

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

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 22, 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 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 are 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
BOROUGH OF ISLAND HEIGHTS
IN THE COUNTY OF OCEAN, NEW JERSEY
\$2,992,000 SCHOOL BONDS
(Callable) (Bank Qualified)**

Dated: July 19, 2016

Due: July 15, as shown below

The \$2,992,000 School Bonds (the "Bonds") of The Board of Education of the Borough of Island Heights in the County of Ocean, 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) 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 for the Bonds. See "BOOK-ENTRY-ONLY-SYSTEM" herein.

Interest on the Bonds will be payable semiannually on January 15 and July 15 in each year until maturity or earlier redemption, commencing July 15, 2017. 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 proceeding September 1 and March 1 (the "Record Dates" for the payment of interest on the Bonds). The Bonds are subject to redemption prior to their stated maturities. See "DESCRIPTION OF THE BONDS- Redemption" herein.

The Bonds are general obligations of the Board, and the full faith and credit of the Board are irrevocably pledged for the payment of the principal of and interest on the Bonds. Payment of the principal of and interest on the Bonds, if not paid from other sources, are payable from ad valorem taxes to be levied upon all taxable real property located within the School District, without limitation as to rate or amount. The Bonds are also entitled to the benefits of and are secured under the provisions of the New Jersey School Bond Reserve Act, N.J.S.A. 18A: 56-1 et seq. See "DESCRIPTION OF THE BONDS- School Bond Reserve Act (N.J.S.A. 18A:56-1 et seq.)" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

| <u>Year</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP</u> | <u>Year</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP</u> |
|-------------|---------------|--------------------------|--------------|--------------|-------------|---------------|--------------------------|--------------|--------------|
| 2018 | \$107,000 | % | % | | 2028 | \$150,000 | % | % | |
| 2019 | 110,000 | | | | 2029 | 155,000 | | | |
| 2020 | 110,000 | | | | 2030 | 160,000 | | | |
| 2021 | 115,000 | | | | 2031 | 165,000 | | | |
| 2022 | 120,000 | | | | 2032 | 170,000 | | | |
| 2023 | 125,000 | | | | 2033 | 180,000 | | | |
| 2024 | 130,000 | | | | 2034 | 185,000 | | | |
| 2025 | 130,000 | | | | 2035 | 195,000 | | | |
| 2026 | 135,000 | | | | 2036 | 200,000 | | | |
| 2027 | 140,000 | | | | 2037 | 210,000 | | | |

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. Delivery is anticipated to be via DTC in New York, New York on or about July 19, 2016.

ELECTRONIC SUBMISSIONS WILL BE RECEIVED VIA PARITY UNTIL 11:00 AM ON JUNE 29, 2016.
FOR MORE DETAILS ON HOW TO BID ELECTRONICALLY VIEW THE NOTICE OF SALE POSTED AT
WWW.PROSPECTUSHUB.COM

**THE BOARD OF EDUCATION OF THE BOROUGH OF ISLAND HEIGHTS
IN THE COUNTY OF OCEAN, NEW JERSEY**

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BOARD ATTORNEY

Cleary Giacobbe Alfieri Jacobs LLC
Matawan, New Jersey

BOND COUNSEL

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

FINANCIAL ADVISOR

Acacia Financial Group, Inc.
Marlton, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Board of Education 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 of Education 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, their responsibilities to investors under the Federal Securities Law 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 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 of Education or the Underwriter.

This Official Statement speaks only as to the date printed on the cover hereof the information contained herein or subject to change. This Official Statement will be made available through the Electronic Municipal Market Access System.

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**OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION OF THE BOROUGH OF ISLAND HEIGHTS
IN THE COUNTY OF OCEAN, NEW JERSEY
\$2,992,000
SCHOOL BONDS
(CALLABLE) (BOOK-ENTRY-ONLY ISSUE) (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 the Borough of Island Heights in the County of Ocean, 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 \$2,992,000 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 has 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 July 19, 2016 and shall mature on July 15 in each of the years and in the amounts set forth on the front cover page hereof. The Bonds shall bear interest from July 19, 2016, which interest shall be payable semi-annually on the fifteenth day of January and July, commencing on July 15, 2017 (each an "Interest Payment Date") in each of the years and at the interest rates set forth on the front cover page hereof until maturity or earlier redemption by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each January 1 and July 1 immediately preceding the respective Interest Payment Dates (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC") or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Bonds. *See* "BOOK-ENTRY-ONLY SYSTEM" herein.

The Bonds will be issued in fully registered book-entry-only form, without certificates. One certificate shall be issued for the aggregate principal amount of 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 July 15, 2027 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after July 15, 2027 are subject to redemption at the option of the Board prior to maturity, in whole or in part on any date, on or after July 15, 2026, upon notice as hereinafter set forth at the redemption price of par of the principal amount being redeemed, plus unpaid accrued interest to the date fixed for redemption.

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

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

Security for the Bonds

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable property within the School District without limitation as to rate or amount except to the extent that enforcement of such payment may be limited by bankruptcy, insolvency or other similar laws on equitable principal effecting the enforcement of creditors' rights generally..

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 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 the New School Bond Reserve Account each are at the levels certified as full funding on the most recent June 30 calculation date. The amount of the School Bond Reserve in each account is pledged as security for the prompt payment to holders of bonds benefited by such account of the principal of and the interest on such bonds in the event of the inability of the issuer to make such payments. In the event the amounts in either the Old School Bond Reserve Account or the New School Bond Reserve Account fall below the amount required making payments on bonds, the amounts in both accounts are available to make payments for bonds secured by the School Bond Reserve.

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

On September 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). On June 10, 2015 Moody's Investors Service, Inc. downgraded the School Bond Reserve rating from "Aa3" (negative) 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 December 9, 2015 and approved by a majority of the legal voters present and voting at the School District election held on March 8, 2016 and by a resolution duly adopted by the Board on April 13, 2016 (the "Resolution").

The purpose of the Bonds is to undertake various improvements and renovations to the Island Heights Elementary School, including the acquisition and installation of equipment and any necessary site work (the "Project").

The total cost of the Project is \$2,992,252. The Project will be paid for with the Bond proceeds and the additional \$252 will be made available through other funds of the Board of Education. The Board of Education is entitled to receive state debt service aid equal to 40% of the annual debt service due with respect to the final eligible costs of the Project.

BOOK-ENTRY-ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal 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 each series of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 Standard & Poor's highest rating: AAA. 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 and 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct 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.

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 procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District 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 School District believes to be reliable, but the Board takes no responsibility for the accuracy thereof.

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.

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

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 fifteenth (15th) day, whether or not a business day, of the calendar month next preceding an Interest Payment Date.

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

THE SCHOOL DISTRICT AND THE BOARD

The Board is a seven (7) member board with members elected for staggered three (3) year terms. Pursuant to State statute, the Board appoints a Superintendent, Business Administrator and Board Secretary.

The School District is a Type II school district and provides a full range of educational services appropriate to kindergarten (K) through grade six (6), including regular and special education programs. The School District is coterminous with the boundaries of the Borough of Island Heights (the "Borough"), in the County of Ocean, New Jersey.

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 with the advice and consent of the State Senate. The County Superintendent is the local representative of the Commissioner. The County Superintendent is responsible for the daily supervision of the school districts in the county and is charged with the enforcement of rules pertaining to the certification of teachers, pupil registers and financial reports and the review of budgets. Under the Uniform Shared Services and Consolidation Act, P.L. 2007, c. 63, approved April 3, 2007 (A4), the role of the County Superintendent was changed to create the post of the Executive County Superintendent with expanded powers for the operation and management of school districts to, among other things, promote administrative and operational efficiencies, eliminate non-operating school districts and recommend a school district consolidation plan to eliminate 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 school district, or when petitioned for by fifteen percent (15%) of the voters of any school district. The School District is a Type II school district.

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

School Budgetary Process

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. If the board disagrees with the certified budget of the board of school estimate, then it can appeal to the Commissioner to request changes if such certified budget is less than or equal to the maximum thorough and efficient education budget (the "T&E budget") and may appeal to the Commissioner if such certified budget amount is in excess of the maximum T&E budget. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

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

School districts that opt to move the annual school election to November are no longer required to submit the budget to the voters for approval if the budget is at or below the two-percent property tax levy cap as provided for 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.

The Board has changed its school election date to 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 STATE AID TO SCHOOL DISTRICTS – Tax and Spending Limitations" 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 approval by the Commissioner. The bill granted discretion to the Commissioner to grant other waivers from the cap for increases in special education costs, capital outlay, and tuition charges. The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

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

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

The previous legislation 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 cap 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) debt must be authorized by a resolution of a board of education (and approved by a board of school estimate in a Type I school district), and (iii) there must be filed with the State by each municipality comprising a school district a supplemental debt statement and a school debt statement setting forth the amount of bonds and notes authorized but unissued and outstanding for such school district.

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

Every board of education is required to provide an annual audit of the school district's accounts and financial transactions. 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 dates 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 six (6) school district, the School District can borrow up to 2.5% of the average equalized valuation of taxable property in the School District. The School District has not exceeded its 2.5% debt limit. See “APPENDIX A – Debt Limit of the School District.”

Exceptions to Debt Limitation

A Type II school district, (other than a regional district), may also utilize its constituent municipality's remaining statutory borrowing power (i.e. the excess of 3.5% of the average equalized valuation of taxable property within the constituent municipality over the constituent municipality's net debt). The School District has not utilized the Borough'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 QEA (now repealed), CEIFA and EFCFA. For the past several 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), attempts to remove the special status given to certain 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 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 recently challenged in the New Jersey Supreme Court and the Court held that the State's 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, special education categorical aid, transportation aid, preschool education aid, instructional supplement aid, supplemental core curriculum standards aid, distance learning network aid, bilingual aid, security aid, adjustment aid and other aid determined in the discretion of the Commissioner.

State law requires, that the State will provide aid for the construction of school facilities (Facilities Aid) in an amount equal to the greater of the district aid percentage or 40% times the eligible costs determined by the Commissioner of Education 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 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. 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 2011-2016 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 Every Student Succeeds Act of 2015, enacted December 10, 2015, is a federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is available under Chapter 1 Aid. Such federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

The Local Bond Law, N.J.S.A. 40A:2-1 et seq. (the “Local Bond Law”), governs the issuance of bonds and notes to finance certain municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects financed and that bonds be retired in serial installments. A five percent (5%) cash down payment is generally required toward the financing of expenditures for municipal purposes. All bonds and notes issued by the Borough are general full faith and credit obligations.

The authorized bonded indebtedness of a local unit is limited by statute, subject to certain exceptions noted below, to an amount equal to 3.5% of its average equalized valuation basis.

The Borough has not exceeded its statutory debt limit.

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

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

The local unit may sell "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as may be amended and supplemented, creating such capital expenditure. A local unit's bond anticipation notes may be issued for periods not exceeding one (1) year. Generally, bond anticipation notes may not be outstanding for longer than ten (10) years. An additional period may be available following the tenth anniversary date equal to the period from the notes' maturity to the end of the tenth fiscal year in which the notes mature plus four (4) months in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum amount required for the first year's principal payment for a bond issue.

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

The foundation of the New Jersey local finance system is the annual cash basis budget. The Borough, which operates on a fiscal year (July 1 to June 30), 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 year's budget. Both types of transfers require a 2/3 vote of the full membership of the governing body; however, transfers cannot be made from either the down payment account or the capital improvement fund. Transfers may be made between sub-account line items within the same account at any time during the year, subject to internal review and approval. In a "CAP" budget, no transfers may be made from excluded from "CAP" appropriations to within "CAP" appropriations nor can transfers be made between excluded from "CAP" appropriations.

A provision of law known as the New Jersey "Cap Law" (N.J.S.A. 40A:4-45.1 et seq.) imposes limitations on increases in municipal appropriations subject to various exceptions. The payment of debt service is an exception from this limitation. The Cap formula is somewhat complex, but basically, it permits a municipality to increase its overall appropriations by the lesser of 2.5% or the "Index Rate". The "Index Rate" is the rate of annual percentage increase, rounded to the nearest one-half percent, in the Implicit Price Deflator for State and Local Government purchases of goods and services computed by the U.S. Department of Commerce. Exceptions to the limitations imposed by the Cap Law also exist for other things including capital expenditures; extraordinary expenses approved by the Local Finance Board for implementation of an interlocal services agreement; expenditures mandated as a result of certain emergencies; and certain expenditures for services mandated by law. Counties are also prohibited from increasing their tax levies by more than the lesser of 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 Borough to levy *ad valorem* taxes upon all taxable real property within the Borough to pay debt service on its bonds or notes.

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing six years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may

contemplate over the next six years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget if the terms were detailed.

Tax Assessment and Collection Procedure

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

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

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

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

Tax Appeals

New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. The taxpayer has a right to file a petition on or before the 1st day of April of the current tax year for its review. The County Board of Taxation and the Tax Court of New Jersey have the authority after a hearing to increase, decrease or reject the appeal petition. Adjustments by the County Board of Taxation are usually concluded within the current tax year and reductions are shown as cancelled or remitted taxes for that year. If the taxpayer believes the decision of the County Board of Taxation to be incorrect, appeal of the decision may be made to the Tax Court of New Jersey. State tax court appeals tend to take several years to conclude by settlement or trial and any losses in tax collection from prior years, after an unsuccessful trial or by settlement, are charged directly to operations.

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

This law regulates the nonbudgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies or commissions.

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

FINANCIAL STATEMENTS

The financial statements of the Board for the year ended June 30, 2015 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Robert A. Hulsart & Son, Wall, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in Appendix B to this Official Statement. See "APPENDIX B - Financial Statements of The Board of Education of the Borough of Island Heights in the County of Ocean, New Jersey".

LITIGATION

To the knowledge of the Board Attorney, Bruce W. Padula, Esq., of Cleary Giacobbe Alfieri Jacobs LLC, Matawan, 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 purchaser of the Bonds at the closing.

FINANCIAL ADVISOR

Acacia Financial Group, Inc., Marlton, New Jersey, 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.

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 Arbitrage 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 are 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 at least one (1) impaired class. The Bankruptcy Code specifically does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a 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 will be passed on for the Board by its Board Attorney and for the Underwriter (as herein defined) by its counsel.

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 completeness of such information.

The Auditor has neither participated in the preparation of this Official Statement, nor have they verified the accuracy, completeness or fairness thereof and, accordingly, expresses no opinion with respect thereto.

The Financial Advisor (as herein defined) has participated in the preparation of this Official Statement on behalf of the Board, but has not independently verified the accuracy, completeness or fairness thereof and, accordingly, takes no responsibility and expresses no opinion with respect thereto.

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

Moody's Investors Service (the "Rating Agency") has assigned an underlying rating of "A1" to the Bonds based upon the creditworthiness of the School District. The Rating Agency has also assigned its enhanced rating of "A2" (negative outlook) to the Bonds based upon the additional security provided by the New Jersey 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. 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

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 consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the Board and certain financial information and operating data consisting of (1) Board and overlapping indebtedness including a schedule of outstanding debt issued by the Board; (2) property valuation information; and (3) tax rate, levy and collection

data. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

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

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

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

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

(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 shall determine, in consultation with Bond Counsel, the application of the Rule or the exemption from the Rule for each issue of obligations of the Board prior to

their offering. Such officer is authorized to enter into additional written contracts or undertakings to implement the Rule and is further authorized to amend such contracts or undertakings or the undertakings set forth in the Resolution, provided such amendment is, in the opinion of nationally recognized bond counsel, in compliance with the Rule.

(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 therefore.

The Board has previously failed to timely file its annual report for the fiscal years ended June 30, 2011 through and including June 30, 2014. The Board also failed to timely file notices relating to rating changes of the New Jersey School Bond Reserve Act (Chapter 72) and bond insurers. The School District is in the process of hiring a dissemination agent to ensure timely filings of its annual information on a going-forward basis.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Frank J. Frazee, CPA, Business Administrator at (732) 929-1222.

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 or she has examined this Official Statement (including the appendices) and the financial and other data concerning the School District contained herein and that, to the best of his or her knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of the Official Statement and the date of delivery of the Bonds there has been no material adverse change in the affairs (financial or other), financial condition or results or operations of the Board except as set forth in or contemplated by the Official Statement.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Board and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the 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 BOROUGH OF ISLAND HEIGHTS
IN THE COUNTY OF OCEAN,
NEW JERSEY**

By: _____
Frank J. Frazee, CPA
Business Administrator

Dated: June __, 2016

APPENDIX A

Economic and Demographic Information Relating to the School District and the Borough of Island Heights

GENERAL INFORMATION REGARDING THE SCHOOL DISTRICT¹

General Information

The Island Heights School District (the “School District”) is a Type II district located in the County of Ocean, State of New Jersey. As a Type II district, the School District functions independently through a Board of Education. The District provides a full range of educational services appropriate to grade levels K through 6. The District has an approximate enrollment at June 30, 2015 of 120 students. The School District has one elementary school, Island Heights Elementary School. Students attend middle school and high school at the Central Regional School District.

Staff

The School District has a Superintendent of Schools who is the chief administrative officer and principal for the Island Heights Elementary School. A Business Administrator and Board Secretary oversee the Board’s business functions and reports to the Board. There are 17 full-time employees of the School District, of which 13 are teaching professionals. The remaining staff consists of administrative, maintenance, clerical and support personnel.

Labor Relations

The Board of Education currently has a contract with the Island Heights Teachers Association which covers teaching staff. This contract expires June 30, 2017. Contracts with teacher aides, custodial employees and secretaries are done on a yearly basis.

Pensions

The teachers and members of the professional staff are enrolled in the New Jersey Teachers’ Pension & Annuity Fund (TPAF). All other eligible board employees are enrolled in the Public Employees’ Retirement System (PERS). Both TPAF and PERS are administered by the Division of Pensions, within the Department of the Treasury of the State of New Jersey.

School Enrollment Data

| <u>Fiscal Year</u> | <u>Student Enrollment</u> | <u>% Change</u> |
|--------------------|-------------------------------|-----------------|
| 2014-2015 | 120 | +9% |
| 2013-2014 | 109 | -9% |
| 2012-2013 | 120 | +9% |
| 2011-2012 | 112 | -12% |
| 2010-2011 | 124 | 13% |

¹ Source: All information provided by the School District or the School District June 30, 2015 Comprehensive Annual Financial Report unless otherwise denoted.

Fiscal 2015-2016 Budget

The Board of Education must submit its budget for approval. Annual increases in its net budget are limited by law. The net budget is the sum of all state aid (exclusive of pension aid), the School District fund balance, miscellaneous revenues and the local tax levy (exclusive of debt service). The Board of Education's General Fund Budget for the 2014-2015 fiscal year was \$2,245,745 and for the 2015-2016 fiscal year is \$2,192,800. The major sources of revenue are \$1,776,100 in 2014-2015 and \$1,838,925 in 2015-2016 from the local tax levy and \$285,708 in 2014-2015 and \$298,423 in 2015-2016 from various forms of state aid. In addition, the Board of Education has special project funds, which have revenues and expenditures which are equal. The major areas of expenditures were for instruction, including salaries for teachers and other instructional staff and maintenance and fixed charges.

Debt Limit of the School District

The debt limitations of the School District are established by statute (N.J.S.A. 18A:24-19). The School District is permitted to incur debt up to 2.5% of the average equalized valuations of its constituent municipalities before requiring approval by state regulatory authorities. The following is a summation of the Board of Education's available borrowing margin as of December 31, 2015:

| | |
|--|---------------|
| Average Equalized Real Property for 2013, 2014, 2015 | \$345,882,919 |
| Permitted Debt Limitation (2.5%) | \$8,647,073 |
| Net Bonded School Debt | \$473,000 |
| Legal Debt Margin | \$8,174,073 |
| Net Debt % of Average Equalized Valuation | 0.13% |

BOROUGH OF ISLAND HEIGHTS OCEAN COUNTY, NEW JERSEY

General Information

The Borough of Island Heights ("Borough") was incorporated as a borough by an Act of the New Jersey Legislature on May 6, 1887, based on the results of a referendum held on November 18, 1886. Until its incorporation, the Borough was part of Dover Township (which is now known as Toms River Township). The Borough is located in the northeastern part of Ocean County along the Toms River and encompasses 0.60 of a square mile in the center of Toms River Township. It is surrounded by water on three sides by Dillons Creek, Toms River and Barnegat Bay. State Highway 37 adjoins the northern boundary of the Borough and provides transportation to Toms River Township shopping areas, the Garden State Parkway, Route 790, and the ocean beaches.

Local Government

The governing body of the Borough consists of a Mayor and six (6) Council Members, all of whom are elected by the people of the community. Council members are elected for three-year terms and the Mayor is elected for a four-year term.

The government of the Borough operates under the Small Municipalities Plan A (original) of the Optional Municipal Charter Law, which provides for a small municipality form consisting of six members of council elected at large.

The Council meets the second and fourth Tuesday of each month for regular public meetings. The regular meetings are open to the public in compliance with New Jersey's Sunshine Law. At the meetings citizens are given an opportunity to speak on proposed ordinances and resolutions prior to passage. There is also a time set aside on the agenda so that any citizen may address the Borough Council on matters of concern to him or her.

Transportation

The Borough is served by New Jersey Transit from neighboring Toms River Township. Airport passenger service is available at Atlantic City (40 miles), Philadelphia (90 miles), and Newark (90 miles). An airport at the Ocean County Air Park (8 miles) provides non-scheduled air taxi service to all metropolitan New York and Philadelphia airports.

The Garden State Parkway provides the Borough with a direct route north to the New York Metropolitan area and South to Atlantic City. State Highway 37 and 70 provides an Eastern Route to Philadelphia.

Public Services

Island Heights is served by a well trained public safety police department. The Borough Police Department is comprised of 7 police officers. These officers are equipped with modern and scientific crime fighting equipment.

Health Care Facilities

Health services for Island Heights are provided by Community Medical Center, a 600 bed hospital located in Toms River, New Jersey.

Volunteer First Aid Services

The Island Heights First Aid Squad's is a non-profit corporation, which provides ambulance and emergency services to residents of the Borough and adjoining areas. The First Aid Squad was formed on November 22, 1949. Currently the Squad has 11 active members and operates two fully equipped ambulances. Funding for the First Aid Squad's operations is by solicitations from the public, as well as an annual grant from the Borough.

Volunteer Fire Department

The Island Heights Volunteer Fire Company No. 1 was organized on February 14, 1895 by a group of residents who realized the need for protection in the community. In 2003 the Fire Company had 45 members. Equipment includes two pumpers, a brush truck, a water rescue boat and miscellaneous equipment. In addition, a continuous training program keeps all fire fighting personnel abreast of the latest techniques. The preceding public safety services are maintained on a twenty-four hour-a-day, 365 day-a-year basis call.

Financial/Tax Assessing

The Borough is responsible for the levying and collection of taxes on all taxable properties within its borders, including tax levies for the county and school districts. Property taxes are based on a municipality's assessor's valuation of real property, as confirmed by the tax board of the county in which a municipality is situated, and are levied for the calendar year. The taxes for municipal, local and regional school districts, and county purposes are combined into one levy, which is apportioned on the tax bill by rate and amount for taxpayer information only. Taxes levied for the purpose of school districts cover the current calendar year. Takeover of tax monies by a municipality to a school district are based on school needs and are generally made on a periodic basis throughout the year. A municipality remits 100% of the county taxes, payable quarterly on the 15th days of February, May, August and November.

Tax bills for the second half of the current year's levy and an estimate, based on 50% of the levy for the first half of the following year, are mailed normally in June and are due in quarterly installments on the first days of August and November of the current year, and February and May of the following year. Delinquent payments are subject to an interest penalty of 8% on the first \$1,500 of delinquency and 18% on amounts exceeding \$1,500. Unpaid taxes are subject to tax sale as of April 1 or October 1 (depending on when the municipality's fiscal year ends) following the year of levy, in accordance with statutes of the State of New Jersey. Tax liens are subsequently subject to foreclosure proceedings in order to enforce tax collections or acquire title to the property.

Utility Services

The Borough is served by its own self-liquidating water/sewer utility. The utility operates and maintains the local sewerage collection system, which discharges into the Ocean County Utilities Authority's interceptor system for conveyance to regional treatment facilities.

Population Trends²

| <u>Year</u> | <u>Island Heights Borough</u> | <u>County of Ocean</u> | <u>State of New Jersey</u> |
|--------------------|--------------------------------------|-------------------------------|-----------------------------------|
| 2010 | 1,672 | 576,567 | 8,791,894 |
| 2000 | 1,751 | 510,916 | 8,414,378 |
| 1990 | 1,470 | 433,203 | 7,730,188 |
| 1980 | 1,575 | 346,038 | 7,264,823 |
| 1970 | 1,397 | 208,470 | 7,168,164 |

² Source: U.S. Census Bureau, 2010 Census

Housing³

| <u>Year</u> | Total New Residential Building Permits | Total New Residential Building Permits |
|-------------|---|---|
| | <u>Borough of Island Heights</u> | <u>County of Ocean</u> |
| 2015 | 11 | 2,296 |
| 2014 | 1 | 2,731 |
| 2013 | 3 | 2,028 |
| 2012 | 2 | 993 |
| 2011 | 1 | 771 |

Money Income as of 2014⁴

| | <u>Median</u> | <u>Median</u> | <u>Per Capita</u> |
|---------------------------|-------------------------|----------------------|-------------------|
| | <u>Household Income</u> | <u>Family Income</u> | <u>Income</u> |
| Borough of Island Heights | \$79,728 | \$87,500 | \$41,484 |
| County of Ocean | 61,839 | 77,118 | 30,951 |
| State of New Jersey | 72,062 | 87,999 | 36,359 |

Composition of Tax Rate (Per \$100 of Assessed Valuation)⁵

| <u>Year</u> | <u>Total Tax Rate</u> | <u>Borough Tax Rate</u> | <u>Open Space Tax Rate</u> | <u>Ocean County Tax Rate</u> | <u>Library Tax Rate</u> | <u>Local School Tax Rate</u> | <u>Regional School Tax Rate</u> | <u>Health Tax Rate</u> |
|-------------|---------------------------|-----------------------------|------------------------------------|--------------------------------------|-----------------------------|--------------------------------------|---|--------------------------------|
| 2015 | \$0.888 | \$0.502 | \$0.012 | \$0.35 | \$0.038 | \$0.556 | \$0.332 | \$0.014 |
| 2014 | 0.876 | 0.493 | 0.012 | 0.342 | 0.038 | 0.537 | 0.339 | 0.014 |
| 2013 | 0.860 | 0.472 | 0.013 | 0.331 | 0.038 | 0.527 | 0.333 | 0.014 |
| 2012 | 0.866 | 0.448 | 0.013 | 0.337 | 0.039 | 0.504 | 0.362 | 0.014 |
| 2011 | 0.837 | 0.439 | 0.015 | 0.335 | 0.039 | 0.488 | 0.349 | 0.015 |

³ Source: U.S. Census Bureau; Annual New Privately-Owned Residential Building Permits

⁴ Source: U.S. Census Bureau, 2010-2014 American Community Survey 5-Year Estimates

⁵ Source: Abstract of Ratables, Breakdown of General Tax Rate

Ten Largest Real Estate Taxpayers⁶

The following table outlines the assessed value of the ten (10) largest assessments with the Borough for the year 2015:

| <u>Taxpayer</u> | <u>Taxable Assessed Value</u> |
|------------------------|--|
| FLM Marine | \$4,100,000 |
| David Shipman | 2,638,200 |
| Linda Tavares | 2,307,800 |
| Henry Kelly, Jr. | 2,143,300 |
| Eve Allison | 1,888,400 |
| Sal 7 Gina LaForgia | 1,698,000 |
| Conza Builders, LLC | 1,687,600 |
| Richard & Alice Askoff | 1,678,300 |
| Linda Bartlett | 1,616,500 |
| Gale Wayman | <u>1,599,800</u> |
| Totals | <u>\$21,357,900</u> |

Municipal Property Tax Levies and Collections⁷

The following is the tax collection record of the Borough for the years ended December 31, 2011 to 2015, inclusive.

| <u>Year</u> | <u>Property Tax Levy</u> | <u>Current Tax Collection</u> | <u>Current Collection Rate</u> |
|-------------------------|-------------------------------------|--|---|
| 2015⁸ | \$6,250,504 | \$6,110,875 | 97.77% |
| 2014 | 6,141,168 | 6,019,877 | 98.02 |
| 2013 | 5,982,052 | 5,818,612 | 97.27 |
| 2012 | 6,038,823 | 5,840,955 | 96.72 |
| 2011 | 5,944,428 | 5,805,511 | 97.66 |

Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita⁹

| <u>Fiscal Year End June 30</u> | <u>Net Assessed Value Taxable</u> | <u>Borough Net Bonded Debt</u> | <u>Ratio of Bonded Debt To Assessed Value</u> | <u>Net Bonded Debt Per Capita (2010 US Census)</u> |
|---|--|---|--|---|
| 2015 | \$344,933,900 | \$2,364,714 | 0.686% | \$1,414 |
| 2014 | 345,623,800 | 3,398,977 | 0.983 | 2,033 |
| 2013 | 345,734,800 | 2,540,623 | 0.735 | 1,529 |
| 2012 | 349,984,800 | 2,547,110 | 0.728 | 1,523 |
| 2011 | 352,201,800 | 2,680,619 | 0.761 | 1,603 |

⁶ Source: School District CAFR Year Ended June 30, 2015

⁷ Source: Borough Audited Financial Statements

⁸ Source: Unaudited; Borough 2015 Annual Financial Statement

⁹ Source: Borough Annual Debt Statements

Assessed Valuation of Real Property By Classification (In Dollars)¹⁰

| <u>Year</u> | <u>Vacant Land</u> | <u>Residential</u> | <u>Apartments</u> | <u>Commercial</u> | <u>Total Real Property</u> |
|--------------------|-------------------------------|---------------------------|--------------------------|--------------------------|---|
| 2015 | \$16,158,700 | \$307,697,700 | \$489,300 | \$20,588,200 | \$344,933,900 |
| 2014 | 15,221,700 | 309,324,600 | 489,300 | 20,588,200 | 345,623,800 |
| 2013 | 14,328,500 | 310,198,700 | 489,300 | 20,718,300 | 345,734,800 |
| 2012 | 12,913,000 | 314,965,700 | 489,300 | 21,616,800 | 349,984,800 |
| 2011 | 13,983,900 | 314,685,500 | 489,300 | 23,043,100 | 352,201,800 |

Ratio of Assessed Valuation to Estimated Full Cash Value¹¹

| <u>Year</u> | <u>Net Assessed Valuations Taxable</u> | <u>Estimated Full Cash Valuations</u> | <u>% of Net Assessed To Full Cash Valuations</u> |
|--------------------|---|--|---|
| 2016 | \$345,430,900 | \$350,193,532 | 98.64% |
| 2015 | 344,933,900 | 342,264,239 | 100.78 |
| 2014 | 345,623,800 | 344,899,511 | 100.21 |
| 2013 | 345,734,800 | 349,969,430 | 98.79 |
| 2012 | 349,984,800 | 390,346,643 | 89.66 |
| 2011 | 352,201,800 | 417,597,581 | 84.34 |

Employment and Unemployment Comparisons

For the years 2011 to 2015, the New Jersey Department of Labor and Industry reported the following annual average employment information for the Borough of Island Heights, Ocean County, and the State of New Jersey:

| | <u>Unemployment Rate (%)</u> | <u>Total Labor Force</u> | <u>Total Employed</u> | <u>Total Unemployed</u> |
|--------------------|---|-------------------------------------|----------------------------------|------------------------------------|
| <u>2015</u> | | | | |
| Borough | 5.4 | 866 | 819 | 47 |
| County | 6.0 | 268,600 | 252,500 | 16,100 |
| State | 5.6 | 4,543,800 | 4,288,800 | 255,000 |
| <u>2014</u> | | | | |
| Borough | 7.1 | 862 | 801 | 61 |
| County | 7.4 | 266,300 | 246,700 | 19,600 |
| State | 6.7 | 4,513,600 | 4,209,700 | 303,900 |

¹⁰ Source: School District 2015 CAFR

¹¹ Source: County of Ocean Equalization Table

2013

| | | | | |
|---------|-----|-----------|-----------|---------|
| Borough | 9.1 | 858 | 780 | 78 |
| County | 9.2 | 265,800 | 241,300 | 24,500 |
| State | 8.2 | 4,528,500 | 4,157,600 | 370,800 |

2012

| | | | | |
|---------|------|-----------|-----------|---------|
| Borough | 10.6 | 868 | 776 | 92 |
| County | 10.6 | 268,500 | 240,000 | 28,500 |
| State | 9.3 | 4,585,300 | 4,158,600 | 426,800 |

2011

| | | | | |
|---------|------|-----------|-----------|---------|
| Borough | 12.8 | 774 | 675 | 99 |
| County | 10.4 | 266,200 | 238,500 | 27,700 |
| State | 9.3 | 4,565,300 | 4,138,500 | 426,800 |

Delinquent Taxes and Tax Title Liens¹²

| <u>Dec. 31, Year</u> | <u>Amount of Tax Title Liens</u> | <u>Amount of Delinquent Taxes</u> | <u>Total Delinquent</u> | <u>% of Tax Levy</u> |
|---------------------------------|---|--|------------------------------------|---------------------------------|
| 2014 | 10,509 | 98,533 | 109,042 | 1.78% |
| 2013 | 7,932 | 138,317 | 146,249 | 2.44% |
| 2012 | 5,423 | 146,342 | 151,765 | 2.51% |
| 2011 | 1,747 | 103,136 | 104,883 | 1.76% |
| 2010 | 1,269 | 130,036 | 131,305 | 2.28% |

**STATEMENT OF STATUTORY NET DEBT
FOR THE BOROUGH OF ISLAND HEIGHTS
DECEMBER 31, 2015¹³**

Local School District Debt:

Bonds and Notes Issued and Outstanding \$473,000.00

Regional School District Debt:

Bonds and Notes Issued and Outstanding 158,883.67

Self-Liquidating Debt:

Bonds and Notes Issued and Outstanding and Authorized but not issued.....4,733,627.66

Municipal General Purpose Debt:

Bonds and Notes Issued and Outstanding and Authorized but not issued.....2,364,713.50

Total Gross Debt..... \$7,730,224.83

¹² Source: Borough Audited Financial Statements

¹³ Source: Borough 2015 Annual Debt Statement

Deductions – Allowed to Determine Net Debt for Borrowing Power Purposes:

| | |
|---|-----------------------|
| School Debt | \$631,883.67 |
| Self-Liquidating..... | 4,733,627.66 |
| Other | 0.00 |
| Total Deductions | <u>\$5,365,511.33</u> |
| Total Net Debt, December 31, 2015 | <u>\$2,364,713.50</u> |
| Percentage of Net Debt of Equalized Valuation Basis | <u>0.684%</u> |

Borough Statutory Borrowing Power

| | |
|---|--------------------|
| Average Equalized Valuation Basis for 2015, 2014, 2013..... | \$345,882,919 |
| Permitted Debt Limitation..... | 12,105,902 |
| Statutory Net Debt..... | 2,364,713 |
| Remaining Borrowing Capacity – December 31, 2015..... | <u>\$9,741,189</u> |

APPENDIX B

Financial Statements of the Board of Education of the Borough of Island Heights in the County of Ocean, New Jersey

Robert A. Hulsart and Company

CERTIFIED PUBLIC ACCOUNTANTS

ARMOUR S. HULSART, C.P.A., R.M.A., P.S.A. (1959-1992)

ROBERT A. HULSART, C.P.A., R.M.A., P.S.A.

ROBERT A. HULSART, JR., C.P.A., P.S.A.

RICHARD J. HELLENBRECHT, JR., C.P.A., P.S.A.

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INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Education
Island Heights School District
County of Ocean
Island Heights, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the Island Heights School District, in the County of Ocean, 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 District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of Education of the Island Heights School District, in the County of Ocean, State of New Jersey, as of June 30, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The accompanying introductory section and other supplementary information such as the combining and individual fund financial statements, long-term debt schedules, and statistical information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standard generally accepted in the United States of America. In our opinion, the accompanying introductory section and other supplementary information such as the combining and individual fund financial statements, long-term debt schedules, and statistical information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying introductory section and other supplementary information such as the combining and individual fund financial statements, long-term debt schedules, and statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015 on our consideration of the Island Heights's Board of Education internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Island Heights Board of Education's internal control over financial reporting and compliance.

Respectfully submitted,

ROBERT A. HULSART AND COMPANY

Robert A. Hulsart
Licensed Public School Accountant
No. 322
Robert A. Hulsart and Company
Wall Township, New Jersey

December 7, 2015

REQUIRED SUPPLEMENTARY INFORMATION
PART I

**ISLAND HEIGHTS BOARD OF EDUCATION
ISLAND HEIGHTS, NEW JERSEY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

The discussion and analysis of the Island Heights Board of Education District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

The overall condition of all funds, instructional activities and business-type activities remains strong for the School District. All goals related to financial activities have been met and if revenue and expenditure patterns can be maintained, the resources for next year will be available.

Total spending for all our programs was \$2,511,394 for the school year 2014-15. Most of the School District's taxes and state aid programs funds were used to support the cost of services for regular instructional programs. State and federal aid in the amount of \$503,298 supported educational programs and the school district's taxes, grants and contributions were sufficient to cover all unfounded costs incurred in the school year 2014-15.

The total cost for the school year 2014-15 for current expense was \$2,387,266 which was an increase of \$353,573.

Using this Comprehensive Annual Financial Report (CAFR)

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Island Heights Board of Education as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The funds financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of Island Heights Board of Education, the General Fund is by far the most significant fund.

Reporting the School District as a Whole

State of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during 2015?” The Statement of Net Position and the Statement of Activities answers this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector business. This basis of accounting takes into account, all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the School District’s net position and changes in that position. This change in net position is important because it tells the reader that, for the school district as a whole, the financial position of the school district has improved or diminished. The causes of this change may be the results of many factors, some financial and some not. Non-financial factors include the school district’s property tax base, current laws in New Jersey restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Position and the Statement of Activities, the School District is divided into two district kinds of activities:

- Government activities – All of the School District’s programs and services are reported here including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.
- Business-Type Activity – This service is provided on a charge for goods or services basis to recover all the expenses of the goods or services provided. The Food Service and Material for Resale enterprise funds are reported as business activities.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District’s funds. The District uses many funds to account for a multitude of financial transactions. The District’s governmental funds are the General Fund, Special Revenue Fund and Capital Projects Fund.

Governmental Funds

The District’s activities are reported in governmental funds, which focus on how money flow into and out of those funds and the balances left at year-end available for spending in future years. These funds are reported using an accounting method called modified accrual account, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District’s general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Enterprise Fund

The Enterprise Fund uses the same basis of account as business type activities; therefore these statements are essentially the same.

The School District as a Whole

Recall that the state of Net Position provides the perspective of the School district as a whole.

Table 1 provides a summary of the School District's net position for 2014 and 2015.

Table 1
Net Position

| | <u>2015</u> | <u>2014</u> |
|---|----------------------------|-------------------------|
| Assets | | |
| Current and Other Assets | \$ 299,034 | 353,858 |
| Capital Assets | <u>2,291,742</u> | <u>2,392,156</u> |
| Total Assets | <u>2,590,776</u> | <u>2,746,014</u> |
| Deferred Outflow of Resources | | |
| Contribution of Pension Plan | <u>36,782</u> | <u> </u> |
| Deferred Inflow of Resources | | |
| Pension Deferrals | <u>20,263</u> | <u> </u> |
| Liabilities | | |
| Current Liabilities | 93,519 | |
| Other Liabilities | 812,466 | 63,241 |
| Long-Term Liabilities | <u> </u> | <u>549,234</u> |
| Total Liabilities | <u>905,985</u> | <u>612,475</u> |
| Net Position | | |
| Invested in Capital Assets, Net of Debt | 1,818,742 | 1,859,156 |
| Restricted | 55,882 | 194,828 |
| Unrestricted | <u>(173,314)</u> | <u>79,555</u> |
| Total Net Position | <u>\$ 1,701,310</u> | <u>2,133,539</u> |

Table 2 shows changes in net position for fiscal year 2014 and 2015.

Table 2
Change in Net Position

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|--------------------|------------------|
| Revenues | | |
| Program Revenues: | | |
| Charges for Services | \$ 9,022 | 6,643 |
| Operating Grants and Contributions | 38,351 | 43,229 |
| General Revenue: | | |
| Property Taxes | 1,856,390 | 1,823,853 |
| Grants and Entitlements | 465,577 | 280,036 |
| Other (net of transfers) | <u>58,068</u> | <u>73,759</u> |
| Total Revenues | <u>2,427,408</u> | <u>2,227,520</u> |
| Program Expenses | | |
| Instruction | 1,139,316 | 1,007,181 |
| Support Services: | | |
| Pupils and Instructional Staff | 130,220 | 136,468 |
| General Administration, School Admin | 207,330 | 121,304 |
| Business Operations & Maintenance of | | |
| Facilities | 379,206 | 354,065 |
| Pupil Transportation | 27,175 | 17,045 |
| Business Type Activities | 8,235 | 8,361 |
| Other | <u>628,147</u> | <u>571,940</u> |
| Total Expenses | <u>2,519,629</u> | <u>2,216,364</u> |
| Increase/Decrease) in Net Position | <u>\$ (92,221)</u> | <u>11,156</u> |

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to students.

General administration, school administration and business include expenses associated with administrative and financial supervision of the district.

Operation and maintenance of facilities activities involve keeping the school grounds, building and equipment in an effective condition.

Analysis of Financial Position

Depreciation expense GASB34 requires school districts for the first time to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net position. For fiscal year ended June 30, 2015 the net increase in accumulated depreciation was \$100,414. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. One way to think of depreciation expense is that in order to maintain assets at the same level, acquisitions of capital outlay and capitalized major maintenance projects would have to equal the annual depreciation in assets during the year.

Student enrollment in the school district continues to increase which will continue to affect the district's future expenditures. Assessed valuations are continuing to grow, increasing the district's ability to maintain a stable tax rate.

The financial well being of the school district is tied in large measure to the state funding formula and the tax base. As long as the state fully funds state aid and the tax base continues to increase, the school district's tax rate should continue to be stable.

Original budget versus final budget. Over the course of the school year, the school board revised its budget as it attempts to deal with unexpected changes in revenue and expenditures. All transfers are approved by the Board of Education at their regular scheduled meetings.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS – A

STATEMENT OF NET POSITION

Exhibit A-1

JUNE 30, 2015

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|---|------------------------------------|-------------------------------------|------------------|
| <u>Assets</u> | | | |
| Cash and Cash Equivalents | \$ 195,103 | 4,487 | 199,590 |
| Receivables, Net | 9,796 | 710 | 10,506 |
| Restricted Assets: | | | |
| Capital Reserve - Cash | 33,056 | | 33,056 |
| Other Cash and Cash Equivalents | 55,882 | | 55,882 |
| Capital Assets Not Depreciated | 14,330 | | 14,330 |
| Capital Assets, Net of Depreciation | <u>2,274,851</u> | <u>2,561</u> | <u>2,277,412</u> |
| Total Assets | <u>2,583,018</u> | <u>7,758</u> | <u>2,590,776</u> |
| <u>Deferred Outflow of Resources</u> | | | |
| Contribution to Pension Plan | <u>36,782</u> | | <u>36,782</u> |
| <u>Deferred Inflow of Resources</u> | | | |
| Pension Deferrals | <u>20,263</u> | | <u>20,263</u> |
| <u>Liabilities</u> | | | |
| Accrued Interest | 1,609 | | 1,609 |
| Accounts Payable | 31,910 | | 31,910 |
| Noncurrent Liabilities: | | | |
| Due Within One Year | 60,000 | | 60,000 |
| Due Beyond One Year | <u>812,466</u> | | <u>812,466</u> |
| Total Liabilities | <u>905,985</u> | <u>-</u> | <u>905,985</u> |
| <u>Net Position</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 1,816,181 | 2,561 | 1,818,742 |
| Restricted For: | | | |
| Other Purposes | 55,882 | | 55,882 |
| Unrestricted | <u>(178,511)</u> | <u>5,197</u> | <u>(173,314)</u> |
| Total Net Position | <u>\$ 1,693,552</u> | <u>7,758</u> | <u>1,701,310</u> |

The accompanying notes to financial statements are an integral part of this statement.

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit A-2

Sheet 1 of 2

STATEMENT OF ACTIVITIES**FOR THE YEAR ENDED JUNE 30, 2015**

| | | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | |
|--|------------|-------------------------|--|--|-----------------------------|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities | Business-Type Activities |
| | Expenses | | | | Total |
| <u>Functions/Programs</u> | | | | | |
| Governmental Activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 846,395 | | | (846,395) | (846,395) |
| Special Education | 254,475 | | 32,479 | (221,996) | (221,996) |
| Other Instruction | 38,446 | | | (38,446) | (38,446) |
| Support Services: | | | | | |
| Student & Instruction Related Services | 130,220 | | 5,872 | (124,348) | (124,348) |
| School Administrative Services | 121,958 | | | (121,958) | (121,958) |
| Central Services | 85,372 | | | (85,372) | (85,372) |
| Plant Operations and Maintenance | 379,206 | | | (379,206) | (379,206) |
| Pupil Transportation | 27,175 | | | (27,175) | (27,175) |
| Depreciation | 100,414 | | | (100,414) | (100,414) |
| Unallocated Benefits | 505,271 | | | (505,271) | (505,271) |
| Capital Outlay | 3,804 | | | (3,804) | (3,804) |
| Interest and Other Charges | 18,658 | | | (18,658) | (18,658) |
| Total Government Activities | 2,511,394 | - | 38,351 | (2,473,043) | (2,473,043) |
| Business-Type Activities: | | | | | |
| Food Service | 8,235 | 6,022 | 3,000 | | 787 |
| Total Business-Type Activities | 8,235 | 6,022 | 3,000 | - | 787 |
| Total Primary Government | 2,519,629 | 6,022 | 41,351 | (2,473,043) | (2,472,256) |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit A-2

Sheet 2 of 2

STATEMENT OF ACTIVITIES**FOR THE YEAR ENDED JUNE 30, 2015**

| | Net (Expense) Revenue and Changes in Net Position | | |
|--|--|-----------------------------|-----------|
| | Governmental Activities | Business-Type Activities | Total |
| General Revenues: | | | |
| Taxes: | | | |
| Property Taxes, Levied for General Purpose, Net | 1,776,100 | | 1,776,100 |
| Taxes Levied for Debt Service | 80,290 | | 80,290 |
| Shared Services | 40,000 | | 40,000 |
| Federal and State Aid Not Restricted | 465,577 | | 465,577 |
| Miscellaneous Income | 18,068 | | 18,068 |
| Total General Revenues, Special Items, Extraordinary Items and Transfers | 2,380,035 | - | 2,380,035 |
| Change in Net Position | (93,008) | 787 | (92,221) |
| Restatement for Pension | (340,008) | | (340,008) |
| Net Position - Beginning | 2,126,568 | | 2,126,568 |
| Net Position - Ending | \$ 1,693,552 | 787 | 1,694,339 |

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

FUND FINANCIAL STATEMENTS – B

BALANCE SHEET**GOVERNMENTAL FUNDS****JUNE 30, 2015**

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|--|--------------------------------|-----------------------------------|---|--|
| <u>Assets</u> | | | | |
| Cash and Cash Equivalents | \$ 250,984 | | 1 | 250,985 |
| Cash Capital Reserve | 33,056 | | | 33,056 |
| Interfund Receivable | 5,872 | | | 5,872 |
| Receivable - Net | 3,924 | 5,872 | | 9,796 |
| Total Assets | <u>\$ 293,836</u> | <u>5,872</u> | <u>1</u> | <u>299,709</u> |
| <u>Liabilities and Fund Balance</u> | | | | |
| Liabilities: | | | | |
| Current Liabilities | | | | |
| Accounts Payable | \$ 31,910 | | | 31,910 |
| Interfund Payable | | 5,872 | | 5,872 |
| Total Liabilities | <u>31,910</u> | <u>5,872</u> | <u>-</u> | <u>37,782</u> |
| Fund Balance: | | | | |
| Assigned Fund Balance: | | | | |
| Encumbrances | 6,260 | | | 6,260 |
| Restricted Fund Balance: | | | | |
| Maintenance Reserve | 22,393 | | | 22,393 |
| Capital Reserve | 33,489 | | | 33,489 |
| Unrestricted Fund Balance | 199,784 | | 1 | 199,785 |
| Total Fund Balances | <u>261,926</u> | <u>-</u> | <u>1</u> | <u>261,927</u> |
| Total Liabilities and Fund Balance | <u>\$ 293,836</u> | <u>5,872</u> | <u>1</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 \$3,873,387 and the accumulated depreciation is \$1,584,206.

2,289,181

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.

(872,466)

Deferred outflow of resources - contributions to the pension plan

36,782

Deferred inflow of resources - acquisition of assets applicable to future reporting periods

(20,263)

Accrued Interest

(1,609)

Net position of governmental activities

\$ 1,693,552

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

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit B-2

Sheet 1 of 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**GOVERNMENTAL FUNDS****FOR THE YEAR ENDED JUNE 30, 2015**

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Debt Service Fund</u> | <u>Total Governmental Funds</u> |
|---|--------------------------------|--|---|--|
| <u>Revenues</u> | | | | |
| Local Sources: | | | | |
| Local Tax Levy | \$ 1,776,100 | | 80,290 | 1,856,390 |
| Shared Services | 40,000 | | | 40,000 |
| Miscellaneous | 18,068 | | | 18,068 |
| Total Local Sources | 1,834,168 | - | 80,290 | 1,914,458 |
| State Sources | 465,577 | | | 465,577 |
| Federal Sources | | 38,351 | | 38,351 |
| Total Revenues | 2,299,745 | 38,351 | 80,290 | 2,418,386 |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Regular Instruction | 846,395 | | | 846,395 |
| Special Education Instruction | 221,996 | 32,479 | | 254,475 |
| Other Special Instruction | 29,507 | | | 29,507 |
| Other Instruction | 8,939 | | | 8,939 |
| Support Services and Undistributed Costs: | | | | |
| Students and Instruction Related Services | 124,348 | 5,872 | | 130,220 |
| School Administrative Services | 121,958 | | | 121,958 |
| Central Services | 85,372 | | | 85,372 |
| Plant Operations and Maintenance | 379,206 | | | 379,206 |
| Pupil Transportation | 27,175 | | | 27,175 |
| Unallocated Benefits | 538,566 | | | 538,566 |
| Capital Outlay | 3,804 | | | 3,804 |
| Debt Service: | | | | |
| Principal | | | 60,000 | 60,000 |
| Interest and Other Charges | | | 20,290 | 20,290 |
| Total Expenditures | 2,387,266 | 38,351 | 80,290 | 2,505,907 |

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

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit B-2

Sheet 2 of 2

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**GOVERNMENTAL FUNDS****FOR THE YEAR ENDED JUNE 30, 2015**

| | General Fund | Special Revenue Fund | Debt Service Fund | Total Governmental Funds |
|---|-------------------------|-------------------------------------|----------------------------------|---|
| Excess (Deficiency) of Revenues Over Expenditures | <u>(87,521)</u> | <u>-</u> | <u>-</u> | <u>(87,521)</u> |
| Net Change in Fund Balances | (87,521) | - | - | (87,521) |
| Fund Balance - July 1 | <u>349,447</u> | <u>-</u> | <u>1</u> | <u>349,448</u> |
| Fund Balance - June 30 | <u>\$ 261,926</u> | <u>-</u> | <u>1</u> | <u>261,927</u> |

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

ISLAND HEIGHTS SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES

Exhibit B-3

AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDSTO THE STATEMENT OF ACTIVITIESFOR THE YEAR ENDED JUNE 30, 2015

| | |
|--|--------------------|
| Total Net Change in Fund Balances - Governmental Funds (From B-2) | \$ (87,521) |
| Amounts Reported for Governmental Activities in the Statement of Activities (A-2) are Different Because: | |
| Capital Outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the period. | |
| Depreciation Expense | (100,414) |
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities. | 60,000 |
| In the statement of activities, certain operating expenses as compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported when paid. | 16,776 |
| Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position | 36,782 |
| Pension related deferrals | (20,263) |
| In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental fund, interest is reported when due. | <u>1,632</u> |
| Change in Net Position of Governmental Activities | <u>\$ (93,008)</u> |

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

ISLAND HEIGHTS SCHOOL DISTRICT

23.

STATEMENT OF NET POSITION

Exhibit B-4

PROPRIETARY FUNDS

JUNE 30, 2015

| | <u>Enterprise Fund</u> |
|----------------------------------|-----------------------------------|
| <u>Assets</u> | |
| Cash | \$ 4,487 |
| Accounts Receivable | 710 |
| Total Current Assets | <u>5,197</u> |
| Noncurrent Assets: | |
| Furniture, Machinery & Equipment | 7,646 |
| Less: Accumulated Depreciation | <u>(5,085)</u> |
| Total Noncurrent Assets | <u>2,561</u> |
| Total Assets | <u><u>\$ 7,758</u></u> |
| <u>Net Position</u> | |
| Investment in Capital Assets | \$ 2,561 |
| Unrestricted | <u>5,197</u> |
| Total Net Position | <u><u>\$ 7,758</u></u> |

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

ISLAND HEIGHTS SCHOOL DISTRICT

24.

STATEMENT OF REVENUES, EXPENSES AND CHANGES

Exhibit B-5

IN FUND NET POSITION

PROPRIETARY FUNDS

JUNE 30, 2015

| | <u>Enterprise Fund</u> |
|--|-----------------------------------|
| Operating Revenues: | |
| Local Sources: | |
| Daily Sales Reimbursable Programs | <u>\$ 6,022</u> |
| Total Operating Revenue | <u>6,022</u> |
| Operating Expenses: | |
| Cost of Sales | <u>8,235</u> |
| Total Operating Expenses | <u>8,235</u> |
| Operating Income (Loss) | (2,213) |
| Non-Operating Revenues (Expenses): | |
| State Sources: | |
| State School Lunch Program | 100 |
| Federal Sources: | |
| National School Lunch Program | <u>2,900</u> |
| Total Non-Operating Revenues | <u>3,000</u> |
| Net Change in Net Position | 787 |
| Net Position, Beginning | <u>6,971</u> |
| Net Position, Ending | <u><u>\$ 7,758</u></u> |

6

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

ISLAND HEIGHTS SCHOOL DISTRICT

25.

STATEMENT OF CASH FLOWS

Exhibit B-6

PROPRIETARY FUNDS

JUNE 30, 2015

| | <u>Enterprise Fund</u> |
|---|-----------------------------------|
| Cash Flows from Operating Activities: | |
| Receipts from Customers | \$ 6,022 |
| Payments to Suppliers | (8,235) |
| Net Cash Used by Operating Activities | <u>(2,213)</u> |
| Cash Flows from Noncapital Financing Activities: | |
| State Sources | 100 |
| Federal Sources | 2,471 |
| Net Cash Provided (Used by) Noncapital Financing Activities | <u>2,571</u> |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 358 |
| Balances Beginning of Year | <u>4,129</u> |
| Balances End of Year | <u><u>\$ 4,487</u></u> |
| Cash Flows from Operating Activities: | |
| Operating (Loss)/Profit | \$ (2,213) |
| Net Cash Used by Operating Activities | <u><u>\$ (2,213)</u></u> |

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

ISLAND HEIGHTS SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

Exhibit B-7

| | |
|---------------------------------------|--|
| | <u>Unemployment Compensation Trust</u> |
| Assets: | |
| Cash and Cash Equivalents | <u>\$ 38,561</u> |
| Total Assets | <u><u>\$ 38,561</u></u> |
| Net Position: | |
| Held in Trust for Unemployment Claims | <u>\$ 38,561</u> |
| Total Net Position | <u><u>\$ 38,561</u></u> |

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

ISLAND HEIGHTS SCHOOL DISTRICT**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**

Exhibit B-8

FIDUCIARY FUNDS**FOR THE YEAR ENDED JUNE 30, 2015**

| | Unemployment Compensation Trust |
|----------------------------------|--|
| | <hr/> |
| <u>Deductions</u> | |
| Unemployment Claims | \$ 3,705 |
| Total Deductions | <hr/> 3,705 <hr/> |
| Change in Net Position | (3,705) |
| Net Position - Beginning of Year | <hr/> 42,266 <hr/> |
| Net Position - End of the Year | <hr/> \$ 38,561 <hr/> |

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

NOTES TO FINANCIAL STATEMENTS

BOARD OF EDUCATION
ISLAND HEIGHTS SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: Summary of Significant Accounting Policies

The financial statements of the Board of Education (Board) of the Island Heights School District (District) have been prepared in conformity with generally accepted accounting principles (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 Board's accounting policies are described below.

A. Reporting Entity:

The Board is an instrumentality of the State of New Jersey, established to function as an educational institution. The Board consists of elected officials and is responsible for the fiscal control of the District. A superintendent is appointed by the Board and is responsible for the administrative control of the District.

The primary criterion for including activities within the District's reporting entity, as set forth in Section 2100 of the GASB Codification of Government Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the 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 and account groups of the District over which the Board exercises operating control. The operations of the District include an elementary school located in Island Heights Borough. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore the District is not includable in any other reporting entity on the basis of such criteria.

B. Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the government as a whole. These financial statements are constructed around the concept of a primary government as defined by GASB-14 (The Financial Reporting Entity) and therefore encompass the primary government and its component units except for fiduciary funds of the primary government and component units that are fiduciary in nature. Financial statements of fiduciary funds are not presented in the government-wide financial statements but are included in the fund financial statements.

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Government-Wide Financial Statements (Continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees and other charges to users of the District's services and (2) operating grants and contributions. These revenues are subject to externally imposed restrictions to these program uses. Tax levies and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

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

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The government-wide and proprietary fund financial statements apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Proprietary and fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. County tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met. The Unemployment Trust Fund recognizes employer and employee contributions in the period in which contributions are due.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to apply current liabilities. The District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term pension and compensated absences, which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual includes Intergovernmental revenues, and the county tax levy. In general, other revenues are recognized when cash is received.

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for food sales and for services provided to other governmental entities. Principles operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

D. Fund Accounting:

The accounts of the District are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

General Fund: The general fund is the general operating fund of the District and is used to account for all expendable financial resources except those required to be accounted for in another fund.

Special Revenue Fund: The District accounts for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes in the special revenue funds.

Capital Projects Fund: the capital projects fund is used to account for all financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Debt Service Fund: The debt service fund is used to account for the accumulation of resources for, and the payment of principal and interest on bonds issued to finance major property acquisition, construction and improvement programs.

NOTE 1: Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued):

Proprietary Fund Type

Enterprise Fund: To account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent of the District is that the costs of providing goods or services to the District on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Types

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

Unemployment Compensation Trust Fund: The trust fund is used to account for assets held under the terms of a formal trust agreement. The District reimburses the costs of unemployment benefits paid by the New Jersey Department of Labor.

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

E. Budgets/Budgetary Control:

Annual appropriated budgets are prepared in the spring of each year for the general, special revenue, and debt service funds. The budgets are submitted to the County office. Budgets are prepared using the modified accrual basis of accounting; the legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23-2.2(g)1. All budget amendments must be approved by School Board resolution. Budget amendments during the year ended June 30, 2015 were insignificant.

The Public School Education Act of 1975 limits the annual increase of any district's net current expense budget. The Commissioner of Education certifies the allowable amount for each district but may grant a higher level of increase if he determines that the sums so provided would be insufficient to meet the identified goals and needs of the district or that an anticipated enrollment increase requires additional funds.

The Commissioner must also review every proposed local school district budget for the next school year. He examines every item of appropriations for current expenses and budgeted capital outlay to determine their adequacy in relation to the identified needs and goals of the district. If, in his view, they are insufficient, the Commissioner must order remedial action. If necessary, he is authorized to order changes in the local district budget.

NOTE 1: Summary of Significant Accounting Policies (Continued)

E. Budgets/Budgetary Control (Continued):

Once a budget is approved, it can be amended by transfers or additional appropriation of fund balances by approval of a majority of the members of the Board. Amendments are presented to the Board at their regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual transfers were not material in relation to the original appropriations. All uncommitted budget appropriations lapse at year-end.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles with the exception of the special revenue fund as noted below. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

F. 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. Open encumbrances in governmental funds other than the special revenue fund are reported as reservations of fund balances at fiscal year end as they do not constitute expenditures or liabilities but rather commitments related to unperformed contracts for goods and services.

Open encumbrances in the special revenue fund for which the District has received advances are reflected in the balance sheet as deferred revenues at fiscal year end.

The encumbered appropriation authority carries over into the next fiscal year. An entry will be made at the beginning of the next fiscal year to increase the appropriation reflected in the certified budget by the outstanding encumbrance amount as of the current fiscal year end.

G. Short-Term Interfund Receivables/Payables:

Short-Term interfund receivables/payables represents amounts that are owed, other than charges for good or services rendered to/from a particular fund in the District and that are due within one year.

H. Inventories and Prepaid Expenses

Inventories and prepaid expenses, which benefit future periods, are recorded as an expenditure during the year of purchase. The value of inventories remaining at the end of the fiscal year is not included on the balance sheet.

NOTE 1: Summary of Significant Accounting Policies (Continued)**H. Inventories and Prepaid Expenses (Continued)**

Enterprise fund inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. Prepaid expenses in the enterprise fund represent payments made to vendors for services that will benefit periods beyond June 30, 2015.

I. Capital Assets and Depreciation

The District's property, buildings and improvements, equipment, vehicles, furniture and fixtures with useful lives of five years or more are stated at historical or estimated historical cost and are reported in the government-wide financial statements. Proprietary Fund capital assets are reported in its respective fund.

The District contracted with an outside service company during the 2015 fiscal year to provide a report with a comprehensive detail of capital assets and depreciation. The report included capital assets purchased during the 2014-2015 fiscal year and prior with a historical cost of \$2,000 or more. Accumulated depreciation prior to fiscal year 2015, fiscal year 2015 depreciation expense, total accumulated depreciation and book values were also provided. The costs of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts. Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|----------------------------|---------|
| Buildings and Improvements | 20 – 50 |
| Equipment and Vehicles | 5 – 20 |
| Furniture and Fixtures | 5 – 20 |

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

| | <u>Balance</u> <u>July 1, 2014</u> | <u>Additions</u> | <u>Adjust.</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2015</u> |
|--------------------------|---|-------------------------|-----------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Capital Assets That are | | | | | |
| Not Being Depreciated: | | | | | |
| Land | \$ 14,330 | _____ | _____ | _____ | 14,330 |
| Depreciable Assets: | | | | | |
| Site Improvements | 57,786 | | | | 57,786 |
| Buildings | 3,619,023 | | | | 3,619,023 |
| Equipment | 182,248 | _____ | _____ | _____ | 182,248 |
| Total | 3,859,057 | _____ | _____ | _____ | 3,859,057 |

NOTE 1: Summary of Significant Accounting Policies (Continued)**I. Capital Assets and Depreciation (Continued)**

| | <u>Balance</u> <u>July 1, 2014</u> | <u>Additions</u> | <u>Adjust.</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2015</u> |
|---------------------------------|---------------------------------------|------------------|----------------|--------------------|--|
| Less: Accumulated Depreciation: | | | | | |
| Site Improvements | (42,592) | (2,762) | | | (45,354) |
| Buildings | (1,323,815) | (83,499) | | | (1,407,314) |
| Equipment | <u>(117,385)</u> | <u>(14,153)</u> | <u> </u> | <u> </u> | <u>(131,538)</u> |
| Total Accumulated Depreciation | <u>(1,483,792)</u> | <u>(100,414)</u> | <u> </u> | <u> </u> | <u>(1,584,206)</u> |
| Net Depreciable Assets | <u>2,375,265</u> | <u>(100,414)</u> | <u> </u> | <u> </u> | <u>2,274,851</u> |
| Governmental Activities | | | | | |
| Capital Assets, Net | <u>\$ 2,389,595</u> | <u>(100,414)</u> | <u> </u> | <u> </u> | <u>2,289,181</u> |
| Business-Type Activities: | | | | | |
| Equipment | \$ 7,646 | | | | 7,646 |
| Less: Accumulated Depreciation | | | | | |
| Equipment | <u>(5,085)</u> | <u>(485)</u> | <u> </u> | <u> </u> | <u>(5,570)</u> |
| Business-Type Activities | | | | | |
| Capital Assets (Net) | <u>\$ 2,561</u> | <u>(485)</u> | <u> </u> | <u> </u> | <u>2,076</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|-------------|-------------------|
| Unallocated | <u>\$ 100,414</u> |
|-------------|-------------------|

J. Compensated Absences

District employees are permitted, within certain limitations, to accrue vacation and sick leave in varying amounts under the Districts personnel policies and may be paid at a later date according to contractual agreements.

The liability for vested compensated absences of the governmental fund types is recorded in the government-wide financial statements as a non-current liability. Governmental funds report only matured compensated absences payable to currently terminating employees and are included in wages and benefits payable

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. Deferred Revenue

Deferred revenue in the general and special revenue funds represent cash which has been received but not yet earned. Deferred revenue in the general fund represents monies received for fiscal year 2015. See Note 1(F) regarding the special revenue fund.

L. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes. The general fund reserve for restricted purposes includes net assets relating to capital reserve (See Note 9).

NOTE 2: Cash and Cash Equivalents and Investments

Cash and cash equivalents includes petty cash, change funds, amounts in deposits, and short term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The District classifies certificates of deposit, which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

Deposits

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

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

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

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

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

NOTE 2: Cash and Cash Equivalents and Investments (Continued)

Investments

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

- a. Bonds or other obligations of the United States or obligations guaranteed by the United States.
- b. Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or any United States Bank for cooperatives which have a maturity date not greater than twelve months from the date of purchase.
- c. Bonds or other obligations of the school district.

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

| | Cash and Cash Equivalents |
|--|--------------------------------------|
| Checking, Money Market Accounts and Certificate of Deposit | <u>\$ 305,747</u> |

During the period ended June 30, 2015, the District did not hold any investments. The carrying amount of the District's cash and cash equivalents at June 30, 2015 was \$305,747 and the bank balance was \$342,781. Of the bank balance, \$250,000 was covered by federal depository insurance.

Credit Risk Categories

All bank deposits and investments as of the balance sheet date are classified as to credit risk by the following two categories described below:

| | |
|-------|-------------------|
| FDIC | \$ 250,000 |
| GUPDA | <u>92,781</u> |
| | <u>\$ 342,781</u> |

As of June 30, 2015, the District did not hold any long-term investments.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a formal policy for custodial credit risk.

The District had no uninsured deposits.

NOTE 3: General Long-Term Debt

During the fiscal year ended June 30, 2015, the following changes occurred in liabilities reported in the general long-term debt account group:

| | <u>Balance</u> <u>June 30, 2014</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>June 30, 2015</u> | <u>Long-Term</u> <u>Portion</u> | <u>2015-2016</u> <u>Payment</u> |
|-------------------|--|------------------|------------------|--|------------------------------------|------------------------------------|
| Compensated | | | | | | |
| Absences Payable | \$ 76,234 | | (16,776) | 59,458 | 59,458 | |
| Bonds Payable | 533,000 | | (60,000) | 473,000 | 413,000 | 60,000 |
| Pension Liability | | 340,008 | | 340,008 | 340,008 | |
| | <u>\$ 609,234</u> | <u>340,008</u> | <u>(76,776)</u> | <u>872,466</u> | <u>812,466</u> | <u>60,000</u> |

A. Bonds Payable

Bonds are authorized in accordance with State law by the voters of the municipality through referendums. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Board are of general obligation bonds, and the interest rates vary from 3.875% to 4.260%.

Principal and interest due on serial bonds outstanding is as follows:

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|-------------------|-----------------|----------------|
| Year Ending June 30, | | | |
| 2016 | \$ 60,000 | 17,958 | 77,958 |
| 2017 | 60,000 | 14,403 | 74,403 |
| 2018 | 60,000 | 12,002 | 72,002 |
| 2019 | 60,000 | 9,603 | 69,603 |
| 2020 | 60,000 | 7,203 | 67,203 |
| 2021-2023 | <u>173,000</u> | <u>6,995</u> | <u>179,995</u> |
| | <u>\$ 473,000</u> | <u>68,164</u> | <u>541,164</u> |

NOTE 4: Pension Plans

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

NOTE 4: Pension Plans (Continued)

Teachers' Pension and Annuity Fund (TPAF) – The Teachers' Pension and Annuity Fund was established as of January 1, 1955, under the provisions of N.J.S.A. 18A:66 to provide retirement benefits, death, disability and medical benefits to certain qualified members. The Teachers' Pension and Annuity Fund is considered a cost-sharing multiple-employer plan with a special funding situation, as under current statute, all employer contributions are made by the State of New Jersey on behalf of the District and the system's other related non-contributing employers. Membership is mandatory for substantially all teachers or members of the professional staff certified by the State Board of Examiners, and employees of the Department of Education who have titles that are unclassified, professional and certified.

Public Employees' Retirement System (PERS) – The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Vesting and Benefit Provisions – The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B and N.J.S.A. 18A:6C for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The TPAF and PERS provide for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provision of the System.

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

Significant Legislation - During the year ended June 30, 1997, legislation was enacted Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997 (Chapter 115, P.L. 1997), changed the asset valuation method from market related value to full-market value. This legislation also contains a provision to reduce the employee contribution rate by ½ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the Districts' normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits, accordingly, the pension costs for TPAF and PERS were reduced.

NOTE 4: Pension Plans (Continued)

Funding Policy – The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. TPAF and PERS provide for employee contributions of 6.78% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in both TPAF and PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums. Under current statute the District is a non-contributing employer of the TPAF.

Legislation enacted during 1993 provides early retirement incentives for certain members of TPAF and PERS who met certain age and service requirements and who applied for retirement between certain dates in the 1994 fiscal year. The early retirement incentives included: (a) an additional five years of service credit for employees at least age 50 with a minimum of 25 years of service; (b) free health benefits for employees at least 60 years old with at least 20 years of service; and (c) an additional \$500 per month for two years for employees at least age 60 with 10 years but less than 20 years of service. The Board will assume the increased cost for the early retirement as it affects their districts.

During the year ended June 30, 2015, the State of New Jersey contributed \$119,040 to the TPAF for post-retirement medical benefits on behalf of the District. Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the District \$77,014 during the year ended June 30, 2015 for the employer's share of social security contributions for TPAF members as calculated on their base salaries. These amounts have been included in the general-purpose financial statements, and the combining and individual fund and account group statements and schedules as revenues and expenditure in accordance with GASB 34.

Three-Year Trend Information for PERS

| <u>Year Funding</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------------------|---|---|--|
| 6/30/15 | \$ 14,971 | 100% | 0 |
| 6/30/14 | 13,156 | 100% | 0 |
| 6/30/13 | 16,577 | 100% | 0 |

Three-Year Trend Information for TPAF (Paid On-Behalf of the District)

| <u>Year Funding</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> | <u>Net Pension Obligation</u> |
|--------------------------------|---|---|--|
| 6/30/15 | \$ 119,046 | 100% | 0 |
| 6/30/14 | 99,649 | 100% | 0 |
| 6/30/13 | 130,457 | 100% | 0 |

NOTE 4: Pension Plans (Continued)**Pension Expense Deferred Outflows/Inflows – PERS**

For the year ended June 30, 2015, the District recognized pension expense of \$14,791. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|--|---|
| Difference Between Expected and Actual Experience | \$ | |
| Changes of Assumptions | 10,692 | |
| Net Difference Between Projected and Actual Earnings on Pension Plan Investments | | 20,263 |
| Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions | 11,299 | |
| District Contributions Subsequent to the Measurement Date | <u>14,791</u> | <u> </u> |
| Total | <u>\$ 36,782</u> | <u>20,263</u> |

\$36,782 reported as deferred outflows of resources related to pensions resulting from school district, charter school, or renaissance school project contributions subsequent to the measurement date (i.e. for the school year ending June 30, 2015, the plan measurement date is June 30, 2014) will be recognized as a reduction of the net pension liability in the year ended June 30, 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:

Additional Information

Collective balances at December 31, 2013 and 2014 are as follows:

| | <u>Dec. 31, 2014</u> | <u>Dec. 31, 2013</u> |
|---|-----------------------------|-----------------------------|
| Collective Deferred Outflows of Resources | \$ 36,782 | |
| Collective Deferred Inflows of Resources | 20,263 | 333,702 |
| Collective Net Pension Liability | 340,008 | |
| District's Proportion | .00182% | .00175% |

NOTE 4: Pension Plans (Continued)**Components of Net Pension Liability**

The components of the net pension liability of the participating employers for PERS as of June 30, 2014 and 2013 are as follows:

| | 2014 | | |
|--|--------------------------|-----------------------|-----------------------|
| | <u>State</u> | <u>Local</u> | <u>Total</u> |
| Total Pension Liability | \$ 28,777,950,141 | 39,071,470,586 | 67,849,420,727 |
| Plan Fiduciary Net Position | <u>8,650,846,191</u> | <u>20,348,735,583</u> | <u>28,999,581,774</u> |
| Net Pension Liability | <u>\$ 20,127,103,950</u> | <u>18,722,735,003</u> | <u>38,849,838,953</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 30.06% | 52.08% | 42.74% |

| | 2013 | | |
|--|--------------------------|-----------------------|-----------------------|
| | <u>State</u> | <u>Local</u> | <u>Total</u> |
| Total Pension Liability | \$ 27,515,277,069 | 37,272,295,162 | 64,787,572,231 |
| Plan Fiduciary Net Position | <u>8,216,653,950</u> | <u>18,160,308,251</u> | <u>26,376,962,201</u> |
| Net Pension Liability | <u>\$ 19,298,623,119</u> | <u>19,111,986,911</u> | <u>38,410,610,030</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 29.86% | 48.72% | 40.71% |

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2103, 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.

NOTE 4: Pension Plans (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 | 6.00% | 0.80% |
| Core Bonds | 1.00% | 2.49% |
| Intermediate-Term Bonds | 11.20% | 2.26% |
| Mortgages | 2.50% | 2.17% |
| High Yield Bonds | 5.50% | 4.82% |
| Inflation-Indexed Bonds | 2.50% | 3.51% |
| Broad US Equities | 25.90% | 8.22% |
| Developed Foreign Equities | 12.70% | 8.12% |
| Emerging Market Equities | 6.50% | 9.91% |
| Private Equity | 8.25% | 13.02% |
| Hedge Funds/Absolute Return | 12.25% | 4.92% |
| Real Estate (Property) | 3.20% | 5.80% |
| Commodities | 2.50% | 5.35% |

Discount Rate

The discount rate used to measure the total pension liability was 5.39% and 5.55% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

NOTE 4: Pension Plans (Continued)**Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate**

The following presents the collective net pension liability of the participating employers as of June 30, 2014 and 2013, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

| | 2014 | | |
|-------|--------------------------------|-------------------------------------|--------------------------------|
| | At 1% | At Current | At 1% |
| | <u>Decrease (4.39%)</u> | <u>Discount Rate (5.39%)</u> | <u>Increase (6.39%)</u> |
| State | \$ 23,772,450,916 | 20,127,103,950 | 17,069,920,644 |
| Local | <u>23,553,838,159</u> | <u>18,722,735,003</u> | <u>14,665,837,859</u> |
| Total | <u>\$ 47,326,289,075</u> | <u>38,849,838,953</u> | <u>31,735,758,503</u> |

| | 2013 | | |
|-------|--------------------------------|-------------------------------------|--------------------------------|
| | At 1% | At Current | At 1% |
| | <u>Decrease (4.55%)</u> | <u>Discount Rate (5.55%)</u> | <u>Increase (6.55%)</u> |
| State | \$ 22,822,255,839 | 19,298,623,119 | 16,351,193,705 |
| Local | <u>23,791,905,551</u> | <u>19,111,986,911</u> | <u>15,190,834,283</u> |
| Total | <u>\$ 46,614,161,390</u> | <u>38,410,610,030</u> | <u>31,542,027,988</u> |

Teachers Pensions and Annuity Fund (TPAF)**Components of Net Pension Liability**

The components of the net pension liability of the State as of June 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|--|--------------------------|-----------------------|
| Total Pension Liability | \$ 81,095,320,000 | 76,678,639,671 |
| Plan Fiduciary Net Position | <u>27,282,252,461</u> | <u>25,888,126,040</u> |
| Net Pension Liability | <u>\$ 53,813,067,539</u> | <u>50,790,513,631</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 33.64% | 33.76% |

NOTE 4: Pension Plans (Continued)**State Proportionate Share of Net Pension Liability Attributable to District**

| | <u>2014</u> | <u>2013</u> |
|-----------------------|---------------------|------------------|
| District's Liability | <u>\$ 4,769,570</u> | <u>4,788,808</u> |
| District's Proportion | .00886% | .00943% |

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

| | |
|---------------------------|----------------------------|
| Inflation Rate | 2.50% |
| Salary Increases: | |
| 2012-2021 | Varies Based on Experience |
| Thereafter | Varies Based on Experience |
| Investment Rate of Return | 7.90% |

Mortality rates 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 improvements. 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.

NOTE 4: Pension Plans (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 TPAF's target asset allocation as of June 30, 2014 are summarized in the following table:

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

Discount Rate

The discount rate used to measure the total pension liability was 4.68% and 4.95% as of June 30, 2014 and 2013, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of June 30, 2014 and 2013, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2027. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2027, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

NOTE 4: Pension Plans (Continued)**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

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

| | <u>At 1% Decrease</u> | <u>At Current Discount Rate</u> | <u>At 1% Increase</u> |
|----------------------------|-----------------------|-------------------------------------|-----------------------|
| 2014 (3.68%, 4.68%, 5.68%) | \$ 64,722,984,539 | 53,813,067,539 | 44,738,870,539 |
| 2013 (3.95%, 4.95%, 5.95%) | 61,017,578,926 | 50,790,513,631 | 42,351,665,847 |

NOTE 5: Post-Retirement Benefits

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 prefunding 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.

NOTE 6: Interfund Receivables and Payables

| | <u>Receivable</u> | <u>Payable</u> |
|----------------------|-------------------|----------------|
| General Fund | \$ 5,872 | |
| Special Revenue Fund | | 5,872 |

The interfunds represent a temporary loan from the General Fund to the Special Revenue Fund as Federal Funds expended in the Special Revenue Fund are on a reimbursement basis.

NOTE 7: Compensated Absences

The District accounts for compensated absences (e.g., unused vacation, sick leave) as directed by Governmental Accounting Standards Board Statement No. 16 (GASB 16), "Accounting for Compensated Absences". A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the right to the benefits.

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

In the district-wide *Statement of Net Position*, the liabilities whose average maturities are greater than one year should be reported in two components – the amount due within one year and the amount due in more than one year.

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

NOTE 8: Capital Reserve Account

A capital Reserve account was established by the Borough of Island Heights Board of Education 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.

Fund placed in the capital reserve account are restricted to capital projects in the district's approved Long Range Facilities Plan (LRFP). Upon submission of the LRFP to the department, a district may increase the balance in the capital reserve by appropriating funds in the annual general fund budget certified for taxes. A district may also appropriate additional amounts when the express approval of the voters has been obtained either by a separate proposal at budget time or by a special question at one of the four special elections authorized pursuant to *N.J.S.A.* 19:60-2. Pursuant to *N.J.A.C.* 6:23A-5.1(d) 7, 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:

| | |
|---------------------------------|------------------|
| Beginning Balance, July 1, 2014 | <u>\$ 33,489</u> |
| Ending Balance, June 30, 2015 | <u>\$ 33,489</u> |

NOTE 9: Risk Management

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

Property and Liability Insurance – The District maintains commercial insurance coverage for property, liability, student accident and surety bonds. A complete schedule of insurance coverage can be found in the Statistical Section of this Comprehensive Annual Financial Report.

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

| <u>Fiscal Year</u> | <u>Employee Contributions</u> | <u>District Contributions</u> | <u>Disbursed</u> | <u>Balance</u> |
|---------------------------|--|--|-------------------------|-----------------------|
| 2014-2015 | \$ -0- | -0- | 3,705 | 38,561 |
| 2013-2014 | 123 | -0- | 19,141 | 42,266 |
| 2012-2013 | | -0- | 1,155 | 43,421 |

NOTE 10: Tuition Adjustments

Regulations specify that tuition adjustments for any given school year shall be remitted/ received in the two following years after the tuition rate is certified. These adjustments have not been reflected on the June 30, 2015 financial statements.

NOTE 11: Economic Dependency

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

NOTE 12: Operating Leases

The District had commitments to lease a digital copier under an operating lease that expires in 2012. Operating lease payments began in the 2004-2005 budget year. During 2010-2011 the District entered into a new agreement whereas the old lease was paid off by the vendor, Atlantic Business Products, and a new lease was entered into. The new lease payments began in 2011 and will expire in 2016. Future minimum lease payments are as follows:

Year Ending June 30,
2016

\$ 5,135

NOTE 13: Contingent Liabilities

The Board is involved in several claims and lawsuits incidental to its operations. In the opinion of the administration and legal counsel, the ultimate resolution of these matters will not have a material adverse effect of the financial position of the District.

NOTE 14: 2% Calculation of Excess Surplus

| | |
|--|---------------------|
| 2014-15 Total General Fund Expenditures Per the CAFR | \$ 2,387,266 |
| Decreased by: | |
| On Behalf TPAF Pension and Social Security | <u>(196,060)</u> |
| Adjusted 2014-15 General Fund Expenditures | <u>\$ 2,191,206</u> |
| 2% of Adjusted 2014-15 General Fund Expenditures | <u>\$ 43,824</u> |
| Enter Greater of Above or \$250,000 | \$ 250,000 |
| Increased by Allowable Adjustments | <u>522</u> |
| Maximum Unassigned Fund Balance | <u>\$ 250,522</u> |

Section 2

| | |
|---|-------------------|
| Total General Fund Fund Balance @ June 30, 2015 | \$ 290,116 |
| Decreased by: | |
| Reserved for Encumbrances | (6,260) |
| Other Reserves | <u>(55,882)</u> |
| Total Unassigned Fund Balance | <u>\$ 227,974</u> |

Section 3**Detail of Allowable Adjustment**

| | |
|---------------------------|---------------|
| Non-Public Transportation | <u>\$ 522</u> |
|---------------------------|---------------|

Detail of Other Restricted Fund Balance

| | |
|---------------------|------------------|
| Maintenance Reserve | \$ 22,393 |
| Capital Reserve | <u>33,489</u> |
| | <u>\$ 55,882</u> |

NOTE 15: Fund Balance Appropriated

General Fund – Of the \$290,116 General Fund fund balance at June 30, 2015, \$6,260 is reserved for encumbrances; \$33,489 has been reserved in the Capital Reserve Account; \$22,393 is maintenance reserve; and \$227,974 is unreserved and undesignated.

Debt Service Fund – The Debt Service Fund fund balance at June 30, 2015 was \$1.

NOTE 16: Calculation of Excess Surplus

In accordance with *N.J.S.A.* 18A:7F-7, as amended, the designation for Reserved Fund Balance – Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve General Fund fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. There is no excess fund balance at June 30, 2015.

NOTE 17: Significant Accounting Pronouncements

In June 2009, the FASB issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the District has updated references to GAAP in its financial statements issued for the period ended June 30, 2015. The adoption of FASB ASC 105 did not impact the District's financial position or results of operations.

In May 2009, the FASB updated ASC 855, Subsequent Events, which is effective for reporting periods ending after June 15, 2009. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued, or are available to be issued. The District adopted the amended sections of ASC 855 and it did not have an impact on the District's financial statements. The District evaluated all events or transactions that occurred after June 30, 2015 through December 7, 2015.

REQUIRED SUPPLEMENTARY INFORMATION
PART II

BUDGETARY COMPARISON SCHEDULES – C

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 1 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|--|-----------------------------------|------------------------------------|--------------------------------|----------------------|--|
| Revenues: | | | | | |
| Local Sources: | | | | | |
| Local Tax Levy | \$ 1,776,100 | | 1,776,100 | 1,776,100 | - |
| Shared Services | 40,000 | | 40,000 | 40,000 | - |
| Unrestricted Miscellaneous Revenues | 4,992 | | 4,992 | 18,068 | 13,076 |
| Total Local Sources | <u>1,821,092</u> | <u>-</u> | <u>1,821,092</u> | <u>1,834,168</u> | <u>13,076</u> |
| State Sources: | | | | | |
| Transportation Aid | 9,420 | | 9,420 | 9,420 | - |
| School Choice | 165,295 | | 165,295 | 165,295 | - |
| Special Education Aid | 63,946 | | 63,946 | 63,946 | - |
| Security Aid | 8,673 | | 8,673 | 8,673 | - |
| Adjustment Aid | 36,454 | | 36,454 | 36,454 | - |
| PARCC Readiness Aid | 960 | | 960 | 960 | - |
| Per Pupil Growth Aid | 960 | | 960 | 960 | - |
| Non Public Transportation | | | - | 522 | 522 |
| TPAF Pension (On Behalf-Non-Budgeted) | | | | 119,046 | 119,046 |
| TPAF Social Security (Reimbursed - Non-Budgeted) | | | - | 77,014 | 77,014 |
| Total State Sources | <u>285,708</u> | <u>-</u> | <u>285,708</u> | <u>482,290</u> | <u>196,582</u> |
| Total Revenues | <u>2,106,800</u> | <u>-</u> | <u>2,106,800</u> | <u>2,316,458</u> | <u>209,658</u> |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 2 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Final to Actual</u> |
|---|-----------------------------------|------------------------------------|--------------------------------|----------------------|-----------------------------------|
| <u>Expenditures:</u> | | | | | |
| Current Expense: | | | | | |
| Regular Programs - Instruction: | | | | | |
| Kindergarten - Salaries of Teachers | 110,981 | 6,715 | 117,696 | 115,989 | 1,707 |
| Grades 1-5 - Salaries of Teachers | 460,181 | (1,905) | 458,276 | 450,283 | 7,993 |
| Grades 6-8 - Salaries of Teachers | 86,062 | 969 | 87,031 | 85,356 | 1,675 |
| Regular Programs - Undistributed Instruction: | | | | | |
| Other Salaries for Instruction | 73,894 | (13,948) | 59,946 | 59,946 | - |
| Purchased Professional Educational Services | 500 | 700 | 1,200 | 1,200 | - |
| Other Purchased Services (400-500 Series) | 4,000 | 1,642 | 5,642 | 5,632 | 10 |
| General Supplies | 97,359 | 8,629 | 105,988 | 105,940 | 48 |
| Textbooks | 22,000 | (7,966) | 14,034 | 12,830 | 1,204 |
| Other Objects | 8,803 | 416 | 9,219 | 9,219 | - |
| Total Regular Programs - Instruction | <u>863,780</u> | <u>(4,748)</u> | <u>859,032</u> | <u>846,395</u> | <u>12,637</u> |
| Special Education - Instruction: | | | | | |
| Learning and/or Language Disabilities: | | | | | |
| Salaries of Teachers | 45,813 | (43,563) | 2,250 | 2,250 | - |
| Other Salaries for Instruction | 27,068 | (13,635) | 13,433 | 12,630 | 803 |
| Other Purchased Services (400-500 Series) | 500 | | 500 | 500 | - |
| General Supplies | 1,500 | (1,197) | 303 | 303 | - |
| Total Learning and/or Language Disabilities | <u>74,881</u> | <u>(58,395)</u> | <u>16,486</u> | <u>15,683</u> | <u>803</u> |
| Resource Room/Resource Center: | | | | | |
| Salaries of Teachers | <u>131,453</u> | <u>74,860</u> | <u>206,313</u> | <u>206,313</u> | <u>-</u> |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 3 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | Original Budget | Budget Transfers | Final Budget | Actual | Variance Final to Actual |
|---|----------------------------|-----------------------------|-------------------------|---------------|---|
| Total Special Education-Instruction | 206,334 | 16,465 | 222,799 | 221,996 | 803 |
| Basic Skills/Remedial - Instruction: | | | | | |
| Salaries of Teachers | 29,316 | 191 | 29,507 | 29,507 | |
| Total Basic Skills/Remedial - Instruction: | 29,316 | 191 | 29,507 | 29,507 | - |
| School-Sponsored Co/Extra-Curricular Activities - Instruction: | | | | | |
| Salaries | 6,456 | | 6,456 | 6,444 | 12 |
| Other Objects | 3,000 | | 3,000 | 2,495 | 505 |
| Total School-Sponsored Co/Extra-Curricular Activities - Instruction | 9,456 | - | 9,456 | 8,939 | 517 |
| Total Instruction | 1,108,886 | 11,908 | 1,120,794 | 1,106,837 | 13,957 |
| Undistributed Expenditures - Attendance & Social Work: | | | | | |
| Salaries | 22,749 | 157 | 22,906 | 22,906 | |
| Total Attendance and Social Work | 22,749 | 157 | 22,906 | 22,906 | |
| Undistributed Expenditures - Health Services: | | | | | |
| Salaries | 18,806 | 1 | 18,807 | 18,806 | 1 |
| Supplies and Materials | 500 | 258 | 758 | 758 | - |
| Total Undistributed Expenditures - Health Services | 19,306 | 259 | 19,565 | 19,564 | 1 |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 4 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|--|-----------------------------------|------------------------------------|--------------------------------|----------------------|--|
| Undistributed Expenditures-Other Support Svcs.-Students-Related Svcs.: | | | | | |
| Purchased Professional/Educational Services | 80,000 | (16,130) | 63,870 | 63,657 | 213 |
| Total Undistributed Expenditures - Other Support Services - Students - Related Services | 80,000 | (16,130) | 63,870 | 63,657 | 213 |
| Undistributed Expenditures - Other Support Services - Child Study Team: | | | | | |
| Salaries of Secretarial & Clerical Assistants | 7,500 | (1,428) | 6,072 | 5,378 | 694 |
| Purchased Professional/Educational Services | 20,000 | 1,189 | 21,189 | 5,604 | 15,585 |
| Total Undistributed Expenditures - Other Support Services - Child Study Team | 27,500 | (239) | 27,261 | 10,982 | 16,279 |
| Undistributed Expenditures - Educational Media Services/ School Library: | | | | | |
| Other Purchased Services | 4,500 | (20) | 4,480 | 1,002 | 3,478 |
| Supplies and Materials | 500 | | 500 | | 500 |
| Total Undistributed Expenditures - Educational Media Services/ School Library | 5,000 | (20) | 4,980 | 1,002 | 3,978 |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 5 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|---|-----------------------------------|------------------------------------|--------------------------------|----------------------|--|
| Undistributed Expenditures - Instructional Staff Training Services: | | | | | |
| Purchased Professional/Educational Services | <u>4,500</u> | <u>2,578</u> | <u>7,078</u> | <u>6,237</u> | <u>841</u> |
| Undistributed Expenditures - Support Services - General | | | | | |
| Administration: | | | | | |
| Salaries | 93,651 | | 93,651 | 93,650 | 1 |
| Legal Services | 6,000 | 6,164 | 12,164 | 11,489 | 675 |
| Audit Fee | 6,000 | | 6,000 | 6,000 | - |
| Communications/Telephone | 500 | 210 | 710 | 710 | - |
| Other Purchased Services | 1,250 | (225) | 1,025 | 1,025 | - |
| In-House Training/Meeting Supplies | 150 | (60) | 90 | 73 | 17 |
| Miscellaneous Expenditures | 3,250 | (834) | 2,416 | 2,416 | - |
| Board of Education-Dues & Adm | <u>6,528</u> | <u>67</u> | <u>6,595</u> | <u>6,595</u> | <u>-</u> |
| Total Undistributed Expenditures - Support Services - | | | | | |
| General Administration | <u>117,329</u> | <u>5,322</u> | <u>122,651</u> | <u>121,958</u> | <u>693</u> |
| Undistributed Expenditures - Central Services: | | | | | |
| Salaries | 84,276 | 970 | 85,246 | 85,246 | - |
| Supplies and Materials | <u>350</u> | | <u>350</u> | <u>126</u> | <u>224</u> |
| Total Undistributed Expenditures - Central Services | <u>84,626</u> | <u>970</u> | <u>85,596</u> | <u>85,372</u> | <u>224</u> |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 6 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|--|----------------------------|-----------------------------|-------------------------|---------------|---|
| Undistributed Expenditures - Required Maintenance for School Facilities: | | | | | |
| Salaries | | 576 | 576 | 576 | 576 |
| Cleaning, Repairs and Maintenance Services | 30,000 | 39,661 | 69,661 | 69,661 | 69,661 |
| Total Undistributed Expenditures - Required Maintenance for School Facilities | 30,000 | 40,237 | 70,237 | 70,237 | - |
| Undistributed Expenditures - Other Operations and Maintenance of Plant: | | | | | |
| Salaries | 53,500 | (1,146) | 52,354 | 49,810 | 2,544 |
| Cleaning, Repair and Maintenance Services | 45,700 | 83,608 | 129,308 | 129,165 | 143 |
| Other Purchased Property Services | 1,300 | | 1,300 | 1,280 | 20 |
| Insurance | 38,000 | (3,000) | 35,000 | 34,963 | 37 |
| General Supplies | 10,000 | | 10,000 | 10,000 | - |
| Energy-Electricity | 42,500 | (37) | 42,463 | 34,282 | 8,181 |
| Energy-Natural Gas | 25,000 | (2,959) | 22,041 | 22,041 | - |
| Total Undistributed Expenditures - Other Operations and Maintenance of Plant | 216,000 | 76,466 | 292,466 | 281,541 | 10,925 |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 7 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE**FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|--|-----------------------------------|------------------------------------|--------------------------------|----------------------|--|
| Undistributed Expenditures - Care and Upkeep of Grounds: | | | | | |
| Salaries | <u>1,500</u> | <u>52</u> | <u>1,552</u> | <u>1,552</u> | <u>-</u> |
| Undistributed Expenditures - Security | | | | | |
| Salaries | <u>20,213</u> | <u>5,663</u> | <u>25,876</u> | <u>25,876</u> | <u>-</u> |
| Total Undistributed Expenditures Other Operations and Maintenance of Plant | <u>267,713</u> | <u>122,418</u> | <u>390,131</u> | <u>379,206</u> | <u>10,925</u> |
| Undistributed Expenditures - Student Transportation Services: | | | | | |
| Salaries for Pupil Transportation (Between Home and School) Special Education | <u>8,301</u> | <u>108</u> | <u>8,409</u> | <u>8,409</u> | <u>-</u> |
| Contracted Services (Between Home and School) Vendors | <u>2,500</u> | <u>(448)</u> | <u>2,052</u> | <u>1,981</u> | <u>71</u> |
| Contracted Services (Between Home and School) Jointures | <u>7,500</u> | <u>(2,641)</u> | <u>4,859</u> | <u>3,711</u> | <u>1,148</u> |
| Contracted Services - (Special Education Students)-ESCs & CTSAs | <u>10,000</u> | <u>3,221</u> | <u>13,221</u> | <u>13,074</u> | <u>147</u> |
| Total Undistributed Expenditures - Student Trans. Svcs. | <u>28,301</u> | <u>240</u> | <u>28,541</u> | <u>27,175</u> | <u>1,366</u> |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 8 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|--|-----------------------------------|------------------------------------|--------------------------------|----------------------|--|
| Unallocated Benefits-Employee Benefits | | | | | |
| Social Security Contributions | 29,800 | (1,992) | 27,808 | 26,179 | 1,629 |
| Other Retirement Contributions-PERS | 15,381 | | 15,381 | 14,971 | 410 |
| Health Benefits | 341,904 | (35,946) | 305,958 | 301,356 | 4,602 |
| Total Unallocated Benefits - Employee Benefits | <u>387,085</u> | <u>(37,938)</u> | <u>349,147</u> | <u>342,506</u> | <u>6,641</u> |
| Total Personal Services-Employee Benefits | <u>387,085</u> | <u>(37,938)</u> | <u>349,147</u> | <u>342,506</u> | <u>6,641</u> |
| On-Behalf TPAF Pension Contribution - Non-Budgeted | | | - | 119,046 | (119,046) |
| Reimbursed TPAF Social Security Contributions - Non-Budgeted | | | - | 77,014 | (77,014) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>196,060</u> | <u>(196,060)</u> |
| Total Undistributed Expenditures | <u>1,044,109</u> | <u>77,617</u> | <u>1,121,726</u> | <u>1,276,625</u> | <u>41,161</u> |
| Total Current Expense | <u>2,152,995</u> | <u>89,525</u> | <u>2,242,520</u> | <u>2,383,462</u> | <u>55,118</u> |
| Capital Outlay: | | | | | |
| Debt Service Assessment | 3,804 | | 3,804 | 3,804 | - |
| Total Capital Outlay | <u>3,804</u> | <u>-</u> | <u>3,804</u> | <u>3,804</u> | <u>-</u> |
| Total Expenditures | <u>2,156,799</u> | <u>89,525</u> | <u>2,246,324</u> | <u>2,387,266</u> | <u>55,118</u> |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-1

Sheet 9 of 9

GENERAL FUND - BUDGETARY COMPARISON SCHEDULE

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|---|-----------------------------------|------------------------------------|--------------------------------|--------------------------|--|
| Excess (Deficiency) of Revenues Over/(Under) Expenditures | <u>(49,999)</u> | <u>(89,525)</u> | <u>(139,524)</u> | <u>(70,808)</u> | <u>264,776</u> |
| Fund Balance July 1 | <u>360,924</u> | | <u>360,924</u> | <u>360,924</u> | |
| Fund Balance June 30 | <u><u>\$ 310,925</u></u> | <u><u>(89,525)</u></u> | <u><u>221,400</u></u> | <u><u>290,116</u></u> | <u><u>264,776</u></u> |
| Recapitulation: | | | | | |
| Restricted Fund Balance: | | | | | |
| Maintenance Reserve | | | | \$ 22,393 | |
| Capital Reserve | | | | 33,489 | |
| Assigned Fund Balance: | | | | | |
| Year-End Encumbrances | | | | 6,260 | |
| Unassigned Fund Balance | | | | <u>227,974</u> | |
| | | | | 290,116 | |
| Reconciliation to Governmental Funds Statements (GAAP): | | | | | |
| Final State Aid Payments not Recognized on GAAP Basis | | | | <u>(28,190)</u> | |
| Fund Balance Per Governmental Funds (GAAP) | | | | <u><u>\$ 261,926</u></u> | |

ISLAND HEIGHTS SCHOOL DISTRICT

Exhibit C-2

BUDGETARY COMPARISON SCHEDULE

SPECIAL REVENUE FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Original Budget</u> | <u>Budget Transfers</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Final to Actual</u> |
|---|-----------------------------------|------------------------------------|--------------------------------|----------------------|--|
| Revenues: | | | | | |
| Federal Sources | <u>\$ 32,216</u> | <u>6,135</u> | <u>38,351</u> | <u>38,351</u> | <u></u> |
| Total Revenues | <u><u>\$ 32,216</u></u> | <u><u>6,135</u></u> | <u><u>38,351</u></u> | <u><u>38,351</u></u> | <u><u>-</u></u> |
| Expenditures: | | | | | |
| Instruction: | | | | | |
| Tuition | <u>\$ 29,938</u> | <u>2,541</u> | <u>32,479</u> | <u>32,479</u> | <u></u> |
| Total Instruction | <u>29,938</u> | <u>2,541</u> | <u>32,479</u> | <u>32,479</u> | <u>-</u> |
| Support Services: | | | | | |
| Purchased Professional & Technical Services | <u>2,278</u> | <u>3,594</u> | <u>5,872</u> | <u>5,872</u> | <u></u> |
| Total Support Services | <u>2,278</u> | <u>3,594</u> | <u>5,872</u> | <u>5,872</u> | <u>-</u> |
| Total Expenditures | <u><u>\$ 32,216</u></u> | <u><u>6,135</u></u> | <u><u>38,351</u></u> | <u><u>38,351</u></u> | <u><u>-</u></u> |

APPENDIX C

Form of Approving Legal Opinion

_____, 2016

The Board of Education of the
Borough of Island Heights in the
County of Ocean, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the Borough of Island Heights in the County of Ocean, New Jersey (the "Board of Education") in connection with the issuance by the Board of Education of \$2,992,000 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 December 9, 2015 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on March 8, 2016 and (iii) a resolution duly adopted by the Board of Education on April 13, 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,