1,228,475	2.21%
2010	116,276	1,217,209	1,333,485	2.41%

Source: Annual Audit Reports of the Township

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

<b><u>Year</u></b>	<b><u>Amount</u></b>
2014	\$1,663,200
2013	1,791,200
2012	1,490,700
2011	1,490,700
2010	1,490,700

Source: Annual Audit Reports of the Township

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

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

<u>Year</u>	<u>Municipal</u>	<u>Local School</u>	<u>Regional School</u>	<u>County</u>	<u>Total Taxes</u>
2015	\$0.556	\$0.446	\$0.353	\$0.261	\$1.616
2014R	0.536	0.432	0.335	0.260	1.563
2013	0.473	0.371	0.291	0.227	1.362
2012	0.443	0.362	0.273	0.229	1.307
2011	0.443	0.355	0.277	0.231	1.306

R: Reassessment

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

## **Valuation of Property**

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2015	\$3,601,051,900	\$3,758,142,246	95.82%	\$4,347,721	\$3,762,489,967
2014R	3,594,414,600	3,698,337,895	97.19	4,337,206	3,702,675,101
2013	4,066,585,400	3,703,292,414	109.81	5,339,934	3,708,632,348
2012	4,089,365,200	3,778,402,661	108.23	6,102,592	3,784,505,253
2011	4,084,631,700	4,011,620,212	101.82	5,957,340	4,017,577,552

R: Reassessment

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

## **Classification of Ratables**

The table below lists the comparative assessed valuation for each classification of real property within the Township 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	\$70,254,400	\$3,254,393,300	\$5,842,000	\$259,130,000	\$0	\$11,432,200	\$3,601,051,900
2014R	70,784,400	3,247,623,400	5,867,700	258,806,900	0	11,332,200	3,594,414,600
2013	86,948,300	3,684,519,500	6,190,100	275,766,100	0	13,161,400	4,066,585,400
2012	87,921,400	3,705,980,700	5,372,600	276,929,100	0	13,161,400	4,089,365,200
2011	91,427,900	3,694,390,400	7,162,100	278,275,900	0	13,375,400	4,084,631,700

R: Reassessment

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

## **Financial Operations**

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

### **Summary of Current Fund Budget**

<b><u>Anticipated Revenues</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2015</u></b>
Fund Balance	\$1,890,000	\$2,118,000	\$1,678,000	\$2,065,000	\$1,800,000
Miscellaneous Revenues	3,279,757	3,245,135	3,950,355	3,608,315	3,905,375
Receipts from Delinquent Taxes	1,000,000	1,035,000	1,100,000	860,000	915,000
Amount to be Raised by Taxes for Support of Municipal Budget	<u>18,118,526</u>	<u>18,137,058</u>	<u>19,222,668</u>	<u>19,268,530</u>	<u>20,012,455</u>
Total Revenue:	<u>\$24,288,284</u>	<u>\$24,535,193</u>	<u>\$25,951,023</u>	<u>\$25,801,844</u>	<u>\$26,632,829</u>
<b><u>Appropriations</u></b>					
General Appropriations	\$19,084,946	\$19,353,215	\$19,712,154	\$20,381,039	\$21,156,278
Operations	444,210	427,836	1,030,699	282,312	552,753
Deferred Charges and Statutory Expenditures	180,000	180,000	180,000	417,000	217,000
Judgments	0	0	0	0	0
Capital Improvement Fund	95,000	95,000	95,000	95,000	95,000
Municipal Debt Service	2,584,400	2,630,950	2,700,000	2,760,300	2,653,000
Reserve for Uncollected Taxes	<u>1,899,728</u>	<u>1,848,192</u>	<u>2,233,169</u>	<u>1,866,193</u>	<u>1,958,799</u>
Total Appropriations:	<u>\$24,288,284</u>	<u>\$24,535,193</u>	<u>\$25,951,023</u>	<u>\$25,801,844</u>	<u>\$26,632,829</u>

Source: Annual Adopted Budgets of the Township

## **Fund Balance**

### **Current Fund**

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

<b><u>Fund Balance - Current Fund</u></b>		
<b><u>Year</u></b>	<b><u>Balance 12/31</u></b>	<b><u>Utilized in Budget of Succeeding Year</u></b>
2014	\$4,020,027	\$1,800,000
2013	3,920,785	2,065,000
2012	2,602,229	1,678,000
2011	3,052,206	2,118,000
2010	2,813,008	1,890,000

Source: Annual Audit Reports of the Township

**Township Indebtedness as of December 31, 2014**

**General Purpose Debt**

Serial Bonds	\$6,080,000
Bond Anticipation Notes	4,800,000
Bonds and Notes Authorized but Not Issued	3,541,000
Other Bonds, Notes and Loans	<u>17,390,019</u>
Total:	\$31,811,019

**Regional School District Debt**

Serial Bonds	\$3,031,987
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	<u>0</u>
Total:	\$3,031,987

**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**

**\$34,843,006**

Less: Statutory Deductions	
General Purpose Debt	\$16,031,154
Regional School District Debt	3,031,987
Self-Liquidating Debt	<u>0</u>
Total:	\$19,063,141

**TOTAL NET DEBT**

**\$15,779,865**

Source: Annual Debt Statement of the Township

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**Overlapping Debt (as of December 31, 2014)<sup>3</sup>**

<b><u>Name of Related Entity</u></b>	<b><u>Related Entity Debt Outstanding</u></b>	<b><u>Township Percentage</u></b>	<b><u>Township Share</u></b>
Local School District	\$0	100.00%	\$0
Regional School District	5,625,000	54.00%	3,031,987
County	177,416,114	7.90%	<u>14,010,017</u>
Net Indirect Debt			\$17,042,003
Net Direct Debt			<u>15,779,865</u>
Total Net Direct and Indirect Debt			<b><u>\$32,821,869</u></b>

**Debt Limit**

Average Equalized Valuation Basis (2012, 2013, 2014)	\$3,726,677,657
Permitted Debt Limitation (3 1/2%)	130,433,718
Less: Net Debt	<u>15,779,865</u>
Remaining Borrowing Power	<u>\$114,653,853</u>
Percentage of Net Debt to Average Equalized Valuation	0.42%
 Gross Debt Per Capita based on 2010 population of 22,866	 \$1,524
Net Debt Per Capita based on 2010 population of 22,866	\$690

Source: Annual Debt Statement of the Township

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<sup>3</sup> Township percentage of County debt is based on the Township's share of total equalized valuation in the County

## **APPENDIX B**

### **LOWER BOARD OF EDUCATION FINANCIAL STATEMENTS**

**INVERSO & STEWART, LLC**  
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable President and Members  
of the Board of Education  
Township of Lower School District  
County of Cape May  
Cape May, New Jersey

***Report on the Financial Statements***

I 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 Lower Township School District, in the County of Cape May, State of New Jersey, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School 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***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School 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 School District's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### ***Opinions***

In my 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 Lower Township School District, in the County of Cape May, State of New Jersey, as of June 30, 2015, 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***

As discussed in Note 9 to the financial statements, during the fiscal year ended June 30, 2015, the School District adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB): Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. My opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

#### ***Other Information***

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lower Township School District's basic financial statements. The accompanying combining statements and related major fund supporting statements and schedules and Schedules of Expenditures of Federal Awards and State Financial Assistance, as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and State of New Jersey OMB's Circular 04-04 and/or 15-08, as applicable, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid, are presented for purposes of additional analysis and are not a required part of the financial statements.

The accompanying combining statements and related major fund supporting statements and schedules and Schedules of Expenditures of Federal Awards and State Financial Assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information described in the previous paragraph is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on them.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated November 27, 2015 on my consideration of the Lower Township School District's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Lower Township School District's internal control over financial reporting and compliance.

***INVERSO & STEWART, LLC***  
Certified Public Accountants

A handwritten signature in black ink, appearing to read 'R P A', is positioned above the printed name of Robert P. Inverso.

Robert P. Inverso  
Certified Public Accountant  
Public School Accountant

Marlton, New Jersey  
November 27, 2015

**INVERSO & STEWART, LLC**  
Certified Public Accountants

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

**INDEPENDENT AUDITOR'S REPORT**

The Honorable President and Members  
of the Board of Education  
Township of Lower School District  
County of Cape May  
Cape May, New Jersey

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lower Township School District, in the County of Cape May, State of New Jersey, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued my report thereon dated November 27, 2015.

***Internal Control Over Financial Reporting***

In planning and performing my audit of the financial statements, I considered the Lower Township School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Lower Township School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Lower Township School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey which is described in the accompanying *Schedule of Findings and Questioned Costs and Auditor's Management Report on Administrative Findings – Financial, Compliance and Performance* as finding no: 2015-001.

### ***The Lower Township School District's Response to Findings***

The Lower Township School District's response to the finding identified in my audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and audit requirements as prescribed by the Office of School Finance, Department of Education, State of New Jersey in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***INVERSO & STEWART, LLC***  
Certified Public Accountants



Robert P. Inverso  
Certified Public Accountant  
Public School Accountant

Marlton, New Jersey  
November 27, 2015

**Required Supplementary Information - Part I**  
**Management's Discussion and Analysis**



**Lower Township School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015**

As management of the Board of Education of the Township of Lower, New Jersey (School District), we offer readers of the School District's financial statements this narrative overview and analysis of the School District for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

**Financial Highlights**

- The liabilities of the School District exceeded its assets at the close of the most recent fiscal year by \$1,473,200 (*net position*).
- Governmental activities have an unrestricted net position deficit of \$13,211,672. The accounting treatments in the governmental funds for compensated absences payable, and the last two state aid payments, and the state statute that prohibits school districts from maintaining more than 2% of its adopted budget as unrestricted fund balance are primarily responsible for this deficit balance.
- The total net position of the School District increased by \$156,859, or a 9.62% increase from the prior fiscal year-end balance.
- Fund balance of the School District's governmental funds increased by \$320,345 resulting in an ending fund balance of \$1,067,649. This increase is largely due to the results of operations of the General Fund.
- Business-type activities have unrestricted net position of \$275,131.
- The School District's long-term obligations increased by \$275,567 which is an increase in compensated absences and a new capital lease.

**Overview of the Basic Financial Statements**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. Comparison to the prior year's activity is provided in this document. The basic financial statements are comprised of three components: 1) District-wide financial statements, 2) Fund financial statements, and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide Financial Statements**

The *district-wide financial statements* are designed to provide the reader with a broad overview of the financial activities in a manner similar to a private-sector business. The district-wide financial statements include the statement of net position and the statement of activities.

The *statement of net position* presents information about all of the School District's assets and liabilities. The difference between the assets and liabilities is reported as net position. Over time, changes in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

The *statement of activities* presents information showing how the net position of the School District changed during the current fiscal year. Changes in net position are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flows may be recorded in a future period.

Both of the district-wide financial statements distinguish functions of the School District that are supported from taxes and intergovernmental revenues (*governmental activities*) and other functions that are intended to recover all or most of their costs from user fees and charges (*business-type activities*). Governmental activities consolidate governmental funds including the General Fund, Special Revenue Fund, Capital Projects Fund, and Debt Service Fund. Business-type activities consolidate the Food Service Fund and the After-School Program.

### **Fund Financial Statements**

*Fund financial statements* are designed to demonstrate compliance with finance-related requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives. All of the funds of the School District are divided into three categories: *governmental funds*, *proprietary funds* and *fiduciary funds*.

*Governmental funds* account for essentially the same information reported in the governmental activities of the district-wide financial statements. However, unlike the district-wide financial statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating the financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, a reconciliation is provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

The School District maintains four individual governmental funds. The major funds are the General Fund, the Special Revenue Fund, the Capital Projects Fund, and the Debt Service Fund. They are presented separately in the fund financial statements.

The School District adopts an annual appropriated budget for the General Fund, Special Revenue Fund and the Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with budgetary requirements.

*Proprietary funds* are used to present the same functions as the business-type activities presented in the district-wide financial statements. The School District maintains one type of proprietary fund - the Enterprise Fund. The fund financial statements of the enterprise fund provides the same information as the district-wide financial statements, only in more detail.

The School District's two enterprise funds (Food Service Fund and Day Care Program Fund) are listed individually and are considered to be major funds.

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the district-wide financial statements because the resources of those funds are not available to support the School District's programs.

### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also contains other supplementary information and schedules required by the New Jersey Audit Program, issued by the New Jersey Department of Education.

### **District-wide Financial Analysis**

The assets of the School District are classified as current assets and capital assets. Cash, investments, receivables, inventories and prepaid expenses are current assets. These assets are available to provide resources for the near-term operations of the School District. The majority of the current assets are the results of the tax levy and state aid collection process.

Capital assets are used in the operations of the School District. These assets are land, buildings, improvements, equipment and vehicles. Capital assets are discussed in greater detail in the section titled, Capital Assets and Debt Administration, elsewhere in this analysis.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, accrued salaries and benefits, unearned revenues, and current debt obligations. The liquidation of current liabilities is anticipated to be either from currently available resources, current assets or new resources that become available during fiscal year 2015. Long-term liabilities such as long-term debt obligations and compensated absences payable will be liquidated from resources that will become available after fiscal year 2015.

The liabilities of the primary government activities exceeded assets by \$1,755,387 with an unrestricted deficit balance of \$13,211,672. The net position of the primary government does not include internal balances.

A net investment of \$9,988,073 in land, improvements, buildings, equipment and vehicles which provide the services to the School District's public school students. Net position of \$1 has been restricted to provide resources for future capital expansion and renovation projects, \$992,246 has been restricted for maintenance projects, deficit restricted balance of \$37,193 for Special Revenue Fund, and \$513,158 has been restricted for budget appropriation.

As mentioned earlier, deficit unrestricted net position are primarily due to the accounting treatment for compensated absences payable, the last two state aid payments, and state statutes that prohibit school districts from maintaining more than 2% of its adopted budget as unrestricted fund balance.

**Lower Township School District  
Comparative Summary of Net Position  
As of June 30, 2015 and 2014**

	Governmental Activities		Business-Type Activities		District-Wide	
	2015	2014	2015	2014	2015	2014
Assets:						
Current assets	\$ 1,082,435	\$ 1,015,208	\$ 387,426	\$ 414,676	\$ 1,469,861	\$ 1,429,884
Capital assets	<u>10,066,781</u>	<u>9,923,902</u>	<u>7,056</u>	<u>9,108</u>	<u>10,073,837</u>	<u>9,933,010</u>
Total assets	<u>11,149,216</u>	<u>10,939,110</u>	<u>394,482</u>	<u>423,784</u>	<u>11,543,698</u>	<u>11,362,894</u>
Deferred Outflows of Resources	<u>819,860</u>				<u>819,860</u>	
Liabilities:						
Current Liabilities	33,770	267,904	10,275	19,854	44,045	287,758
Noncurrent Liabilities	<u>12,946,936</u>	<u>1,827,911</u>	<u>102,020</u>	<u>116,519</u>	<u>13,048,956</u>	<u>1,944,430</u>
Total liabilities	<u>12,980,706</u>	<u>2,095,815</u>	<u>112,295</u>	<u>136,373</u>	<u>13,093,001</u>	<u>2,232,188</u>
Deferred Inflows of Resources	<u>743,757</u>				<u>743,757</u>	
Net position	<u>\$ (1,755,387)</u>	<u>\$ 8,843,295</u>	<u>\$ 282,187</u>	<u>\$ 287,411</u>	<u>\$ (1,473,200)</u>	<u>\$ 9,130,706</u>
Net position consist of:						
Invested in capital						
Assets	\$ 9,988,073	\$ 9,923,902	\$ 7,056	\$ 9,108	\$ 9,995,129	\$ 9,933,010
Restricted net position	1,468,212	1,129,931			1,468,212	1,129,931
Unrestricted net position	<u>(13,211,672)</u>	<u>(2,210,538)</u>	<u>275,131</u>	<u>278,303</u>	<u>(12,936,541)</u>	<u>(1,932,235)</u>
Net position	<u>\$ (1,755,387)</u>	<u>\$ 8,843,295</u>	<u>\$ 282,187</u>	<u>\$ 287,411</u>	<u>\$ (1,473,200)</u>	<u>\$ 9,130,706</u>

**Lower Township School District**  
**Comparative Schedule of Changes in Net Position**  
**As of and for the Fiscal Year Ended June 30, 2015 and 2014**

	Governmental Activities		Business-Type Activities		District-Wide	
	2015	2014	2015	2014	2015	2014
<b>Revenues:</b>						
<b>Program Revenues</b>						
Charges for services	\$ -	\$ 72,516	\$ 657,010	\$ 583,469	\$ 657,010	\$ 655,985
Operating grants and Contributions	3,891,899	3,524,208	787,875	794,911	4,679,774	3,524,208
<b>General Revenues:</b>						
Property Taxes	15,806,595	15,251,564			15,806,595	15,251,564
Unrestricted State Aid	10,276,148	10,148,809			10,276,148	10,148,809
Tuition	58,912				58,912	
Other Revenues	6,417	86,495	100	100	6,517	86,595
<b>Total Revenues</b>	<b>30,039,971</b>	<b>29,083,592</b>	<b>1,444,985</b>	<b>1,378,480</b>	<b>31,484,956</b>	<b>30,462,072</b>
<b>Expenses:</b>						
<b>Governmental Activities:</b>						
Instruction	11,507,620	10,958,033			11,507,620	10,958,033
Tuition	1,154,510	1,049,973			1,154,510	1,049,973
Related Services	2,976,379	3,062,601			2,976,379	3,062,601
Administrative Services	1,313,166	1,341,680			1,313,166	1,341,680
Central Services	340,427	356,794			340,427	356,794
Operations and Maintenance	2,410,716	2,306,566			2,410,716	2,306,566
Transportation	1,191,733	1,261,876			1,191,733	1,261,876
Employee Benefits	8,956,103	9,044,216			8,956,103	9,044,216
Interest on long-term Debt						
Other	27,234	23,315			27,234	23,315
<b>Business-Type Activities:</b>						
Food Service Operations			1,111,891	1,108,597	1,111,891	1,108,597
Day Care Program			338,318	306,728	338,318	306,728
<b>Total Expenses</b>	<b>29,877,888</b>	<b>29,405,054</b>	<b>1,450,209</b>	<b>1,415,325</b>	<b>31,328,097</b>	<b>30,820,379</b>
<b>Increase in net position</b>						
Before transfers	162,083	(321,462)	(5,224)	(36,845)	156,859	(358,307)
<b>Transfers</b>						
Changes in net position	162,083	(321,462)	(5,224)	(36,845)	156,859	(358,307)
Net position, July 1, as restated	(1,917,470)	9,164,757	287,411	324,256	(1,630,059)	9,489,013
<b>Net position, June 30,</b>	<b>\$ (1,755,387)</b>	<b>\$ 8,843,295</b>	<b>\$ 282,187</b>	<b>\$ 287,411</b>	<b>\$ (1,473,200)</b>	<b>\$ 9,130,706</b>

### **Governmental Activities**

Governmental activities increased the net position of the School District by \$162,083 during the current fiscal year. Key elements of the increase in net position for governmental activities are as follows:

- Capital additions less depreciation expense increased the net position by \$142,879.
- Compensated absences increased by \$196,859.
- Results of operations in the General Fund increased the net position by \$320,345.
- Capital leases increased by \$78,708.

### **Business-type Activities**

Business-type activities decreased the School District's net position by \$5,224. Key elements of the decrease in net position for business-type activities are as follows:

- The Food Service Fund had a net loss of \$62,289 and the Day Care Program had a net gain of \$57,065.

### **Financial Analysis of the Governmental Funds**

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

*Governmental Funds* - The focus of the School District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the School District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the School District's governmental funds reported a combined ending fund balance of \$1,067,649, an increase of \$320,345 in comparison with the prior year. Most of this increase is due to the General Fund results of operations.

The deficit unreserved fund balance for the School District at the end of the fiscal year includes a combination of an unreserved deficit fund balance for the General Fund of \$400,563 and \$37,193 in the Special Revenue Fund. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) as restricted cash reserved for future capital outlay expenditures of \$1, 2) \$154,300 appropriated as a revenue source in the subsequent year's budget, 3) \$164,441 reserved for future budget appropriation in accordance with state statute, 4) \$140,792 reserved for encumbrances, 5) \$992,246 reserved for maintenance and 6) \$53,625 ARRA/SEMI revenue reserved for future budget appropriation.

The general fund is the chief operating fund of the School District. As discussed earlier, the balance in the unreserved fund balance is due, primarily, to the accounting treatment of the last two state aid payments as discussed in Note 17 of the notes to the basic financial statements, and state statutes that prohibit New Jersey school districts from maintaining more than 2% of its adopted budget as unrestricted fund balance.

### General Fund Budgetary Highlights

At the end of the current fiscal year, unassigned fund balance (budgetary basis) of the general fund was \$524,316 while total fund balance (budgetary basis) was \$2,029,721. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance (budgetary basis) and total fund balance (budgetary basis) to total general fund expenditures. Actual (budgetary basis) expenditures of the General Fund including other financing uses amounted to \$28,398,403. Unreserved fund balance (budgetary basis) represents 1.85% of expenditures while total fund balance (budgetary basis) represents 7.15% of that same amount.

### Capital Asset and Debt Administration

The School District's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totaled \$10,073,837 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, equipment and vehicles. The total increase in the District's investment in capital assets for the current fiscal year was \$140,827 or a 1.41% increase. The increase is due to acquisitions less current year depreciation.

#### Capital Asset (net of accumulated depreciation) June 30, 2015 and 2014

	Governmental Activities		Business-Type Activities		District-Wide	
	2015	2014	2015	2014	2015	2014
Land	\$ 80,045	\$ 80,045	\$ -	\$ -	\$ 80,045	\$ 80,045
Construction in Progress						
Buildings and Building Improvements	8,937,877	9,033,164			8,937,877	9,033,164
Equipment	1,048,859	810,693	7,056	9,108	1,055,915	819,801
Net position	<u>\$ 10,066,781</u>	<u>\$ 9,923,902</u>	<u>\$ 7,056</u>	<u>\$ 9,108</u>	<u>\$ 10,073,837</u>	<u>\$ 9,933,010</u>

Additional information on the School District's capital assets can be found in the notes to the basic financial statements (Note 5) of this report.

*Long-term debt* – During the fiscal year ended June 30, 2015, the School District had \$2,126,790 in compensated absences and \$78,708 in capital leases payable.

State statutes limit the amount of general obligation debt that the District may issue. At the end of the current fiscal year, the legal debt limit was \$93,166,941. The available amount as of June 30, 2015 is \$93,166,941.

Additional information on the School District's long-term obligations can be found in the notes to the basic financial statements (Note 7) of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered and incorporated into the preparation of the School District's budget for the 2015-16 fiscal year.

For 2015-16 fiscal year the School District is not anticipating an increase in state aid. The local tax levy in the General Fund increased by \$510,691 or a 3.23% increase. Salaries continue to increase contractually; however, the District has managed to control costs. The 2015-16 General Fund Budget is \$484,161 greater than the previous year or a 1.84 % increase. The tax rate was .432 in 2014 and slightly increased to .446 in 2015.

### **For the Future**

The Lower Township Public School District is in very good financial condition presently. However, a major concern is the increased reliance on local property taxes as state aid has remained stagnant. Lower Township is primarily a residential community, with very few large ratables; thus the burden is focused on homeowners to share the tax burden.

In conclusion, the Lower Township Public School District has committed itself to financial excellence for many years. In addition, the School District's system for financial planning, budgeting, and internal financial controls are well regarded. The School District plans to continue its sound fiscal management to meet the challenge of the future.

### **Requests for Information**

This financial report is designed to provide a general overview of the School District's finances for all those with an interest in the School District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Lower Township School District Business Administrator, 834 Seashore Rd., Cape May, New Jersey 08204.



## Basic Financial Statements

District-Wide Financial Statements

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Net Position**  
**June 30, 2015**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 749,125	\$ 301,240	\$ 1,050,365
Receivables, net	331,191	72,444	403,635
Inventory (Note 6)		15,860	15,860
Internal balances	2,118	(2,118)	
Restricted assets:			
Restricted cash and cash equivalents	1		1
Capital assets, net (Note 5)	<u>10,066,781</u>	<u>7,056</u>	<u>10,073,837</u>
Total assets	<u>11,149,216</u>	<u>394,482</u>	<u>11,543,698</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>			
Deferred outflows of resources from pensions	<u>819,860</u>		<u>819,860</u>
<b>LIABILITIES:</b>			
Accounts payable	14,786		14,786
Unearned revenue		10,275	10,275
Noncurrent liabilities:			
Due within one year	18,984		18,984
Due beyond one year	2,084,494	102,020	2,186,514
Net pension liability	<u>10,862,442</u>		<u>10,862,442</u>
Total liabilities	<u>12,980,706</u>	<u>112,295</u>	<u>13,093,001</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>			
Deferred Inflows of resources from pensions	<u>743,757</u>		<u>743,757</u>
<b>NET POSITION:</b>			
Net investment in capital assets	9,988,073	7,056	9,995,129
Restricted for:			
Special Revenue	(37,193)		(37,193)
Other purposes	1,505,405		1,505,405
Unrestricted	<u>(13,211,672)</u>	<u>275,131</u>	<u>(12,936,541)</u>
Total net position	<u>\$ (1,755,387)</u>	<u>\$ 282,187</u>	<u>\$ (1,473,200)</u>

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

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Instruction:						
Regular	\$ 9,803,439	\$ -	\$ 674,268	\$ (9,129,171)	\$ -	\$ (9,129,171)
Special education	1,638,485			(1,638,485)		(1,638,485)
Other instruction	65,696			(65,696)		(65,696)
Support Services:						
Tuition	1,154,510		519,530	(634,980)		(634,980)
Student & instruction related services	2,976,379		69,292	(2,907,087)		(2,907,087)
General administrative services	430,293			(430,293)		(430,293)
School administrative services	882,873			(882,873)		(882,873)
Central services	340,427			(340,427)		(340,427)
Plant operations and maintenance	2,410,716			(2,410,716)		(2,410,716)
Pupil transportation	1,191,733			(1,191,733)		(1,191,733)
Unallocated employee benefits	8,956,103		2,628,809	(6,327,294)		(6,327,294)
Unallocated depreciation and amortization	27,234			(27,234)		(27,234)
Total governmental activities	<u>29,877,888</u>		<u>3,891,899</u>	<u>(25,985,989)</u>		<u>(25,985,989)</u>
Business-type activities:						
Day care program	338,318	395,383			57,065	57,065
Food service program	1,111,891	261,627	787,875		(62,389)	(62,389)
Total business-type activities	<u>1,450,209</u>	<u>657,010</u>	<u>787,875</u>		<u>(5,324)</u>	<u>(5,324)</u>
Total primary government	<u>\$ 31,328,097</u>	<u>\$ 657,010</u>	<u>\$ 4,679,774</u>	<u>\$(25,985,989)</u>	<u>\$ (5,324)</u>	<u>\$(25,991,313)</u>
General revenues:						
Taxes:						
Property taxes, levied for general purposes, net				15,806,595		15,806,595
Federal and state aid not restricted				10,276,148		10,276,148
Tuition				58,912		58,912
Miscellaneous income				6,417	100	6,517
Transfer						
Total general revenues, special items, extraordinary items and transfers				<u>26,148,072</u>	<u>100</u>	<u>26,148,172</u>
Change in Net Position				<u>162,083</u>	<u>(5,224)</u>	<u>156,859</u>
Net Position -- July 1, as restated (Note 20)				<u>(1,917,470)</u>	<u>287,411</u>	<u>(1,630,059)</u>
Net Position -- June 30				<u>\$ (1,755,387)</u>	<u>\$ 282,187</u>	<u>\$ (1,473,200)</u>

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

**Fund Financial Statements**

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2015**

<b>ASSETS</b>	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>Assets:</b>					
Cash and cash equivalents	\$ 749,125	\$ -	\$ -	\$ -	\$ 749,125
Receivables, net	31,940	268,019			299,959
Interfund receivable	338,562				338,562
Restricted cash and cash equivalents	1				1
<b>Total assets</b>	<u>\$ 1,119,628</u>	<u>\$ 268,019</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,387,647</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	14,786				14,786
Interfund payables		305,212			305,212
<b>Total liabilities</b>	<u>14,786</u>	<u>305,212</u>			<u>319,998</u>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
Excess surplus	164,441				164,441
Excess surplus - designated for subsequent year's expenditures	154,300				154,300
Maintenance reserve	992,246				992,246
Capital reserve	1				1
<b>Assigned to:</b>					
Year-end encumbrances	140,792				140,792
ARRA/SEMI - Designated for subsequent year's expenditures	53,625				53,625
Unassigned	(400,563)	(37,193)			(437,756)
<b>Total fund balances</b>	<u>1,104,842</u>	<u>(37,193)</u>			<u>1,067,649</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,119,628</u>	<u>\$ 268,019</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$20,739,866 and the accumulated depreciation is \$10,673,085. 10,066,781

The District's proportionate share of net pension assets and liabilities as well as pension-related deferred outflows and deferred inflows of resources are recognized in the government-wide statements and include:

Deferred Outflows of resources from Pensions	819,860	
Net Pension Liability	(10,862,442)	
Deferred Inflows of resources from Pensions	(743,757)	(10,786,339)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. (2,103,478)

Net position of governmental activities \$ (1,755,387)

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

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**for the Fiscal Year Ended June 30, 2015**

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
<b>REVENUES:</b>					
Local sources:					
Local tax levy	\$ 15,806,595	\$ -	\$ -	\$ -	\$ 15,806,595
Tuition charges	58,912				58,912
Miscellaneous	6,417				6,417
Total revenues-local sources	15,871,924				15,871,924
Local sources		982			982
State sources	12,618,761	371,931			12,990,692
Federal sources	128,486	1,047,887			1,176,373
Total revenues	28,619,171	1,420,800			30,039,971
<b>EXPENDITURES:</b>					
Current expense:					
Regular instruction	8,551,035	674,268			9,225,303
Special education instruction	1,638,485				1,638,485
Other instruction	65,696				65,696
Support services and undistributed costs:					
Tuition	634,980	519,530			1,154,510
Student & instruction related services	2,907,087	69,292			2,976,379
General administrative services	430,293				430,293
School administrative services	828,405				828,405
Central services	340,427				340,427
Plant operations and maintenance	2,713,581				2,713,581
Pupil transportation	1,191,733				1,191,733
Unallocated employee benefits	8,772,819	157,710			8,930,529
Capital outlay	323,862				323,862
Total expenditures	28,398,403	1,420,800			29,819,203
Excess (deficiency) of revenues over (under) expenditures	220,768				220,768
Other Financing Sources (Uses):					
Proceeds of Capital Lease	99,577				99,577
Transfers in					
Transfers out					
Total other financing sources (uses)	99,577				99,577
Net change in fund balance	320,345				320,345
Fund balances, July 1	784,497	(37,193)			747,304
Fund balances, June 30	\$ 1,104,842	\$ (37,193)	\$ -	\$ -	\$ 1,067,649

**LOWER TOWNSHIP 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) \$ 320,345

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

Capital outlays are reported in the governmental funds as expenditures.  
However, on 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 outlay exceeded depreciation in the current fiscal year.

Depreciation expense	\$ (554,680)	
Capital outlay	<u>697,559</u>	142,879

Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position and is reported in the statement of activities.	20,869
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The proceeds of a capital lease is an other financing source of revenue in the governmental funds but is not reported in the statement of activities.	(99,577)
--	----------

Net differences between pension system contributions recognized in the fund statement of revenues, expenditures and changes in fund balances and the statement of activities.	(25,574)
--	----------

In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). 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 (+).	<u>(196,859)</u>
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Change in net position of governmental activities	<u><u>\$162,083</u></u>
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The accompanying Notes to the Basic Financial Statements are an integral part of this statement.



**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2015**

	<b>Business-type Activities Enterprise Funds</b>	
	<b>Food Service Fund</b>	<b>Day Care Program</b>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 138,431	\$ 162,809
Accounts receivable	69,563	2,881
Inventories	15,860	
Total current assets	223,854	165,690
Noncurrent assets:		
Equipment	280,292	
Less accumulated depreciation	(273,236)	
Total noncurrent assets	7,056	
Total assets	\$ 230,910	\$ 165,690
<b>LIABILITIES</b>		
Current liabilities:		
Unearned revenue	-	10,275
Interfund payable	2,118	
Total current liabilities	2,118	10,275
Noncurrent liabilities:		
Compensated absences	102,020	
Total noncurrent liabilities	102,020	-
Total liabilities	104,138	
<b>NET POSITION</b>		
Net investment in capital assets	7,056	
Unrestricted	119,716	155,415
Total net position	\$ 126,772	\$ 155,415

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

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**for the Fiscal Year Ended June 30, 2015**

	<b>Business-type Activities Enterprise Funds</b>	
	<u>Food Service Fund</u>	<u>Day Care Program</u>
<b>Operating revenues:</b>		
Charges for services:		
Daily sales-reimbursable programs	\$ 140,411	\$ -
Daily sales-non-reimbursable programs	<u>121,216</u>	<u>395,383</u>
Total operating revenue	<u>261,627</u>	<u>395,383</u>
<b>Operating expenses:</b>		
Salaries	408,094	281,422
Employee benefits	228,439	21,438
Supplies and materials	32,317	29,995
Purchased property services	10,909	
Depreciation	2,053	
Cost of sales	426,812	
Other	<u>3,267</u>	<u>5,463</u>
Total operating expenses	<u>1,111,891</u>	<u>338,318</u>
Operating income (loss)	<u>(850,264)</u>	<u>57,065</u>
<b>Nonoperating revenues (expenses):</b>		
State sources:		
State school lunch program	9,435	
Federal sources:		
National school lunch program	409,156	
School breakfast program	290,094	
Snack Program	2,936	
U.S.D.A. commodities	76,254	
Local sources:		
Interest revenue	<u>100</u>	
Total nonoperating revenues (expenses)	<u>787,975</u>	<u>-</u>
Change in net position	(62,289)	57,065
Total net position - July 1	<u>189,061</u>	<u>98,350</u>
Total net position - June 30	<u><u>\$ 126,772</u></u>	<u><u>\$ 155,415</u></u>

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

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**for the Fiscal Year Ended June 30, 2015**

	<b>Business-type Activities Enterprise Funds</b>	
	<u>Food Service Fund</u>	<u>Day Care Program</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 253,047	\$ 391,492
Payments to employees	(651,033)	(302,860)
Payments to suppliers	(474,012)	(35,499)
Net cash used for operating activities	<u>(871,998)</u>	<u>53,133</u>
<b>Cash flows from noncapital financing activities:</b>		
State sources	9,469	
Federal sources	779,976	
Net cash provided by non-capital financing activities	<u>789,445</u>	<u>-</u>
<b>Cash flows from capital activities:</b>		
Purchases of fixed assets	<u>-</u>	<u>-</u>
<b>Cash flows from investing activities:</b>		
Interest and dividends	100	
Net cash provided by investing activities	<u>100</u>	<u>-</u>
Net increase in cash and cash equivalents	(82,453)	53,133
Balances - July 1	<u>220,884</u>	<u>109,676</u>
Balances - June 30	<u>\$ 138,431</u>	<u>\$ 162,809</u>
<b>Reconciliation of operating loss to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ (850,264)	\$ 57,065
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	2,053	
(Increase) decrease in accounts receivable	(8,581)	5,647
(Increase) decrease in inventories	(707)	
Increase (decrease) in interfund payable, net		
Increase (decrease) in accounts payable		(19,854)
Increase (decrease) in unearned revenue		10,275
Increase (decrease) in compensated absences	(14,499)	
Net cash provided by (used for) operating activities	<u>\$ (871,998)</u>	<u>\$ 53,133</u>

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

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2015**

	Unemployment Compensation Insurance Trust	Agency Funds
	<u>                    </u>	<u>                    </u>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 135,028	\$ 14,168
Other receivable		270
	<u>                    </u>	<u>                    </u>
Total assets	<u>135,028</u>	<u>14,438</u>
<b>LIABILITIES:</b>		
Accounts payable	23,916	
Interfund payable	31,232	
Due to student groups		14,438
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>55,148</u>	<u>\$ 14,438</u>
<b>NET POSITION:</b>		
Restricted for:		
Unemployment claims	<u>\$ 79,880</u>	

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

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Statement of Changes in Fiduciary Net Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2015**

	Unemployment Compensation Insurance Trust
ADDITIONS:	
Contributions:	
Board contributions	\$ 40,000
Employee withholdings	54,487
Total Contributions	<u>94,487</u>
Investment earnings:	
Interest	44
Net investment earnings	<u>44</u>
Total additions	<u>94,531</u>
DEDUCTIONS:	
Unemployment payments	98,651
Total deductions	<u>98,651</u>
Change in net position	(4,120)
Net position - July 1	<u>84,000</u>
Net position - June 30	<u><u>\$ 79,880</u></u>

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

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of the Reporting Entity** - The Lower Township School District (District) is a Type II school district located in Cape May County, New Jersey and covers an area of approximately 31 square miles. As a Type II school district, it functions independently through a Board of Education. The Board is comprised of nine members elected to three-year terms. These terms are staggered so that three member's terms expire each year. The purpose of the District is to provide educational services for all of Lower Township's students in grades preschool through 6. Students in grades 7 through 12 attend Lower Cape May Regional. The Lower Township School District has an approximate enrollment at June 30, 2015 of 1,788 students.

The primary criteria for including activities within the School District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* is the degree of oversight responsibility maintained by the School District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the School district over which the Board exercises operating control.

**Component Units** – GASB Statement No. 14, *The Financial Reporting Entity* and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Unit*, provide guidance that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. A primary government is financially accountable not only for the organizations that make up its legal entity, but also for legally separate organizations that meet the criteria established by GASB Statements No. 14 and No. 39. In addition, GASB Statement No. 61, provides additional guidance for organizations that do not meet the financial accountability criteria for inclusion as component units but that nevertheless should be included because the primary government's management determines that it would be misleading to exclude them. There were no additional entities required to be included in the reporting entity under the criteria as described above. Furthermore, the School District is not includable in any other reporting entity on the basis of such criteria.

**Basis of Presentation**

The basic financial statements of the School 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 School District's accounting policies are described below.

The School District's basic financial statements consists of government-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.

**Government-wide Statements** - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The statement of net position presents the financial condition of the governmental and business-type activities of the School District at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities and for the business-type activities of the School District. Direct expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. The policy of the School District is to not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fund Financial Statements** - During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a single column. The fiduciary fund is reported by type. The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**Governmental Funds** - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

As required by the New Jersey State Department of Education, the School District includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America 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 which 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.

**Special Revenue Fund** - The special revenue fund is used to account for and report the proceeds of specific revenues sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

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

**Proprietary Funds** - Proprietary funds are used to account for the School District's ongoing activities, which are similar to those in the private sector.

**Enterprise Funds** - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the School District is that all costs (expenses, including depreciation) of providing goods or services to the students on a continuing basis be financed or recovered primarily through user charges; or, where the School District has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Proprietary Funds (Continued)**

The School District's enterprise funds are:

**Food Service Fund** - This fund accounts for the financial transactions related to the food service operations of the School District.

**Day Care Program** - This fund accounts for the financial transactions related to the day care operations of the District.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or noncurrent, associated with their activity are included on their balance sheets. Their reported fund equity (net position) is segregated into investment in capital assets, net of related debt, and unrestricted net position, if applicable. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total position.

Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Equipment	12 Years
Light Trucks and Vehicles	4 Years
Heavy Trucks and Vehicles	6 Years

**Fiduciary Funds** - Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into two classifications: trust funds and agency funds. Agency funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds (i.e. payroll and student activities). They are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District has three fiduciary funds; an unemployment compensation trust fund, a payroll fund and student activities.

**Measurement Focus**

**Government-wide Financial Statements** - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net position.

**Fund Financial Statements** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Fund Financial Statements (Continued)** - Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e. revenues) and decreases (i.e. expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities. Fiduciary funds are reported using the economic resources measurement focus.



**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of unearned revenue, and in the presentation of expenses versus expenditures.

**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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that 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 School District, available means expected to be received within sixty days after fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include Ad Valorem (property) taxes, grants, entitlements, and donations. 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 School District records the entire approved tax levy as revenue (accrued) at the start of the fiscal year since the revenue is both measurable and available. The School District is entitled to receive monies under the established payment schedule and the unpaid amount is considered to be an "accounts receivable". With the exception of restricted formula aids recorded in the special revenue fund, 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end; tuition, grants, fees, and rentals.

**Expenses/Expenditures** - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the fiscal year is reported in the operating statement as an expense. Unused donated commodities are reported as unearned revenue. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Budgets/Budgetary Control** - Annual appropriated budgets are prepared in the spring of each fiscal year for the general, special revenue, and debt service funds. The budgets are submitted to the county office for their 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. 6:23A-16.2(f)1. Transfers of appropriations may be made by School Board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23A-13.3.

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 accounting principles generally accepted in the United States of America with the exception of the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only and the special revenue fund. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The budget, as detailed on Exhibit C-1, Exhibit C-2 and Exhibit I-3, includes all amendments to the adopted budget, if any.

Exhibit C-3 presents a reconciliation of the general fund revenues and special revenue fund revenues and expenditures from the budgetary basis of accounting as presented in the general fund budgetary comparison schedule and the special revenue fund budgetary comparison schedule to the GAAP basis of accounting as presented in the statement of revenues, expenditures and changes in fund balances – governmental funds. Note that the School District does not report encumbrances outstanding at year end as expenditures in the general fund since the general fund budget follows modified accrual basis with the exception of the revenue recognition policy for the one or more June state aid payments.

**Encumbrances** - Under encumbrance accounting purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve a portion of the applicable appropriation. Encumbrances are a component of fund balance 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 governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included within committed or assigned fund balance, as appropriate.

Open encumbrances in the special revenue fund, however, for which the School District has received advances of grant awards, and all eligibility and time requirements satisfied are reflected on the balance sheet as unearned grant revenue 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.

**Cash, Cash Equivalents and Investments** - Cash and cash equivalents, for all funds, include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows for the proprietary funds. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey school districts are limited as to the types of investments and types of financial institutions they may invest in. N.J.S.A. 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey school districts.

N.J.S.A. 17:9-41 et seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (GUDPA), a multiple financial institution collateral pool, which was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. Public depositories include State or federally chartered banks, savings banks or associations located in or having a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the governmental units.

**Tuition Receivable** - Tuition charges were established by the School District based on estimated costs. The charges are subject to adjustment when the final costs are determined.

**Tuition Payable** - Tuition charges for the fiscal years ended June 30, 2015 and 2014 were based on rates established by the receiving school district. These rates are subject to change when the actual costs have been determined.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Inventories** - Inventories are valued at cost, which approximates market. The costs are determined on a first-in, first-out basis.

The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed, and is not recorded since any amounts are considered immaterial to the basic financial statements.

Inventories recorded in the government-wide financial statements and in the proprietary fund types are recorded as expenditures when consumed rather than when purchased.

**Prepaid Expenses** - Prepaid expenses recorded on the government-wide financial statements and in the proprietary fund types represent payments made to vendors for services that will benefit periods beyond June 30, 2015.

In the governmental fund types, however, payments for prepaid items are fully recognized as an expenditure in the fiscal year of payment. No asset for the prepayment is created, and no expenditure allocation to future accounting periods is required (*non-allocation method*). This is consistent with the basic governmental concept that only expendable financial resources are reported by a specific fund.

**Deferred Outflows/Inflows of Resources** – In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Short-Term Interfund Receivables / Payables** - Short-term interfund receivables / payables represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund in the School District and that are due within one year. These amounts are eliminated in the governmental and business-type columns of the statement of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

**Capital Assets** - General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and the proprietary fund statement of net position.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market value as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Capital Assets (Continued)**

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Land and Improvements	10-20 years	N/A
Buildings and Improvements	10-50 years	N/A
Furniture and Equipment	5-20 years	12 years
Vehicles	5-10 years	4-6 years

**Unearned Revenue** - Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the School District is eligible to realize the revenue.

**Compensated Absences** - Compensated absences are those absences for which employees will be paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered, and that are not contingent on a specific event that is outside the control of the School District and its employees, is accrued as the employees earn the rights to the benefits. Compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the School District and its employees, are accounted for in the period in which such services are rendered or in which such events take place.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid with expendable available financial resources. In proprietary funds, the entire amount of compensated absences is recorded as a fund liability.

**Accrued Liabilities and Long-Term Obligations** - All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund 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, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

**Net Position** - Net position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. Net position is classified into the following three components:

**Net Investment in Capital Assets** - This component represents capital assets, net of accumulated depreciation, net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.

**Restricted** - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or law or regulations of other governments.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Unrestricted** – Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

It is the School District's policy to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

**Fund Balance** – The School District reports fund balance in classifications that comprise a hierarchy based primarily on the extent to which the School District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The School District's classifications, and policies for determining such classifications, are as follows:

**Nonspendable** – The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criteria includes items that are not expected to be converted to cash, such as inventories and prepaid amounts. The School District had no nonspendable fund balance at June 30, 2015.

**Restricted** – This fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed** – This fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision making authority, which for the School District is the Board of Education. Once committed, amounts cannot be used for any other purpose unless the Board of Education removes, or changes, the specified use by taking the same type of action imposing the commitment.

**Assigned** – This fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. *Intent* is expressed by either the Board of Education or by the Business Administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes.

**Unassigned** – This fund balance classification is the residual classification for the General Fund. It represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, it is the School District's policy to spend restricted fund balances first. Likewise, when an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used, it is the policy of the School District to spend fund balances, if appropriate, in the following order: committed, assigned, then unassigned.

**Operating and Non-Operating Revenues and Expenses** - Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, these revenues are sales for the food service program. Non-operating revenues principally consist of interest income earned on various interest bearing accounts and federal and state subsidy reimbursements for the food service program.

Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. There are no non-operating expenses.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Interfunds** – Interfund receivables and payables that arise from transactions between funds are recorded by all funds affected by such transactions in the period in which the transaction is executed.

**Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Recently Issued Accounting Pronouncements** – In February 2015, the GASB issued Statement 72, Fair Value Measurement and Application. The requirements of this Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This Statement also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. This Statement is effective for financial statements for periods beginning after June 15, 2015 and will not have any effect on the District's financial reporting.

In June 2015, the GASB issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement will improve financial reporting by establishing a single framework for the presentation of information about pensions, which will enhance the comparability of pension-related information reported by employers and nonemployer contributing entities. This Statement is effective for financial statements for periods beginning after June 15, 2016 and will not have any effect on the District's financial reporting.

In June 2015, the GASB issued Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are *not* administered through trusts that meet the specified criteria. This Statement is effective for financial statements for periods beginning after June 15, 2016. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

In June, 2015, the GASB issued Statement 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. This Statement is effective for financial statements for periods beginning after June 15, 2017. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recently Issued Accounting Pronouncements (Continued)** - In June 2016, the GASB issued Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements in this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement is effective for financial statements for periods beginning after June 15, 2015 and will not have any effect on the District's financial reporting.

**2. CASH AND CASH EQUIVALENTS**

**Custodial Credit Risk Related to Deposits** – Custodial credit risk refers to the risk that, in the event of a bank failure, the School District's deposits might not be recovered. Although the School District does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Unit (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the School district in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings of funds that pass to the School District relative to the happening of a future condition. Such funds are classified as uninsured and uncollateralized. Of the School District's amount on deposit of \$1,748,722 as of June 30, 2015, \$250,000 was insured under FDIC and the remaining balance of \$1,498,722 was collateralized under GUDPA.

**3. CAPITAL RESERVE ACCOUNT**

A capital reserve account was established by the School 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 School District's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the New Jersey Department of Education, a school 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 fiscal year-end (June 1 to June 30) of any unanticipated revenue or unexpended line-item appropriation amounts, or both. A school district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to N.J.S.A. 19:60-2. Pursuant to N.J.A.C. 6:23A-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.

The activity of the capital reserve for the July 1, 2014 to June 30, 2015 fiscal year is as follows:

Balance – July 1, 2014	\$1
Increased by:	
Interest earned	<u>          </u>
Balance – June 30, 2015	<u>          </u> <u>\$1</u>

The June 30, 2015 capital reserve balance does not exceed the LRFP balance of local support costs of uncompleted capital projects.



**Lower Township School District**  
**Notes to Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**4. RECEIVABLES**

Accounts receivables at June 30, 2015 consisted of accounts (fees) and intergovernmental grants. All intergovernmental receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

Accounts receivable at June 30, 2015 for the School District's individual major and fiduciary funds, in the aggregate, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Proprietary Funds</u>	<u>Total</u>
State Aid	\$ 7,761	\$ -	\$ 804	\$ 8,565
Federal Aid		268,019	58,698	326,717
Other	25,063		12,942	38,005
<b>Total Accounts Receivable</b>	<u>\$ 32,824</u>	<u>\$ 268,019</u>	<u>\$ 72,444</u>	<u>\$ 373,287</u>

**5. CAPITAL ASSETS**

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

	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2015</u>
<b>Governmental Activities:</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 80,045	\$ -	\$ -	\$ 80,045
Construction in progress				
Total capital assets, not being depreciated	<u>80,045</u>			<u>80,045</u>
<i>Capital Assets, being depreciated:</i>				
Building and Building Improvements	17,567,102	251,310		17,818,412
Equipment	2,420,311	446,249	25,151	2,841,409
Totals at historical cost	<u>19,987,413</u>	<u>697,559</u>	<u>25,151</u>	<u>20,659,821</u>
<i>Less Accumulated Depreciation:</i>				
Building and Building Improvements	(8,533,939)	(346,596)		(8,880,535)
Equipment	(1,609,617)	(208,084)	(25,151)	(1,792,550)
Totals accumulated depreciation	<u>(10,143,556)</u>	<u>(554,680)</u>	<u>(25,151)</u>	<u>(10,673,085)</u>
Total Capital Assets, being depreciated, net	<u>9,843,857</u>	<u>142,879</u>		<u>9,986,736</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,923,902</u>	<u>\$ 142,879</u>	<u>\$ -</u>	<u>\$ 10,066,781</u>
<b>Business-Type Activities:</b>				
<i>Capital Assets, being depreciated:</i>				
Equipment	\$ 286,015	\$ -	\$ 5,723	\$ 280,292
Less accumulated depreciation	(276,906)	(2,053)	(5,723)	(273,236)
Business-Type Activities Capital Assets, Net	<u>\$ 9,109</u>	<u>\$ (2,053)</u>	<u>\$ -</u>	<u>\$ 7,056</u>



**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**5. CAPITAL ASSETS (Continued)**

Depreciation expense in the amount of \$544,680 was charged to governmental functions as follows:

<u>Function</u>	<u>Amount</u>
Instruction	\$ 381,277
School Administration	54,468
Plant Operations and Maintenance	81,702
Unallocated	<u>27,233</u>
Total	<u>\$ 544,680</u>

**6. INVENTORY**

Inventory in the Proprietary Funds at June 30, 2015 consisted of the following:

	<u>Food Service</u>
Food Supplies	\$ 12,958
	<u>2,902</u>
	<u>\$ 15,860</u>

**7. LONG-TERM OBLIGATIONS**

During the fiscal year ended June 30, 2015, the following changes occurred in long-term obligations:

	<u>Principal Outstanding July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2015</u>	<u>Amount Due Within One Year</u>
Compensated Absences	\$ 1,827,911	\$ 196,859	\$ -	\$ 2,024,770	-
Capital Lease Payable		<u>99,577</u>	<u>20,869</u>	<u>78,708</u>	<u>18,984</u>
Total Governmental Activity	<u>\$ 1,827,911</u>	<u>\$ 296,436</u>	<u>\$ 20,869</u>	<u>\$ 2,103,478</u>	<u>\$ 18,984</u>

<u>Business – Type Activities:</u>	<u>Principal Outstanding July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2015</u>	<u>Amount Due Within One Year</u>
Compensated Absences	\$ 116,519	\$ -	\$ 14,499	\$ 102,020	\$

**Bonds Payable** – At June 30, the District had no bonds payable.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**7. LONG-TERM OBLIGATIONS (Continued)**

**Capital Leases** – At June 30, the District is leasing White Boards totaling \$104,346 under capital leases. The following is a schedule of the future minimum lease payments under this capital lease agreement:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 18,984	\$ 1,885	\$ 20,869
2017	19,439	1,430	20,869
2018	19,904	965	20,869
2019	20,381	488	20,869
	<u>\$ 78,708</u>	<u>\$ 4,768</u>	<u>\$ 83,476</u>

**Compensated Absences**

Compensated absences will be paid from the fund from which the employees' salaries are paid.

**8. OPERATING LEASES**

At June 30, 2015, the School District had an operating lease agreement in effect for copiers.

Total operating lease payments made during the year ended June 30, 2015 and 2014, were \$52,257 and \$43,632 respectively. Future minimum lease payments are as follows:

<u>Year Ended</u>	<u>Amount</u>
June 30, 2016	\$ 45,208
June 30, 2017	29,246
June 30, 2018	25,413
June 30, 2019	4,106
Total future minimum lease payments	<u>\$ 103,973</u>

**9. PENSION PLANS**

**Description of Plans** – Substantially all of the School District's employees participate in one of the following pension plans which have been established by State statute, and are administered by the New Jersey Division of Pensions and Benefits (Division): the Teachers' Pension and Annuity Fund (TPAF), the Public Employees' Retirement System (PERS) or the Defined Contribution Retirement Program (DCRP). Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State of New Jersey, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625-0295.

***Teachers' Pension and Annuity Fund (TPAF)***

The Teachers' Pension and Annuity Fund is a cost-sharing contributory defined benefit pension plan which was established on January 1, 1955, under the provisions of N.J.S.A. 18A:66. The TPAF provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 18A:66.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Teachers' Pension and Annuity Fund (TPAF) (Continued)**

The contribution requirements of plan members are determined by State statute. In accordance with Chapters 113, 114, 115, P.L. 1997, plan members enrolled in the TPAF were required to contribute 5% of their annual covered salary. Effective July 1, 2007, however, in accordance with Chapter 92 P.L. 2007 and Chapter 103, P.L. 2007, plan members were required to contribute 5.5% of their annual covered salary. For employees who were enrolled in the retirement system prior to July 1, 2007, the increase was effective with the payroll period that began immediately after July 1, 2007. Pursuant to the provisions of Chapter 78, P.L. 2011, effective October 1, 2011, the active member contribution rate was increased to 6.5%. An additional 1.0% increase is being phased-in over seven years beginning on July 1, 2012. The State Treasurer has the right under current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, statute also requires the return to the normal rate when such surplus pension assets no longer exist.

Under current statute, all employer contributions are made by the State of New Jersey on-behalf of the School District and all other related non-contributing employers. No normal or accrued liability contribution by the School District has been required over the several preceding fiscal years.

**Teachers Pensions and Annuity Fund (TPAF)**

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

For the year ended June 30, 2015, the District recognized pension expense of \$3,429,010 and revenue of \$3,429,010 for support provided by the State. Although the district does not report net pension liability or deferred outflows or inflows related to the TPAF, the following schedule illustrates the collective net pension liability and deferred items and the State's portion of the net pension liability associated with the district. The collective amounts are the total of all New Jersey local governments participating in the TPAF plan.

	<u>06/30/14</u>	<u>06/30/13</u>
Collective deferred outflows of resources	\$ 2,306,623,861	\$ -
Collective deferred inflows of resources	1,763,205,593	-
Collective net pension liability (Non-Employer -- State of New Jersey)	53,446,745,367	50,539,213,484
State's portion of the net pension liability that was associated with the district	63,725,118	60,258,648
State's portion of the net pension liability that was associated with the district as a percentage of the collective net pension liability	.1192310551%	.1192314717%

*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: 2.5%

Salary Increases: Varies based on experience

Investment Rate of Return: 7.90%

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Teachers' Pension and Annuity Fund (TPAF) (Continued)**

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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Cash	06.00%	0.50%
Core Fixed Income	00.00%	2.19%
Core Bonds	01.00%	1.38%
Short-Term Bonds	00.00%	1.00%
Intermediate Term Bonds	11.20%	2.60%
Long-Term Bonds	00.00%	3.23%
Mortgages	02.50%	2.84%
High Yield Bonds	05.50%	4.15%
Non US Fixed Income	00.00%	1.41%
Inflation Indexed Bonds	02.50%	1.30%
Broad US Equities	25.90%	5.88%
Large Cap US Equities	00.00%	5.62%
Mid Cap US Equities	00.00%	6.39%
Small Cap US Equities	00.00%	7.39%
Developed Foreign Equities	12.70%	6.05%
Emerging Market Equities	06.50%	8.90%
Private Equity	08.25%	9.15%
Hedge Funds/Absolute Ret	12.25%	3.85%
Real Estate (Property)	03.20%	4.43%
Real Estate (REITS)	00.00%	5.58%
Commodities	02.50%	3.60%
Long Credit Bonds	00.00%	3.74%

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Teachers' Pension and Annuity Fund (TPAF) (Continued)**

*Discount rate.* The discount rate used to measure the State's 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 (State of New Jersey) 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 District's proportionate share of the net pension liability to changes in the discount rate.* Since the District has no proportionate share of the net pension liability, because of the special funding situation, the district would not be sensitive to any changes in the discount rate.

Detailed information about the pension plan's sensitivity of the collective net pension liability to changes in the discount rate is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report.

**Public Employees' Retirement System (PERS)**

The Public Employees' Retirement System is a cost-sharing multiple-employer defined benefit pension plan which was established on January 1, 1955. The PERS provides retirement, death and disability, and medical benefits to certain qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:3B.

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System were required to contribute 5% of their annual covered salary. Effective July 1, 2008, however, in accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. For employees enrolled in the retirement system prior to July 1, 2008, the increase is effective with the payroll period that begins immediately after July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate was increased to 6.5%. An additional 1.0% increase is being phased-in over seven years beginning on July 1, 2012 and increases each subsequent July 1. The State Treasurer has the right under the current law to make temporary reductions in rates based on the existence of surplus pension assets in the retirement system; however, statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The School District is billed annually for its normal contribution plus any accrued liability. The School District's contributions, equal to the required contribution for each fiscal year, were as follows:

<u>Fiscal Year</u>	<u>Normal Contribution</u>	<u>Accrued Liability</u>	<u>Non-Contr. Group Life Insurance</u>	<u>Total Liability</u>	<u>Delayed Enrollments</u>	<u>Delayed Appropriation</u>	<u>Paid by District</u>
2015	\$ 79,624	\$ 368,324	\$ 30,339	\$ 478,287			\$ 478,287
2014	80,470	353,794	7,385	441,649			441,649
2013	125,251	299,479	25,279	450,009			450,009

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

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

For the year ended June 30, 2015, the District recognized pension expense of \$540,743. At June 30, 2015, the District reported a liability of \$10,862,442 for its proportionate share of the PERS net pension liability and deferred outflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	341,573	
Net difference between projected and actual earnings on pension plan investments		647,343
Changes in proportion and differences between District contributions and proportionate share of contributions		96,414
District contributions subsequent to the measurement Date	478,287	
Total	\$ 819,860	\$ 743,757

\$478,287 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 liability in the year ended June 30, 2015.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ended:	Net Deferred Inflow of Resources:
2016	\$ 80,437
2017	80,437
2018	80,437
2019	80,437
2020	80,436
Total	\$ 402,184

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Public Employees' Retirement System (PERS) (Continued)**

**Additional Information**

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

	6/30/2014	6/30/2013
Collective deferred outflows of resources	\$ 952,194,675	\$ (1)
Collective deferred inflows of resources	\$ 1,479,224,662	\$ (1)
Collective net pension liability	\$ 18,722,735,003	\$ 19,111,986,911
District's Proportion	.0580173906%	.058145948%

(1) – Information not available.

*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: 3.01%  
Salary Increases:  
    2012-2021: 2.15-4.40% based on age  
    Thereafter: 3.15-5.40% based on age  
Investment Rate of Return: 7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

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, 2008 to June 30, 2011.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

*Long-Term Expected Rate of Return* - In accordance with State statute, the long-term expected rate of return on plan investments 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	06.00%	00.80%
Core Bonds	01.00%	02.49%
Intermediate Term Bonds	11.20%	02.26%
Mortgages	02.50%	02.17%
High Yield Bonds	05.50%	04.82%
Inflation Indexed Bonds	02.50%	03.51%
Broad US Equities	25.90%	08.22%
Developed Foreign Equities	12.70%	08.12%
Emerging Market Equities	06.50%	09.91%
Private Equity	08.25%	13.02%
Hedge Funds/Absolute Ret	12.25%	04.92%
Real Estate (Property)	03.20%	05.80%
Commodities	02.50%	05.35%

*Discount rate.* The discount rate used to measure the State's 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 District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability measured as of June 30, 2014, calculated using the discount rate of 5.39%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.39%) or 1 percentage point higher (6.39%) than the current rate:

	<u>1% Decrease (4.39%)</u>	<u>Current Discount Rate (5.39%)</u>	<u>1% Increase (6.39%)</u>
District's proportionate share of the net pension liability	\$ 13,665,322	\$ 10,862,442	\$ 8,508,736

*Pension Plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report.



**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**9. PENSION PLANS (Continued)**

**Defined Contribution Retirement Program (DCRP)**

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

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

There were no School District employees enrolled in the DCRP for the fiscal years ended June 30, 2015, 2014 and 2013.

**10. POST-RETIREMENT BENEFITS**

The School District contributes to the New Jersey 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 Pension and Benefits. SHBP was established to provide medical, prescription drug, mental health/substance abuse and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Program Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pension issues a publicly available financial report that includes financial statements and required supplementary information for SHBP. That report may be obtained by writing to the Division of Pension and Benefits, PO 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 receiving 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 benefits 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 employer paid 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 establishes 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 the level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contribution to the SHBP Fund for TPAF retirees' post-retirement benefits on behalf of the School District for the year ended June 30, 2015 was \$996,125 which equaled the required contributions. The State's contribution to the SHBP 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.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**11. ON-BEHALF PAYMENTS**

For the fiscal year ended June 30, 2015, the School District has recognized as revenues and expenditures \$627,480 of on-behalf payments made by the State of New Jersey for normal retirement costs related to TPAF and \$847,494 for employer's share of social security contributions for TPAF members, as calculated on their base salaries.

**12. RISK MANAGEMENT**

**Property and Liability Insurance** – The District is a member of the Atlantic and Cape May Counties Association of School Business Officials Joint Insurance Fund (ACCASBOJIF), a public entity risk pool currently operating as a common risk management and insurance program. The District pays an actuarial determined annual assessment to ACCASBOJIF for its insurance coverage. Supplemental assessments may be levied to supplement the fund. The District has not been notified of any supplemental assessments.

In addition, the District carries commercial insurance for all other risks of loss, including employee health, accident insurance and public official surety bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

A complete schedule of insurance coverage can be found in the "Statistical Section" of this report.

**New Jersey Unemployment Compensation Insurance** - The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Business 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 expendable trust fund for the current and prior four years:

<u>Fiscal Year</u>	<u>District Contributions</u>	<u>Employee Contributions</u>	<u>Interest Earned</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2014-2015	\$ 40,000	\$ 54,487	\$ 44	\$ 98,651	\$ 79,880
2013-2014	9,249	38,978	51	61,025	84,000
2012-2013	34,529	21,512	59	23,478	96,747
2011-2012		48,860	146	25,468	64,125
2010-2011		49,385	304	88,179	40,587

**13. DEFERRED COMPENSATION**

The School District offers its employees a choice of various deferred compensation plans created in accordance with Internal Revenue Code Section 403(b). The plans, available to all permanent School District employees, permit participants to defer a portion of their current salary to future years. Participation in the plans is optional. The deferred compensation is not available to the participants until termination, retirement, death, or an unforeseeable emergency occurs. The plan assets are held in trust for the benefit of the employee and are administered by a third party therefore they are not reflected on the financial statements of the School District.

**14. COMPENSATED ABSENCES**

The School 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.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**14. COMPENSATED ABSENCES (Continued)**

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

The liability for vested compensated absences is recorded within those funds as the benefits accrued to the employees. As of June 30, 2015, the liability for compensated absences in the governmental activities and proprietary fund types was \$2,024,770 and \$102,020, respectively.

**15. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables/payables are recorded to cover temporary cash shortages and/or timing differences in the respective funds. There are no interfund balances that are not expected to be repaid by June 30, 2015. The following interfund balances were recorded on the various balance sheets as of June 30, 2015:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 338,562	\$ -
Special Revenue		305,212
Proprietary		2,118
Fiduciary		31,232
	<u>\$ 338,562</u>	<u>\$ 338,562</u>

**16. CONTINGENCIES**

The School District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the School District may be required to reimburse the grantor government.

At June 30, 2015, significant amounts of grant expenditures have not been audited by the granting agency, but the School District believes that disallowed expenditures discovered in subsequent audits, if any, will not have a material effect on any of the individual funds or the overall financial position of the School District.

**17. DEFICIT UNASSIGNED FUND BALANCE**

The School District has a deficit unassigned fund balance of \$400,563 in the General Fund and \$37,193 in the Special Revenue Fund as of June 30, 2015 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenues, for budget purposes only, in the current school budget year. The statute provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the June state aid payments in the subsequent fiscal year, the School District cannot recognize the June state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the June state aid payments, the general and special revenue fund balance deficit does not alone indicate that the School District is facing financial difficulties.

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**17. DEFICIT UNASSIGNED FUND BALANCE (Continued)**

Pursuant to N.J.S.A. 18A:22-44.2 any negative unassigned general fund balance that is reported as a direct result from a delay in the June payments of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The School District deficit in the GAAP funds statements of \$400,563 in the General Fund and \$37,193 in the Special Revenue Fund is equal to or less than the June state aid payments.

**18. DEFICIT UNRESTRICTED NET POSITION**

As of June 30, 2015, a deficit of \$13,211,672 existed in the Unrestricted Net Position of the Governmental Activities. A reconciliation of Unreserved Fund Balance reported on Exhibit B-1 to Unrestricted Net Position reported on Exhibited A-1 as follows:

Balances June 30, 2015	
Fund Balance (Deficit)	
(Exclusive of Capital Projects and Debt Service Funds):	
Fund Balance – Unassigned	\$ (400,563)
Liabilities:	
Net Pension Differences	(10,786,339)
Compensated Absences	(2,024,770)
	<hr/>
Unrestricted Net Position (Deficit)	\$ (13,211,672)
	<hr/>

**19. FUND BALANCES**

**RESTRICTED**

As stated in Note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the School District's fund balance are summarized as follows:

**General Fund:**

**Excess Surplus** – In accordance with N.J.S.A. 18A:7F-7, as amended, the designation of restricted fund balance - excess surplus is the result of a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to restrict 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 \$164,441 presented on the budgetary basis of accounting (Exhibit C-1). Additionally, \$154,300 of excess fund balance generated during the 2013-2014 fiscal year has been restricted and designated for utilization in the 2015-2016 budget.

**Capital Reserve** – As of June 30, 2015, the balance in the capital reserve account is \$1.

**Maintenance Reserve Account** – As of June 30, 2015, the balance in the maintenance reserve account is \$992,246. These funds are restricted for the required maintenance of school facilities in accordance with the Educational Facilities Construction and Financing Act (EFCFA) (N.J.S.A. 18A:7G-9) as amended by P.L. 2004, c. 73 (S1701).

**Lower Township School District  
Notes to Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**19. FUND BALANCES (Continued)**

*ASSIGNED*

As stated in Note 1, the assigned fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. Specific assignments of the School District's fund balance are summarized as follows:

**General Fund:**

**ARRA/SEMI - Designated for Subsequent Year's Expenditures** – The School District has \$53,625 of general fund balance at June 30, 2015, which is ARRA/SEMI Revenue designated for use in subsequent years' budget.

**Other Purposes** – At June 30, 2015 the School District has \$140,792 of encumbrances outstanding for purchase orders and contracts signed by the School District, but not completed, as of the close of the fiscal year.

*UNASSIGNED*

As stated in Note 1, the unassigned fund balance classification represents fund balance that has not been restricted, committed, or assigned to specific purposes. The School District's unassigned fund balance is summarized as follows:

**General Fund** – As of June 30, 2015, the fund balance of the general fund was a deficit of \$400,563, thus resulting in the fund balance classification of unassigned. The deficit is a result of the delay in the recording of the payment of state aid until the following fiscal year (See Note 17).

**Special Revenue Fund** – As of June 30, 2015, the fund balance of the special revenue fund was a deficit of \$37,193, thus resulting in the fund balance classification of unassigned. The deficit is a result of the delay in the recording of the payment of state aid until the following fiscal year (See Note 17).

**20. RESTATEMENT OF BEGINNING BALANCES**

Net position on the government-wide Statement of Activities as of July 1, 2014, has been restated for implementation of GASB-68.

The government-wide and fund financial statements were restated as follows:

	<b>Government -wide Statements Governmental Activities</b>
Net Position as of June 30, 2014, as previously reported	\$ 8,843,295
Prior Period Adjustment - Implementation GASB 68:	-
Net Pension Liability	(11,202,414)
Deferred Outflows - District's Contribution made during fiscal year 2014	441,649
Net Position as Restated, July 1, 2014	\$ (1,917,470)

Required Supplementary Information - Part II

Budgetary Comparison Schedules

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2015**

	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>REVENUES:</b>					
Local sources:					
Local tax levy	\$ 15,806,595	\$ -	\$ 15,806,595	\$ 15,806,595	\$ -
Tuition				58,912	58,912
Unrestricted miscellaneous revenue	41,000		41,000	6,417	(34,583)
Total local sources	15,847,595		15,847,595	15,871,924	24,329
State sources:					
School choice aid	796,248		796,248	796,248	
Special education aid	888,970		888,970	888,970	
Equalization aid	5,202,298		5,202,298	5,202,298	
Security aid	446,178		446,178	446,178	
Adjustment aid	2,030,412		2,030,412	2,030,412	
Transportation aid	764,271		764,271	764,271	
PARCC Readiness Aid	16,460		16,460	16,460	
Per Pupil Growth Aid	16,460		16,460	16,460	
Additional Non Public Transportation Aid				7,761	7,761
On-behalf TPAF pension contributions (non-budgeted)				627,480	627,480
On-behalf TPAF Medical (non-budgeted)				996,125	996,125
Reimbursed TPAF social security contributions (non-budgeted)				847,494	847,494
Total state sources	10,161,297		10,161,297	12,640,157	2,478,860
Federal sources:					
Special Education Medicaid Initiative (SEMI)	50,533		50,533	74,861	24,328
Special Education Medicaid Initiative (ARRA/SEMI)				53,625	53,625
Total federal sources	50,533		50,533	128,486	77,953
<b>TOTAL REVENUES</b>	<b>26,059,425</b>		<b>26,059,425</b>	<b>28,640,567</b>	<b>2,581,142</b>
<b>EXPENDITURES:</b>					
<b>CURRENT EXPENSE:</b>					
Regular Programs - Instruction:					
Salaries of teachers					
Preschool	204,524	(50,196)	154,328	131,278	23,050
Kindergarten	908,374	(99,586)	808,788	798,373	10,415
Grades 1-5	5,259,056	154,745	5,413,801	5,409,577	4,224
Grades 6-8	965,040	(129,999)	835,041	819,074	15,967
Total Instruction	7,336,994	(125,036)	7,211,958	7,158,302	53,656
Regular Programs - Home Instruction:					
Salaries of teachers	3,500	(3,200)	300		300
Other purchased services	250		250		250
Total Home Instruction	3,750	(3,200)	550		550

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

(CONTINUED TO NEXT PAGE)



**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2015**

(Continued from prior page)	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Regular Programs - Undistributed Instruction:					
Other salaries for instruction	\$ 823,182	\$ 33,129	\$ 856,311	\$ 856,311	\$ -
Purchased technical services	11,000	(2,200)	8,800	8,730	70
Other purchased services	98,926	(11,440)	87,486	84,088	3,398
General supplies	387,058	46,676	433,734	321,496	112,238
Textbooks	114,000		114,000	114,000	
Other objects	21,500	(13,036)	8,464	8,108	356
Total Undistributed Instruction	1,455,666	53,129	1,508,795	1,392,733	116,062
Total - Regular Programs - Instruction	8,796,410	(75,107)	8,721,303	8,551,035	170,268
Special Educ Instruction: Learning/Lang. Disabilities					
Salaries of teachers	445,388	(8,997)	436,391	400,571	35,820
Other salaries for instruction	170,219	(44,150)	126,069	87,795	38,274
General Supplies	6,000		6,000	6,000	
Total Learning/Lang. Disabilities	621,607	(53,147)	568,460	494,366	74,094
Special Educ Instruction: Res. Room/Res. Center					
Salaries of teachers	1,058,299	(4,582)	1,053,717	1,051,066	2,651
General supplies	6,000		6,000	3,999	2,001
Total Resource Room/Resource Center	1,064,299	(4,582)	1,059,717	1,055,065	4,652
Special Educ Instruction: Pre-K Disabilities Part-time					
Salaries of teachers	110,737	1	110,738	64,989	45,749
General supplies	1,976		1,976		1,976
Total Pre-K Disabilities Part-time	112,713	1	112,714	64,989	47,725
Special Educ Instruction: Home Instruction					
Salaries of teachers	14,000	10,075	24,075	24,065	10
Total Home Instruction	14,000	10,075	24,075	24,065	10
Total Special Education - Instruction	1,812,619	(47,653)	1,764,966	1,638,485	126,481
Before/after school programs - Instruction					
Salaries of teachers	16,000	18,665	34,665	34,663	2
Total Before/after school - Instruction	16,000	18,665	34,665	34,663	2
Bilingual Education - Instruction					
Salaries of teachers	28,918	2,012	30,930	30,929	1
General supplies	6,788		6,788	104	6,684
Total Bilingual Education - Instruction	35,706	2,012	37,718	31,033	6,685
Undistributed Expenditures - Instruction					
Tuition to other LEA's w/in state/regular	11,500	112,510	124,010	123,962	48
Tuition to CSSD & reg. day schools	410,544	53,495	464,039	464,038	1
Tuition to priv. sch. for the handicapped in state	133,178	(86,005)	47,173	46,980	193
Total Undistributed Expenditures - Instruction	555,222	80,000	635,222	634,980	242

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

(CONTINUED TO NEXT PAGE)

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2015**

(Continued from prior page)	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Undistributed Expenditures - Attendance & Social Work					
Salaries	\$ 29,812	\$ 325	\$ 30,137	\$ 29,048	\$ 1,089
Purchased professional and technical services	10,000	-	10,000	9,500	500
Supplies and materials	165		165	71	94
Total Undistributed Expenditures - Attendance & Soc.	39,977	325	40,302	38,619	1,683
Undistributed Expenditures - Health Services					
Salaries	425,461	(20,007)	405,454	393,492	11,962
Purchased professional and technical services	24,000		24,000	22,152	1,848
Other purchased services (400-500)	260		260		260
Supplies and materials	16,000	10,000	26,000	16,847	9,153
Total Undistributed Expenditures - Health Svcs.	465,721	(10,007)	455,714	432,491	23,223
Undist. Expend. - Speech, OT, PT & Related Services					
Salaries	371,280	13,714	384,994	384,990	4
Purchased professional - educ services	1,700	(300)	1,400		1,400
Supplies and materials	1,000	300	1,300	1,087	213
Total Undst. Expend. - Speech, OT, PT & Related Services	373,980	13,714	387,694	386,077	1,617
Undist. Expend. - Guidance					
Salaries of other professional staff	361,862	3,349	365,211	353,290	11,921
Supplies and materials	500		500	497	3
Other objects	200		200	52	148
Total Undst. Expend. - Guidance	362,562	3,349	365,911	353,839	12,072
Undist. Expend. - Child Study Teams					
Salaries of other professional staff	631,181	(175,506)	455,675	448,893	6,782
Salaries of secretarial and clerical assistants	129,574	350	129,924	129,455	469
Purchased professional - educ services	225,000	20,000	245,000	244,347	653
Other purchased professional - tech services	28,000	45,705	73,705	65,900	7,805
Misc. purchased services (400-500)	5,760	(55)	5,705	3,009	2,696
Supplies and materials	15,000	(2,760)	12,240	9,241	2,999
Other objects	1,200		1,200		1,200
Total Undst. Expend. - Child Study Teams	1,035,715	(112,266)	923,449	900,845	22,604
Undist. Expend. - Improvement of Instr. Services					
Salaries of supervisor of instruction	89,750	1,015	90,765	90,350	415
Salaries of other professional staff		735	735		735
Salaries of Secr and Clerical Assist.	27,396	780	28,176	28,176	
Other purchased professional and tech services	1,000	(570)	430		430
Other purchased services (400-500)	500		500		500
Supplies and materials	1,000		1,000	870	130
Other objects	250	570	820	820	
Total Undst. Expend. - Improvement of Instr. Services	119,896	2,530	122,426	120,216	2,210
Undist. Expend. - Educ. Media Serv./Sch. Library					
Salaries	457,398	(50,407)	406,991	395,333	11,658
Other purchased services (400-500)	800		800		800
Supplies and materials	35,000	41,800	76,800	71,519	5,281
Other objects	3,700	(3,700)			
Total Undst. Expend. - Educ. Media Serv./Sch. Library	496,898	(12,307)	484,591	466,852	17,739

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

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**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2015**

(Continued from prior page)	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Undist. Expend. - Instructional Staff Training Services					
Salaries of supervisor of instruction	\$ 89,750	\$ 11,147	\$ 100,897	\$ 100,896	\$ 1
Salaries of other professional staff	20,000	(19,370)	630		630
Salaries of secretarial and clerical assistants	52,312	30,366	82,678	82,678	-
Other salaries	2,500	1,108	3,608	3,600	8
Purchased professional - educ services	10,000	(2,300)	7,700	4,475	3,225
Other purchased services	5,000		5,000	1,724	3,276
Supplies and materials	18,000	(10,100)	7,900	2,311	5,589
Other objects	15,000		15,000	12,464	2,536
<b>Total Undst. Expend. - Instructional Staff Training Svcs.</b>	<b>212,562</b>	<b>10,851</b>	<b>223,413</b>	<b>208,148</b>	<b>15,265</b>
Undist. Expend. - Supp. Serv. General Admin.					
Salaries	233,914	333	234,247	232,285	1,962
Legal services	31,731		31,731	30,810	921
Audit fees	22,943		22,943	22,300	643
Other purchased professional services	11,981	5,105	17,086	15,630	1,456
Communications / telephone	42,709		42,709	34,072	8,637
Other purchased services	75,585	(4,605)	70,980	68,385	2,595
General supplies	10,150		10,150	6,807	3,343
BOE in-house training/meeting supplies	3,000		3,000	1,464	1,536
Miscellaneous expenditures	5,000		5,000	3,842	1,158
BOE membership dues and fees	15,400	(500)	14,900	14,698	202
<b>Total Undst. Expend. - Supp. Serv. General Admin.</b>	<b>452,413</b>	<b>333</b>	<b>452,746</b>	<b>430,293</b>	<b>22,453</b>
Undist. Expend. - Supp. Serv. School Admin.					
Salaries of principals/assist. principals	469,236		469,236	457,396	11,840
Salaries of secretarial and clerical assistants	380,286	68	380,354	349,876	30,478
Purchased professional and technical services	1,000		1,000	250	750
Other purchased services (400-500)	13,500		13,500	4,410	9,090
Supplies and materials	15,400		15,400	8,284	7,116
Other objects	10,000		10,000	8,189	1,811
<b>Total Undst. Expend. - Supp. Serv. School Admin.</b>	<b>889,422</b>	<b>68</b>	<b>889,490</b>	<b>828,405</b>	<b>61,085</b>
Undist. Expend. - Central Services					
Salaries	303,433	1,739	305,172	299,407	5,765
Purchased professional services	25,000		25,000	24,352	648
Miscellaneous purchased services	9,683		9,683	5,934	3,749
Supplies and materials	9,000		9,000	8,318	682
Miscellaneous expenditures	4,000		4,000	2,416	1,584
<b>Total Undst. Expend. - Central Services</b>	<b>351,116</b>	<b>1,739</b>	<b>352,855</b>	<b>340,427</b>	<b>12,428</b>
Undist. Expend. - Required Maint. Sch. Facilities					
Salaries	307,694	(65,420)	242,274	240,247	2,027
Cleaning, Repair and Maintenance Services	166,450	(86,575)	79,875	69,711	10,164
Supplies and materials	141,470	211,700	353,170	342,477	10,693
Other objects	1,000		1,000		1,000
<b>Total Undst. Expend. - Required Maint. Sch. Facilities</b>	<b>616,614</b>	<b>59,705</b>	<b>676,319</b>	<b>652,435</b>	<b>23,884</b>

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

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**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2015**

(Continued from prior page)	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
Undist. Expend. - Custodial Services					
Salaries	\$ 720,260	\$ 132,923	\$ 853,183	\$ 849,165	\$ 4,018
Salaries of Non-Instructional Aides	81,078	20,965	102,043	100,101	1,942
Purchased professional & tech. services	17,313	(6,705)	10,608	5,601	5,007
Cleaning, repair and maintenance services	1,000	(692)	308		308
Other purchased property services	60,000	(15,445)	44,555	44,554	1
Insurance	131,428	(1,795)	129,633	129,384	249
Travel		500	500		500
Miscellaneous purchased services	11,500	6,928	18,428	17,148	1,280
General supplies	104,000	12,000	116,000	114,934	1,066
Energy (electricity)	300,000	14,309	314,309	314,247	62
Energy (natural gas)	115,432	7,100	122,532	121,840	692
Other objects	2,000	(2,000)			
<b>Total Undst. Expend. - Custodial Services</b>	<b>1,544,011</b>	<b>168,088</b>	<b>1,712,099</b>	<b>1,696,974</b>	<b>15,125</b>
Undist. Expend. - Care & Upkeep of Grounds					
Salaries	12,000	215	12,215	12,215	
Cleaning, repair and maintenance services	10,150		10,150	10,150	
General supplies	18,236	(4,000)	14,236	14,164	72
<b>Total Undst. Expend. - Care &amp; Upkeep of Grounds</b>	<b>40,386</b>	<b>(3,785)</b>	<b>36,601</b>	<b>36,529</b>	<b>72</b>
Undist. Expend. - Security					
Salaries	233,593	40,004	273,597	241,155	32,442
Purchased Professional & technical services	95,000	(19,700)	75,300	75,241	59
Cleaning, repair and maintenance services	1,000		1,000	122	878
Other Objects		100	100	100	
General supplies	2,000	9,900	11,900	11,025	875
<b>Total Undst. Expend. - Security</b>	<b>331,593</b>	<b>30,304</b>	<b>361,897</b>	<b>327,643</b>	<b>34,254</b>
<b>Total Undst. Expend. - Oper. &amp; Maint. of Plant Services</b>	<b>2,532,604</b>	<b>254,312</b>	<b>2,786,916</b>	<b>2,713,581</b>	<b>73,335</b>
Undist. Expend. - Student Transportation Services					
Salaries for pupil trans. (bet home & sch) - regular	644,044	(80,270)	563,774	551,205	12,569
Salaries for pupil trans. (bet home & sch) - special	243,272	(57,330)	185,942	177,298	8,644
Salaries for pupil trans. (other than bet home & sch)	19,000	130	19,130	7,378	11,752
Rental payments - school buses		2,064	2,064	1,892	172
Contr. serv. - (Sp. Ed Stds) - Joint Agreements	56,000	58,500	114,500	98,747	15,753
Contr. serv. - Aide in lieu Pymts - Charter Schools	19,000	22,861	41,861	40,886	975
Contr. serv. - Aide in lieu Pymts - Nonpublic Schools	38,000	75	38,075	38,074	1
Miscellaneous purchased services - transportation	30,140	23,500	53,640	44,959	8,681
General Supplies	100,000	55,000	155,000	109,743	45,257
Transportation supplies	225,000	(97,000)	128,000	120,205	7,795
Other objects	1,700		1,700	1,346	354
<b>Total Undst. Expend. - Student Transportation Services</b>	<b>1,376,156</b>	<b>(72,470)</b>	<b>1,303,686</b>	<b>1,191,733</b>	<b>111,953</b>
Unallocated Benefits - Employee Benefits					
Social security contributions	463,458	(33,998)	429,460	406,524	22,936
Other retirement contributions - PERS	507,406	(29,000)	478,406	478,287	119
Unemployment compensation	40,000		40,000	40,000	
Workers' compensation	169,710	1,730	171,440	171,378	62
Health benefits	4,823,373	10,800	4,834,173	4,829,072	5,101
Tuition reimbursement	50,000	(10,730)	39,270	33,077	6,193
Other employee benefits	377,058	(9,000)	368,058	343,382	24,676
<b>Total Unallocated Benefits - Employee Benefits</b>	<b>6,431,005</b>	<b>(70,198)</b>	<b>6,360,807</b>	<b>6,301,720</b>	<b>59,087</b>

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

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**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**General Fund**  
**Fiscal Year Ended June 30, 2015**

(Continued from prior page)	Original Budget	Budget Transfers	Final Budget	Actual	Variance Final to Actual
<b>EXPENDITURES:</b>					
On-behalf TPAF pension (non-budgeted)	\$ -	\$ -	\$ -	\$ 627,480	\$ (627,480)
On-behalf TPAF medical (non-budgeted)				996,125	(996,125)
Reimbursed TPAF social security contributions (non-budgeted)				847,494	(847,494)
Total Undistributed Expenditures - TPAF				2,471,099	(2,471,099)
Total Undistributed Expenditures	15,695,249	89,973	15,785,222	17,819,325	(2,034,103)
Total General Current Expense	26,355,984	(12,110)	26,343,874	28,074,541	(1,730,667)
<b>CAPITAL OUTLAY:</b>					
Equipment:					
Grades 1-5		10,000	10,000		10,000
Undist. Exp - req. maint - school facilities	12,000	(12,000)			
Undist. Exp - support services - students - regular		2,110	2,110	2,107	3
Undist. Exp - req. maint - school facilities	5,672	5,775	11,447	9,921	1,526
School Buses - Regular	200,000	6,225	206,225	205,911	314
Total Equipment	217,672	12,110	229,782	217,939	11,843
Facilities Acquisition and Construction Services:					
Assessment on SDA Funding	6,346		6,346	6,346	
Total Facilities Acquisition and Construction Services	6,346		6,346	6,346	
Assets acquired under capital leases (non-budgeted):					
Equipment					
Undistributed expenditures - instruction				99,577	(99,577)
Total assets acquired under capital leases				99,577	(99,577)
Total Capital Outlay	224,018	12,110	236,128	323,862	(87,734)
Total Expenditures	26,580,002		26,580,002	28,398,403	(1,818,401)
Excess (Deficiency) of Revenues Over (Under) Expenditures:	(520,577)		(520,577)	242,164	762,741
Other Financing Sources (Uses):					
Operating transfer in Proceeds of Capital Lease				99,577	99,577
Total Other Financing Sources				99,577	99,577
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses):	(520,577)		(520,577)	341,741	862,318
Fund Balance, July 1	1,687,980		1,687,980	1,687,980	
Fund Balance, June 30	\$ 1,167,403	\$ -	\$ 1,167,403	\$ 2,029,721	\$ 862,318
Recapitulation of Fund Balance:					
Restricted Fund Balance:					
Reserved Excess Surplus - Designated for Subsequent Years Expenditures				\$ 154,300	
Reserve for Excess Surplus					
Maintenance Reserve				164,441	
Capital Reserve				992,246	
Assigned Fund Balance				1	
Year-end Encumbrances				140,792	
ARRA/SEMI - Designated for Subsequent Years Expenditures				53,625	
Unassigned Fund Balance				524,316	
				2,029,721	
Reconciliation on Governmental Fund Statements (GAAP):					
Less: State Aid Payment not Recognized on GAAP Basis				(924,879)	
Fund Balance per Government Fund (GAAP)				\$ 1,104,842	

See Management's Discussion and Analysis section of this report for explanation of significant budget variances, original and final.

**LOWER TOWNSHIP SCHOOL DISTRICT**  
**Budgetary Comparison Schedule**  
**Special Revenue Fund**  
**Fiscal Year Ended June 30, 2015**

	Original Budget	Budget Transfers	Final Budget	Actual	Final to Actual
<b>REVENUES:</b>					
Local sources	\$ -	\$ 982	\$ 982	\$ 982	\$ -
State sources	371,931		371,931	371,931	
Federal sources	859,689	182,785	1,042,474	1,042,474	
Total revenues	1,231,620	183,767	1,415,387	1,415,387	
<b>EXPENDITURES:</b>					
Instruction:					
Salaries of teachers	629,375	20,424	649,799	649,799	
Tuition	409,121	110,409	519,530	519,530	
General supplies	3,662	15,394	19,056	19,056	
Total instruction	1,042,158	146,227	1,188,385	1,188,385	
Support services:					
Salaries of program director	69,292		69,292	69,292	
Personal services - employee benefits	120,170	37,540	157,710	157,710	
Purchased prof. and educational services					
Total support services	189,462	37,540	227,002	227,002	
Facilities acquisition and construction services:					
Instructional equipment					
Non-instructional equipment					
Total facilities acq. and const. services					
Transfer to charter schools					
Total expenditures	1,231,620	183,767	1,415,387	1,415,387	
Total outflows	1,231,620	183,767	1,415,387	1,415,387	
Excess (Deficiency) of revenues over (under) expenditures and other financing sources (uses)					

**Lower Township School District**  
**Notes to Required Supplementary Information**  
**Budgetary Comparison**

**Explanation of Differences between Budgetary Inflows and Outflows and GAAP  
Revenues and Expenditures**

	<u>General Fund</u>	<u>Special Revenue Fund</u>
<b>Sources/inflows of resources</b>		
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedules	\$ 28,640,567	\$ 1,415,387
Difference - budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		
Fiscal Year Ended June 30, 2014		6,716
Fiscal Year Ended June 30, 2015		(1,303)
State aid payment recognized for GAAP statements in current year, previously recognized for budgetary purposes.	903,483	37,193
State aid payment recognized for budgetary purposes, not recognized for GAAP statements until the subsequent year.	<u>(924,879)</u>	<u>(37,193)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.	<u>\$ 28,619,171</u>	<u>\$ 1,420,800</u>
<b>Uses/outflows of resources</b>		
Actual amounts (budgetary basis) "total expenditures" from the budgetary comparison schedule	28,398,403	1,415,387
Differences - budget to GAAP		
Encumbrances for supplies and equipment ordered but not received is reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.		
Fiscal Year Ended June 30, 2014		6,716
Fiscal Year Ended June 30, 2015		<u>(1,303)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 28,398,403</u>	<u>\$ 1,420,800</u>

## **APPENDIX C**

### **FORM OF APPROVING LEGAL OPINION**



\_\_\_\_\_, 2016

The Board of Education of the  
Township of Lower in the  
County of Cape May, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the Township of Lower in the County of Cape May, New Jersey (the "Board of Education") in connection with the issuance by the Board of Education of \$5,121,000 School Bonds dated the date hereof (the "Bonds"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us, as we have deemed necessary.

The Bonds are issued pursuant to (i) Title 18A, Education, Chapter 24 of the New Jersey Statutes, (ii) a proposal adopted by the Board of Education on January 5, 2016 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on January 26, 2016 and (iii) a resolution duly adopted by the Board of Education on February 23, 2016. The Bonds are secured under the provisions of the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c.72 , approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003).

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

On the date hereof, the Board of Education has covenanted in its Arbitrage and Tax Certificate (the "Certificate") to comply with certain continuing requirements that must be satisfied subsequent to the issuance of the Bonds in order to preserve the tax-exempt status of the Bonds pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to Section 103(a) of the Code, failure to comply with these requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive

to the date of issuance of the Bonds. In the event that the Board of Education continuously complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Board of Education in the Certificate, it is our opinion that, pursuant to Section 103(a) of the Code, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It is also our opinion that interest on the Bonds held by a corporate taxpayer is included in “adjusted current earnings” in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. Further, in our opinion, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. These opinions are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

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

Very truly yours,