

**NEW ISSUES
SERIAL BONDS****RATING: Moody's:**

In the opinion of Rogut McCarthy LLC, Bond Counsel to the Borough, assuming compliance by the Borough with its Tax Certificate described herein, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition, under existing law, interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in "adjusted current earnings" for purposes of computing the alternative minimum tax that may be imposed on corporations. In addition, Bond Counsel is further of the opinion that, under the New Jersey Gross Income Tax Act, as enacted and construed on the date hereof, interest on the Bonds and any gain from the sale of the Bonds are not includable in gross income of the holders thereof. See "TAX MATTERS" herein.

\$6,735,000
BOROUGH OF CHATHAM
COUNTY OF MORRIS, NEW JERSEY
\$5,819,000 General Improvement Bonds
\$916,000 Water Utility Bonds
(Non-Callable) (Bank-Qualified)
(Book-Entry Only)

Dated: August 15, 2011**Due: August 15, as shown below**

The General Improvement Bonds and the Water Utility Bonds (collectively, the "Bonds") of the Borough of Chatham, in the County of Morris, New Jersey (the "Borough"), will be issued as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds, with the Bonds immobilized in the custody of DTC. Owners of beneficial interests in the Bonds will not receive physical delivery of bond certificates, but are to receive statements or other evidence of such ownership of beneficial interests from sources from which such interests were purchased. Investors may purchase beneficial interests in the Bonds in book-entry form in the denomination of \$5,000 or any integral multiple thereof (except for one odd piece in excess of \$5,000 per issue). See "BOOK-ENTRY ONLY SYSTEM" herein. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made directly to DTC or its nominee, Cede & Co., which will remit such payments to the DTC Participants, which will, in turn, remit such payments to the owners of beneficial interests in the Bonds. Principal of the Bonds is payable on August 15 of each of the years set forth below, and interest on the Bonds is payable on each February 15 and August 15, commencing February 15, 2012, in each year until maturity. The Bonds are not subject to redemption prior to their stated maturities.

The Bonds are general obligations of the Borough and are secured by a pledge of the full faith and credit of the Borough for the payment of the principal thereof and the interest thereon. The Borough is authorized and required by law to levy *ad valorem* taxes upon all the taxable real property within the Borough for the payment of the principal of and interest on the Bonds, without limitation as to rate or amount.

COMBINED MATURITY SCHEDULE, INTEREST RATES AND YIELDS OR PRICES

<u>Year</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>Yield or Price</u>	<u>Year</u>	<u>Amount Maturing</u>	<u>Interest Rate</u>	<u>Yield or Price</u>
2012	\$390,000	%	%	2018	\$660,000	%	%
2013	390,000			2019	680,000		
2014	390,000			2020	700,000		
2015	400,000			2021	720,000		
2016	445,000			2022	740,000		
2017	455,000			2023	765,000		

The Bonds are offered for sale upon the terms of the notice of sale and subject to the final approving opinion of Rogut McCarthy LLC, Cranford, New Jersey, Bond Counsel. It is anticipated that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August 15, 2011.

**ELECTRONIC BIDS VIA PARITY AND
SEALED PROPOSALS WILL BE RECEIVED
UNTIL 11:00 O'CLOCK A.M. ON AUGUST 4, 2011
IN THE MUNICIPAL BUILDING,
54 FAIRMOUNT AVENUE
CHATHAM, NEW JERSEY 07928**

**BOROUGH OF CHATHAM
COUNTY OF MORRIS, NEW JERSEY
MAYOR AND BOROUGH COUNCIL**

<u>MEMBER</u>		<u>TERM</u>
V. Nelson Vaughan, III	Mayor	December 31, 2011
James Lonergan	Council President	December 31, 2011
James J. Collander	Councilman	December 31, 2013
Bruce A. Harris	Councilman	December 31, 2011
John Holman	Councilman	December 31, 2012
Victoria Fife	Councilwoman	December 31, 2013
Leonard Resto	Councilman	December 31, 2012

BOROUGH OFFICIALS

Robert J. Falzarano.....Borough Administrator
Tammie L. Kopin.....Chief Financial Officer
Susan Caljean.....Borough Clerk

PROFESSIONALS

The Bell Law Group, P.C.....Borough Attorney
Rockaway, New Jersey

T.M. Vrabel & Associates, LLC.....Auditor
Denville, New Jersey

Rogut McCarthy LLC.....Bond Counsel
Cranford, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Borough or the Underwriter 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 forgoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale.

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

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

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

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

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

In making an investment decision, investors must rely on their own examination of the Borough, and terms of the offering, including the merits and risks involved. The Bonds have not been recommended by any federal securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary is a criminal offense.

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**OFFICIAL STATEMENT
OF THE BOROUGH OF CHATHAM
IN THE COUNTY OF MORRIS, NEW JERSEY
RELATING TO
\$6,735,000 BONDS
CONSISTING OF \$5,819,000 GENERAL IMPROVEMENT BONDS
AND
\$916,000 WATER UTILITY BONDS**

INTRODUCTION

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by the Borough of Chatham (the "Borough"), County of Morris (the "County"), New Jersey (the "State") in connection with the sale and issuance of \$6,735,000 Bonds, consisting of \$5,819,000 General Improvement Bonds and \$916,000 Water Utility Bonds, dated August 15, 2011 (the "Bonds"). This Official Statement has been executed by and on behalf of the Borough by the Borough Administrator and the Chief Financial Officer.

This Preliminary Official Statement is "deemed final," as of its date, within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), but is subject to a) completion with certain pricing and other information to be made available by the successful bidder for the Bonds, and b) amendment. This Preliminary Official Statement, as so revised, will constitute the "final official statement" within the meaning of Rule 15c2-12.

DESCRIPTION OF THE BONDS

General Description

The Bonds shall be dated August 15, 2011 and shall mature on August 15, in the years and in the principal amounts as set forth on the next page. The Bonds shall bear interest from their dated date, payable on each February 15 and August 15 (each, an "Interest Payment Date"), commencing February 15, 2012, in each year until maturity at the interest rates shown on the cover page hereof. Principal of and interest on the Bonds will be paid to The Depository Trust Company, New York, New York ("DTC"), acting as securities depository, by the Chief Financial Officer as "Bond Registrar/Paying Agent." Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of the last business day of the month preceding the month in which such Interest Payment Date occurs (the "Records Dates" for the payment of interest on the Bonds).

The Bonds are issuable as fully registered book-entry bonds in the form on one certificate for each maturity of each issue and in the principal amount of such maturity. The Bonds will be issued in book-entry form only. Investors may purchase beneficial interest in the Bonds in the denomination of \$5,000 or any integral multiples thereof (except for one odd piece in excess of \$5,000 per issue). So long as DTC or its nominee, Cede & Co. (or any successor or assign), is the registered owner for the Bonds, payments of the principal of and interest on the Bonds will be made by the Bond Registrar/Paying Agent directly to Cede & Co. (or any successor or assign), as nominee for DTC. Disbursement of such payments to the participants of DTC is the responsibility of DTC. Disbursement of such payments to the beneficial owners is the responsibility of the DTC participants. See "BOOK-ENTRY ONLY SYSTEM" below.

Maturity Schedule

<u>Principal</u>			
<u>Year</u>	<u>General</u>	<u>Water Utility</u>	<u>Combined</u>
2012	340,000	50,000	390,000
2013	340,000	50,000	390,000
2014	340,000	50,000	390,000
2015	350,000	50,000	400,000
2016	360,000	85,000	445,000
2017	370,000	85,000	455,000
2018	570,000	90,000	660,000
2019	590,000	90,000	680,000
2020	610,000	90,000	700,000
2021	630,000	90,000	720,000
2022	650,000	90,000	740,000
2023	669,000	96,000	765,000
Total:	\$5,819,000	\$916,000	\$6,735,000

Redemption

The Bonds are not subject to redemption prior to their stated maturities.

Security for the Bonds

The Bonds are general obligations of the Borough, and the Borough has pledged its full faith and credit for the payment of the principal of and the interest on the Bonds. The Bonds are direct obligations of the Borough and, unless paid from other sources, the Borough is required by law to levy *ad valorem* taxes upon all the real property taxable within the Borough for the payment of the principal of and the interest on the Bonds without limitation as to rate or amount.

Enforcement of a claim for the payment of principal of or interest on bonds or notes of the Borough is subject to applicable provisions of Federal bankruptcy law and to the provisions of statutes, if any, hereafter enacted by the Congress of the United States or the Legislature of the State of New Jersey, providing extension with respect to the payment of principal of or interest on the Bonds or imposing other constraints upon enforcement of such contracts insofar as any such constraints may be constitutionally applied. Under State law, a county, municipality or other political subdivision may file a petition under Federal bankruptcy laws and a plan for readjustment of its debt, but only after first receiving the approval of the State Municipal Finance Commission, whose powers have been vested in the Local Finance Board, Division of Local Government Services, New Jersey Department of Community Affairs (the "Local Finance Board").

Authorization and Purpose of the Bonds

The Bonds are authorized and are to be issued pursuant to the laws of the State, including N.J.S.A. 40A:2-1 et. seq., the Local Bond Law, constituting Chapter 2 of Title 40A of the Statutes of New Jersey (the "Local Bond Law"), various bond ordinances of the Borough and resolutions adopted by the Borough Council on July 11, 2011.

All of the bond ordinances included in the sale of the Bonds were published in full or in summary form after their adoption along with the statement that the 20-day period of limitation within which a suit, action or proceeding questioning the validity of the authorizing bond ordinances can be commenced,

began to run from the date of the first publication of such estoppel statement. The Local Bond Law provides in part that after 20 days after publication of a bond ordinance following final passage thereof by the governing body, the compliance of such ordinance with the provisions of the Local Bond Law and every other law and all matters in connection therewith, and the issuance of obligations authorized thereby, shall be conclusively presumed. The Borough adopting such ordinance and all other persons interested shall forever be estopped from denying that such ordinance or its final adoption or issuance of obligations thereunder do not comply with the provisions of the Local Bond Law and every other law, or from questioning in any manner the validity of such ordinance or any obligations issued thereunder in any action or proceeding commenced after such 20 days shall have elapsed.

The proceeds of the Bonds will be used (i) to refund, on a current basis, \$4,763,500 of the Borough's outstanding Bond Anticipation Notes and (ii) to provide \$1,971,500 to fund the unfinanced portion of various capital projects of the Borough.

GENERAL IMPROVEMENT BONDS

<u>Ordinance Number</u>	<u>Description</u>	<u>Amount</u>
08-07	Various Improvements and Acquisitions	\$2,276,108.92
09-06/10-15	Various Improvements and Acquisitions	603,875.00
10-14/10-16	Various Improvements and Acquisitions	1,118,036.08
10-24	Acquisition of Various Equipment	252,300.00
11-12	Various Improvements and Acquisitions	<u>1,568,680.00</u>
		<u>\$5,819,000.00</u>

WATER UTILITY BONDS

<u>Ordinance Number</u>	<u>Description</u>	<u>Amount</u>
04-10	Various Water Utility Improvements and Acquisitions	\$291,330.00
08-08	Acquisition of Various Equipment for the Water Utility	58,850.00
09-07	Various Water Utility Improvements and Acquisitions	191,000.00
10-13	Various Water Utility Improvements and Acquisitions	224,300.00
11-13	Various Water Utility Improvements and Acquisitions	<u>150,520.00</u>
		<u>\$916,000.00</u>

Market Protection – Bond and Note Financing

The Borough does not expect to offer any bond anticipation notes, tax anticipation notes or additional bonds during the remainder of 2011.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Borough has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, and has represented that it reasonably expects that collectively, neither it nor its subordinate entities, if any, will issue more than \$10,000,000 of new money tax-exempt obligations during the current calendar year.

NO DEFAULT

The Borough has never defaulted in the payment of any bonds or notes, nor are any payments of principal of or interest on the Borough's indebtedness past due.

BOOK-ENTRY ONLY SYSTEM

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds, unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Borough 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).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Borough or the paying agent, if any, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the paying agent, if any, or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Borough or the paying agent, if any, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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 by counties and municipalities (the "local unit" or "local units") 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. With some exceptions, including self-liquidating obligations and improvements involving state grants, 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 the Borough is limited by statute, subject to certain exceptions noted below, to an amount equal to 3.5% of their average equalized valuation basis. The average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within the Borough as annually determined by the New Jersey Borough of Taxation was \$2,351,649,335 for the year ended December 31, 2010.

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

The Borough has not exceeded its statutory debt limit. As of December 31, 2010 the statutory net debt as a percentage of average equalized valuation was .72%. As noted above, the statutory limit is 3.5%. See "APPENDIX A – History of Borough Statutory Debt Ratios".

The Borough 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 their 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 Borough 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 Borough 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 following fiscal year from the date of original issuance. Beginning in the third year and continuing in each year that the notes are outstanding, the amount of notes that may be issued must be decreased by the minimum amount required for the first year's principal payment for a bond issue.

School Debt Subject to Voter Approval

State Law permits the school district, upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit of 4% of the equalized valuation basis, by using the available borrowing capacity of the Borough. If such debt is in excess of the school district debt limit, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The Municipal Finance Commission (R.S. 52:27-1 et seq.)

The Municipal Finance Commission was created in 1931 to assist in the financial rehabilitation of municipalities which had defaulted in their obligations. The powers of such Commission are exercised today by the Local Finance Board. The local finance system is intended to prevent default on obligations or occurrence of severe fiscal difficulties in any local unit. Should extreme economic conditions adversely affect any local unit, the "Municipal Finance Commission Statutes" are available to assist in restoring the stability of the local unit.

Any holder of bonds or notes which are in default for over sixty (60) days (for payment of principal or interest) may bring action against such municipality in the Superior Court of New Jersey. Any municipality may declare itself unable to meet its obligations and bring action in such court. In either case, the court's determination that the municipality is in default or unable to meet its obligations causes the "Municipal Finance Commission" to become operative in that community.

The "Municipal Finance Commission" exercises direct supervision over the finances and accounts of any local unit under its jurisdiction. Such commission is authorized to appoint an auditor to examine and approve all claims against the municipality and to serve as comptroller for that community. The commission is also directed to supervise tax collections and assessments, to approve the funding of municipal school district indebtedness, the adjustment or composition of the claims of creditors, and the readjustment of debts under the Federal Municipal Bankruptcy Act. Such Act was substantially revised in 1976 so as to permit municipalities to have access to bankruptcy court for protection against suits by bondholders and without prior warranty for creditors' approvals in cases of impending default.

The Local Finance Board also serves as the "funding commission" to exercise supervision over the funding or refunding of local government debt. Any county or municipality seeking to adjust its debt service must apply to and receive the approval of such funding commission for the proposed reorganization of its debt.

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

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

Tax anticipation notes are limited in amount by law and must be paid off in full within 120 days of the close of the fiscal year in which they were issued.

A statute passed in 1976, as amended and supplemented (N.J.S.A. 40A:4-45.1 et seq.), commonly known as the "Cap Law", imposed limitations on increases in municipal appropriations subject to various exceptions. While the Cap Law restricts the ability of a municipality to increase its overall appropriations, 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 Cost-of-Living Adjustment ("COLA"). Increases up to 3.5% are allowed by adoption of an ordinance whenever the COLA is less than 2.5%. If the COLA is greater than 2.5%, an increase in any amount above 2.5% will be permitted by adoption of an ordinance to 3.5%, and beyond 3.5% upon passage of a referendum. The COLA is the rate of annual percentage increase 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 items 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. The Cap Law does not limit the obligation of the Borough to levy ad valorem taxes upon all taxable property within the Borough to pay debt service.

Chapter 62 of the Pamphlet Laws of 2007 imposed restrictions upon the allowable annual increase in the tax levy. In general, starting with the 2008 budgets, municipalities will have their tax levies limited to a four percent (4%) increase. The cap calculation is subject to various adjustments, such as the value of increased assessments, and allows for an increase in the adjusted tax levy for various items, including amounts required to be added to the adjusted tax levy for increases in debt service, amounts required to replace reductions in State formula aid, certain increased pension contributions, increases greater than four percent (4%) in the reserve for uncollected taxes, and increases in health care costs in excess of four percent (4%) (but not in excess of the percentage increase in the State Health Benefits Program). The law also allows the Local Finance Board to grant waivers for extraordinary circumstances (some of which are defined in the Law) and authorizes a municipality to submit a public question to the voters for approval (by an affirmative vote of at least sixty percent (60%)) to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

For municipalities, the levy cap is in addition to the existing appropriation cap; both cap laws must be met. Neither cap law limits the obligation of the Borough to levy ad valorem taxes upon all taxable real property within the Borough to pay debt service.

On July 13, 2010, P.L. 2010, C.44 was approved, effective for budget years following enactment (the 2011 budget for the Borough) reducing the CAP on the property tax levy from 4% to 2% and limiting the exclusions to amounts required to be raised by taxation for debt service as defined by law, certain pension contributions and health care costs in excess of 2% and extraordinary costs directly related to a declared emergency. Voter approval may be requested to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

The Borough appropriation and tax levy increases for 2010 were within the limits allowed by the CAP Law and Chapter 62, taking into account applicable adjustments and without requesting any waivers from the Local Finance Board. The Borough's 2011 Budget is in compliance with both "CAPS" taking into account applicable adjustments and without conducting a referendum to exceed the cap limits.

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

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

A provision in the Local Budget Law, N.J.S.A. 40A:4-26, provides that: "No miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the director shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit."

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

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

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

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

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

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

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing six (6) years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next six (6) years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget.

Investment of Municipal Funds

Investment of funds by New Jersey municipalities is governed by State statute. Pursuant to N.J.S.A. 40A:5-15.1, municipalities are limited to purchasing the following securities: (1) direct obligations of, or obligations guaranteed by, the United States of America ("Government Obligations"); (2) U.S. Government money market mutual funds; (3) obligations of Federal Government agencies or instrumentalities having a maturity of 397 days or less, provided such obligations bear a fixed rate of interest not dependent on any index or external factor; (4) bonds or other obligations of the particular municipality or a school district encompassing the geographic area of the particular municipality; (5) bonds or other obligations having a maturity of 397 days or less approved by the Division of Investment of the State Department of the Treasury; (6) local government investment pools, rated in the highest rating category, investing in U.S. government securities and repurchase agreements fully collateralized by securities set forth in (1) and (3) above; (7) deposits with the New Jersey Cash Management Fund (created pursuant to N.J.S.A. 52:18A-90.4; the "Cash Management Fund"); and (8) repurchase agreements with a maximum 30 day maturity fully collateralized by securities set forth in (1) and (3) above. Municipalities are required to deposit their funds in interest-bearing bank accounts in banks satisfying certain security requirements set forth in N.J.S.A. 17:9-41 et seq., or invest in permitted investments to the extent practicable, and may invest in bank certificates of deposit.

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

The Borough has no investments in derivatives.

State Supervision

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

Tax Assessment and Collection Procedure

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income (where appropriate). Current assessments are the result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. However, a divergence of the assessment ratio to true value is typical due to changes in market value over time.

Upon the filing of certified adopted budgets by the local unit's local school district and the county, the tax rate is struck by a 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,

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

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

Tax Appeals

State Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. The taxpayer has a right to petition the county Board of Taxation on or before April 1 of the current year for review. The county Board of Taxation has the authority after a hearing to decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer feels his petition was unsatisfactorily reviewed by the county Board of Taxation, appeal may be made to the Tax Court of the State of New Jersey (the "State Tax Court") for further hearing. Some State Tax Court appeals may take several years prior to settlement and any losses in tax collections from prior years are charged directly to operations, or with the permission of the Local Finance Board may be financed, generally over a three to five year period.

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 and shall be completed within six months after the close of its fiscal year. 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.

Fiscal Year

The Borough's fiscal year is the calendar year. Chapter 75 of the Pamphlet Laws of 1991 of the State (codified as N.J.S.A. 40A:4-3.1) required municipalities with populations in excess of 35,000 or that received Municipal Revitalization Aid from the State in 1990 or 1991 to change their fiscal year from the calendar year to the State fiscal year (July 1 to June 30), unless an exemption was granted. Municipalities not meeting the criteria for a mandatory change had the option to choose to change to the State fiscal year. N.J.S.A 40A:4-3.1 amended by P.L. 2000, c. 126, eliminates the criteria for mandatory change of the fiscal year, but continues to grant all municipalities the option to change to the State fiscal year. The Borough did not meet the criteria to change to the State fiscal year and does not presently intend to optionally make such a change in the future.

FINANCIAL STATEMENTS

The excerpts of audited financial statements of the Borough for the years ended December 31, 2010, 2009, 2008 2007, and 2006 together with the notes to the Financial Statements are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by T. M. Vrabel & Associates, LLC., Denville, New Jersey, independent auditor (the "Auditor"), as stated in their report appearing in Appendix B to this Official Statement. See "APPENDIX B – Excerpts of Audited Financial Statements for the Years Ending December 31, 2010, 2009, 2008 2007, and 2006."

LITIGATION

There is no litigation pending or threatened restraining or enjoining the issuance or the delivery of the Bonds or the levy or the collection of taxes to pay 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. There is at present no single action pending or threatened against the Borough which would impose an undue financial burden on the Borough. In New Jersey's courts of general jurisdiction, unliquidated money damages are pleaded generally without specifying a dollar amount. The Borough is a party-defendant in certain lawsuits, none of a kind unusual for a municipality of its size, and none of which, in the opinion of the Borough Attorney, would adversely impair the Borough's ability to pay its bondholders. All of the Borough's tort actions are being defended by municipal joint insurance funds (which provide pooled private insurance coverage and self-insurance coverage to its members). The Borough is also insured for liability in excess of the limits provided by the municipal joint insurance funds. Pending municipal real estate appeals are limited in number and, based upon the Borough's prior experience in tax appeals, and assuming that such tax appeals are resolved adversely to the interest of the Borough, such resolution would not in any way endanger the Borough's ability to pay its bondholders.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. Such requirements include requirements relating to the use and investment of proceeds of the Bonds and other amounts and rebate of certain arbitrage earnings to the United States. Noncompliance by the Borough with such requirements may cause interest on the Bonds to be included in gross income of the owners thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

The Borough has covenanted, to the extent permitted by the Constitution and the laws of the State of New Jersey, to do and perform all acts and things permitted by law and necessary to assure that interest paid on the Bonds be and remain excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. The Borough's Tax Certificate (the "Tax Certificate"), which will be delivered concurrently with the delivery of the Bonds, will contain provisions and procedures regarding compliance with the requirements of the Code. The Borough, in executing the Tax Certificate, will certify to the effect that the Borough expects and intends to comply with the provisions and procedures contained therein.

In rendering the opinion described below with respect to the Bonds, Bond Counsel has relied upon the covenant and has assumed the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact contained in the Tax Certificate.

Tax Opinions

In the opinion of Rogut McCarthy LLC, Bond Counsel to the Borough, assuming compliance by the Borough with the Tax Certificate, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. In addition, under existing law, interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in “adjusted current earnings” for purposes of computing the alternative minimum tax that may be imposed on corporations. For other Federal tax information, see “TAX MATTERS – Additional Federal Income Tax Consequences” herein.

In the opinion of Bond Counsel, under the New Jersey Gross Income Tax Act, as enacted and construed on the date hereof, interest on the Bonds and any gain from the sale of the Bonds are not includable in gross income of the holders thereof.

Additional Federal Income Tax Consequences

Prospective purchasers of the Bonds should be aware that ownership of governmental obligations, such as the Bonds, may have collateral Federal income tax consequences for certain taxpayers, including financial institutions, property and casualty insurance companies, S corporations, certain foreign corporations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise eligible for the earned income credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry such obligations. Prospective purchasers should consult their tax advisors as to any possible collateral consequences from the ownership of the Bonds. Bond Counsel expresses no opinion regarding any such collateral Federal income tax consequences.

ALL POTENTIAL PURCHASERS OF THE BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE.

DOCUMENTS ACCOMPANYING DELIVERY OF THE BONDS

Absence of Litigation

Upon delivery of the Bonds, the Borough shall furnish a certificate of the Borough Attorney, dated the date of delivery of the Bonds, to the effect that there is no litigation of any nature pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the Bonds. In addition, such certificate shall state that there is no litigation of any nature now pending or threatened by or against the Borough wherein an adverse judgment or ruling could have a material adverse impact on the financial condition of the Borough or adversely affect the power of the Borough to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds, which has not been disclosed in this Official Statement.

Legal Matters

The legality of the Bonds will be subject to the approving opinion of Rogut McCarthy LLC, Cranford, New Jersey, Bond Counsel. Such opinion will be to the effect that:

1. The Bonds have been duly authorized, executed and delivered and constitute valid and legally binding obligations of the Borough, enforceable in accordance with their terms, except as enforcement of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or other laws relating to or affecting the enforcement of creditors' rights generally now or hereafter in effect to the extent constitutionally applicable, and enforcement may also be subject to the exercise of judicial discretion in certain cases.

2. The Borough has pledged its full faith and credit for the payment of the principal of and interest on the Bonds, and, unless paid from other sources, the Borough is authorized and required by law to levy on all real property taxable by the Borough such ad valorem taxes as may be necessary to pay the Bonds and the interest thereon without limitation as to rate or amount.

Rogut McCarthy LLC has not verified the accuracy, completeness or fairness of the statements contained in this Official Statement and will not express, and has not been requested to express, an opinion as to the accuracy, completeness or fairness of such statements. See Appendix C, "Proposed Form of Bond Counsel Opinion."

Certificates of the Chief Financial Officer and other Borough Officials

The original purchaser of the Bonds shall also receive a certificate dated as of the date of delivery of the Bonds and signed by the Borough Administrator and the Chief Financial Officer certifying that (a) as of the date of the Official Statement furnished by the Borough in relation to the Bonds, said Official Statement did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, subject to the condition that while information in said Official Statement obtained from sources other than the Borough is not guaranteed as to accuracy, completeness or fairness, such officers have no reason to believe and do not believe that such information is materially inaccurate or misleading, and (b) to the knowledge of such officers, since the date of said Official Statement and since the date of the sale of the Bonds, there have been no material transactions not in the ordinary course of affairs entered into by the Borough and no material adverse change in the general affairs of the Borough or in its financial condition as shown in said Official Statement other than as disclosed in or contemplated by said Official Statement, providing such certificate shall not include consideration of information supplied by, or which should have been supplied by, the successful bidder for the Bonds. In addition, the original purchaser of the Bonds shall also receive certificates in form satisfactory to Rogut McCarthy LLC, Bond Counsel, evidencing the proper execution and delivery of the Bonds and receipt of payment therefor, and a certificate dated as of the date of delivery of the Bonds, and signed by the officers who signed the Bonds, stating that no litigation is then pending or, to the knowledge of such officers, threatened to restrain or enjoin the issuance or delivery of the Bonds or the levy or collection of taxes to pay the Bonds or the interest thereon, or questioning the validity of the statutes or the proceedings under which the Bonds are issued, and that neither the corporate existence or boundaries of the Borough, nor the title of any of the said officers to their respective offices, is being contested.

LEGALITY FOR INVESTMENT

The State and all public officers, municipalities, counties, political subdivisions and public bodies, and agencies thereof, all banks, bankers, trust companies, savings and loan associations, savings banks and institutions, building and loan associations, investment companies, and other persons carrying on banking business, all insurance companies, and all executors, administrators, guardians, trustees, and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control in any obligations of the Borough, including the Bonds, and such Bonds are authorized security for any and all public deposits.

PREPARATION OF OFFICIAL STATEMENT

The Borough Auditor, Timothy M. Vrabel of T.M. Vrabel & Associates, LLC. assisted in the preparation of the information contained in this Official Statement and takes responsibility for the financial statements to the extent specified in the Independent Auditors' Report.

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

Rogut McCarthy LLC, Bond Counsel, has not participated in the preparation of the financial or statistical information contained in this Official Statement, nor has it verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion with respect thereto.

APPROVAL OF OFFICIAL STATEMENT

Prior to the delivery of the Bonds, the Borough Council of the Borough will have adopted a resolution approving this Official Statement, deeming it a "final official statement" for purposes of Rule 15c2-12 and directing the Chief Financial Officer to deliver a reasonable number of copies thereof in final form to the purchaser of the Bonds for its use in the sale, resale or distribution of the Bonds.

RATING

The Borough has applied for a rating on the Bonds from Moody's Investors Service, Inc. ("Moody's").

An explanation of the significance of such credit rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The Borough furnished Moody's with certain information and materials concerning the Bonds and the Borough. Generally, Moody's bases its ratings on such information and materials and also on such investigations, studies and assumptions that it may undertake independently. The rating is not a recommendation to buy, sell or hold the Bonds and there can be no assurance that such rating will be maintained for any given period of time or that such rating may not be raised, lowered or withdrawn entirely if, in Moody's judgment, circumstances so warrant. Any downward change in or withdrawal of such rating may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITING

The Bonds have been purchased at public sale from the Borough for resale by the following purchasers (the "Underwriters").

SECONDARY MARKET DISCLOSURE

The Borough has agreed, pursuant to a resolution adopted on July 11, 2011, to undertake for the benefit of the Bondholders and the beneficial owners of the Bonds to provide certain secondary market disclosure information pursuant to Rule 15c2-12 to the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format, as prescribed by the MSRB. Specifically, the Borough will do the following for the benefit of the holders of the Bonds and the beneficial owners thereof:

(A) Not later than seven months after the end of the Borough's fiscal year (presently December 31), commencing with the report for the fiscal year ending December 31, 2011, provide or cause to be provided, annual financial information with respect to the Borough consisting of (i) audited financial statements (or unaudited financial statements if audited financial statements are not then available by the date of filing, which audited financial statements will be delivered when and if available) of the Borough and (ii) certain financial information and operating data consisting of (a) information concerning the Borough's debt, overlapping indebtedness, tax rate, levy and collection data, and property valuation of the type contained in Appendix A herein, and (b) the Borough's most recent adopted budget. The audited financial statements will be prepared in accordance with mandated State statutory accounting principles, as in effect from time to time. Audited financial statements if not available by the filing date will be submitted separately when available.

(B) Provide or cause to be provided in a timely manner not in excess of ten days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal or interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution or sale of property which secures the repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Borough (the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Borough 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 Borough, 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 Borough);

(13) The consummation of a merger, consolidation, or acquisition involving the Borough or the sale of all or substantially all of the assets of the Borough, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(C) Provide or cause to be provided, in a timely manner, notice of a failure of the Borough to provide required annual financial information on or before the date specified above.

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

If the Borough fails to comply with the above-described undertaking, any Bondholder or beneficial owner of the Bonds may pursue an action for specific performance to enforce the rights of all Bondholders and beneficial owners with respect to such undertaking; provided, however, that failure to comply with such undertaking shall not be an event of default and shall not result in any acceleration of payment of the Bonds or any liability by the Borough for monetary damages. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all Bondholders and beneficial owners of the Bonds.

The Borough reserves the right to terminate its obligation to provide annual financial information and notice of material events, as set forth above, if and when the Borough no longer remains an "obligated person" with respect to the Bonds within the meaning of Rule 15c2-12.

The undertaking may be amended by the Borough from time to time, without the consent of the Bondholders or the beneficial owners of the Bonds, in order to make modifications required in connection with a change in legal requirements, a change in law or a change in identity, nature, type of operation or status of the Borough, which in the opinion of nationally recognized bond counsel complies with Rule 15c2-12 and does not, in such bond counsel's opinion, materially impair the interests of the Bondholders and the beneficial owners of the Bonds.

The Borough has never failed to provide required annual financial information.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Robert J. Falzarano, Borough Administrator, Borough of Chatham, 54 Fairmount Avenue, Chatham, New Jersey 07928, (973) 635-0674 (Ext. 208).

MISCELLANEOUS

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

This Official Statement has been duly executed and delivered on behalf of the Borough by the Borough Administrator and the Chief Financial Officer.

BOROUGH OF CHATHAM

By: /s/
Robert J. Falzarano
Borough Administrator

By: /s/
Tammie L. Kopin
Chief Financial Officer

DATED:

APPENDIX A

**Certain Economic and Demographic Information Relating
to the Borough of Chatham, in the County of Morris, State
of New Jersey**

**GENERAL INFORMATION OF THE
BOROUGH OF CHATHAM
COUNTY OF MORRIS, NEW JERSEY**

Introduction

The Borough of Chatham, a primarily residential community of 2.35 square miles; is located in the southeastern tip of Morris County and is bordered by Chatham Township to the south, Madison and Florham Park to the west and north, and Summit and Millburn to the east. These neighboring municipalities are also primarily residential.

In the August 2005 edition of Money Magazine, Chatham was named the 9th best place to live in the United States. In the April 2006 edition of New Jersey Monthly Magazine, Chatham was named one of the best places to live in New Jersey.

Served by a station of N.J. Transit commuter rail line, Chatham Borough offers convenient mass transit travel to its residents and those of surrounding municipalities. Train travel takes 60 minutes to New York City and 30 minutes to Newark. Chatham is also located at the junction of State Route 24, which provides speedy access to Interstate Route 78, the Garden State Parkway, N.J. Turnpike and Interstate Route 287.

Chatham is 5 miles from Morristown (Route 124) or (Route 24), 7 miles from Parsippany-Troy Hills (Interstate 287), 1 mile from Millburn (Route 24) 15 miles from Newark and 27 miles from New York City. The train station location in Chatham has attracted more people that work in New York City with the advent of the Mid-Town Direct service.

Municipal Government

Chatham operates under the Borough form of government, with a mayor and six council members elected at large. The Mayor and Council formulate policy, appropriate funds and adopt ordinances and resolutions for the conduct of municipal business.

Office of the Borough Administrator – The Borough Administrator serves as the Chief Administrative Officer under the Borough form of municipal government. His duties include overseeing the daily functions of Borough business, preparing the annual municipal budget, helping in preparation of Borough ordinances and resolutions. He serves as the purchasing agent as well as coordinating the operations, activities and administration of the departments, divisions, offices, boards, and agencies of the municipality.

Other Departments – The Police Department is composed of 19 full-time officers. The dispatch center, which provides 24-hour communication service to the residents, was moved to the Morris County Dispatch Center in January of 2011. Complimenting the regular force are a full time police matron/parking-enforcement officer, a full-time secretary, an executive administrative assistant and school crossing guards.

The Volunteer Fire Department consists of approximately 55 firefighters who provide excellent service to the Borough from a modern, centrally located firehouse. Mutual aid agreements with neighboring communities are also in effect. There is one full-time Firefighter/Driver. The Fire Chief is a part-time paid position. An efficient and well organized Volunteer Emergency Squad provides 24-hour first aid protection for Borough residents.

The Department of Public Works is a full service operation consisting of 18 full-time employees. In addition to their normal functions of road repair, park maintenance and storm water system maintenance; they also maintain the sanitary sewer collection system, operate the municipal water utility, and operate the municipal mulch area and recycling area. There are 26 miles of roads, 40 miles of sidewalks, 28 miles of sanitary sewer pipe and 35 miles of water mains.

Community Development

Reasonable requirements on lot size, drainage, sewer and road requirements are enforced by the Mayor and Council, Board of Adjustment and Planning Board. 1,027 acres of 1,503 (68.3%) are zoned residential, while approximately 7 acres of land remain undeveloped in the residential zones. Chatham Borough's tax base experienced growth through the proliferation of additions to existing homes and the demolition of older homes on large lots to create much larger homes. Residential zoning ranges from minimum lot areas of 7,500 sq. ft. to 15,000 sq. ft. However, many lots of 5,000 to 7,500 sq. ft. were developed in the 1940's and 1950's before zoning rules applied.

In addition, there are 22 acres zoned for apartment use, on which are located 340 apartment units in 9 separate developments. There are also 30 more apartments in smaller buildings including over retail and other businesses. In addition, there are 100 condominium units in 3 developments.

Commercial Development

The following table shows several business and manufacturing zones which exist in Chatham Borough. Business zones comprise approximately 6% of the total land use. They regulate low to moderate density, retail and office use.

The B-4 zone constitutes the main downtown shopping area. The following stores and offices are easily accessible by car or walking: pharmacies, delicatessens, toy stores, attorneys' offices, insurance brokers, bakery, bicycle sales, doctors' and dentists' offices, clothing stores, paint and hardware stores, as well as several others. The existing retail space is near 95% occupancy.

<u>Zone</u>	<u>Acres</u>	<u>%</u>
B-1	14	0.9
B-2	27	1.8
B-3	21	1.4
B-4	18	1.2
B-5	10	0.7
B-6	2	0.2
M-1	35	2.3
M-2	45	3.0
M-3	36	2.4

The Manufacturing and Industrial (M- zones) are designed to accommodate research and light industry uses which can be conducted entirely within the confines of the building. The Council expanded the permitted uses to include retail sales and services in 1993.

The M-1 zone currently includes such uses as auto repair shops, tool and die shops, foundry, electronics plants, and a landscaping company. A residential design studio has recently been added to an existing building supply corporation as well as an artist guild.

The M-2 zone includes a moving and storage facility, as well as the Madison/ Chatham Joint Meeting Sewage Treatment Plant.

The M-3 zone has a fuel oil distributor, a bus company, an aluminum and steel fabricating plant, a paving company, a major air-conditioned self storage facility, a tree removal company, composting facilities, and a delicatessen.

Library

Chatham Borough hosts the Chatham Borough/Chatham Township Joint Public Library. Situated in the center of town, the library houses over 87,000 books, 3,400 audio records, 3,500 video recordings and serves over 18,000 residents. The library is an important resource to the Borough as it not only provides an excellent source of reading and research materials, but also such related activities as cultural and educational exhibits, films and lectures. A meeting room is also offered without charge for local nonprofit organizations such as the Woman's Club, Chamber of Commerce, etc. A major renovation and expansion of the Joint Public Library was authorized in 2001, with an estimated cost of \$3,500,000. The Borough issued \$1,380,000 of Bonds for its estimated share of the project. Private contributions amounted to over \$1,000,000. The project was completed in 2004.

Recreational Facilities

Chatham Borough has long been committed to a wide range of recreational opportunities. Chatham has a Joint Recreation program with Chatham Township. An appointed Joint Recreation Committee administers the following activities: a football program, cheerleader training, softball/baseball, soccer, and basketball leagues, summer arts and crafts, and tennis lessons. The Recreation Committee is equally represented by each town, plus a member of the Board of Education of the Chathams.

Borough employees maintain the 36 acres of park land; on which are located 7 ballfields, 3 soccer fields, 6 tennis courts, a pool and 2 basketball courts. A cooperative agreement among the Board of Education, Chatham Borough and Chatham Township provides for the use of all their fields and buildings by the joint recreation programs.

The Borough along with Chatham Township added a new artificial turf playing surface to Lum Avenue field in 2008. The million dollar project was financed one third by Chatham Township, one third by the Borough of Chatham and one third by the Chatham Athletic Foundation. This partnership with other communities and non-profit organizations reduces costs for field improvements, while providing high quality facilities.

The Memorial Park fields located behind the Public Library are currently under engineering design for upgrades and the construction will begin in September of 2011.

Chatham Borough and Chatham Township have purchased a 6.5 acre tract of land located between Woodland Road in Chatham Borough and Shunpike Road in Chatham Township. The land was purchased for \$1,500,000. The Borough and Township received a \$250,000 grant from the County of Morris. The Borough also received a \$394,565 grant from the New Jersey Green Acres Program.

To protect its open space, the Borough has classified 180 acres of wetlands and floodplain as conservation zones. In 2002, the Borough approved a one cent Open Space Tax which was reduced to half a cent in 2010. In 2004, the Borough purchased fifty (50) acres of land from the New Jersey American Water Company with funds from the Open Space Program, including grants from Morris County and Green Acres.

Health Services

The Borough maintains a Board of Health appointed by the Mayor and Council which supervises and regulates health standards. They utilize the services of a licensed Health Officer and Sanitarian under a shared services agreement with the Borough of Madison.

Hospital facilities are available from Overlook Hospital (Summit), Morristown Memorial Hospital (Morristown) and St. Barnabas Hospital (Livingston).

Utilities

100% of the Borough is served by its own public water system. The system is adequate for present and future needs and the wells, storage tanks and distribution system have all been recently upgraded. Water revenues increased from \$707,969 in 2002 to \$1,164,930 in 2010, an increase of approximately 65%.

100% of residential and commercial buildings are served by the Borough's public sanitary sewage collection system. The Borough's collection system is connected to the Madison-Chatham Joint Sewage Treatment Plant.

The Treatment Plant operates as an advanced secondary facility and is rated to handle 3.5 mgd. In 2010 it operated at an annual average of 2.3 mgd. Operating and capital expenses are divided proportionately between the two municipalities with Chatham's share being 35% of the total. Chatham's share of the operating expenses is \$518,162 for the year 2011 which is a decrease of 20% from 2006. The plant is currently undergoing a \$3.3 million dollar capital improvement project to improve the Molitor water pollution control facility which is funded through the New Jersey Environmental Infrastructure Trust Fund with the Borough being responsible for 35% or \$1,138,500.00 of the related debt service.

Electricity is provided by Jersey Central Power and Light Company, and natural gas is provided by Public Service Electric and Gas Company. Cablevision has the current franchise for cable TV.

Sanitation

The Borough has its residential refuse removed by one municipal contractor and the commercial/industrial refuse is removed by private contractors whose work is controlled by the State of New Jersey regulations.

Employees Collective Bargaining Units

Eighteen employees of the police department are members of the Policemen's Benevolent Association (P.B.A.) Local No. 226. All 16 non-supervisory employees of the Public Works Department are members of Teamsters Local No. 866. The contract with these unions will expire on December 31, 2011 and is currently being negotiated for the subsequent period. Labor relations between the Borough and its employee bargaining units are good. There have been no job actions, work stoppages or strikes. The current contract was settled without attorneys at the bargaining tables and completed within a three month period.

Pension Plans and Costs

Municipal employees who are eligible for pension coverage are enrolled in either the Public Employees' Retirement System or the Police and Firemen's Retirement System. These retirement systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are determined by State law. For additional information regarding pension plans and costs, see the Notes to the Financial Statements in APPENDIX B.

The Borough also offers several Deferred Compensation programs for the employees and participates in the State Disability Plan.

Education

The Borough is part of The School District of the Chathams (the "School District"), a Type II regional school district established under Title 18A of the New Jersey Statutes (N.J.S.A. 18A:1-1 et seq.). The School District was created in 1988 by the Borough and the Township of Chatham (the "Township"). The School District is governed by a nine-member Board of Education which operates independently of the governing bodies of the Borough and the Township. Members of the Board of Education are elected for three year terms by the voters of each town in the School District.

The Board of Education, which operates on a July 1 to June 30 fiscal year, adopts its own budget. At the annual school election held in April, the people vote upon the amounts to be raised by taxation for current expenses and capital outlays. If the amounts are approved, the Secretary of the Board certifies such amounts plus the sums required for debt service to the Morris County Board of Taxation and it sets the tax rate accordingly. If the amounts on the ballot are not approved, the budget is submitted to the governing bodies of the Borough and the Township which must determine the amount to reduce the budget. If the budget is not acted upon by the Borough and Township within the time specified by law, or if the Board of Education appeals any reduction made by the Borough and the Township, the Commissioner of Education of the State of New Jersey (the "Commissioner of Education") is required to determine the amount necessary and certify such amount to the County Board of Taxation for inclusion in the taxes to be assessed, levied and collected in the Borough and the Township. The School budgets have been supported by the voters with none being rejected since the two districts regionalized. Per pupil expenditures are less than the state average, while the school district continues to rank very highly in academic achievement in the state.

The School District, upon approval by the voters, may authorize school district debt. The School District has a statutory debt limit equal to 4% of the average equalized valuation of taxable property within the School District. It may exceed this limit and utilize borrowing capacity of the Borough and the Township. If such debt will exceed this school district debt limit and the remaining borrowing capacity of the Borough and the Township, the Commissioner of Education and the Local Finance Board in the Division of Local Government Services of the State Department of Community Affairs must approve the proposed authorization before it is submitted to the voters. Present School District debt outstanding is well below the school district debt limitation.

POPULATION CHARACTERISTICS OF THE BOROUGH

The following demographic and economic information may be relevant in evaluating the economic and financial condition of the Borough. This information, which has been obtained from the sources indicated, does not purport to be definitive or present a complete picture of the economy of the Borough. Furthermore, such information may require economic analysis in order to assess the import of the facts and figures presented. Such analysis is not included because it would be conjectural and would differ, at least at some degree, according to the economist or other expert consulted.

POPULATION

<u>Year</u>	<u>Borough</u>	<u>County</u>	<u>State</u>
1970	9,566	383,454	7,171,112
1980	8,537	407,630	7,365,011
1990	8,007	421,353	7,730,188
2000	8,460	470,212	8,414,347
2010	8,962	492,276	8,791,894
Percent Increase or (Decrease)			
- 1970-1980	-10.8%	6.3%	2.7%
- 1980-1990	-6.2%	3.4%	5.0%
- 1990-2000	5.7%	11.6%	8.9%
- 2000-2010	5.9%	4.7%	4.5%

Source: 1970, 1980, 1990, 2000 and 2010 - U.S. Bureau of Census

POPULATION DENSITY (PER SQUARE MILE)

<u>Year</u>	<u>Borough(1)</u>	<u>County (2)</u>	<u>State (3)</u>
1970	4,071	799	956
1980	3,633	849	982
1990	3,407	878	1,032
2000	3,600	980	1,122
2010	3,814	1,026	1,172

Source: 1970, 1980, 1990, 2000 and 2010 - U.S. Bureau of Census

- (1) Based upon land area of 2.35 square miles
- (2) Based upon land area of 480 square miles
- (3) Based upon land area of 7,500 square miles.

FIVE-YEAR TREND OF EMPLOYMENT AND UNEMPLOYMENT

	<u>Year</u>	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployed</u>	<u>Unemployment Rate</u>
Borough	2010	4,487	4,252	235	5.2%
	2009	4,557	4,321	236	5.2%
	2008	4,604	4,466	138	3.0%
	2007	4,595	4,481	114	2.5%
	2006	4,500	4,393	107	2.4%
County	2010	270,282	250,640	19,642	7.3%
	2009	274,457	254,678	19,779	7.2%
	2008	274,613	263,677	10,936	4.0%
	2007	274,019	264,902	9,117	3.3%
	2006	267,847	259,239	8,608	3.2%
State	2010	4,502,450	4,076,713	425,737	9.5%
	2009	4,536,658	4,118,367	418,291	9.2%
	2008	4,496,725	4,251,194	245,531	5.5%
	2007	4,518,036	4,309,022	209,014	4.6%
	2006	4,430,376	4,235,940	194,436	4.4%

Source: State Department of Labor, Division of Labor Market and Demographic Research

Building Permits

<u>Year</u>	<u>Number of Permits (1)</u>	<u>Estimated Costs</u>
2011 (to 7/6/11)	437	6,247,775
2010	935	9,608,144
2009	821	9,670,513
2008	1001	18,543,232
2007	1047	17,768,322
2006	1118	30,504,423

(1) New Construction, additions and alterations.

Largest Taxpayers (1)

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2011 Assessed Valuation</u>
GLB Chatham, LLC	Office Building	\$ 14,025,700
One Main Street Associates	Office Building	13,176,400
S/K Chatham Associates	Golf Course	11,794,800
J. Apgar & J. Volker	Apartments	10,004,500
Town Square Partners	Commercial Condominiums	8,103,700
Foursome Associates	Storage Facility	8,100,000
Chatham Project LLC	Commercial Stores	7,310,000
Levin Properties	Commercial Stores	6,884,600
Driscoll Properties LP	Apartments, Offices, Retail	6,161,900
Hickory Tree Properties	Retail Stores	<u>4,530,500</u>
		<u>\$ 90,092,100 (2)</u>

(1) Source: 2011 Tax Assessor's Field Book.

(2) Total represents 4.37% of Net Valuation Taxable for 2011.

Largest Employers

<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees</u>
School District of the Chathams	Board of Education	175
National Manufacturing	Manufacturing	158
E.C.L.C.	School	135
Borough of Chatham	Municipality	114
Laidlaw Transit	Bus Transportation	80
Blume,Goldfaden	Law Firm	77
Kings	Supermarket	60
Hurley Consulting	Consulting Firm	60
St. Patricks	School	55
Simonfay Landscaping	Landscaping	37

Property Valuations

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net Valuation Taxable:					
Land	\$ 1,317,896,700	\$ 1,321,703,100	\$ 1,321,685,200	\$ 1,321,749,500	\$ 1,321,616,700
Improvements	<u>740,425,800</u>	<u>741,087,600</u>	<u>734,673,800</u>	<u>729,952,600</u>	<u>721,764,500</u>
Total Real Property	2,058,322,500	2,062,790,700	2,056,359,000	2,051,702,100	2,043,381,200
Tangible Personal Property (1)	<u>1,409,757</u>	<u>1,682,076</u>	<u>1,600,626</u>	<u>1,617,515</u>	<u>1,655,966</u>
	<u>\$ 2,059,732,257</u>	<u>\$ 2,064,472,776</u>	<u>\$ 2,057,959,626</u>	<u>\$ 2,053,319,615</u>	<u>\$ 2,045,037,166</u>
Equalized Valuation of Real Property	2,273,478,001	2,375,016,843	2,441,407,442	2,346,989,238	2,229,300,135
County Equalization Ratio (Assessed to True Value of Real Property)	90.80%	87.23%	84.58%	87.80%	92.06%

(1) Consists of Machinery, Implements and Equipment of Telephone, Telegraph and Messenger Systems Companies.

Assessed Valuation of Real Property by Class

<u>Classification</u>	<u>2011</u>		<u>2006 (1)</u>		<u>2002</u>	
	Assessment	Percent	Assessment	Percent	Assessment	Percent
Vacant Land	\$ 12,657,900	0.6%	\$ 12,997,600	0.6%	\$ 5,718,775	0.7%
Residential	1,772,631,200	80.4%	1,744,108,300	80.0%	646,847,644	76.0%
Farm	200	0.0%	200	0.0%	100	0.0%
Commercial	212,066,200	9.6%	220,220,300	10.1%	106,069,700	12.5%
Industrial	21,593,300	1.0%	15,418,000	0.7%	9,049,500	1.1%
Apartments	<u>39,373,700</u>	<u>1.8%</u>	<u>40,458,800</u>	<u>1.9%</u>	<u>17,875,400</u>	<u>2.1%</u>
	2,058,322,500	93.4%	2,033,203,200	93.2%	785,561,119	92.3%
Exempt Properties:						
Public	101,318,200	4.6%	101,318,200	4.6%	35,683,800	4.2%
Other (2)	<u>44,949,400</u>	<u>2.0%</u>	<u>46,708,300</u>	<u>2.1%</u>	<u>29,627,300</u>	<u>3.5%</u>
	<u>\$ 2,204,590,100</u>	<u>100.0%</u>	<u>\$ 2,181,229,700</u>	<u>100.0%</u>	<u>\$ 850,872,219</u>	<u>100.0%</u>

(1) Revaluation effective in 2005.

(2) Includes church, cemetery and charitable properties.

Tax Rates

	<u>General Tax Rate (1)</u>				County Equalization Ratio	Effective Tax Rate (2)
	<u>Borough (3)</u>	<u>Regional School</u>	<u>County</u>	<u>Total</u>		
2011 (Estimated)	0.368	1.112	0.262	1.742	90.80%	1.582
2010	0.387	1.061	0.236	1.684	87.23%	1.469
2009	0.343	0.986	0.301	1.630	84.58%	1.379
2008	0.327	0.934	0.261	1.522	87.80%	1.336
2007	0.319	0.927	0.254	1.500	92.06%	1.381

(1) Apportionment per \$100 Assessed Valuation.

(2) General Tax Rate multiplied by County Equalization Ratio.

(3) Includes Open Space Tax of \$.01 for the years 2007 through 2009 and \$.005 for the years 2010 and 2011 .

Tax Levy and Tax Collection Data

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year's Collection</u>		<u>Delinquent Taxes Collected</u>	<u>Total Collection Year of Levy</u>	
		<u>Amount</u>	<u>Percent</u>		<u>Amount</u>	<u>Percent</u>
2010	\$ 34,818,611	\$ 34,485,213	99.04%	\$ 354,967	\$ 34,840,180	100.06%
2009	34,236,516	33,861,184	98.90%	296,386	34,157,570	99.76%
2008	32,899,144	32,583,610	99.04%	295,808	32,879,418	99.94%
2007	31,176,717	30,870,814	99.02%	375,392	31,246,206	100.22%
2006	30,643,934	30,242,463	98.69%	270,036	30,512,499	99.57%

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Receivable</u>		<u>Total Delinquent</u>	<u>Percentage of Current Tax Levy</u>
	<u>Delinquent Taxes</u>	<u>Tax Title Liens</u>		
2010	\$ 323,984	\$ 6,010	\$ 329,994	0.95%
2009	346,936	45,627	392,563	1.15%
2008	312,533	15,689	328,222	1.00%
2007	309,782	4,046	313,828	1.01%
2006	387,135	3,584	390,719	1.28%

DEBT INFORMATION

Tax Supported Debt as of June 30, 2011

Regional School District Debt:		
Serial Bonds Issued and Outstanding		\$ 15,523,689
Borough Debt:		
General:		
Serial Bonds and Loans Issued and Outstanding	\$ 11,969,212	
Bond Anticipation Notes Issued and Outstanding	3,998,020	
Bond Anticipation Notes Authorized but not Issued	<u>2,479,773</u>	
		18,447,005 (1)
Overlapping Debt:		
County of Morris		<u>5,784,723 (2)</u>
TOTAL TAX SUPPORTED DEBT		<u>\$ 39,755,417</u>
Full Valuation of Borough's Taxable Property (County Equalization Table for 2011)		\$ 2,273,478,001
Ratios:		
Tax Supported Debt to Property Valuation		1.75%
Tax Supported Debt per Capita (2010 population of 8,962)		\$ 4,436.00

(1) The amount of \$18,447,005 for General Borough Debt does not include Utility Debt since all Utility Debt is supported by utility service charges and fees.

(2) Borough of Chatham's share of County of Morris' Debt based upon the 2011 equalized valuation of all County of Morris municipalities:

Borough of Chatham's share (2.32089%) of Total County of Morris Net Debt (\$249,234,104)	\$ 5,784,723
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History of Borough Statutory Debt Ratios

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
GROSS DEBT:					
Regional School District:					
Serial Bonds Issued and Outstanding	\$ 15,735,255	\$ 16,240,615	\$ 16,656,084	\$ 17,056,401	\$ 18,271,338
	<u>15,735,255</u>	<u>16,240,615</u>	<u>16,656,084</u>	<u>17,056,401</u>	<u>18,271,338</u>
Borough Debt:					
General:					
Serial Bonds Issued and Outstanding	9,833,000	10,788,000	11,767,000	12,417,000	13,032,000
Loans Issued and Outstanding	2,178,062	65,393	161,744	574,872	1,036,650
Bond Anticipation Notes Issued	4,089,194	2,896,194	2,397,000	-	3,270,420
Bond Anticipation Notes Authorized but not Issued	910,773	2,839,190	690	690	690
	<u>17,011,029</u>	<u>16,588,777</u>	<u>14,326,434</u>	<u>12,992,562</u>	<u>17,339,760</u>
Water Utility:					
Serial Bonds Issued and Outstanding	2,101,000	2,261,000	2,416,000	2,571,000	2,716,000
Bond Anticipation Notes Issued	765,480	541,180	58,850	-	428,800
Bond Anticipation Notes Authorized but not Issued	26	26	296,425	296,425	296,500
	<u>2,866,506</u>	<u>2,802,206</u>	<u>2,771,275</u>	<u>2,867,425</u>	<u>3,441,300</u>
TOTAL GROSS DEBT	<u>35,612,790</u>	<u>35,631,598</u>	<u>33,753,793</u>	<u>32,916,388</u>	<u>39,052,398</u>
STATUTORY DEDUCTIONS:					
Regional School District	15,735,255	16,240,615	16,656,084	17,056,401	18,271,338
General					3,270,420
Water Utility	2,866,506	2,802,206	2,771,275	2,867,425	3,441,300
	<u>18,601,761</u>	<u>19,042,821</u>	<u>19,427,359</u>	<u>19,923,826</u>	<u>24,983,058</u>
STATUTORY NET DEBT	<u>\$ 17,011,029</u>	<u>\$ 16,588,777</u>	<u>\$ 14,326,434</u>	<u>\$ 12,992,562</u>	<u>\$ 14,069,340</u>
Average Equalized Valuation	\$ 2,351,649,335	\$ 2,370,155,174	\$ 2,321,082,439	\$ 2,190,116,745	\$ 2,023,124,024
Population (2010)	8,962	8,962	8,962	8,962	8,962
Ratios:					
Gross Debt to Average Equalized Valuation	1.51%	1.50%	1.45%	1.50%	1.93%
Net Debt to Average Equalized Valuation	0.72%	0.69%	0.61%	0.59%	0.69%
Gross Debt per Capita	\$3,973.75	\$3,975.85	\$3,766.32	\$3,672.88	\$4,357.55
Net Debt per Capita	\$1,898.13	\$1,851.01	\$1,598.58	\$1,449.74	\$1,569.89

APPENDIX B

**Excerpts of Audited Financial Statements for the Years Ended
December 31, 2010, 2009, 2008, 2007 and 2006**

T. M. Vrabel & Associates, LLC
Accountants and Auditors

Timothy M. Vrabel, RMA, PSA
Chris C. Hwang, CPA

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the Borough Council
Borough of Chatham
County of Morris, New Jersey

We have audited, in accordance with auditing standards generally accepted auditing standards; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and Government Auditing Standards issued by the Comptroller General of the United States, the balance sheets of the individual funds of the Borough of Chatham at December 31, 2010, 2009, 2008, 2007, and 2006 and the related statements of operations and changes in fund balance for the years then ended. In our reports, we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying balance sheets of the individual funds of the Borough of Chatham at December 31, 2010, 2009, 2008, 2007, and 2006 and the related statements of operations and changes in fund balance for the years then ended is fairly stated, in all material respects, in relation to the financial statements from which they have been derived.

By/s/ Timothy M. Vrabel
Registered Municipal Accountant
License No. CR000339

By/s/ Chris C. W. Hwang
Certified Public Accountant
License No. CC033704

July 15, 2011

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**BOROUGH OF CHATHAM
COMBINED COMPARATIVE BALANCE SHEET- ALL FUNDS**

ASSETS

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash and Investments	\$ 7,868,118	\$ 9,146,218	\$ 11,196,740	\$ 12,489,906	\$ 17,752,396
Taxes, Liens, Assessments and Utility Charges Receivable	440,457	496,276	414,478	396,032	468,577
Property Acquired for Taxes at Assessed Valuation	32,200	32,200	32,200	32,200	32,200
Accounts Receivable and Inventory	3,387,076	1,006,320	472,052	492,296	1,002,757
Fixed Capital Authorized and Uncompleted-Utility	711,951	475,851	1,247,380	1,113,580	2,374,840
Fixed Capital Completed-Utility	6,155,009	6,155,009	5,141,052	5,123,052	3,814,113
Deferred Charges to Future Taxation-General Capital	17,011,030	16,588,777	14,326,435	12,992,563	14,069,340
Deferred Charges to Revenue of Succeeding Years	-	-	29,772	60,000	120,000
General Fixed Assets	77,316,419	79,166,769	67,168,905	70,769,716	65,194,426
	<u>\$ 112,922,258</u>	<u>\$ 113,067,420</u>	<u>\$ 100,029,014</u>	<u>\$ 103,469,345</u>	<u>\$ 104,828,649</u>
Bonds, Notes and Loans Payable	\$ 18,966,737	\$ 16,551,767	\$ 16,800,595	\$ 15,562,873	\$ 20,483,870
Improvement Authorizations	4,391,046	5,108,637	2,419,426	4,923,070	6,463,950
Other Liabilities and Special Funds	4,517,334	4,101,271	4,721,230	3,879,369	4,565,912
Amortization of Debt for Fixed Capital Acquired or Authorized	4,000,453	3,828,653	3,617,157	3,369,207	3,176,028
Reserve for Certain Assets Receivable	633,918	687,481	602,142	597,508	676,458
Fund Balance	3,096,352	3,622,841	4,699,559	4,367,603	4,268,004
Investment in General Fixed Assets	77,316,419	79,166,769	67,168,905	70,769,716	65,194,426
	<u>\$ 112,922,258</u>	<u>\$ 113,067,420</u>	<u>\$ 100,029,014</u>	<u>\$ 103,469,345</u>	<u>\$ 104,828,649</u>

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

**BOROUGH OF CHATHAM
CURRENT FUND-BALANCE SHEET**

ASSETS

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Regular Fund:					
Cash and Treasurer	\$ 3,829,130	\$ 4,646,604	\$ 4,880,280	\$ 4,823,322	\$ 4,498,214
Change Fund	300	300	300	300	300
	<u>3,829,430</u>	<u>4,646,904</u>	<u>4,880,580</u>	<u>4,823,622</u>	<u>4,498,514</u>
Receivables and Other Assets with Full Reserved:					
Delinquent Property Taxes Receivable	323,984	346,936	312,533	309,783	387,135
Tax Title Liens Receivable	6,011	45,627	15,690	4,046	3,584
Property Acquired for Taxes at Assessed Valuation	32,200	32,200	32,200	32,200	32,200
Interfund Accounts Receivable	89,473	87,983	87,770	84,934	83,685
Revenue Accounts Receivable	66,956	69,277	65,581	73,363	87,390
Other Accounts Reveivable	4,831	1,745	2,113	6,709	336
	<u>523,456</u>	<u>583,768</u>	<u>515,887</u>	<u>511,035</u>	<u>594,331</u>
Expenditures Deferred to Succeeding Years' Operation:					
Special Emergency Authorization(40A:4-55)	-	-	-	60,000	120,000
	<u>4,352,885</u>	<u>5,230,673</u>	<u>5,396,467</u>	<u>5,394,658</u>	<u>5,212,845</u>
Federal and State Grants Fund:					
Amount Due From Current Fund	24,335	31,937	35,156	6,954	29,215
Amount Due From Solid Waste Operating Fund	-	10,283	6,427	2,774	5,180
State Aid Receivable	23,956	12,627	13,662	24,415	-
	<u>48,291</u>	<u>54,847</u>	<u>55,245</u>	<u>34,143</u>	<u>34,395</u>
Total Assets	<u>\$ 4,401,177</u>	<u>\$ 5,285,520</u>	<u>\$ 5,451,712</u>	<u>\$ 5,428,801</u>	<u>\$ 5,247,240</u>

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

**BOROUGH OF CHATHAM
CURRENT FUND-BALANCE SHEET**

LIABILITIES, RESERVES AND FUND BALANCE

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Regular Fund:					
Liabilities:					
Amount Due to State of New Jersey for					
Senior Citizen's and Veterans' Deductions	\$ 21,870	\$ 22,014	\$ 20,204	\$ 18,056	\$ 17,556
Appropriation Reserves	253,960	227,932	282,225	292,350	246,361
Reserve for Encumbrances	80,999	101,595	166,969	131,560	141,275
Interfund Accounts Payable	174,068	228,500	35,156	6,954	29,216
Prepaid Taxes	275,822	208,168	118,072	121,787	105,194
Tax Overpayments	80,998	84,977	65,119	68,195	69,973
Reserve for Funds- Unappropriated	89,140	86,837	86,837	84,003	84,003
Other	16,716	-	-	-	20,534
Local District School Tax Payable	-	192,037	-	-	-
	993,572	1,152,060	774,582	722,906	714,111
Reserve for Receivables and Other Assets	523,456	583,769	515,887	511,036	594,331
Fund Balance	<u>2,835,857</u>	<u>3,494,844</u>	<u>4,105,998</u>	<u>4,160,716</u>	<u>3,904,402</u>
	<u>4,352,885</u>	<u>5,230,673</u>	<u>5,396,467</u>	<u>5,394,658</u>	<u>5,212,845</u>
Federal and State Grants Fund:					
Appropriated Reserves	31,933	33,565	43,322	28,284	15,243
Unappropriated Reserves	1,998	12,601	11,923	4,415	17,242
Reserve for Encumbrances	14,360	8,680	-	1,444	1,910
	<u>48,292</u>	<u>54,847</u>	<u>55,245</u>	<u>34,143</u>	<u>34,394</u>
Total Liabilities, Reserves and Fund Balance	<u><u>4,401,177</u></u>	<u><u>5,285,520</u></u>	<u><u>5,451,712</u></u>	<u><u>5,428,801</u></u>	<u><u>5,247,240</u></u>

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

BOROUGH OF CHATHAM
STATEMENT OF MUNICIPAL OPERATIONS AND CHANGE IN FUND BALANCE

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue and Other Income:					
Fund Balance Utilized	\$ 3,450,000	\$ 3,700,000	\$ 3,750,000	\$ 3,500,000	\$ 3,300,000
Miscellaneous Revenue Anticipated	3,040,658	3,180,455	3,473,694	3,461,731	3,463,742
Receipts from Delinquent Taxes	354,967	296,387	295,808	375,392	270,037
Receipts from Current Taxes	34,485,214	33,861,184	32,583,610	30,870,814	30,242,464
Non-Budget Revenue	158,879	270,641	555,712	793,559	599,657
Unexpended Balance of Appropriation Reserves	152,372	153,430	165,267	98,636	183,286
Reserve for Encumbrances Canceled	-	-	-	-	7,906
Tax Overpayments Canceled	22,967	30,873	22,542	31,836	55,329
Other Credits to Income	33,709	48,960	42,454	28,071	11,839
	<u>41,698,767</u>	<u>41,541,931</u>	<u>40,889,087</u>	<u>39,160,040</u>	<u>38,134,261</u>
Expenditures:					
Budget and Emergency Appropriations:					
Municipal Operations	9,107,270	9,077,122	9,351,274	8,798,875	8,342,456
Capital Improvements	58,001	41,989	260,000	85,000	200,000
Municipal Debt Service	1,312,176	1,442,781	1,390,848	1,534,765	1,578,102
Deferred Charges and Statutory Expenditures	909,151	920,249	344,843	316,250	314,521
Refund of Prior Year Revenue	5,030	-	-	67	-
Prior Year Senior Citizen Deduction Disallowed	250	250	250	-	-
Grants Receivables Canceled	-	-	-	-	1
Prior Year Tax Appeals Granted	63,505	5,760	2,255	11,473	36,335
Borough Open Space Tax	103,381	103,247	102,790	205,112	204,478
Local District School Taxes	21,873,660	21,238,119	20,232,739	19,086,691	18,838,154
County Taxes	4,891,997	4,758,141	4,458,316	4,251,613	4,115,999
County Open Space Preservation	538,229	797,929	1,004,947	1,063,615	984,525
County Share of Added and Omitted Taxes	8,309	18,906	7,686	15,819	20,938
Other Receivables	36,795	48,592	37,858	34,445	11,821
	<u>38,907,754</u>	<u>38,453,085</u>	<u>37,193,806</u>	<u>35,403,726</u>	<u>34,647,331</u>
Excess in Revenue	2,791,013	3,088,846	3,695,282	3,756,314	3,486,930
Deferred Charges to Budget of Succeeding Year	-	-	-	-	-
Statutory Excess in Revenue	2,791,013	3,088,846	3,695,282	3,756,314	3,486,930
Fund Balance January 1	<u>3,494,844</u>	<u>4,105,998</u>	<u>4,160,716</u>	<u>3,904,402</u>	<u>3,717,473</u>
	6,285,857	7,194,844	7,855,998	7,660,716	7,204,402
Deduct Fund Balance Utilized as Anticipated Revenue	<u>3,450,000</u>	<u>3,700,000</u>	<u>3,750,000</u>	<u>3,500,000</u>	<u>3,300,000</u>
Fund Balance December 31	<u>\$ 2,835,857</u>	<u>\$ 3,494,844</u>	<u>\$ 4,105,998</u>	<u>\$ 4,160,716</u>	<u>\$ 3,904,402</u>

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

**BOROUGH OF CHATHAM
TRUST FUND-BALANCE SHEET**

ASSETS

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assessment Fund:					
Cash	\$ -	\$ -	\$ -	\$ -	\$ -
Assessment Receivable	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>
	<u>12,932</u>	<u>12,932</u>	<u>\$ 12,932</u>	<u>\$ 12,932</u>	<u>\$ 12,932</u>
Dog License Fund:					
Cash	<u>\$ 7,011</u>	<u>\$ 4,306</u>	<u>\$ 506</u>	<u>\$ 795</u>	<u>\$ 1,492</u>
	<u>7,011</u>	<u>4,306</u>	<u>506</u>	<u>795</u>	<u>1,492</u>
Other Funds:					
Cash	<u>1,761,572</u>	<u>1,910,485</u>	<u>2,051,260</u>	<u>1,967,810</u>	<u>1,594,213</u>
Interfunds Accounts Receivable	<u>507</u>	<u>103,247</u>			
	<u>1,762,079</u>	<u>2,013,732</u>	<u>2,051,260</u>	<u>1,967,810</u>	<u>1,594,213</u>
	<u><u>1,782,021</u></u>	<u><u>2,030,970</u></u>	<u><u>2,064,698</u></u>	<u><u>1,981,537</u></u>	<u><u>1,608,637</u></u>

LIABILITIES AND RESERVES

Assessment Fund:					
Reserve for Assessments Receivable	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>
	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>	<u>12,932</u>
Dog License Fund:					
Reserve for Dog Fund Expenditures	7,008	4,304	502	795	1,491
Amount Due to State of New Jersey	<u>2</u>	<u>2</u>	<u>5</u>	<u>-</u>	<u>1</u>
	<u>7,011</u>	<u>4,306</u>	<u>506</u>	<u>795</u>	<u>1,492</u>
Other Funds:					
Interfund Accounts Payable	82,568	81,164	87,770	81,269	81,888
Amount Due to State of New Jersey	2,612	2,504	2,926	2,618	2,904
Reserve for Special Deposits	<u>1,676,898</u>	<u>1,930,064</u>	<u>1,960,563</u>	<u>1,883,922</u>	<u>1,509,421</u>
	<u>1,762,079</u>	<u>2,013,732</u>	<u>2,051,259</u>	<u>1,967,810</u>	<u>1,594,213</u>
	<u><u>\$ 1,782,021</u></u>	<u><u>\$ 2,030,970</u></u>	<u><u>\$ 2,064,698</u></u>	<u><u>\$ 1,981,537</u></u>	<u><u>\$ 1,608,637</u></u>

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

ASSETS

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Cash-Treasurer	\$ 1,768,536	\$ 1,958,595	\$ 3,919,314	\$ 4,671,672	\$ 10,078,609
Deferred Charges to Future Taxation-					
Funded	12,011,063	10,853,393	11,928,744	12,991,872	14,068,650
Unfunded	4,999,967	5,735,384	2,397,690	690	690
Canceled Federal, State and Other Aid Receivable		-	29,772		
Federal, State and Other Aid Receivable	2,463,217	263,750	81,250	292,521	796,542
Interfund Accounts Receivable	362,623	309,772	180,000	-	-
	<u>\$ 21,605,405</u>	<u>\$ 19,120,894</u>	<u>\$ 18,536,770</u>	<u>\$ 17,956,755</u>	<u>\$ 24,944,491</u>

LIABILITIES, RESERVES AND FUND BALANCE

Serial Bonds	\$ 9,833,000	\$ 10,788,000	\$ 11,767,000	\$ 12,417,000	\$ 13,032,000
N.J. Wastewater Treatment Financing Program					
Loans Payable	\$ 2,178,063	\$ 65,393	\$ 161,744	\$ 574,873	1,036,650
Bond Anticipation Notes	4,089,194	2,896,194	2,397,000	-	3,270,420
Improvement Authorizations -Funded	2,681,337	1,659,466	1,912,060	4,188,611	5,537,723
-Unfunded	1,508,005	3,358,825	431,043	690	690
Reserve for Encumbrances	1,018,716	280,420	1,320,444	692,214	1,994,221
Capital Improvement Fund	11,290	25,990	56,741	34,160	7,678
Capital Reserves	-	-	95,000	35,000	
Interfund Accounts Payable	231,205	6,818	-	3,664	1,797
Reserve for Federal, State and Other Aid Receivable	-	-	-	4,270	4,270
Fund Balance	54,596	39,789	395,738	6,273	59,042
	<u>\$ 21,605,405</u>	<u>\$ 19,120,894</u>	<u>\$ 18,536,770</u>	<u>\$ 17,956,755</u>	<u>\$ 24,944,491</u>

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

**BOROUGH OF CHATHAM
WATER UTILITY FUND - BALANCE SHEET**

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Fund:					
Cash- Treasurer	\$ 193,518	\$ 130,151	\$ 143,228	\$ 160,861	\$ 320,533
Interfund Accounts Receivable	71,010	61,004	92	656	408
	<u>264,528</u>	<u>191,155</u>	<u>143,320</u>	<u>161,517</u>	<u>320,941</u>
 Receivables and Inventory with Full Reserves:					
Consumer Accounts Receivable	86,334	76,021	68,603	62,574	58,596
	<u>86,334</u>	<u>76,021</u>	<u>68,603</u>	<u>62,574</u>	<u>58,596</u>
	<u>350,862</u>	<u>267,177</u>	<u>211,923</u>	<u>224,091</u>	<u>379,537</u>
 Capital Fund:					
Cash- Treasurer	244,311	409,424	69,480	741,899	1,141,075
Interfund Accounts Receivable	276,360	52,060	-	-	-
Fixed Capital	6,137,008	6,137,009	5,123,052	5,123,052	3,814,113
Fixed Capital Authorized and Uncompleted- Utility	711,951	475,851	1,247,380	1,113,580	2,374,840
	<u>7,369,630</u>	<u>7,074,343</u>	<u>6,439,911</u>	<u>6,978,531</u>	<u>7,330,029</u>
 Total Assets	<u>\$ 7,720,492</u>	<u>\$ 7,341,520</u>	<u>\$ 6,651,834</u>	<u>\$ 7,202,621</u>	<u>\$ 7,709,566</u>

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

**BOROUGH OF CHATHAM
WATER UTILITY FUND - BALANCE SHEET**

LIABILITIES, RESERVES AND FUND BALANCE

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Fund:					
Liabilities:					
Appropriation Reserves	\$ 13,218	\$ 60,654	\$ 16,497	\$ 19,716	\$ 49,939
Reserve for Encumbrances	17,745	11,258	16,688	24,035	20,694
Interfund Accounts Payable	60,177	52,060			-
Water Rents Overpayments	1,714	1,814	770	1,354	847
Accrued Interest on Bonds and Notes	<u>26,458</u>	<u>27,038</u>	<u>28,842</u>	<u>30,996</u>	<u>37,111</u>
	119,312	152,824	62,797	76,100	108,591
Reserve for Receivables	86,334	76,021	68,603	62,574	58,596
Fund Balance	<u>145,216</u>	<u>38,332</u>	<u>80,523</u>	<u>85,417</u>	<u>212,350</u>
	<u>350,862</u>	<u>267,177</u>	<u>211,923</u>	<u>224,091</u>	<u>379,537</u>
Capital Fund:					
Serial Bonds	2,101,000	2,261,000	2,416,000	2,571,000	2,716,000
Bond Anticipation Notes	765,480	541,180	58,850	-	428,800
Interfund Accounts Payable	280,096	280,095	180,092	656	407
Improvement Authorizations					
Funded	52,205	53,976	60,187	437,369	628,638
Unfunded	149,497	36,371	16,136	296,400	296,900
Reserve for Encumbrances	-	52,170	24,895	144,755	25,933
Capital Improvement Fund	20,457	20,457	20,513	30,463	23,285
Water Capital Reserves	-	-	-	65,000	-
Reserve for Amortization	3,744,653	3,584,652	3,237,127	3,082,127	2,891,588
Deferred Reserve for Amortization	237,801	226,001	362,030	287,080	284,440
Fund Balance	<u>18,441</u>	<u>18,441</u>	<u>64,082</u>	<u>63,681</u>	<u>34,038</u>
	<u>7,369,630</u>	<u>7,074,343</u>	<u>6,439,911</u>	<u>6,978,531</u>	<u>7,330,029</u>
Total Liabilities, Reserves and Fund Balance	<u>\$ 7,720,492</u>	<u>\$ 7,341,520</u>	<u>\$ 6,651,834</u>	<u>\$ 7,202,621</u>	<u>\$ 7,709,566</u>

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

BOROUGH OF CHATHAM
STATEMENT OF WATER UTILITY OPERATIONS AND CHANGE IN FUND BALANCE

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue and Other Income:					
Fund Balance Utilized	\$ 38,000	\$ 57,375	\$ 76,843	\$ 172,144	\$ 48,011
Water Rents	1,097,000	1,097,728	1,156,138	1,062,085	1,165,211
Miscellaneous	9,257	14,683	23,634	56,932	32,622
Additional Water Rents	134,933				
Appropriation Reserves Lapsed	46,694	1,773	10,052	36,192	228
Cancelled Meter Deposit	-	-	125	-	-
	<u>1,325,884</u>	<u>1,171,559</u>	<u>1,266,793</u>	<u>1,327,354</u>	<u>1,246,072</u>
Expenditures:					
Operating	840,050	811,727	864,300	814,340	761,100
Capital Improvements	11,800	10,000	-	150,000	130,000
Debt Service	264,571	259,380	263,903	263,711	217,203
Deferred Charges and Statutory Expenditures	64,579	75,269	66,640	54,093	48,708
	<u>1,181,000</u>	<u>1,156,376</u>	<u>1,194,843</u>	<u>1,282,144</u>	<u>1,157,011</u>
Excess in Revenue	144,884	15,183	71,950	45,210	89,061
Fund Balance January 1	<u>38,331</u>	<u>80,523</u>	<u>85,416</u>	<u>212,350</u>	<u>171,300</u>
	183,215	95,706	157,366	257,560	260,361
Deduct Fund Balance Utilized as Anticipated Revenue	<u>38,000</u>	<u>57,375</u>	<u>76,843</u>	<u>172,144</u>	<u>48,011</u>
Fund Balance December 31	<u>\$ 145,215</u>	<u>\$ 38,331</u>	<u>\$ 80,522</u>	<u>\$ 85,416</u>	<u>\$ 212,350</u>

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

**BOROUGH OF CHATHAM
SOLID WASTE UTILITY FUND - BALANCE SHEET**

ASSETS

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Fund:					
Cash- Treasurer	\$ 46,981	\$ 61,768	\$ 110,106	\$ 112,545	\$ 110,383
Interfunds Accounts Receivable	3,807	2,634	-	-	-
	<u>50,788</u>	<u>64,402</u>	<u>110,106</u>	<u>112,545</u>	<u>110,383</u>
Receivables and Inventory with Full Reserves:					
Consumer Accounts Receivable	11,196	14,759	4,721	6,697	6,329
	<u>11,196</u>	<u>14,759</u>	<u>4,721</u>	<u>6,697</u>	<u>6,329</u>
	<u>61,983</u>	<u>79,162</u>	<u>114,827</u>	<u>119,243</u>	<u>116,713</u>
Capital Fund:					
Fixed Capital	18,000	18,000	18,000	-	-
Total Capital Fund	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 79,983</u>	<u>\$ 97,162</u>	<u>\$ 132,827</u>	<u>\$ 119,243</u>	<u>\$ 116,713</u>

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

**BOROUGH OF CHATHAM
SOLID WASTE/UTILITY FUND - BALANCE SHEET**

LIABILITIES, RESERVES AND FUND BALANCE

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating Fund:					
Liabilities:					
Appropriation Reserves	\$ 5,634	\$ 22,267	\$ 12,729	\$ 24,275	\$ 12,281
Reserve for Encumbrances	2,168	-	37,304	33,840	34,530
Interfund Accounts Payable	-	10,283	6,427	2,774	5,180
Utility Charges Overpayments	744	418	428	140	221
Accrued Interest on Bonds	-	-	-	-	-
	<u>8,546</u>	<u>32,968</u>	<u>56,888</u>	<u>61,030</u>	<u>52,212</u>
Reserve for Receivables	11,196	14,759	4,720	6,697	6,329
Fund Balance	<u>42,241</u>	<u>31,434</u>	<u>53,218</u>	<u>51,516</u>	<u>58,171</u>
	<u>61,983</u>	<u>79,162</u>	<u>114,827</u>	<u>119,243</u>	<u>116,713</u>
Capital Fund:					
Reserve for Amortization	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	-	-
Total Capital Fund	<u>18,000</u>	<u>18,000</u>	<u>18,000</u>	-	-
Total Liabilities, Reserves and Fund Balance	<u>\$ 79,983</u>	<u>\$ 97,162</u>	<u>\$ 132,827</u>	<u>\$ 119,243</u>	<u>\$ 116,713</u>

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

BOROUGH OF CHATHAM
STATEMENT OF SOLID WASTE UTILITY FUND OPERATIONS AND CHANGE IN FUND BALANCE

	December 31,				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenue and Other Income:					
Fund Balance Utilized	\$ 31,000	\$ 39,000	\$ 50,000	\$ 46,252	\$ 41,799
Solid Waste User Fees	460,000	460,940	445,000	445,015	334,890
Additional Solid Waste User Fees	42,264	-	27,594	-	93,645
Recycling Tonnage Grant	10,283	6,427	2,774	5,180	4,788
Miscellaneous	3,474	2,736	8,289	13,302	12,076
Appropriation Reserves Lapsed	20,070	12,313	22,420	9,813	1,200
	<u>567,090</u>	<u>521,416</u>	<u>556,077</u>	<u>519,562</u>	<u>488,398</u>
Expenditures:					
Operating	513,458	492,800	476,900	472,117	434,952
Capital Improvements	-	-	18,000		
Deferred Charges and Statutory Expenditures	11,825	11,400	9,475	7,850	6,525
	<u>525,283</u>	<u>504,200</u>	<u>504,375</u>	<u>479,967</u>	<u>441,477</u>
Excess in Revenue	41,807	17,216	51,702	39,595	46,921
Fund Balance January 1	<u>31,434</u>	<u>53,218</u>	<u>51,516</u>	<u>58,172</u>	<u>53,050</u>
	73,241	70,434	103,218	97,767	99,971
Deduct Fund Balance Utilized as Anticipated Revenue	<u>31,000</u>	<u>39,000</u>	<u>50,000</u>	<u>46,252</u>	<u>41,799</u>
Fund Balance December 31	<u>\$ 42,241</u>	<u>\$ 31,434</u>	<u>\$ 53,218</u>	<u>\$ 51,515</u>	<u>\$ 58,171</u>

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

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Borough of Chatham have been prepared in conformity with accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 Borough accounting policies are described below.

B. Reporting Entity

The Borough of Chatham is an instrumentality of the State of New Jersey, established to function as a municipality. The Borough Council consists of elected officials and is responsible for the fiscal control of the Borough of Chatham.

The primary criterion for including activities within the Borough reporting entity, as set forth in section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the Borough of Chatham. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Except as noted below, the financial statements of the Borough of Chatham include every board, body, officer or commission supported and maintained wholly or in part by funds appropriated by the Borough of Chatham, as required by N.J.S. 40A:5-5. Accordingly, the financial statements of the Borough of Chatham do not include the operations of the Library of the Chathams, Madison-Chatham Joint Meeting, or volunteer fire and first aid squads.. Furthermore, the Borough of Chatham is not includable in any other reporting entity on the basis of such criteria.

C. Description of Funds

GASB Codification establishes seven fund types and two account groups to be used by general purpose governmental units when reporting financial position and results of operations in accordance with generally accepted accounting principles (GAAP).

The accounting policies of the Borough of Chatham conform to the accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the Division). Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this method of accounting, the Borough of Chatham accounts for its financial transactions through the following separate funds which differ from the fund structure required by accounting principles generally accepted in the United States of America.

Current Fund – resources and expenditures for governmental operations of a general nature, including Federal and State grants for operation.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

C. Description of Funds (Continued)

Trust Fund – receipts, custodianship and disbursement of monies in accordance with the purpose for which each reserve was created.

General Capital Fund – receipt and disbursement of funds used for acquisition of general capital facilities other than those acquired in the Current Fund.

Water Operating and Capital Funds – account for the operations and acquisition of capital facilities of the water utility.

Solid Waste Operating Funds – account for the operations of the solid waste utility.

Public Assistance Fund – receipts and disbursements of funds that provide assistance to certain residents of the Borough of Chatham pursuant to Title 44 of New Jersey statutes.

D. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the Division differ in certain respects from accounting principles generally accepted in the United States of America (GAAP) applicable to local government units. The more significant differences are as follows:

Property Taxes and Other Revenues – property taxes and other revenues are recognized on a cash basis. Receivables for property taxes and other items that are susceptible to accrual are recorded with offsetting reserves on the balance sheets. GAAP requires such revenue to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts.

Grant Revenues – Federal and State grants, entitlements or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the Borough of Chatham budget. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual.

Expenditures (including Federal and State Financial Assistance Programs) – unexpended or uncommitted appropriations, at December 31, are reported as expenditures through the establishment of appropriation reserves unless canceled by the governing body. GAAP requires expenditures to be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which should be recognized when due.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Basis of Accounting (Continued)

Encumbrances – contractual orders at December 31, are reported as expenditures through the establishment of a reserve for encumbrances. Encumbrances do not constitute expenditures under GAAP.

Appropriation Reserves – are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding year. Lapsed appropriation reserves are recorded as additions to income. Appropriation reserves do not exist under GAAP.

Compensated Absences – expenditures relating to obligations for unused vested accumulated vacation and sick pay are not recorded until paid. GAAP requires that the amount that would normally be liquidated with expendable available financial resources be recorded as an expenditure in the operating funds and the remaining obligations be recorded as a long-term obligation.

Property Acquired for Taxes – is recorded in the Current Fund at the assessed valuation when such property was acquired and fully reserved. GAAP requires such property to be recorded in the general fixed assets account group at market value on the date of acquisition.

Inventories of Supplies – The costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The costs of inventories are not included on the various balance sheets as required by GAAP.

Interfunds – advances from the Current Fund are reported as interfund receivables with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. GAAP does not require the establishment of an offsetting reserve.

Basic Financial Statements – The GASB Codification also defines the financial statements of a governmental unit that are required to be presented in the general purpose financial statements be in accordance with GAAP. The Borough of Chatham presents the financial statements listed in the table of contents which are required by the Division and which differ from the financial statements required by GAAP. In addition, the Division requires the financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from GAAP.

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

E. Budgetary Information

Annual budgets are adopted on a basis consistent with the requirements of the State of New Jersey, Department of Community Affairs, Division of Local Government Services.

Under New Jersey State Statutes, the annual budget is required to be balanced, prepared on a cash basis and to provide a reserve for uncollected taxes. The 2010 statutory budget included a reserve for uncollected taxes in the amount of \$2,431,371.00. To balance the budget, the municipality is permitted to utilize fund balance. The amount of fund balance utilized to balance the 2010 statutory budgets were as follows:

Current Fund	\$3,450,000.00
Water Utility Operating Fund	38,000.00
Solid Waste Utility Operating Fund	31,000.00

Transfers of line item amounts are permitted after November 1 and must be made by a resolution adopted by the governing body. The following significant budget transfers were approved in the 2010 calendar year.

<u>Budget Category</u>	<u>Amount</u>
Human Resources –Other Expenses	\$15,082.00
Assessment of Taxes- Salaries and Wages	(9,874.00)
-Other Expenses	31,000.00
Legal Services and Cost-Other Expenses	36,800.00
Police-Salaries and Wages	(18,653.00)
Road Repairs and Maintenance-Salaries and Wages	20,000.00

N.J.S.A. 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget, after the adoption of the budget, when the item has been made available by any public or private funding source. The following significant budget insertions were approved during the 2010 calendar year.

<u>Budget Category</u>	
Clean Communities Program	\$2,449.87
Body Armor Replacement Fund	1,012.78
NJCFC-Highlands Grant	3,061.01
Community Garden Donation	500.00

The municipality may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year. Emergency appropriations, except those classified as a special emergency, must be raised in the budget of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. There were no emergency appropriations approved during the 2010 calendar year.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets and Liabilities

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be investments. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey governmental units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statutes provide a list of permissible investments that may be purchased by New Jersey governmental units.

2. Property Tax Assessment and Billing

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. A revaluation of all property in the Borough of Chatham was last completed in 2004 and effective in 2005.

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

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

Tax installments not paid on or before the due date are subject to interest penalties of 8% per annum of the first \$1,500.00 of the delinquency and 18% per annum on any amount in excess of \$1,500.00. Pursuant to c. 75, P.L. 1991, 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 6% of the amount of the delinquency. These interest and penalties are the highest permitted under New Jersey Statutes. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets and Liabilities

3. Deferred Charges

The funding of certain expenditures incurred in the current year (i.e. emergencies, overexpenditures) are deferred to subsequent years' budgets.

4. Fixed Assets

In accordance with N.J.A.C. 5:30-5.6, Accounting for Governmental Fixed Assets, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles, the Borough of Chatham has developed a fixed assets accounting and reporting system based on an inspection and appraisal prepared by an independent appraisal firm.

Fixed assets used in governmental operation (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks and drainage systems are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for land and buildings which are valued at estimated market value.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the Capital Funds until such time as the construction is completed and put into operation.

Fixed assets acquired through grants in aid or contributed capital have not been accounted for separately.

Accounting for utility fund "fixed capital" remains unchanged under the requirements of N.J.A.C. 5:30-5.6.

Property and equipment purchased by the Water Utility and Solid Waste Utility Funds are recorded in the capital account at cost and are adjusted for disposition and abandonment. The amounts shown do not purport to represent reproduction costs or current value. Contributions in aid of construction are not capitalized. The balance in the Reserve for Amortization and Deferred Reserve for Amortization accounts in the utility capital funds represent charges to operations for the costs of acquisitions of property, equipment and improvements. The utilities do not record depreciation on fixed assets.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets and Liabilities

5. Use of Estimates

The preparation of financial statements in conformity with the accounting practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey requires management to make estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates.

6. Comparative Data

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statements of Operations in order to provide an understanding of changes in the Borough of Chatham's financial position. However, comparative data have been presented in each of the supplemental schedules since their inclusion would make statements unduly complex and difficult to read.

Note II: Detailed Notes On All Funds

A. Deposits and Investments

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Governmental Unit Deposit Protection Act (GUDPA). Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

A. Deposits and Investments (Continued)

Deposits (Continued)

At December 31, 2010 the Borough of Chatham's cash and cash equivalents amounted to \$8,705,571.86. Of this amount, \$500,000.00 was covered by federal depository insurance (F.D.I.C.) and \$5,552,356.65 was covered by a collateral pool maintained by the banks as required by GUDPA. Although the individual developers' accounts are subject to F.D.I.C. coverage, it cannot be accurately determined whether the total amount of \$164,606.69 included in Developers' Escrow deposits is covered.

At December 31, 2010 the Borough of Chatham's participation in the State of New Jersey Cash Management Fund amounted to \$337,507.45.

Deposits in the amount of \$.95 and \$2,151,100.15 are in the Municipal Bond Investors Service Corporation account and the N.J./A.R.M., respectively. The portfolio of these investment pools are limited to bonds, certain repurchase agreements or other obligations of, or guaranteed by the United States of America.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Borough of Chatham will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of December 31, 2010, \$2,653,215.24 of the Borough of Chatham's cash and cash equivalents of \$8,705,571.86 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$164,606.69
Uninsured and collateral held by public depository or by its' trust department not in the Borough of Chatham's name	<u>2,488,608.55</u> <u>\$2,653,215.24</u>

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the Borough of Chatham to purchase the following types of securities:

- a. When authorized by a cash management plan approved pursuant to N.J.S. 40A:5-14, any local unit may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the local unit;
 - (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
 - (2) Government money market mutual funds;
 - (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
 - (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
 - (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units;
 - (6) Local government investment pools;
 - (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4);or
 - (8) Agreements for the repurchase of fully collateralized securities, if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (c.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

The Borough of Chatham had no investments as described in Note I:F.1. at December 31, 2010

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

B. Property Taxes

The Borough of Chatham is responsible for assessing, collecting and distributing property taxes in accordance with enabling state legislation. All property tax revenue is recognized when received in cash. Property taxes receivable as of December 31, 2010 are composed of the following:

<u>Year of Levy</u>	<u>Amount</u>
1976	\$ 1,311.72
1985	2,002.90
1986	1,070.05
1987	6,934.98
1989	422.89
2010	<u>312,241.68</u>
	<u>\$323,984.22</u>

The years 1976 through 1989 are bankrupt properties

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

C. Interfund Receivables and Payables

As of December 31, 2010 interfund receivables and payables resulting from various interfund transactions were as follows:

	<u>Due From</u> <u>Other Funds</u>	<u>Due to</u> <u>Other Funds</u>
Current Fund	\$ 89,472.77	\$ 174,067.99
Federal and State Grants Fund	24,335.19	
Trust Funds:		
Other Trust Fund	507.06	82,568.24
General Capital Fund	336,622.66	231,204.53
Water Utility Fund:		
Operating Fund	71,009.70	60,177.44
Capital Fund	276,359.74	280,095.61
Solid Waste Utility Fund:		
Operating Fund	<u>3,806.69</u>	<u>-0-</u>
	<u>\$ 828,113.81</u>	<u>\$ 828,113.81</u>

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

D. Deferred Charges to be Raised in Succeeding Budgets

Certain expenditures are required to be deferred to budgets of succeeding years. At December 31, 2010 there were no deferred charges shown on the balance sheets of the various funds.

E. Leases

The Borough of Chatham has commitments to lease copying equipment and postage meter under operating leases which expire in 2012. Total operating lease payments made during the year ended December 31, 2010 were \$14,952.00. Future minimum lease payments are as follows:

<u>Year ended</u>	<u>Amount</u>
December 31, 2011	10,234.00
December 31, 2012	<u>2,040.00</u>
Total future minimum lease payments	<u>\$12,274.00</u>

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

F. Debt

The Local Bond Law governs the issuance of bonds and notes to finance general municipal and utility capital expenditures. Bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Borough of Chatham are general obligation bonds, backed by the full faith and credit of the Borough of Chatham. Bond anticipation notes, which are issued to temporarily finance capital projects, must be paid off within ten years or retired by the issuance of bonds.

Summary of Municipal Debt

	<u>Year 2010</u>	<u>Year 2009</u>	<u>Year 2008</u>
<u>Issued</u>			
General:			
Bonds, Loans and Notes	\$ 16,100,256.61	\$ 13,749,587.01	\$ 14,325,744.57
Water Utility:			
Bonds and Notes	<u>2,866,506.17</u>	<u>2,802,180.00</u>	<u>2,474,850.00</u>
Total Issued	<u>18,966,762.78</u>	<u>16,551,767.01</u>	<u>16,800,594.57</u>
<u>Less</u>			
Funds Temporarily Held to Pay			
Bonds and Notes:			
Excess Proceeds of Notes Issued:			
General			
Water Utility			
Total Deductions	<u>-</u>	<u>-</u>	<u>-</u>
Net Debt Issued	<u>18,966,762.78</u>	<u>16,551,767.01</u>	<u>16,800,594.57</u>
<u>Authorized but not Issued</u>			
General:			
Bonds and Notes	910,773.00	2,839,190.00	690.00
Water Utility:			
Bonds and Notes	<u>26.17</u>	<u>26.17</u>	<u>296,425.33</u>
Total Authorized but Not Issued	<u>910,799.17</u>	<u>2,839,216.17</u>	<u>297,115.33</u>
Net Bonds and Notes Issued and			
Authorized but not Issued	<u>\$ 19,877,561.95</u>	<u>\$ 19,390,983.18</u>	<u>\$ 17,097,709.90</u>

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures (Continued)

F. Debt (Continued)

Summary of Statutory Debt Condition-Annual Debt Statement

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of .72 %.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Regional School District Debt	\$ 15,735,255.90	\$ 15,735,255.90	\$ -
Water Utility Debt	2,866,506.17	2,866,506.17	-
General Debt	<u>17,011,029.61</u>	<u>-</u>	<u>17,011,029.61</u>
	<u>\$ 35,612,791.68</u>	<u>\$ 18,601,762.07</u>	<u>\$ 17,011,029.61</u>

Net Debt \$17,011,029.61 divided by Equalized Valuation Basis
per N.J.S.A. 40A:2-2 as amended, \$2,351,649,335.67 = 0.72%

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

3 1/2% of Equalized Valuation Basis (Municipal)	\$ 82,307,726.75
Net Debt	<u>17,011,029.61</u>
Remaining Borrowing Power	<u>\$ 65,296,697.14</u>

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures (Continued)

F. Debt (Continued)

Calculation of " Self Liquidating Purpose", Water Utility Per N.J.S.A. 40A:2-45

Cash Receipts from fees, rents or other charges for year		\$ 1,279,189.61
Deductions:		
Operating and Maintenance Cost	\$ 904,629.27	
Debt Service per Water Account	<u>264,570.73</u>	
Total Deductions		<u>1,169,200.00</u>
Excess in Revenue-Self Liquidating		<u>\$ 109,989.61</u>

Footnote:

If there is an "excess in revenue", all such utility debt is deductible.

Calculation of " Self Liquidating Purpose", Solid Waste Utility Per N.J.S.A. 40A:2-45

Cash Receipts from fees, rents or other charges for year		\$ 547,020.66
Deductions:		
Operating and Maintenance Cost	\$ 525,283.29	
Debt Service per Solid Waste Account	<u>-</u>	
Total Deductions		<u>525,283.29</u>
Excess in Revenue-Self Liquidating		<u>\$ 21,737.37</u>

Deficit in Revenue

(or, where total of above "debt service" is smaller)

Deficit (Total Debt Service)

Footnote:

If there is an "excess in revenue", all such utility debt is deductible.

If there is a "deficit in revenue", all such utility debt is not deductible to the extent of 20 times such deficit amount.

The foregoing debt information is in agreement with the annual debt statement filed by the Chief Financial Officer.

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures (Continued)

F. Debt (Continued)

1. Bonds Payable

Bonds are authorized in accordance with State law by the adoption of an ordinance. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Borough of Chatham are general obligation bonds.

Serial Bonds outstanding as of December 31, 2010 consisted of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General of 2006	Multiple	12/15	2021	\$ 8,170,000.00	\$ 6,935,000.00
General of 2002	Multiple	8/1	2017	5,058,000.00	2,898,000.00
				<u>13,228,000.00</u>	<u>9,833,000.00</u>
Water of 2006	Multiple	12/15	2026	945,000.00	825,000.00
Water of 2002	Multiple	8/1	2022	1,274,000.00	874,000.00
Water of 1995	Multiple	3/1	2015	1,287,000.00	402,000.00
				<u>3,506,000.00</u>	<u>2,101,000.00</u>
				<u>\$ 16,734,000.00</u>	<u>\$ 11,934,000.00</u>

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures (Continued)

F. Debt (Continued)

1. Bonds Payable

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

Calendar Year	General		Water Utility		Total
	Principal	Interest	Principal	Interest	
2011	\$ 990,000.00	\$ 375,187.50	\$ 165,000.00	\$ 89,764.75	\$ 1,619,952.25
2012	1,035,000.00	338,550.00	170,000.00	82,027.25	1,625,577.25
2013	1,045,000.00	299,942.50	175,000.00	74,082.25	1,594,024.75
2014	1,045,000.00	260,545.00	185,000.00	65,722.25	1,556,267.25
2015	1,045,000.00	220,832.50	197,000.00	57,048.00	1,519,880.50
2016	1,045,000.00	180,595.00	130,000.00	50,182.50	1,405,777.50
2017	1,043,000.00	139,727.50	135,000.00	45,027.50	1,362,755.00
2018	650,000.00	98,525.00	135,000.00	39,590.00	923,115.00
2019	650,000.00	74,150.00	140,000.00	34,058.75	898,208.75
2020	650,000.00	49,775.00	140,000.00	28,208.75	867,983.75
2021	635,000.00	25,400.00	145,000.00	22,358.75	827,758.75
2022			149,000.00	16,027.50	165,027.50
2023			60,000.00	9,400.00	69,400.00
2024			60,000.00	7,000.00	67,000.00
2025			60,000.00	4,600.00	64,600.00
2026	-	-	55,000.00	2,200.00	57,200.00
	<u>\$ 9,833,000.00</u>	<u>\$ 2,063,230.00</u>	<u>\$ 2,101,000.00</u>	<u>\$ 627,298.25</u>	<u>\$ 14,624,528.25</u>

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

(CONTINUED)

Note II: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures (Continued)

F. Debt (Continued)

2. Bond Anticipation Notes

Bond Anticipation Notes outstanding as of December 31, 2010 consists of the following:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>
General Capital:				
Ord. 08-07 Various Improvements	1.50%	10/1/09	10/1/10	\$ 2,291,194.00
Ord. 09-06 Various Improvements	1.50%	10/1/09	10/1/10	605,000.00
Ord. 10-14,16 Various Improvements	1.25%	10/1/10	6/1/11	<u>1,193,000.00</u>
Total General Capital				<u>4,089,194.00</u>
Water Capital:				
Ord. 04-10 Main St. Water Main	1.50%	10/1/09	10/1/10	291,330.00
Ord. 08-08 New Equipment	1.50%	10/1/09	10/1/10	58,850.00
Ord. 09-07 Various Improvements	1.50%	10/1/09	10/1/10	191,000.00
Ord. 10-13 Various Improvements	1.25%	10/1/10	6/1/11	<u>224,300.00</u>
Total Water Capital				<u>765,480.00</u>
				<u>\$ 4,854,674.00</u>

3. Bonds Authorized but not Issued

As of December 31, 2010 the Borough of Chatham had authorized but not issued bonds as follows:

General Capital Fund	\$ 910,773.00
Water Utility Capital Fund	\$ 26.17

BOROUGH OF CHATHAM
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

G. N.J. Wastewater Treatment and Environmental Infrastructure Financing Programs

Loan Number 1:

On November 16, 1993, two separate loan agreements were entered into by the Borough of Chatham for the purpose of infiltration and inflow improvements to the sanitary sewer system. Loans payable in the amount of \$286,226.00 are detailed as follows:

New Jersey Wastewater Treatment Trust	\$ 145,000.00
New Jersey Wastewater Treatment Fund	<u>141,226.00</u>
	286,226.00
2003 Trust Refunding Bonds Savings Credit	<u>4,705.47</u>
	<u>\$ 281,520.53</u>

On May 7, 2003, Trust Refunding Bonds were issued producing savings credits of \$1,311.45 (Interest) and \$4,705.47 (Principal).

Loan Number 2:

On February 25, 2010, two separate loan agreements were entered into by the Borough of Chatham for the purpose of improvements to the Sanitary Sewer System. Loans payable in the amount of \$1,658,750.00 are detailed as follows:

New Jersey Environmental Infrastructure Trust	\$ 410,000.00
New Jersey Environmental Infrastructure Fund	<u>1,248,750.00</u>
	<u>1,658,750.00</u>

Loan Number 3:

On February 25, 2010, two separate loan agreements were entered into by the Borough of Chatham for the purpose of improvements to the Wastewater Treatment Plant.. Loans payable in the amount of \$521,967.00 are detailed as follows:

New Jersey Environmental Infrastructure Trust	\$ 260,000.00
New Jersey Environmental Infrastructure Fund	<u>,261,967.00</u>
	<u>,521,967.00</u>

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes on All Funds (Continued)

G. N.J. Wastewater Treatment and Environmental Infrastructure Financing Programs (Continued)

Schedule of remaining annual principal and interest payments for the three combined loans are detailed as follows:

Calendar Year	<u>Loan Number 1</u>		<u>Loan Number 2</u>		<u>Loan Number 3</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2011	\$ 16,547.25	\$ 1,177.91	\$ 78,495.75	\$ 22,867.50	\$ 23,320.34	\$ 14,424.76	\$ 156,833.51
2012	16,259.09	706.39	78,495.75	22,267.50	23,320.34	14,024.76	155,073.83
2013	15,750.00	234.88	78,495.75	21,517.50	23,320.34	13,524.76	152,843.23
2014			78,495.75	18,686.25	23,320.34	11,714.88	132,217.22
2015			78,495.75	15,855.00	23,320.34	9,905.00	127,576.09
2016			83,495.75	15,105.00	23,320.34	9,405.00	131,326.09
2017			83,495.75	14,105.00	23,320.34	8,905.00	129,826.09
2018			83,495.75	13,105.00	23,320.34	8,405.00	128,326.09
2019			83,495.75	12,105.00	28,320.34	7,905.00	131,826.09
2020			83,495.75	11,305.00	28,320.34	7,305.00	130,426.09
2021			83,495.75	10,305.00	28,320.34	6,555.00	128,676.09
2022			88,495.75	9,705.00	28,320.34	6,105.00	132,626.09
2023			88,495.75	8,705.00	28,320.34	5,505.00	131,026.09
2024			88,495.75	7,705.00	28,320.34	4,905.00	129,426.09
2025			88,495.75	6,705.00	28,320.34	4,305.00	127,826.09
2026			88,495.75	5,705.00	28,320.34	3,705.00	126,226.09
2027			93,495.75	4,830.00	33,320.34	3,180.00	134,826.09
2028			93,495.75	3,630.00	33,320.34	2,380.00	132,826.09
2029	-	-	93,496.00	2,430.00	33,320.65	1,580.00	130,826.65
	<u>\$ 48,556.34</u>	<u>\$ 2,119.18</u>	<u>\$ 1,616,419.50</u>	<u>\$ 226,638.75</u>	<u>\$ 513,086.77</u>	<u>\$ 143,739.16</u>	<u>\$ 2,550,559.70</u>

Installment payments of principal and interest on the above described Wastewater Treatment Loan and Environmental Infrastructure Loans are due on February 1 and August 1 of each year for Loans Number 1, 2 and 3.

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note II: Detailed Notes On All Funds (Continued)

H. Fund Balance Appropriated

Fund balances at December 31, 2010, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2011 were as follows:

Current Fund	\$2,800,000.00
Water Utility Operating Fund	45,267.21
Solid Waste Operating Fund	-0-

Note III: Pension Plans

Description of Systems

Substantially all of the Borough employees participate in one of the following contributory defined benefit public employee retirement systems which have been established by State statute: the Public Employees' Retirement System (PERS) or the Police and Fireman's Retirement System (PFRS). These systems are sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS and PFRS are considered cost sharing multiple-employer defined benefit plans.

The Public Employees' Retirement System (PERS) was established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits.

The Police and Fireman's Retirement System (PFRS) was established in July 1944, under the provisions of N.J.S.A. 43:16A to provide coverage to substantially all full time county and municipal police or firemen and State Firemen appointed after June 30, 1944. Membership is mandatory for such employees with vesting occurring after 10 years of membership.

According to the state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement systems terminate. The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey Division of Pensions and Benefits website at www.state.nj.us/treasury/pensions.

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note III: Pension Plans (Continued)

Retirement Benefits

For PERS employees, the benefits will be 1/55 of the average of the three highest year compensation for each year of service. However, for PERS who are veterans of the U.S. armed forces, the benefits will be 1/55 of final compensation for each year of service.

For PFRS employees, the benefits will be various percentages of final compensation depending upon the number of years of service.

Significant Legislation

P.L. 2010, c.1, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

This new legislation changed the membership eligibility criteria for new members of TPAF and PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of TPAF and PERS to 1/60 from 1/55, and it provided that new members of TPAF and PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of TPAF and PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for Social Security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the prosecutor's part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time five years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined as 1/7th of the required amount, beginning in Fiscal Year 2012.

P.L. 2010, c.3, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the TPAF and PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note III: Pension Plans (Continued)

Funding Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the aggregate funded ratio for the retirement systems (TPAF, PERS, PFRS, POPF, CPFPF, JRS, and SPRS) is 66.0 percent with an unfunded actuarial accrued liability of \$45.8 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 62.0 percent and \$30.7 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and PFRS is 72.1 percent and \$15.1 billion.

The required supplementary information regarding the funded status and funding progress of the retirement systems is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared o past expectations and new estimates are made about the probability of future events.

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. The pension funds provide for employee contributions based on 8.5 percent for PFRS and 5.5 percent for PERS of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of living adjustments and noncontributory death benefits in the PFRS and PERS

During the state fiscal year ended June 30, 2010, for PFRS and PERS, which are cost sharing multi-employer defined benefit pension plans, the annual pension cost equals contributions made.

The Borough total payroll for the year ended December 31, 2010 was \$5,790,876.64 and covered payroll was \$2,727,066.60 for PERS and \$1,968,722.73 for PFRS. Contributions to the PERS and the PFRS for the year ended December 31, 2010 made by the employees and Borough of Chatham were as follows:

		<u>PERS</u>	Percent of Covered <u>Payroll</u>	<u>PFRS</u>	Percent of Covered <u>Payroll</u>
Employees	12/31/08	145,037.83	5.41 %	179,207.25	8.51 %
	12/31/09	158,951.18	5.58 %	181,876.47	8.50 %
	12/31/10	149,988.66	5.50%	167,345.98	8.50%
Borough of Chatham	12/31/08	149,644.00	5.58%	453,556.00	21.55%
	12/31/09	170,616.00	5.99%	472,861.00	22.09%
	12/31/10	241,248.00	8.85%	525,623.00	26.70%

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note IV: Post Retirement Medical Benefits

P.L. 1997, C.330 provides State paid post-retirement health benefits to qualified retirees of the Police and Firemen's Retirement System and the Consolidated Police and Firemen's Pension Fund and to dependents of qualified retirees. The State is responsible for 80% of the premium for the category of coverage elected by the retiree under the State managed care plan or a health maintenance organization participating in the program, whichever provides the lower charge. The State contributed \$28.8 million for the state fiscal year 2010 to provide benefits under Chapter 330 to qualified retirees.

PERS employees do not receive post-retirement medical benefits.

Note V: Risk Management

The Borough of Chatham 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.

The Borough of Chatham is a member of the Morris County Municipal Joint Insurance Fund (the "JIF"). The JIF is a self-administered group of municipalities established for the purpose of providing certain low-cost general liability, automobile liability and workers' compensation insurance coverage up to \$100,000 for member municipalities. The Borough of Chatham pays an annual assessment to the JIF and should it be determined that payments received by the JIF are deficient, additional assessments may be levied.

The JIF can declare and return excess surplus to members upon approval of the State of New Jersey Department of Insurance. These distributions would be divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body. In accordance with Statement No. 10 of the Government Accounting Standards Board, these distributions may be used to reduce the amount recorded for membership expense in the year in which the distribution was declared.

The Borough of Chatham is also a member of the Municipal Excess Liability Joint Insurance Fund (the "MEL"). The MEL provides insurance coverage for claims in excess of \$100,000 for general liability, automobile liability and workers' compensation. The MEL also provides insurance coverage for the following: employment practices liability, non-owned aircraft, public officials liability, directors and officers liability and Faithful Performance and Employee Dishonesty Blanket Bond (\$1,000,000 limit).

The JIF's members are also members of the New Jersey Municipal Environmental Risk Management Fund which provides commercial insurance coverage for environmental impairment liability.

The JIF provides Property coverage (i.e. Boiler and Machinery, Flood, Valuable Papers, etc.) to its members participating in a state-wide joint purchase program arranged by the MEL acting as a lead agency.

The Borough of Chatham continues to carry commercial insurance coverage for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

BOROUGH OF CHATHAM

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(CONTINUED)

Note VI: Segment Information – Utility/Enterprise Funds

The Borough of Chatham maintains two utility funds which provide water and solid waste disposal services. Segment information for the year ended December 31, 2010 was as follows:

	Water Utility <u>Fund</u>	Solid Waste Utility <u>Fund</u>
Operating Revenues	\$1,240,889.45	\$504,913.45
Operating Income or (Loss)	335,260.18	(20,369.84)
Operating Transfers in	6.54	
Net Income or (Loss)	144,883.90	41,806.94
Fixed Assets:		
Additions	-0-	
Net Working Capital	231,549.82	53,437.04
Total Operating Assets	350,862.26	61,983.21
Operating Fund Balance	145,215.60	42,241.40
Long Term Debt	2,101,000.00	
Short Term Debt	765,506.17	

Note VII: Accrued Sick and Vacation Benefits

The Borough of Chatham permits employees to accrue a limited amount of unused vacation and sick pay, which may be taken as time off or paid upon retirement or separation at an agreed-upon rate.

It is estimated that the current cost of such unpaid compensation would approximate \$453,392.00. This amount is not reported either as an expenditure or a liability. It is expected that the cost of such unpaid compensation would be included in the Borough of Chatham's budget operating expenditures in the year in which it is used.

Note VIII: Related Party Transactions

In 2010, Mayor V. Nelson Vaughan, III and the members of the Borough Council also served as members of the Madison-Chatham Joint Meeting. The Borough of Chatham contributed \$505,025.52 to the Joint Meeting in 2010 for operating expense.

In addition, the Borough of Chatham, together with the Borough of Madison, is funding the improvement of the Joint Meeting wastewater treatment plant.

In 2010, Mayor V. Nelson Vaughan, III also served as a Trustee for the Library of the Chathams. The Borough of Chatham contributed \$786,333.00 to the Library of the Chathams in 2010.

Note IX: Contingent Liabilities

The Borough of Chatham is a defendant in several lawsuits, none of which is unusual for a municipality of its size. Additional liabilities, if not covered by insurance, should not be material in amount.

APPENDIX C

Proposed Form of Bond Counsel Opinion

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†† ALSO ADMITTED IN FL AND DC
††† ALSO ADMITTED IN NY

APPENDIX C

[Proposed Form of Bond Counsel Opinion]

August ___, 2011

Borough Council
Borough of Chatham
County of Morris, New Jersey

Dear Council Members:

We have acted as bond counsel in connection with the issuance of \$6,735,000 of bonds consisting of \$5,819,000 aggregate principal amount of General Improvement Bonds and \$916,000 aggregate principal amount of Water Utility Bonds (individually, the "General Improvement Bonds" or the "Water Utility Bonds"; collectively, the "Bonds") by the Borough of Chatham, in the County of Morris, a municipal corporation of the State of New Jersey (the "Borough"). The Bonds are dated August 15, 2011 and comprise two issues of registered bonds. The Bonds bear interest from their date, payable on each February 15 and August 15, commencing February 15, 2012 (each, an "Interest Payment Date"), in each year until maturity.

The General Improvement Bonds are payable in annual installments on August 15 in each year, and bear interest at the rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2012	\$340,000	%	2018	\$570,000	%
2013	340,000		2019	590,000	
2014	340,000		2020	610,000	
2015	350,000		2021	630,000	
2016	360,000		2022	650,000	
2017	370,000		2023	669,000	

The Water Utility Bonds are payable in annual installments on August 15 in each year, and bear interest at the rates per annum, as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2012	\$50,000	%	2018	\$90,000	%
2013	50,000		2019	90,000	
2014	50,000		2020	90,000	
2015	50,000		2021	90,000	
2016	85,000		2022	90,000	
2017	85,000		2023	96,000	

The Bonds are issued pursuant to the Local Bond Law (Chapter 2 of Title 40A of the New Jersey Statutes, as amended). The General Improvement Bonds are also issued pursuant to five bond ordinances adopted by the Borough Council of the Borough on April 14, 2008 (Ord. No. 08-07), May 26, 2009 (Ord. No. 09-06, as amended by Ord. No. 10-15 adopted on May 24, 2010), May 10, 2010 (Ord. No. 10-14, as amended by Ord. No. 10-16 adopted on June 28, 2010), September 13, 2010 (Ord. No. 10-24) and June 13, 2011 (Ord. No. 11-12) and resolutions adopted by the Borough Council of the Borough on July 11, 2011. The Water Utility Bonds are also issued pursuant to five bond ordinances adopted by the Borough Council of the Borough on April 12, 2004 (Ord. No. 04-10), April 14, 2008 (Ord. No. 08-08), May 26, 2009 (Ord. No. 09-07), May 10, 2010 (Ord. No. 10-13) and June 13, 2011 (Ord. No. 11-13) and resolutions adopted by the Borough Council of the Borough on July 11, 2011.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. Such requirements include requirements relating to the use and investment of proceeds of the Bonds and other amounts and to the rebate of certain arbitrage earnings to the United States. Noncompliance by the Borough with such requirements may cause interest on the Bonds to be included in gross income of the owners thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

The Borough has covenanted, to the extent permitted by the Constitution and the laws of the State of New Jersey, to do and perform all acts and things permitted by law and necessary to assure that interest paid on the Bonds be and remain excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. The Borough's Tax Certificate (the "Tax Certificate"), which will be delivered concurrently with the delivery of the Bonds, will contain provisions and procedures regarding compliance with the requirements of the Code. The Borough, in executing the Tax Certificate, will certify to the effect that the Borough expects and intends to comply with the provisions and procedures contained therein.

As bond counsel, we have examined certified copies of the bond ordinances and resolutions referred to above and related proceedings in connection with the issuance of the Bonds. We have also examined originals (or copies certified or otherwise identified to our satisfaction) of such other instruments, certificates and documents as we have deemed necessary or appropriate for the purpose of the opinion rendered below, including the Tax Certificate executed by the Chief Financial Officer of the Borough of even date herewith. We have assumed the accuracy of the factual information and the truthfulness of the expectations set forth in the Tax Certificate and the exhibits thereto. We have also examined the executed and authenticated first numbered Bond of each issue and have assumed that all of the other Bonds have been similarly executed and authenticated. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

We have not prepared nor have we verified the accuracy, completeness or fairness of (i) the information set forth in the Official Statement prepared by the Borough in connection with the sale and issuance of the Bonds, or (ii) other documents of the Borough delivered to the purchasers of the Bonds, and we take no responsibility therefor.

Based on the foregoing, we are of the opinion that:

1. The Bonds have been duly authorized, executed and delivered and constitute valid and legally binding obligations of the Borough enforceable in accordance with their terms, except as enforcement of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or other laws relating to or affecting the enforcement of creditors' rights generally now or hereafter in effect to the extent constitutionally applicable, and enforcement may also be subject to the exercise of judicial discretion in certain cases.

2. The Borough has pledged its full faith and credit for the payment of the principal of and interest on the Bonds, and unless paid from other sources, the Borough is authorized and required by law to levy on all real property taxable by the Borough such ad valorem taxes as may be necessary to pay the Bonds and the interest thereon, without limitation as to rate or amount.

3. Assuming compliance by the Borough with the Tax Certificate, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. In addition, under existing law, interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax imposed under the Code with respect to individuals and corporations; such interest, however, is included in "adjusted current earnings" for purposes of computing the alternative minimum tax that may be imposed on corporations. In addition, under the New Jersey Gross Income Tax Act, as enacted and construed on the date hereof, interest on the Bonds and any gain from the sale of the Bonds are not includable in gross income of the holders thereof.

Very truly yours,

Rogut McCarthy LLC