

**THE BOARD OF EDUCATION OF THE
BOROUGH OF CLAYTON
IN THE COUNTY OF GLOUCESTER, NEW JERSEY
NOTICE OF \$9,730,000 SCHOOL BOND SALE
(BOOK-ENTRY-ONLY)
(CALLABLE)
SUMMARY**

ISSUER:	The Board of Education of the Borough of Clayton in the County of Gloucester, New Jersey
PAR AMOUNT:	\$9,730,000
SECURITY:	General Obligations of the Board of Education/New Jersey School Bond Reserve
TAX EXEMPT:	Yes
RATINGS AND INSURANCE:	Rating to be Determined
TYPE OF SALE:	Electronic proposals via the Parity Electronic Bid System ("PARITY") of I-Deal LLC ("I-Deal") (See Bidding Details Item herein)
BOND SALE AGENT:	PARITY
BID/AWARD DATE:	March 5, 2015 electronic proposals until 11:00 a.m., local time, at which time they will be publicly opened, received and announced. Award by 3:00 p.m.
DATED DATE:	Date of Delivery
DELIVERY DATE:	On or about March 18, 2015
INTEREST PAYMENT DATES:	March 1 and September 1, commencing September 1, 2015
FORM:	Book-entry-only
FIRST CALL DATE:	March 1, 2023
MINIMUM BID:	\$9,730,000 (Par)
MAXIMUM BID:	\$9,731,000 (Par plus \$1,000)
BID SECURITY:	<u>Good Faith Check or wire transfer in the amount of \$194,600 received by the Board prior to bidding or Financial Surety Bond as provided in Notice, if available</u>
BASIS OF AWARD:	<u>Net Interest Cost</u> - Ascending Coupons Required in multiples of 1/8 or 1/20 of 1%
OFFERING STATEMENT:	Preliminary Official Statement available at www.i-dealprospectus.com and The Bond Buyer Online

NOTICE

NOTICE IS HEREBY GIVEN that electronic proposals will be received by The Board of Education of the Borough of Clayton in the County of Gloucester, New Jersey (the "Board") for the purchase of \$9,730,000 original principal amount of the Board's School Bonds (the "Bonds"). **All Bids (as defined below) must be submitted in their entirety via "PARITY Electronic Bid System" (PARITY) prior to 11:00 a.m., New Jersey time on March 5, 2015. To bid, Bidders (as defined below) must have submitted a good faith check, wire or Financial Surety Bond, if available, payable to the Board, in the amount of \$194,600 by no later than 10:30 a.m. on the Bid Date (see Bidding Details below).**

Preliminary and Final Official Statement

The Board's Preliminary Official Statement (the "POS") is available for viewing in electronic format on www.i-dealprospectus.com and in *The Bond Buyer Online*. *The Bond Buyer Online* address is www.bondbuyer.com/legalnotices/?type=bondsales. In addition, broker dealers registered with the National Association of Securities Dealers (the "NASD") and dealer banks with The Depository Trust Company ("DTC") clearing arrangements may either: (a) print out a copy of the POS on their own printer, or (b) at any time prior to March 5, 2015, elect to receive a photocopy of the POS in the mail by calling the Board's bond counsel, McManimon, Scotland & Baumann, LLC ("Bond Counsel"), 75 Livingston Avenue, Roseland, New Jersey 07068 to the attention of Charles Anthony Solimine, Esq. (telephone no. 973-622-4893) or Terry Anderson (telephone no. 973-622-5161). All Bidders must review the POS and certify that they have done so prior to participating in the bidding.

The POS is deemed by the Board to be final as of its date, for purposes of SEC Rule 15c2-12(b)(1) under the Securities and Exchange Act of 1934, except for the omission of information concerning the offering price(s), interest rate(s), selling compensation, aggregate principal amount of the Bonds and any other terms or provisions to be determined from the successful Bid(s) or depending on such matters, and the identity of the underwriter(s). The POS is, however, subject to such further revisions, amendments and completion in a Final Official Statement (the "Final Official Statement") as may be necessary.

The Board, at its expense, will make available to the winning Bidder a reasonable number of Final Official Statements within seven (7) business days following the date of acceptance of the Bid.

Types of Bids Allowed

Subject to the Bid requirements described below, Bids for the Bonds must be submitted on an "All-or-None" ("AON") basis for the entire amount of \$9,730,000. First, a Bidder must submit a conforming Bid for the entire issue, and if such Bid is accepted by the Board, the Bidder will be required to purchase the entire issue in accordance with such Bid.

Insurance

All or any part of the Bonds can be insured at the option of the Bidder. The insurance premium, if any, will be paid by the Bidder.

Interest Payment Dates; Description of the Bonds

The Bonds will be dated the date of delivery and will bear interest from such date payable semiannually on each March 1 and September 1, commencing on September 1, 2015.

Principal Amortization

The Bonds will consist of serial bonds maturing on March 1 in the years 2017 through 2040, inclusive, as set forth in the following table:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2017	\$300,000	2029	\$415,000
2018	270,000	2030	430,000
2019	285,000	2031	445,000
2020	295,000	2032	455,000
2021	310,000	2033	465,000
2022	320,000	2034	480,000
2023	330,000	2035	490,000
2024	340,000	2036	500,000
2025	355,000	2037	515,000
2026	370,000	2038	525,000
2027	385,000	2039	525,000
2028	400,000	2040	525,000

Book-Entry-Only

The Bonds will be issued in book-entry form only, initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Purchasers will not receive certificates representing their interests in the Bonds. Individual purchases will be in the principal amount of any multiple of \$1,000 (with a minimum purchase of \$5,000 required). Payments of principal, interest and redemption premium, if any, will be made by the paying agent to DTC for subsequent disbursement to DTC participants to then be remitted to the beneficial owners of the Bonds.

Section 265 Qualification

The Bonds will not be designated as qualified under Section 265 of the Internal Revenue Code of 1986, as amended, by the Board for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

Redemption Provisions

The bonds of this issue maturing prior to March 1, 2024 are not subject to redemption prior to their stated maturities. The bonds of this issue maturing on or after March 1, 2024 are redeemable at the option of the Board of Education in whole or in part on any date on or after March 1, 2023 upon notice as required herein at par, plus in each case unpaid accrued interest to the date fixed for redemption.

Notice of redemption shall be given by mailing by first class mail in a sealed envelope with postage prepaid to the registered owners of the bonds not less than thirty (30) days, nor more than sixty (60) days prior to the date fixed for redemption. Such mailing shall be to the owners of such bonds at their respective addresses as they last appear on the registration books kept for that purpose by the Board

of Education or a duly appointed Bond Registrar. Any failure of the Securities Depository to advise any of its participants or any failure of any participant to notify any beneficial owner of any notice of redemption shall not affect the validity of the redemption proceedings. If the Board of Education determines to redeem a portion of the bonds prior to maturity, the bonds to be redeemed shall be selected by the Board of Education. The bonds to be redeemed having the same maturity shall be selected by the Securities Depository in accordance with its regulations.

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

Term Bond Option – Not Available

Terms of PARITY

Each electronic proposal must be submitted via PARITY. No bidder will see any other bidder's bid, nor will any bidder see the status of its bid relative to other bids (e.g., whether its bid is a leading bid). To the extent any instructions or directions set forth on PARITY conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about PARITY, potential bidders may contact PARITY at I-Deal at (212) 404-8102. The Board may, but is not obligated to, acknowledge its acceptance in writing of any bid submitted electronically via PARITY. In the event that a bid for the Bonds is submitted via PARITY, the bidder further agrees that: The Board may regard the electronic transmission of the bid via PARITY (including information about the purchase price of the Bonds, the interest rate or rates to be borne by the various maturities of the Bonds, the initial public offering price of each maturity of the Bonds and any other information included in such transmission) as though the same information were submitted on the official "Proposal for Bonds" provided by the Board and executed by a duly authorized signatory of the bidder. If a bid submitted electronically via PARITY is accepted by the Board, the terms of the official "Proposal for Bonds" and this Notice of Sale and the information that is electronically transmitted via PARITY shall form a contract, and the successful bidder shall be bound by the terms of such contract.

PARITY is not an agent of the Board, and the Board shall have no liability whatsoever based on any bidder's use of PARITY, including but not limited to any failure by PARITY to correctly or timely transmit information provided by the Board or information provided by the bidder.

The Board may choose to discontinue use of electronic bidding via PARITY by issuing a notification to such effect via TM3 News Services, or by other available means, no later than 3:00 p.m., Eastern Time, on the last business date prior to the bid date.

Once the bids are communicated electronically via PARITY to the Board, each bid will constitute an official "Proposal for Bonds" and shall be deemed to be an irrevocable offer to purchase the Bonds on the terms provided in this Notice of Sale. For purposes of submitting all "Proposals for Bonds," whether electronically or sealed, the time as maintained on PARITY shall constitute the official time.

Each bidder shall be solely responsible to make necessary arrangements to access PARITY for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Notice of Sale. Neither the Board nor I-Deal shall have any duty or obligation to provide or assure to any bidder, and neither the Board nor I-Deal shall be responsible for the proper operation of, or have any liability for any delays or interruptions of, or any damages caused by, PARITY. The Board is using PARITY as a communication mechanism, and not as the Board's agent, to conduct the electronic bidding for the Bonds.

By using PARITY, each bidder agrees to hold the Board harmless for any harm or damages caused to such bidder in connection with its use of PARITY for bidding on the Bonds.

Bidding Details

Bidders should be aware of the following bidding details associated with the sale of the Bonds:

- (1) **BIDDERS MUST SUBMIT A GOOD FAITH CHECK, WIRE TRANSFER (PLEASE CONTACT THE FINANCIAL ADVISOR FOR WIRE INSTRUCTIONS) OR A FINANCIAL SURETY BOND (IF AVAILABLE) IN THE AMOUNT OF \$194,600 PAYABLE TO THE BOARD NO LATER THAN 10:30 A.M. ON THE DAY OF SALE. HOWEVER, BIDDERS ARE ENCOURAGED TO SUBMIT CHECKS AND WIRE TRANSFERS ON THE DAY PRIOR TO THE SALE TO ASSURE RECEIPT OF PAYMENT BY THE BOARD. CHECKS CAN BE SENT TO THE FOLLOWING ADDRESS:**

**Frances Adler
Business Administrator/Board Secretary
Clayton Borough Board of Education
350 East Clinton Street
Clayton, NJ 08312**

BIDDERS SUBMITTING GOOD FAITH CHECKS SHOULD ALSO ENCLOSE A RETURN ENVELOPE FOR USE BY THE BOARD.

UNSUCCESSFUL BIDDERS SUBMITTING THE GOOD FAITH DEPOSIT BY WIRE TRANSFER SHALL, NO LATER THAN THE CLOSE OF BUSINESS ON THE DATE OF SALE OF THE BONDS, PROVIDE THE BOARD'S BUSINESS ADMINISTRATOR/BOARD SECRETARY IN WRITING WITH WIRING INSTRUCTIONS FOR THE RETURN OF SUCH UNSUCCESSFUL BIDDER'S GOOD FAITH DEPOSIT. IN THE EVENT THAT THE BOARD FAILS TO RETURN ANY GOOD FAITH WIRES IN A TIMELY FASHION, THE BOARD SHALL NOT BE LIABLE FOR MONETARY DAMAGES, REMEDY BEING HEREBY SPECIFICALLY LIMITED TO SPECIFIC PERFORMANCE.

- (2) All Bids must be submitted via PARITY. **No telephone, telefax, telegraph or personal delivery Bids will be accepted.**
- (3) All Bids for the Bonds must be submitted on an AON basis.
- (4) Each proposal submitted must name the rate or rates of interest per annum to be borne by the Bonds and the rate or rates named must be multiples of 1/8 or 1/20 of 1%. Not more than one rate may be named for Bonds of the same maturity. There is no limitation on the number of rates that may be named. If more than one rate of interest is named, no interest rate named for any maturity may be less than the interest rate named for any prior maturity. Each proposal submitted must state the purchase price, which must be not less than \$9,730,000 nor more than \$9,731,000. The Bonds will be awarded to the bidder on whose bid the total loan may be made at the lowest net interest cost. Such net interest cost shall be computed, as to each bid, by adding to the total principal amount of Bonds bid for the total interest cost to maturity in accordance with such bid and by deduction therefrom of the amount of premium, if any, bid. No proposal shall be considered that

offers to pay an amount less than the principal amount of Bonds offered for sale or under which the total loan is made at an interest cost higher than the lowest net interest cost to the Board under any legally acceptable proposal. The purchaser must also pay an amount equal to the interest on the Bonds accrued to the date of payment of the purchase price.

- (5) Bidders are only permitted to submit Bids for the Bonds during the bidding period.

Definitions

“Bid”	any confirmed purchase offer received by PARITY on or before the proposal submission deadline.
“Bidder”	any firm registered and approved for participation in sale.
“Winning Bid”	any purchase offer made by a Bidder and received by PARITY that, at the end of the bidding time period, results in the lowest NIC that is acceptable to the Board.
“Net Interest Cost”	computed by adding to the total principal amount of bonds bid for, the total interest cost to maturity in accordance with such bid and by deduction therefrom of the amount of premium, if any, bid or the addition thereto of the amount of discount, if any, bid. The Net Interest Cost serves as the basis for awarding bonds to winning Bidders.

Bid Procedure and Basis of Award

Subject to the right reserved by the Board to reject any or all Bids, the Bonds will be sold to the Bidder whose Bid produces the lowest NIC for the Board and otherwise complies with the Notice of Sale.

Bids must remain valid until at least 3:00 p.m., prevailing time, on the date of the sale, and if accepted by the Board, prior to such time, shall be irrevocable except as otherwise provided in the Notice of Sale. Upon selection of the winning Bidder, the Board will execute an award certificate to award the Bonds and will promptly communicate with the winning Bidder by telephone, e-mail or fax.

Bid Security and Method of Payment for Bonds

A Good Faith Deposit (“Deposit”) in the form of a certified, treasurer’s or cashier’s check, wire transfer or a Financial Surety Bond, if available, in the amount of \$194,600 payable to the order of the Board, is required for each Bid to be considered. Wire instructions can be obtained by contacting the Board’s Financial Advisor, Sherry L. Tracey of Phoenix Advisors, LLC, at (609) 291-0130 or stracey@muniadvisors.com, and such wire must be received and confirmed by the Board prior to the time for bids to be submitted. If a check is used, it must be a certified, treasurer’s or cashier’s check and must be provided to the Board no later than by 10:30 a.m. on the Bid Date. Each bidder accepts responsibility for delivering such check or wire transfer on time and the Board is not responsible for any check or wire transfer that is not received on time. If a Financial Surety Bond is used, it must be from an insurance company licensed to issue such a bond in the State of New Jersey and approved by the Director of the Division of Local Government Services of New Jersey (the “Director”) and such bond must be submitted to the Board prior to the opening of the Bids at the address referred to above. At present, the Director has approved the use of Sure-Bid, a division of Financial Security Assurance Inc. Use of any other Financial Surety Bond must be approved by the Director prior to the bid and will not be accepted by the Board

unless evidence of such approval is provided prior to the bid. The Financial Surety Bond must identify the bidder whose Deposit is guaranteed by such Financial Surety Bond. If the Bonds are awarded to a bidder utilizing a Financial Surety Bond or by wire transfer, then that purchaser (the "Purchaser") is required to submit its Deposit to the Board by wire transfer as instructed by the Board not later than 3:30 p.m. on the next business day following the award. If such Deposit is not received by that time, the Financial Surety Bond may be drawn by the Board to satisfy the Deposit requirement. No interest on the Deposit will accrue to the Purchaser. The Deposit will be applied to the purchase price of the Bonds. In the event the Purchaser fails to honor its accepted bid, the Deposit will be retained by the Board. Award of the Bonds to the successful Bidder or rejection of all Bids is expected to be made within two hours after opening of the bids, but such successful Bidder may not withdraw its proposal until after 3:00 p.m. of the day of receipt of such Bids and then only if such award has not been made prior to the withdrawal. The balance of the purchase price shall be paid in Federal Funds by wire transfer to the Board at closing.

Right to Reject Bids; Waive Irregularities

The Board reserves the right to reject any and all Bids and to the extent permitted by law to waive any irregularity or informality in any Bid.

Information Required from the Winning Bidder

By making a bid for the Bonds, the winning bidder(s) agrees: (a) to provide to the school district, in writing, immediately upon being unofficially awarded the Bonds, a written confirmation of the bid, which shall include the purchase price, reoffering yield(s), and other related information necessary for completion of the final Official Statement or by Bond Counsel; (b) to disseminate to all members of the underwriting syndicate copies of the Official Statement; (c) to promptly file a copy of the final Official Statement with each nationally recognized Municipal Securities Information Repository; and (d) to take any and all other actions necessary to comply with applicable Securities and Exchange Commission and Municipal Securities Rulemaking Board rules governing the offering, sale and delivery of the Bonds to alternate purchasers.

Delivery of the Bonds

The Bonds will be delivered on or about March 18, 2015 (UNLESS A NOTICE OF A CHANGE IN THE DELIVERY DATE IS PUBLISHED NOT LATER THAN 2 HOURS PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS) in New York City at DTC against payment of the purchase price therefor (less the amount of the good faith deposit) in Federal funds.

There will also be furnished the usual closing papers, including (1) a certificate signed by the officials who signed the Bonds stating that no litigation of any kind is now pending or, to their knowledge, threatened to restrain or enjoin the issuance or delivery of the Bonds, or in any manner questioning the proceedings and authorization under which the Bonds are issued or affecting the validity of the Bonds and (2) a certificate signed by the Board President or Business Administrator/Board Secretary relating to the Official Statement.

CUSIP Numbers

CUSIP numbers will be applied for with respect to the Bonds by the winning bidder, but the Board will assume no obligation for the assignment or printing of such numbers on the Bonds or for the correctness of such numbers, and neither the failure to print such numbers on any bond nor any error with respect thereto shall constitute cause for a failure or refusal by the purchasers thereof to accept delivery of

and make payment for the Bonds. The CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the winning Bidder.

Legal Opinions

The approving opinions of Bond Counsel will be furnished without cost to the winning Bidder.

Postponement

The Board reserves the right to postpone, upon not less than 24 hours' notice, the date and time established for receipt of Bids. **ANY SUCH POSTPONEMENT WILL BE PUBLISHED OR POSTED BEFORE 11:00 A.M. ON THE DAY BEFORE THE SALE.** If any date fixed for the receipt of Bids and the sale of the Bonds is postponed, an alternative sale date will be announced via PARITY at least forty-eight (48) hours prior to such alternative sale date. On any such alternative sale date, any Bidder may submit a Bid for the purchase of the Bonds in conformity in all respects with the provisions of the Notice of Sale, except for the date of sale and except for the changes announced on PARITY at the time the sale date and time are announced.

Additional Information

For further information relating to the Bonds, reference is made to the POS prepared for and authorized by the Board. The Notice of Sale and the POS may be viewed at www.i-dealprospectus.com. However, the Board makes no assurance or representation with respect to the form of the Notice of Sale and the POS at www.i-dealprospectus.com, and no investment decision should be made in reliance thereon. Printed copies of the POS and the Notice of Sale may be obtained from the Bond Counsel at the address and the phone number stated above. Additional information relating to the sale please contact PARITY at I-Deal at (212) 404-8102. Additional information relating to the financing of the Board can be obtained by contacting the undersigned Business Administrator/Board Secretary at (856) 881-8700, or the Financial Advisor at (609) 291-0130.

The Board of Education of the Borough of Clayton in
the County of Gloucester, New Jersey

By: Frances Adler
Business Administrator/Board Secretary

Dated: February 17, 2015

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

New Issue

Ratings: Standard & Poor's: A+ (School District Underlying Rating)
Standard & Poor's: A (School Bond Reserve Act)

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 26, 2015

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

THE BOARD OF EDUCATION OF THE BOROUGH OF CLAYTON IN THE COUNTY OF GLOUCESTER, NEW JERSEY \$9,730,000 SCHOOL BONDS (Book-Entry-Only) (Callable)

Dated: Date of Delivery

Due: March 1, as shown below

The \$9,730,000 School Bonds (the "Bonds") of The Board of Education of the Borough of Clayton in the County of Gloucester, New Jersey (the "Board" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) will be issued in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. See "Book-Entry-Only System" herein.

Interest on the Bonds will be payable semiannually on March 1 and September 1 in each year until maturity or earlier redemption, commencing on September 1, 2015. Principal of and interest on the Bonds will be paid to DTC by the Board or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each next preceding February 15 and August 15 (the "Record Dates" for the payment of interest on the Bonds). The Bonds shall be subject to redemption prior to their stated maturities. See "DESCRIPTION OF THE BONDS-Redemption" herein.

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

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2017	\$300,000	%	%		2029	\$415,000			
2018	270,000				2030	430,000			
2019	285,000				2031	445,000			
2020	295,000				2032	455,000			
2021	310,000				2033	465,000			
2022	320,000				2034	480,000			
2023	330,000				2035	490,000			
2024	340,000				2036	500,000			
2025	355,000				2037	515,000			
2026	370,000				2038	525,000			
2027	385,000				2039	525,000			
2028	400,000				2040	525,000			

The Bonds are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey, and certain other conditions described herein. Delivery is anticipated to be via DTC, New York, New York on or about March 18, 2015.

ELECTRONIC SUBMISSIONS WILL BE RECEIVED VIA PARITY UNTIL 11:00 A.M. ON MARCH 5, 2015. FOR MORE INFORMATION VIEW THE NOTICE OF SALE POSTED AT WWW.GOVDEBT.NET.

**THE BOARD OF EDUCATION OF THE
BOROUGH OF CLAYTON,
IN THE COUNTY OF GLOUCESTER, NEW JERSEY**

Board of Education

Anthony Grafton	President
Ronald Durham	Vice-President
John Connelly	Member
Elizabeth Kellum	Member
Dawn Milligan	Member
Jeff Radio	Member
Milton "Bud" Reuter, III	Member
Robin Roche	Member
Edwardo Rojas	Member

Superintendent of Schools

David T. Lindenmuth

Business Administrator/Board Secretary

Frances Adler

Treasurer of School Funds

Deborah Swietanski

Auditor

Bowman & Company LLP
Voorhees, New Jersey

Solicitor

Ware, Streitz and Thompson
Pitman, New Jersey

Bond Counsel

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

Financial Advisor

Phoenix Advisors, LLC
Bordentown, New Jersey

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

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

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

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS OFFERING, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF ANY SUCH INFORMATION.

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**OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION OF THE
BOROUGH OF CLAYTON
IN THE COUNTY OF GLOUCESTER, NEW JERSEY**

**\$9,730,000
SCHOOL BONDS
(BOOK-ENTRY-ONLY ISSUE)
(CALLABLE)**

INTRODUCTION

This Official Statement, which includes the front cover page and the appendices attached hereto, has been prepared by The Board of Education of the Borough of Clayton in the County of Gloucester, New Jersey (the "Board" or "Board of Education" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the sale and issuance of its \$9,730,000 School Bonds (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the Business Administrator/Board Secretary, and its distribution and use in connection with the sale of the Bonds have been authorized by the Board.

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

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

DESCRIPTION OF THE BONDS

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

Terms and Interest Payment Dates

The Bonds shall be dated the date of delivery and shall mature on March 1 in each of the years and in the amounts set forth on the front cover page hereof. The Bonds shall bear interest from the date of delivery, which interest shall be payable semi-annually on the first day of March and September, commencing on September 1, 2015 (each an "Interest Payment Date"), in each of the years and at the interest rates set forth on the front cover page hereof until maturity or earlier redemption by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each February 15 and August 15 immediately preceding the respective Interest Payment Dates (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its

nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the Beneficial Owners (as hereinafter defined) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

Redemption

The Bonds maturing prior to March 1, 2024 are not subject to optional redemption. The Bonds maturing on or after March 1, 2024 shall be subject to redemption at the option of the Board, in whole or in part, on any date on or after March 1, 2023 at the par amount of bonds to be refunded, plus unpaid accrued interest to the date fixed for redemption.

Notice of Redemption

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

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

Security for the Bonds

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable

from *ad valorem* taxes levied upon all the taxable property within the School District without limitation as to rate or amount.

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

All school bonds are secured by the School Bond Reserve established in the Fund for the Support of Free Public Schools of the State of New Jersey (the "Fund") in accordance with the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c. 72, approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003 (the "Act")). Amendments to the Act provide that the Fund will be divided into two School Bond Reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1-1/2% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued prior to July 1, 2003 (the "Old School Bond Reserve Account") and all bonds, including the Bonds, issued on or after July 1, 2003 shall be benefited by a School Bond Reserve account equal to 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes issued on or after July 1, 2003 (the "New School Bond Reserve Account"), provided such amounts do not exceed the moneys available in the Fund. If a municipality, county or school district is unable to make payment of principal of or interest on any of its bonds issued for school purposes, the trustees of the Fund will purchase such bonds at par value and will pay to the bondholders the interest due or to become due within the limits of funds available in the applicable School Bond Reserve account in accordance with the provisions of the Act.

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

The Act further provides that the amount of any payment of interest or purchase price of school bonds paid pursuant to the Act shall be deducted from the appropriation or apportionment of State aid, other than certain State aid which may be otherwise restricted pursuant to law, payable to the school district, county or municipality and shall not obligate the State to make, nor entitle the school district, county or municipality to receive any additional appropriation or apportionment. Any amount so deducted shall be applied by the State Treasurer to satisfy the obligation of the school district, county or municipality arising as a result of the payment of interest or purchase price of bonds pursuant to the Act. On September 11, 2014 Standard & Poor's

Ratings Services, a Standard & Poor's Financial Services LLC business, downgraded the School Bond Reserve rating from "A+" (stable) to "A" (stable). Moody's Investors Service, Inc. has maintained the rating of "Aa3" (stable) in connection with the School Bond Reserve.

Authorization and Purpose

The Bonds have been authorized and are being issued pursuant to Title 18A, Chapter 24 of the New Jersey Statutes (N.J.S.A. 18A:24-1 et seq.), a proposal adopted by the Board on October 21, 2014 and approved by a majority of the legal voters present and voting at the school district election held on December 9, 2014 and by a resolution duly adopted by the Board on February 24, 2015 (the "Resolution").

The purpose of the Bonds is to provide for an addition, renovations all improvements to the Clayton High School and renovations and improvements to the Herma Simmons Elementary School and the acquisition of necessary furnishings and equipment, as well as any associated site work. The total cost of the project is \$9,730,735. The School District is issuing the Bonds in the amount of \$9,730,000 to permanently fund the Project. The remaining \$735 will be available from other funds of the Board.

BOOK-ENTRY-ONLY SYSTEM¹

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its

¹ Source: The Depository Trust Company

regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks and trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street

name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

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

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

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

Discontinuance of Book-Entry-Only System

In the event that the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Board/paying agent; (ii) the transfer of any Bonds may be registered on the books maintained by the Board/paying agent for such purposes only upon the surrender thereof to the Board/paying agent together with the duly executed assignment in form satisfactory to the Board/paying agent; and (iii) for every exchange or registration of transfer of Bonds, the Board/paying agent may make a charge sufficient to reimburse for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds. Interest on the Bonds will be payable by check or draft, mailed on each Interest Payment Date to the registered owners thereof as of the close of business on the fifteenth (15th) day, whether or not a business day, of the calendar month next preceding an Interest Payment Date.

THE SCHOOL DISTRICT AND THE BOARD

The Board consists of nine members elected to three-year terms. The purpose of the School District is to educate students in grades Pre-K through twelve (12). The Superintendent of the School District is appointed by the Board and is responsible for the administrative control of the School District.

The School District is a Type II school district and provides a full range of educational services appropriate to Pre-K through grade twelve (12), including regular and special education programs. The School District is coterminous with the boundaries of the Borough of Clayton (the "Borough").

THE STATE'S ROLE IN PUBLIC EDUCATION

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

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

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

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

STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY

Categories of School Districts

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

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

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

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

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

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

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

There is a procedure whereby a Type I school district or a Type II school district may change from one type to the other after an approving public referendum. Such a public referendum must be held whenever directed by the municipal governing body or board of education in a Type I school district, or the board of education in a Type II school district, or when petitioned for by fifteen percent (15%) of the voters of any school district. The School District is a Type II school district.

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

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

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

The New Budget Election Law (P.L. 2011, c. 202, effective January 17, 2012) establishes procedures that allow the date of the annual school election of a Type II school district, without a board of school estimate, to be moved from April to the first Tuesday after the first Monday in November, to be held simultaneously with the general election. Such change in the annual school election date must be authorized by resolution of either the board of education or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least 15% of the legally qualified voters, is filed with the board of education. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four years.

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

Spending Growth Limitation

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

SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT

Levy and Collection of Taxes

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

Budgets and Appropriations

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

Tax and Spending Limitations

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

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

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

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

The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

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

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

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

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

Issuance of Debt

Among the provisions for the issuance of school debt are the following requirements: (i) bonds must mature in serial installments within the statutory period of usefulness of the projects being financed but not exceeding forty (40) years, (ii) debt must be authorized by a resolution of a board of education (and approved by a board of school estimate in a Type I school district), and (iii) there must be filed with the State by each municipality comprising a school district a supplemental debt statement and a school debt statement setting forth the amount of bonds and notes authorized but unissued and outstanding for such school district.

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

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

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

Temporary notes may be issued in anticipation of the issuance of permanent bonds for a capital improvement or capital project. Such temporary notes may not exceed in the aggregate the

amount of bonds authorized for such improvement or project. A school district's temporary notes may be issued for one (1) year periods, with the final maturity not exceeding five (5) years from the date of original issuance; provided, however, that no such notes shall be renewed beyond the third anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which said notes are issued, is paid and retired subsequent to such third anniversary date from funds other than the proceeds of obligations. School districts may not capitalize interest on temporary notes, but must include in each annual budget the amount of interest due and payable in each fiscal year on all outstanding temporary notes.

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

Except as provided below, no additional debt shall be authorized if the principal amount, when added to the net debt previously authorized, exceeds a statutory percentage of the average equalized valuation of taxable property in a school district. As a pre-kindergarten (pre-K) through grade twelve (12) school district, the School District can borrow up to 4% of the average equalized valuation of taxable property in the School District. The School District has not exceeded its 4% debt limit. See "APPENDIX A – General Information and Economic and Demographic Information Relating to the School District and the Borough of Clayton."

Exceptions to Debt Limitation

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

Capital Lease Financing

School districts are permitted to enter into lease purchase agreements for the acquisition of equipment or for the improvement of school buildings. Generally, lease purchase agreements cannot exceed five years except for certain energy-saving equipment, which may be leased for up to fifteen (15) years if paid from energy savings. Lease purchase agreements for a term of five (5) years or less must be approved by the Commissioner. The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 ("EFCFA"), repealed the authorization to enter into facilities leases in excess of five years. The payment of rent on an equipment lease and on a five year and under facilities lease is treated as a current expense and within the school district's Spending Growth Limitation and tax levy cap. Lease purchase payments on leases in excess of five years entered into under prior law (CEIFA) are treated as debt service payments and, therefore, will receive debt service aid if the school district is entitled and are outside the school district's Spending Growth Limitation and tax levy cap.

Energy Saving Obligations

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

SUMMARY OF STATE AID TO SCHOOL DISTRICTS

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

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

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

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

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

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

proportionate share of the principal and interest payments on the outstanding EDA bonds issued to fund such grants.

SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS

Federal funds are available for certain programs approved by the federal government with allocation decided by the State, which assigns a proportion to each local school district. The Elementary and Secondary Education Act, as amended and restated by the No Child Left Behind Act of 2001, 20 U.S.C.A. § 6301 et seq., is a federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is available under Chapter 1 Aid. Such federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

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

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

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

The Borough may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the Borough may apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the Borough or substantially reduce the ability of the Borough to meet its obligations or to provide essential public improvements and services, or if it makes 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, to provide for purposes in an amount not exceeding 2/3 of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of utility and assessment obligations).

The Borough may sell short-term "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds if the bond ordinance or a subsequent resolution so provides. A local unit's bond anticipation notes must mature within one year, but may be renewed or rolled over. Bond anticipation notes, including renewals, must mature and be paid no later than the first day of the fifth month following the close of the tenth fiscal year

next following the date of the original notes. For bond ordinances adopted on or after February 3, 2003, notes may only be renewed beyond the third anniversary date of the original notes if a minimum payment equal to the first year's required principal payment on the bonds is paid to retire a portion of the notes on or before each subsequent anniversary date from funds other than the proceeds of bonds or notes. For bond ordinances adopted prior to February 3, 2003, the governing body may elect to make such minimum principal payment only when the notes are renewed beyond the third and fourth anniversary dates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a

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

Tax Assessment and Collection Procedure

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

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

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

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

Tax Appeals

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

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

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

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

FINANCIAL STATEMENTS

The financial statements of the Board for the fiscal years ended June 30, 2014 and June 30, 2013 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Bowman & Company LLP, Voorhees, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in Appendix B to this Official Statement. See "APPENDIX B - Financial Statements of The Board of Education of the Borough of Clayton in the County of Gloucester, New Jersey". Such Financial Statements are included herein for informational purposes only, and the information contained in these Financial Statements should not be used to modify the description of the security for the Bonds contained herein.

LITIGATION

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

TAX MATTERS

Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), provides that interest on the Bonds is not included in gross income for federal income tax purposes only if certain requirements are met. In its Certificate as to Arbitrage and Compliance with the Code (the "Tax Certificate"), which will be delivered in connection with the issuance of the Bonds, the Board will make certain representations, certifications of fact, and statements of reasonable expectation in connection with the issuance of the Bonds and certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of the interest on the Bonds from gross income under Section 103(a) of the Code.

In the opinion of McManimon, Scotland & Baumann, LLC ("Bond Counsel"), under existing statutes, regulations, administrative pronouncements and judicial decisions, and in reliance on the

representations, certifications of fact, and statements of reasonable expectation made by the Board in the Tax Certificate and assuming compliance by the Board with its ongoing covenants in the Tax Certificate, interest on the Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to the Code and is not an item of tax preference to be included in calculating alternative minimum taxable income under the Code for purposes of the alternative minimum tax imposed with respect to individuals and corporations. Bond Counsel is also of the opinion that interest on the Bonds held by corporate taxpayers is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations.

Certain Federal Tax Consequences Relating to the Bonds

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

Bank Qualification

The Bonds will not be designated as qualified under Section 265 of the Code by the Board for an exemption from the denial of deduction for interest paid by financial institutions to purchase or to carry tax-exempt obligations.

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

New Jersey Gross Income Tax

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

Future Events

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

ALL POTENTIAL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY CHANGES IN THE STATUTES, PROPOSED FEDERAL OR NEW

JERSEY STATE TAX LEGISLATION, ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, COURT DECISIONS OR PROPOSALS FOR CHANGE ON THE TAX AND MARKET IMPLICATIONS OF OWNERSHIP OF THE BONDS.

MUNICIPAL BANKRUPTCY

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

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

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

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

APPROVAL OF LEGAL PROCEEDINGS

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

PREPARATION OF OFFICIAL STATEMENT

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

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

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

RATINGS

Standard & Poor's Rating Services, a Standard & Poor's Financial Services LLC business (the "Rating Agency") has assigned an underlying rating of "A+" (stable outlook) on the Bonds. In addition, the Rating Agency has also assigned an enhanced rating of "A" to the Bonds based on the New Jersey School Bond Reserve Act.

The ratings reflect only the view of the Rating Agency, and an explanation of the significance of such ratings may only be obtained from the Rating Agency. The Board furnished to the Rating Agency certain information and materials concerning the Bonds and the School District. There can be no assurance that the ratings will continue for any given period of time or that the ratings will not be revised downward entirely by the Rating Agency if, in their judgment, circumstances so warrant. Any downward change in or withdrawal of such ratings may have an adverse effect on the marketability or market price of the Bonds.

FINANCIAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey served as financial advisor to the Board with respect to the issuance of the Bonds. This Official Statement has been prepared with the assistance of the Financial Advisor. Certain information set forth herein has been obtained from the Board and other sources which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein. There is no assurance that any of the assumptions or estimates contained herein will be realized. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting, marketing or trading municipal securities or any other negotiable instrument.

SECONDARY MARKET DISCLOSURE

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

(a) On or prior to February 1 of each year, beginning February 1, 2016, electronically to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system

or such other repository designated by the SEC to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the Board of Education consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the Board of Education and certain financial information and operating data consisting of (1) Board of Education and overlapping indebtedness including a schedule of outstanding debt issued by the Board of Education; (2) property valuation information; and (3) tax rate, levy and collection data. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

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

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

For the purposes of the event identified in subparagraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if

such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

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

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

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

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

The Board previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) annual adopted budget for fiscal years ended June 30, 2011 and 2012 and (ii) certain operating data and annual financial information for fiscal year ended June 30, 2010. Additionally, the Board acknowledges that it previously failed to file material event notices and late filing notices in connection with (i) its timely filings of annual financial information and (ii) certain rating changes. Such notices of material events and late filings have been filed with EMMA as of the date of this Official Statement. The Board has appointed Phoenix Advisors, LLC to serve as continuing disclosure agent.

UNDERWRITING

The Bonds have been purchased from the Board at a public sale by _____, _____, _____ (the "Underwriter") at a price of \$_____. The Underwriter has purchased the Bonds in accordance with the Notice of Sale. The Bonds are being offered for sale at the yields set forth on the front cover page of this Official Statement.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Frances Adler, Business Administrator/Board Secretary, at (856) 881-8700.

CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT

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

MISCELLANEOUS

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

**THE BOARD OF EDUCATION OF THE
BOROUGH OF CLAYTON IN THE COUNTY OF
GLOUCESTER, NEW JERSEY**

**FRANCES ADLER,
Business Administrator/Board Secretary**

APPENDIX A

GENERAL INFORMATION AND ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE SCHOOL DISTRICT AND THE BOROUGH OF CLAYTON

GENERAL INFORMATION ON THE SCHOOL DISTRICT(1)

Education

The School District is a Type II School District. It functions independently through a nine-member Board elected by the voters in staggered three-year terms.

The Borough's public school system consists of two (2) schools which includes grades Pre-K-12.

Borough of Clayton School District School Enrollments(1)

	<u>October 15 (Actual)</u>				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Pre-K	79	80	78	88	88
K	101	108	101	115	97
1	106	96	115	95	104
2	92	108	90	101	78
3	113	95	91	82	80
4	93	95	77	82	90
5	100	78	87	93	92
6	81	85	88	94	85
7	90	83	99	85	93
8	86	96	71	89	85
9	96	62	91	88	84
10	70	78	73	77	69
11	81	69	65	56	63
12	66	68	68	61	75
Special Ed	<u>194</u>	<u>198</u>	<u>190</u>	<u>164</u>	<u>153</u>
Total	<u>1,448</u>	<u>1,399</u>	<u>1,384</u>	<u>1,370</u>	<u>1,336</u>

Present Local School District Facilities, Enrollment and Capacity(1)

<u>Facilities</u>	<u>Date Constructed</u>	<u>Renovations/ Additions</u>	<u>Grades</u>	<u>Enrollment Oct. 15, 2014</u>	<u>Functional Capacity</u>
E.S. Simmons Elementary	1988	2002,2010	PK-5	757	763
Clayton Middle School/ High School	1950	1971, 1996, 2002, 2010	6-12	691	<u>868</u>
					<u>1,631</u>

School District Employees

	<u>2014</u>	<u>2013</u>	<u>June 30, 2012</u>	<u>2011</u>	<u>2010</u>
Full Time Equivalents (2)	<u>202</u>	<u>202</u>	<u>177</u>	<u>174</u>	<u>164</u>

(1) Source: School District Officials

(2) Includes grant funded positons

Budget/Referendum History

The Board must submit its annual budget for voter approval. The amounts budgeted for interest and debt redemption charges are not subject to voter approval. Over the last five years the outcome of the school budget election was as follows:

<u>Budget Year</u>	<u>Outcome of Election</u>	<u>Amount of Budget Current Expense</u>
2014-2015	(1)	\$19,111,217
2013-2014	(1)	18,801,403
2012-2013	(1)	18,603,264
2011-2012	Passed	17,449,523
2010-2011	Defeated	17,223,034

Employee Collective Bargaining Units

The following is a schedule of employee collective bargaining units, number of employees represented and dates of expiration of current contracts:

	<u>Employees Represented</u>	<u>Contract Expiration Date</u>
Clayton Education Association (2)	141	6/30/2016
Clayton Administrators Association	10	6/30/2016

Compensated Absences

School District employees who are employed for ten months are entitled to ten paid sick leave days per fiscal school year. School District employees who are employed for twelve months are entitled to twelve paid sick leave days per fiscal school year. Unused sick leave may be accumulated and carried forward to the subsequent years. School District employees are entitled to two personal days which may be carried forward to subsequent years. Vacation days not used during the year may not be accumulated and carried forward. Benefits paid in any future year will be calculated according to formulas outlined in the School Districts' agreements with the various employee unions and included in the current years' budget. For additional information regarding compensated absences, see Appendix B: Note 14 to the Financial Statements.

Pension Plans

Those School District employees who are eligible for pension coverage are enrolled in one of three pension systems established for school districts by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are determined by the State. For additional information regarding pension plans see Appendix B - Financial Statements of the School District, Note 9 to Financial Statements.

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- (1) Current Expense Levy was within the 2.0% State CAP, therefore an election was not required.
 - (2) Clayton Education Association includes all teachers and full-time secretaries, custodians, groundskeepers, paraprofessionals.

HIGHER EDUCATION FACILITIES

Rowan College at Gloucester County

Gloucester County College, which opened in 1967, is now Rowan College at Gloucester County ("RCGC or the "College") and is a publicly supported, coeducational two-year institution, fully accredited by the Middle States Commission on Higher Education.

Total enrollment for the spring 2014 semester was 5,980 students (3,376 full-time and 2,604 part-time students). In addition, RCGC's Division of Continuing Education provides various educational, career training and personal enrichment courses, as well as outreach programs, to community residents.

RCGC offers more than 70 academic programs in a full spectrum of career fields. The College also maintains a well-rounded cultural, artistic and sports calendar of events.

A number of selective admission programs related to the allied-health field, including nursing, diagnostic medical sonography (DMS) and nuclear medicine technology (NMT) are available at RCGC.

RCGC awards both certificate and associate degrees leading to immediate career and transfer opportunities. With an extensive record of matriculation agreements with four-year colleges and universities, graduates are able to transfer seamlessly into baccalaureate and master degree programs. RCGC recently added an automatic-dual acceptance initiative with five (5) four-year universities which makes earning a bachelor's degree an uncomplicated progression with added benefits. The College's educational partners offer a variety of programs and incentives to RCGC graduates ranging from tuition discounts to obtaining a bachelor's degree on the RCGC campus.

Located on 250 acres in Deptford, New Jersey, RCGC's main campus also houses the Continuing Education Center that provides customized training and safety instruction to the business community. The Safety Unit is especially well-known for its long-term relationship with the Delaware Valley Safety Council, which represents large petrochemical and manufacturing businesses in the region.

Rowan University

Rowan University (the "University") (formerly known as Glassboro State College) is a selective, medium-sized state university located in southern New Jersey between Atlantic City and Philadelphia. In 1992, the University received a \$100 million gift from Henry and Betty Rowan, one of the largest gifts ever bestowed on a public university. The gift has been a catalyst for the University's transformation into a university of regional prominence. Founded in 1923 as a school for teachers, the University enrolls over 10,000 students in Business, Communications, Education, Engineering, Fine & Performing Arts, Liberal Arts and a Graduate School. The 200-acre campus contains 31 buildings, including eight (8) residence halls, three (3) apartment complexes and one (1) town-house project. The University was also the site of the historic Summit Conference between President Johnson and Russian Premier Kosygin in 1967.

As of the fall of 2013, full-time enrollment was 10,499 and part-time enrollment was 2,850 for a total of 13,349.⁽¹⁾

⁽¹⁾ Source: Fall 2013 IPEDS Fall Enrollment Survey

As a result, in part, of a State reorganization plan transferring certain functions, powers and duties of the University of Medicine and Dentistry of New Jersey ("UMDNJ") in the City of Camden to the University, construction is underway on a \$140 million four-year allopathic medical school. The University is partnering with the Cooper University Hospital to develop the Cooper Medical School of Rowan University. The medical school building is a six-story, 200,000 square foot, LEED certified building. At full capacity, it is anticipated that the new medical school will have an annual enrollment of approximately 400 students. The medical school will be the first four year allopathic medical school in South Jersey and the first new medical school in the State of New Jersey ("the State") in more than 30 years. The facility held a Grand Opening on July 24, 2012 and welcomed their first class of students in the Fall of 2012.

On August 22, 2012, after passage by the New Jersey State Legislature, the Governor signed the New Jersey Medical and Health Sciences Education Restructuring Act ("Restructuring Act") into law. The Restructuring Act reorganizes certain higher education facilities throughout the State . In relevant part, UMDNJ facilities located in the City of Camden, New Jersey and the UMDNJ School of Osteopathic Medicine in Stratford, New Jersey will be transferred from UMDNJ to the University. Additionally, the Restructuring Act creates: (i) a Rutgers, the State University of New Jersey – Camden Campus ("Rutgers-Camden") Board of Directors with responsibilities including the policies and administration of Rutgers-Camden; and (ii) a joint University/ Rutgers-Camden Board of Directors with responsibilities including the policies and administration of Rowan and Rutgers-Camden in the area of Health Sciences.

In furtherance of the University's growth, the construction of several new facilities is planned, including new buildings for the Colleges of Business and Engineering, a housing village, a health sciences facility and an academic building to serve the entire university. These projects, more than \$300 million worth of construction over the next eight years, will generate much needed construction jobs in the short-term and increase access to higher education in the long-term.

Gloucester County Vocational and Technical School District

The Gloucester County Vocational and Technical School District ("the District") provides a full range of regionalized occupational and technical County-wide educational services and programs appropriate to the needs of the students of 13 public high schools and adults who seek educational opportunities that lead to employment or higher education. The District also provides programming for secondary students who wish to continue to higher education through Tech Prep matriculation agreements with various county colleges and four-year institutions.

For the 2013-2014 school year, approximately 1,332 students are enrolled in the District's Academy and Career-Technical programs. Recent construction has added, among other things, a cafeteria, gymnasium and classrooms to the academic facilities in order to keep pace with demand.

In addition to its day school enrollment, the District serves an average of 4,000 residents in various programs, including: (i) adult and continuing education programs; (ii) County employees in customized training programs; (iii) adults in the skill center; (iv) over 400 at-risk youth and their families in school-based youth services counseling; (v) the U.S. swim team of 175 members; and (vi) the joint auto technology program with RCGC serving 40 adult students in an AAS degree program.

Gloucester County Special Services School District

Gloucester County Special Services School District ("GCSSSD") provides a wide range of educational services to the families of the County. GCSSSD serves children with special needs from birth to age 21. The 2013-2014 enrollment for the 28-acre Bankbridge complex in Deptford was approximately 715 special needs students.

Bankbridge Regional opened its doors in September 2000 and serves secondary level students who have special needs. In September 2002, GCSSSD opened Bankbridge Elementary School. The

elementary school is located next to Bankbridge Regional and serves special needs students from pre-kindergarten to grade 5.

The Bankbridge Development Center ("BDC") opened in 2007. With an emphasis on developing skills in the areas of communication, socialization, and independence, the BDC strives toward helping students become participating and contributing members of their community. Education, advocacy, public awareness efforts, and the promotion of research form the cornerstones of the activities. Together, they can promote lifelong access and opportunity for all individuals who are within the autism spectrum and/or are multiply disabled.

BDC student outcome goals include, but are not limited to:

- The development of a functional communication system in order to increase interaction and enhance adaptive behaviors.
- Effectively providing functional, skill based instruction to develop each student's social, behavioral and academic abilities.
- Providing students with the skills necessary to become contributing and functional members of society.

The staff at BDC is dedicated to educating and supporting the special needs students who attend BDC. Each classroom and specialty area has been carefully designed to provide an encouraging but challenging learning environment to help the children reach their maximum potential. The programs are tailored to meet the specific needs of each child. The philosophy, goals, and objectives of the BDC reflect the diversity of the children they serve. Programs are designed to meet their educational, social, and emotional needs.

In addition to the schools, GCSSSD provides the following services to support the special needs children of the County: (i) the Early Intervention Program for children from birth to age 3 and their families; and (ii) the Center for Regional Education Support Services (CRESS) which provides professional services to the school districts in the County and several other counties.

GCSSSD also provides support to nonpublic students through their schools including remedial programs, speech-language therapy and textbook purchasing. GCSSSD's Special Projects Program provides Migrant Services to more than 3,000 students and families throughout the southern region of New Jersey.

**CLAYTON BOROUGH SCHOOL DISTRICT
SCHOOL DISTRICT BUDGETS**

	<u>2015-2014</u>	<u>2014-2013</u>
Revenues:		
Budgeted Fund Balance	\$1,037,607	\$951,602
General Fund:		
State Aid	9,934,658	9,826,653
Local District School Taxes	7,711,155	7,559,956
Other Local Government Units--Unrestricted	64,000	54,000
Tuition	224,000	268,000
Transportation Fees from Other LEAs	12,200	12,150
Interest Earned on Capital Reserve Funds	50	25
Unrestricted Miscellaneous Revenues	92,000	98,000
Federal Aid	35,547	31,017
Total General Fund	19,111,217	18,801,403
Special Revenue Fund:		
Local Sources	299,461	11,000
Federal Aid	736,199	626,380
State Aid	796,300	783,676
Transfer from Operating Budget - PreK	45,216	
Transfer from Operating Budget - PreK (Special Education)	19,837	
Total Special Revenue Fund	1,897,013	1,421,056
Debt Service:		
Budgeted Fund Balance	1,001	170,220
Local District School Taxes	847,062	692,859
State Aid	279,744	288,728
Total Debt Service Fund	1,127,807	1,151,807
Total Revenues/Sources	\$22,136,037	\$21,374,266
Deduct Transfer - Transfers from Operating Budget-PreK	45,216	
Deduct Transfer - Transfers from Operating Budget-PreK (Special Education)	19,837	
Total Revenues/Sources Net of Transfers	\$22,070,984	
Appropriations:		
General Fund:		
Current Expense:		
Regular Programs--Instruction	\$5,782,065	\$5,543,348
Special Education--Instruction	1,295,120	1,298,624
Basic Skills/Remedial--Instruction	81,172	156,289
Bilingual Education--Instruction	49,406	48,926
School-Spon. Co/Extra Curricular Activities--Instruction	104,607	100,836
School Sponsored Athletics--Instruction	319,265	305,604
Instructional Alternative Ed Program	23,040	20,160
Support Services:		
Tuition	1,292,453	1,399,831
Attendance and Social Work Services	52	50
Health Services	163,488	162,550
Speech, OT, PT, & Related Services	233,745	250,035

**CLAYTON BOROUGH SCHOOL DISTRICT
SCHOOL DISTRICT BUDGETS**

	<u>2015-2014</u>	<u>2014-2013</u>
Appropriations (Cont'd):		
General Fund (Cont'd):		
Support Services (Cont'd):		
Other Support Services Std-Extra Services	\$109,220	\$107,962
Guidance	488,145	453,199
Child Study Teams	444,459	507,634
Improvement of Instructional Services	209,732	181,810
Educational Media Services--School Library	83,166	74,168
Instructional Staff Training Services	74,950	2,500
Support Services--General Administration	465,998	428,687
Support Services-School Administration	944,898	944,041
Central Services	232,723	228,983
Administration Info Technology	95,725	92,640
Operation and Maintenance of Plant Services	1,395,985	1,425,350
Student Transportation Services	946,813	962,654
Personal Services-Employee Benefits	<u>4,013,992</u>	<u>3,847,811</u>
Total Current Expense	<u>18,850,219</u>	<u>18,543,692</u>
Capital Outlay:		
Interest Deposit to Capital Reserve	50	25
Equipment	13,270	13,270
Facilities Acquisition and Construction Services	<u>228,312</u>	<u>228,313</u>
Total Capital Outlay	<u>241,632</u>	<u>241,608</u>
Special Schools Expenses:		
Transfer of Funds to Charter Schools	<u>19,366</u>	<u>16,103</u>
Total Special Schools	<u>19,366</u>	<u>16,103</u>
Total General Fund	<u>19,111,217</u>	<u>18,801,403</u>
Special Revenue Funds:		
Local Projects	281,461	
State Projects	879,353	794,676
Federal Projects	<u>736,199</u>	<u>626,380</u>
Total Special Revenue Fund	<u>1,897,013</u>	<u>1,421,056</u>
Debt Service Fund	<u>1,127,807</u>	<u>1,151,807</u>
Total Debt Service Funds	<u>1,127,807</u>	<u>1,151,807</u>
Total Appropriations	<u><u>\$22,136,037</u></u>	<u><u>\$21,374,266</u></u>
Deduct Transfer-Local Contrib.-Trans To Special Rev-Regular	45,216	
Deduct Transfer-Local Contrib.-Trans To Special Rev-Inclusion	<u>19,837</u>	
Total Expenditures Net of Transfers	<u><u>\$22,070,984</u></u>	<u><u>\$21,374,266</u></u>

BOROUGH OF CLAYTON SCHOOL DISTRICT
HISTORICAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES(1)

	Fiscal Year Ending June 30				
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenues					
Tax Levy	\$ 8,252,815	\$ 8,336,078	\$ 8,067,296	\$ 7,807,745	\$ 7,165,656
Tuition Charges	383,352	416,185	94,991	50,479	9,444
Interest Earnings	249	4,884	1,789	23,405	22,548
Transportation	17,749	24,501	24,863	4,519	8,174
Miscellaneous	100,571	200,551	128,824	94,958	19,267
State Sources	12,327,266	12,450,970	11,349,260	11,116,550	20,165,718
Federal Sources	957,312	1,575,292	1,917,386	1,886,646	2,415,053
Local Sources	370,276	132,443	62,938	13,104	5,317
Total Revenue	22,409,590	23,140,904	21,647,347	20,997,406	29,811,177
Expenditures					
Instruction					
Regular Instruction	6,173,593	6,052,303	5,296,670	5,094,612	6,009,874
Special Education Instruction	1,529,854	1,496,740	1,513,907	1,329,185	1,013,298
Other Instruction	556,400	462,640	531,689	545,581	684,759
Adult/Continuing Education Programs					1,494
Support Services:					
Tuition	1,012,585	1,412,073	1,638,314	1,780,612	1,871,665
Student & Instruction Related Services	2,384,489	2,805,669	2,824,922	3,059,845	3,023,022
Non Public Schools					
General Administration					
General Administrative & Business Services	427,067	384,918	453,296	400,642	458,106
School Administrative Services	906,008	907,994	797,524	760,027	745,306
Business Administrative Services					
Other Administrative Services	319,055	338,444	283,201	262,799	243,796
Plant Operations and Maintenance	1,442,898	1,392,761	1,291,662	1,140,787	1,255,429
Pupil Transportation	800,164	822,445	880,756	667,844	831,042
Unallocated Employee Benefits	5,473,022	5,272,964	4,671,624	4,288,414	3,894,281
Capital Outlay	275,323	274,573	5,064,852	14,352,137	1,444,632
Debt Service:					
Principal	715,000	767,000	745,000	625,000	600,000
Interest and Other Charges	436,806	459,761	482,878	544,183	136,360
Total Expenditures	22,452,264	22,850,285	26,476,295	34,851,668	22,213,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	(42,674)	290,619	(4,828,948)	(13,854,262)	7,598,113
Other Financing Sources (Uses)					
Capital Leases (Non-budgeted)					
Bond Proceeds					10,017,096
Proceeds of Refunding Debt					
Transfers In		772	172,009	105,572	22,548
Transfers Out		(772)	(172,009)	(105,572)	(22,548)
Total Other Financing Sources (Uses)	-	-	-	-	10,017,096
Net Change in Fund Balances	(42,674)	290,619	(4,828,948)	(13,854,262)	17,615,209
Fund Balances, July 1	1,530,620	1,240,001	6,068,949	19,923,211	2,308,002
Fund Balances, June 30	\$ 1,487,946	\$ 1,530,620	\$ 1,240,001	\$ 6,068,949	\$ 19,923,211

(1) Unaudited

BOROUGH OF CLAYTON SCHOOL DISTRICT
HISTORICAL REVENUES, EXPENDITURES AND CHANGES IN
NET POSITION - ALL PROPRIETARY FUND TYPES (1)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
OPERATING REVENUES:					
Charges for Services:					
Daily Sales - Reimbursable Programs	\$ 122,977	\$ 110,794	\$ 123,299	\$ 103,770	\$ 100,444
Daily Sales - Non-Reimbursable Programs	95,844	98,246	75,798	91,251	90,196
Special Functions	2,909	161	3,072	2,029	2,706
Total Operating Revenues	221,730	209,201	202,169	197,050	193,346
OPERATING EXPENSES:					
Salaries	155,032	158,093	179,520	180,784	186,409
Employee Benefits	46,849	46,366	47,425	34,319	35,999
Supplies and Materials	8,454	9,519	14,556	16,438	18,042
Cost of Sales	241,179	242,785	280,318	302,051	266,938
Management Fee	25,203	25,203	25,707	26,337	26,715
Other Purchased Services	155	110	3,041	6,339	4,841
Depreciation	5,023	7,485	2,910	88,250	14,637
Total Operating Expenses	481,895	489,561	553,477	654,518	553,581
Operating Income (Loss)	(260,165)	(280,360)	(351,308)	(457,468)	(360,235)
NONOPERATING REVENUES:					
State Sources:					
State School Lunch Program	10,455	6,102	5,733	7,259	7,258
State School Breakfast Program	3,094				
Federal Sources:					
Special Milk Program	1,033	1,296	3,199	1,737	978
National School Lunch Program	226,332	222,814	252,497	275,506	290,103
Healthy Hunger Free Kids Program				7,325	8,100
School Breakfast Program	44,553	40,035	68,685	82,450	72,315
United States Department of Agriculture Commodities	35,681	26,626	39,636	47,261	43,482
Interest and Investment Revenue	590	479	163	171	243
Total Nonoperating Revenues	321,738	297,352	369,913	421,709	422,479
Change in Net Position	61,573	16,992	18,605	(35,759)	62,244
Total Net Position -- July 1	141,406	202,979	219,971	238,576	202,817
Total Net Position -- June 30	\$ 202,979	\$ 219,971	\$ 238,576	\$ 202,817	\$ 265,061

(1) School District Reports of Audit

GENERAL INFORMATION ON THE BOROUGH

Overview

The land which has become the community of Clayton is rich in history. Shortly before the American Revolution, Jacob Fisler purchased a tract of land containing 2,800 acres in the area of the Clayton cemetery. He and his son, Leonard, jointly purchased 3,755 acres extending from the Clayton cemetery to Aura. In the year 1850, the locality gradually took on the name Fislertown. In the year 1850 Fislertown was a crossroads with five dwellings. Jacob Fisler and Benjamin Beckett started the first glass factory at this time. The impact of the glass factory greatly increased the population. On June 23, 1852 a post office was established as Fislerville. In 1867, the name of Clayton was adopted by a legislative act. The post office officially changed its name on July 22, 1867. At this time Clayton contained a population of 1,500. At a special election in May of 1887, the electorate voted to incorporate and become a Borough and in June elected their first Mayor. The population increased through the years with the 2000 census recording 7,139 people. Clayton is a proud community and boasts many fine volunteer organizations. The citizens of Clayton take great pride in their police department, volunteer fire company and ambulance corps. Clayton is unique in Gloucester County since more than one-third of the small thriving Borough is comprised of wildlife management acres, lakes and parks, including Scotland Run Park, the largest of the County's four parks. The 940-acre park offers swimming, boating and fishing. Clayton is convenient to Route 55, and although Route 47 runs through the center of town, it remains one of the best-kept secrets in South Jersey.

Form of Government

The Borough is governed by the Mayor/Council form of government. The mayor is elected on an at-large basis for a term of four years. The members of Borough council are elected for three years, with their terms staggered. The daily operations of the Borough are supervised by a full-time Borough Administrator. The financial operations of the Borough are overseen by a part-time Chief Financial Officer.

Municipal Services

The Borough provides a full range of services to the residents. The Borough maintains a full-time Police Department to protect and serve the residents of the Borough. The force is supervised by the Chief of Police.

The Borough also maintains a full service Public Works Department, which is responsible for the maintenance and repairs of local roads, the upkeep of recreational facilities, the repairs to public buildings, and the operations of the water and sewer utilities. The Borough maintains a full service municipal building which provides the residents with a facility in which to pay their taxes and other municipal charges and enables them to seek the help of their elected and appointed officials on Borough matters.

In addition to these full-time services, the Borough supports the operations of the fire department and ambulance squad through the annual budget appropriation and in the purchase of major items of equipment when needed and funds are available.

Borough Population (1)

2010 Federal Census	8,179
2000 Federal Census	7,139
1990 Federal Census	6,155
1980 Federal Census	6,013
1970 Federal Census	5,193

(1) Source: U.S. Department of Commerce, Bureau of Census

Selected Census 2013 Data for the Borough (1)

Median household income - \$63,338
Median family income - \$64,044
Per capita income - \$26,235

Labor Force (2)

The following table discloses current labor force data for the Borough, County and State.

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Borough					
Labor Force	4,251	4,290	4,259	4,540	4,705
Employment	3,957	3,951	3,953	4,176	4,283
Unemployment	294	339	306	364	422
Unemployment Rate	6.9%	7.9%	7.2%	8.0%	9.0%
County					
Labor Force	155,615	157,425	157,199	158,617	159,667
Employment	142,350	142,106	141,868	142,524	145,010
Unemployment	13,265	15,319	15,331	16,093	14,657
Unemployment Rate	8.5%	9.7%	9.8%	10.1%	9.2%
State					
Labor Force	4,537,800	4,561,800	4,513,783	4,502,449	4,536,700
Employment	4,166,000	4,136,900	4,095,358	4,076,713	4,118,400
Unemployment	371,800	424,800	418,425	425,736	418,300
Unemployment Rate	8.2%	9.3%	9.3%	9.5%	9.2%

Building Permits (3)

<u>Year</u>	<u>Number of Permits</u>	<u>Value of Construction</u>
2015(4)	18	\$363,246
2014	400	11,780,155
2013	375	8,778,271
2012	351	8,297,423
2011	367	6,013,797
2010	360	21,607,749

(1) Source: U.S. Department of Commerce, Bureau of Census

(2) Source: New Jersey Department of Labor

(3) Source: Borough Construction Office

(4) As of January 31, 2015

TEN LARGEST EMPLOYERS IN THE COUNTY(1)

<u>Employer</u>	<u>Nature of Business</u>	<u>Employees</u>
Underwood Memorial Hospital	Hospital	1,680
Rowan University	University	1,519
Sony Music	Entertainment	800
Emery Worldwide Lines	Postal Facility	700
John F. Kennedy Memorial Hospital	Hospital	700
Exxon Mobil Research & Engineering Co.	Commercial Physical Research	600
Valero Refining Company	Oil Refining	535
Alliant Food Service	Food Distribution	500
Compucom Systems Inc.	Computers – Advanced Configuration and Distribution Center	450
Delaware Valley Wholesale Florist	Wholesale Florist	450

CERTAIN TAX INFORMATION

TEN LARGEST REAL PROPERTY TAXPAYERS (2)

<u>Name of Taxpayer</u>	<u>Nature of Business</u>	<u>2015 Assessed Valuation</u>
Berk Cohen Associates	Property Owners/Managers-Rustic Village Apartment Complex	\$8,301,400
Aleris Light Gauge Products, Inc.	Manufacturer-Light Gauge Products	6,941,900
Fernmoor Homes at Clayton LLC	Builders	3,482,000
Realmarq Development LLC	Developer	3,238,300
Silver Lake Assoc c/o Dennis King	Landowner	3,094,700
HovBros Clayton Urban Renewal LLC	Builders	2,339,300
Clayton Apartments LTC Partnership	Delse View Apartment Owners	1,782,300
Rite Aid of New Jersey Inc.	Drug Store	1,263,600
Clayton Realty LLC	Property Owners	1,260,000
Verizon	Utility Provider	1,200,367

CURRENT TAX COLLECTIONS (3)

<u>Year</u>	<u>Total Levy</u>	<u>Collected in Year of Levy</u>		<u>Outstanding Dec. 31</u>	
		<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
2014(4)	\$16,254,564	\$15,538,318	95.59%	\$591,158	3.64%
2013	15,721,772	15,071,054	95.86	522,161	3.32
2012	15,394,426	14,786,481	96.05	417,364	2.71
2011	15,037,403	14,480,831	96.30	479,036	3.19
2010	14,895,230	14,332,233	96.22	474,694	3.19

(1) Source: County officials

(2) Source: Borough Tax Assessor

(3) Source: Borough Reports of Audit, unless otherwise indicated

(4) Information from Annual Compiled Financial Statement

DELINQUENT TAXES (1)

<u>Year</u>	<u>Outstanding Jan 1</u>	<u>Added</u>	<u>Collected Amount</u>	<u>Collected Percentage</u>	<u>Transferred To Liens</u>	<u>Other Credits</u>	<u>Outstanding Dec. 31</u>
2014(2)	\$531,960	\$2,833	\$523,196	97.83%	\$5,263	\$804	\$5,530
2013	435,578	1,702	426,597	97.56	398	486	9,799
2012	484,863	4,520	457,088	93.40	13,657	423	18,214
2011	476,384	3,262	467,849	97.54	5,963	7	5,827
2010	442,518	9,151	443,000	98.08	6,978	---	1,691

TAX TITLE LIENS (1)

<u>Year</u>	<u>Balance Jan. 1</u>	<u>Added by Liens, Sales and Transfers</u>	<u>Collected</u>	<u>Transfers and Other Credits</u>	<u>Balance Dec. 31</u>
2014(2)	\$235,121	\$45,852	\$46,405	\$116,437	\$118,131
2013	228,205	47,839	40,923	---	235,121
2012	171,982	76,907	20,683	---	228,205
2011	131,942	45,582	5,542	---	171,982
2010	96,981	42,284	7,323	---	131,942

FORECLOSED PROPERTY (1)(3)

<u>Year</u>	<u>Balance Jan. 1</u>	<u>Added by Transfers</u>	<u>Adjustment to Assessed Valuation</u>	<u>Sales</u>	<u>Balance Dec. 31</u>
2014(2)	\$377,100	\$122,605	\$401,395	---	\$901,100
2013	377,100	---	---	---	377,100
2012	545,500	---	---	\$168,400	377,100
2011	545,500	---	---	---	545,500
2010	545,500	---	---	---	545,500

CURRENT WATER AND SEWER COLLECTIONS(1)

<u>Year</u>	<u>Beginning Balance</u>	<u>Total Levy</u>	<u>Collected in Year of Levy Amount</u>	<u>Collected in Year of Levy Percentage</u>	<u>Outstanding Dec. 31 Amount</u>	<u>Outstanding Dec. 31 Percentage</u>
2014(2)	\$117,063	\$2,192,211	\$2,196,043	95.10%	\$112,886	4.89%
2013	198,003	2,056,906	2,135,358	94.70	117,063	5.19
2012	186,145	2,070,658	2,056,535	91.13	198,003	8.77
2011	296,509	1,956,981	2,067,081	91.74	186,145	8.26
2010	291,142	1,965,663	1,956,637	86.70	296,509	13.14

(1) Source: Borough Reports of Audit, unless otherwise indicated

(2) Information from Annual Compiled Financial Statement

(3) These amounts are reflected on the basis of assessed value in the year of acquisition in accordance with the regulation of the Division of Local Government Services.

NET ASSESSED VALUATIONS AND ANNUAL TAX RATES (1)(2)

<u>Year</u>	<u>Net Assessed Valuation</u>	<u>Total Tax Rate</u>	<u>County/ Library</u>	<u>County Open Space</u>	<u>Local School</u>	<u>Municipal</u>
2015	\$462,301,967	---	---	---	---	---
2014	462,625,439	\$3.494	\$0.643	\$0.042	\$1.850	\$0.959
2013(3)	466,000,228	3.370	0.631	0.043	1.771	0.925
2012	285,803,262	5.368	0.980	0.071	2.916	1.401
2011	288,500,455	5.203	0.978	0.072	2.796	1.357
2010	288,136,448	5.143	1.004	0.073	2.709	1.357

RATIO OF ASSESSED VALUATION TO TRUE VALUE AND TRUE VALUE PER CAPITA(4)

<u>Year</u>	<u>Real Property Assessed Valuation</u>	<u>Percentage of True Value</u>	<u>True Value</u>	<u>True Value per Capita (5)</u>
2015	\$461,142,800	101.08%(6)	\$456,215,671	\$60,139
2014	461,506,500	101.08	456,575,485	60,187
2013(3)	464,843,300	96.89	479,763,959	63,243
2012	285,194,262	58.65	486,264,726	64,100
2011	287,882,262	56.47	509,796,816	67,202

REAL PROPERTY CLASSIFICATION(7)

<u>Year</u>	<u>Assessed Value Land and Improvements</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Commercial</u>	<u>Apartments</u>	<u>Industry</u>	<u>Farmland</u>
2015	\$461,142,800	\$10,480,800	\$394,604,900	\$28,889,300	\$13,254,700	\$11,604,100	\$2,309,000
2014	461,506,500	11,952,300	392,213,400	29,976,300	13,174,700	11,951,200	2,238,600
2013(3)	464,843,300	13,299,600	392,831,800	29,108,900	14,141,900	12,275,400	3,185,700
2012	285,194,262	6,201,500	246,957,400	13,779,800	6,222,700	9,921,000	2,111,862
2011	287,882,262	6,348,600	247,168,700	13,852,500	6,222,700	11,957,000	2,332,762

(1) Per \$100 of assessed valuation.

(2) Source: Borough's Tax Collector

(3) Revaluation

(4) Source: State of New Jersey, Department of the Treasury, Division of Taxation,

(5) Based on Federal Census 2010 of 7,586

(6) Based on Preliminary Percentage

(7) Source: Borough's Tax Assessor

**BOROUGH OF CLAYTON
STATEMENT OF INDEBTEDNESS (1)**

The following table summarizes the direct debt of the Borough of Clayton as of December 31, 2014 in accordance with the requirements of the Local Bond Law of the State of New Jersey (N.J.S.A. 40A:2-2- et.seq.). The gross debt comprises short and long-term debt issued and debt authorized but not issued, including General, Water and Sewer Utility, and debt of the Borough of Clayton School District . Deductions from gross debt to arrive at net debt include deductible school debt, as well as, debt considered to be self-liquidating. The resulting net debt of \$2,867,256 represents 0.605% of the average of equalized valuations for the Borough for the last three years, which is within the 3.5% limit imposed by N.J.S.A. 40A:2-6.

	Debt Issued		Authorized But Not Issued	Gross Debt	Deductions		Net Debt
	<u>Bonds</u>	<u>Notes</u>			<u>School Debt</u>	<u>Self-Liquidating Debt</u>	
General	\$1,010,000	\$839,500	\$13,077	\$1,862,577			\$1,862,577
School--Local	10,242,000		9,730,735	19,972,735	\$18,968,056		1,004,679
Water and Sewer Utility	4,593,392	566,500	114,350	5,274,242		\$5,274,242	
	<u>\$15,845,392</u>	<u>\$1,406,000</u>	<u>\$9,858,162</u>	<u>\$27,109,554</u>	<u>\$18,968,056</u>	<u>\$5,274,242</u>	<u>\$2,867,256</u>

(1) As of December 31, 2014

DEBT RATIOS AND VALUATIONS(1)(2)

Average of Equalized Valuations of Real Property with Improvements and Second Class Railroad Property for 2012, 2013 and 2014	\$474,201,390
Statutory Net Debt as a Percentage of the Average of Equalized Valuations of Real Property with Improvements for 2012, 2013 and 2014	0.605%
2015 Net Valuation Taxable	\$462,301,967
2015 Equalized Valuation of Real Property and Taxable Personal Property Used in Communications	\$457,374,838
Gross Debt (3):	
As a percentage of 2015 Net Valuation Taxable	5.86%
As a percentage of 2015 Equalized Valuation of Real Property and Taxable Personal Property Used in Communications	5.93%
Net Debt (3):	
As a percentage of 2015 Net Valuation Taxable	0.62%
As a percentage of 2015 Equalized Valuation of Real Property and Taxable Personal Property Used in Communications	0.63%
Gross Debt Per Capita (4)	\$3,315
Net Debt Per Capita (4)	\$351

BOROUGH BORROWING CAPACITY(1)(2)

3.5% of Averaged (2012-14) Equalized Valuation of Real Property including Improvements (\$474,201,390)	\$16,597,049
Net Debt	<u>2,867,256</u>
Remaining Borrowing Capacity	<u><u>\$13,729,793</u></u>

SCHOOL DISTRICT BORROWING CAPACITY(1)(2)

4% of Averaged (2012-14) Equalized Valuation of Real Property including Improvements (\$474,201,390)	\$18,968,056
School District Debt	<u>19,972,735</u>
Remaining Borrowing Capacity (Deficit)	<u><u>(\$1,004,679)</u></u>

(1) As of December 31, 2014

(2) Source: 2014 Annual Debt Statement

(3) Excluding overlapping debt

(4) Based on 2010 Federal Census of 8,179

**BOROUGH OF CLAYTON
OVERLAPPING DEBT
AS OF DECEMBER 31, 2014**

	DEBT ISSUED				Debt Auth. but not Issued
	<u>Debt Outstanding</u>	<u>Deduction</u>	<u>Net Debt Outstanding</u>	<u>Net Debt Outstanding Allocated to the Issuer</u>	
County of Gloucester(1):					
General	\$ 261,470,228	\$ 12,321,000 (2)	\$ 249,149,228	\$4,591,820 (4)	\$ 191,661
Bonds Issued by Other Public Bodies					
Guaranteed by the County	133,619,408	133,619,408 (3)	-		
	<u>\$ 395,089,635</u>	<u>\$ 145,940,408</u>	<u>\$ 249,149,228</u>	<u>\$4,591,820</u>	<u>\$ 191,661</u>

(1) Source: County's Annual Debt Statement

(2) Includes County College Bonds

(3) Deductible in accordance with N.J.S. 40:37A-80.

(4) Such debt is allocated as a proportion of the Issuer's share of the total 2014 Net Valuation on which County taxes are apportioned, which is 1.843%.

**LOCAL SCHOOL DISTRICT
SCHEDULE OF DEBT SERVICE
(BONDED DEBT ONLY)**

Fiscal Year July 1 to June 30	Existing Debt (1)			Proposed 2015 School Bonds			Grand Total
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2014-2015	\$ 625,000	\$ 200,591	\$ 825,591				
2015-2016	295,000	375,294	670,294				
2016-2017	305,000	365,543	670,543	\$ 300,000			
2017-2018	325,000	355,306	680,306	270,000			
2018-2019	340,000	344,075	684,075	285,000			
2019-2020	355,000	331,469	686,469	295,000			
2020-2021	370,000	317,875	687,875	310,000			
2021-2022	390,000	303,625	693,625	320,000			
2022-2023	410,000	288,625	698,625	330,000			
2023-2024	430,000	272,338	702,338	340,000			
2024-2025	450,000	254,738	704,738	355,000			
2025-2026	475,000	236,237	711,237	370,000			
2026-2027	495,000	216,838	711,838	385,000			
2027-2028	520,000	196,537	716,537	400,000			
2028-2029	545,000	175,237	720,237	415,000			
2029-2030	575,000	152,838	727,838	430,000			
2030-2031	600,000	129,338	729,338	445,000			
2031-2032	630,000	104,344	734,344	455,000			
2032-2033	665,000	77,218	742,218	465,000			
2033-2034	695,000	47,884	742,884	480,000			
2034-2035	747,000	16,341	763,341	490,000			
2035-2036				500,000			
2036-2037				515,000			
2037-2038				525,000			
2038-2039				525,000			
2039-2040				525,000			
	<u>\$ 10,242,000</u>	<u>\$ 4,762,291</u>	<u>\$ 15,004,291</u>	<u>\$ 9,730,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(1) As of December 31, 2014

APPENDIX B

**FINANCIAL STATEMENTS OF THE BOARD OF EDUCATION OF THE BOROUGH OF
CLAYTON, IN THE COUNTY OF GLOUCESTER, NEW JERSEY**

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Education
Borough of Clayton School District
County of Gloucester

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Clayton School District, in the County of Gloucester, State of New Jersey, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Clayton School District in the County of Gloucester, State of New Jersey, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Clayton School District's basic financial statements. The School District's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2014, includes certain supplementary information, including the required budgetary comparisons and management's discussion and analysis, that is not included with this presentation of the basic financial statements.

Respectfully submitted,

/s/ BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

/s/ Glen J. Walton
Certified Public Accountant
Public School Accountant
No. 20CS00205000

Voorhees, New Jersey
November 10, 2014

FISCAL YEAR 2014

BASIC FINANCIAL STATEMENTS

BOROUGH OF CLAYTON SCHOOL DISTRICT

Statement of Net Position

June 30, 2014

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS:			
Cash and Cash Equivalents	\$ 1,272,786	\$ 198,959	\$ 1,471,745
Receivables, net	379,421	25,439	404,860
Inventory		3,272	3,272
Restricted Assets:			
Capital Reserve Account - Cash	165,980		165,980
Restricted Cash and Cash Equivalents	1,002		1,002
Capital Assets, net (Note 6)	27,606,663	57,215	27,663,878
Total Assets	29,425,852	284,885	29,710,737
LIABILITIES:			
Accounts Payable	250,779	19,824	270,603
Payable to State Government	48,522		48,522
Unearned Revenue	31,942		31,942
Accrued Interest Payable	138,326		138,326
Noncurrent Liabilities (Note 7):			
Due within One Year	799,464		799,464
Due beyond One Year	9,844,393		9,844,393
Total Liabilities	11,113,426	19,824	11,133,250
NET POSITION:			
Net Investment in Capital Assets	17,126,337	57,215	17,183,552
Restricted for:			
Debt Service	1,002		1,002
Other Purposes	1,686,654		1,686,654
Unrestricted (Deficit)	(501,567)	207,846	(293,721)
Total Net Position	\$ 18,312,426	\$ 265,061	\$ 18,577,487

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

Borough of Clayton School District
Statement of Activities
For the Fiscal Year Ended June 30, 2014

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:					
Instruction:					
Regular	\$ 9,418,124		\$ 526,544	\$ (8,891,580)	\$ (8,891,580)
Special Education	2,245,943	\$ 383,352	346,404	(1,516,187)	(1,516,187)
Other Instruction	865,437			(865,437)	(865,437)
Support Services:					
Tuition	1,012,585		235,533	(777,052)	(777,052)
Student and Instruction Related Services	3,374,956		869,411	(2,505,545)	(2,505,545)
General Administrative Services	427,067			(427,067)	(427,067)
School Administrative Services	1,905,491			(1,905,491)	(1,905,491)
Plant Operations and Maintenance	2,244,318			(2,244,318)	(2,244,318)
Pupil Transportation	800,164			(800,164)	(800,164)
Interest on Long-Term Debt	420,347			(420,347)	(420,347)
Total Governmental Activities	22,714,432	383,352	1,977,892	(20,353,188)	(20,353,188)
Business-Type Activities:					
Food Service	553,581	193,346	422,236		\$ 62,001
Total Business-Type Activities	553,581	193,346	422,236		62,001
Total Primary Government	\$ 23,268,013	\$ 576,698	\$ 2,400,128	(20,353,188)	62,001
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes, net				7,559,956	7,559,956
Property Taxes Levied for Debt Service				692,859	692,859
Federal and State Aid Not Restricted				11,322,732	11,322,732
State Aid Restricted				288,728	288,728
Transportation Fees from other LEAs within State				17,749	17,749
Interest and Investment Earnings				249	492
Miscellaneous Income				166,073	166,073
Total General Revenues				20,048,346	243
Change in Net Position				(304,842)	62,244
Net Position -- July 1				18,617,268	202,817
Net Position -- June 30				\$ 18,312,426	\$ 265,061

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

Borough of Clayton School District
Governmental Funds
Balance Sheet
June 30, 2014

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:					
Cash and Cash Equivalents	\$ 1,272,786			\$ 1,002	\$ 1,273,788
Capital Reserve Account	165,980				165,980
Accounts Receivable					
State	62,959				62,959
Federal		\$ 208,748			208,748
Other	99,890	7,824			107,714
Interfunds Receivable	96,836				96,836
Total Assets	<u>\$ 1,698,451</u>	<u>\$ 216,572</u>	<u>\$ -</u>	<u>\$ 1,002</u>	<u>\$ 1,916,025</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 183,128	\$ 67,651			\$ 250,779
Interfunds Payable		96,836			96,836
Payable to State Government		48,522			48,522
Unearned Revenue		31,942			31,942
Total Liabilities	<u>183,128</u>	<u>244,951</u>	<u>-</u>		<u>428,079</u>
Fund Balances:					
Restricted:					
Capital Reserve Account	165,980				165,980
Excess Surplus--Designated for Subsequent Year's Expenditures	792,876				792,876
Excess Surplus	483,067				483,067
Debt Service				\$ 1,002	1,002
Assigned:					
Other Purposes	380,270				380,270
Subsequent Year's Expenditures	244,731				244,731
Unassigned	(551,601)	(28,379)			(579,980)
Total Fund Balances	<u>1,515,323</u>	<u>(28,379)</u>		<u>1,002</u>	<u>1,487,946</u>
Total Liabilities and Fund Balances	<u>\$ 1,698,451</u>	<u>\$ 216,572</u>	<u>\$ -</u>	<u>\$ 1,002</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$39,717,212, and the accumulated depreciation is \$12,110,549.

27,606,663

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

10,643,857

Accrued interest payable

138,326

Net position of governmental activities

\$ 18,312,426

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

Borough of Clayton School District
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Fiscal Year Ended June 30, 2014

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:					
Local Tax Levy	\$ 7,559,956			\$ 692,859	\$ 8,252,815
Tuition Charges	383,352				383,352
Interest	249				249
Transportation Charges	17,749				17,749
Unrestricted Miscellaneous Revenues	100,571				100,571
State Sources	11,270,473	\$ 768,065		288,728	12,327,266
Federal Sources	52,259	905,053			957,312
Local Sources	65,502	304,774			370,276
Total Revenues	19,450,111	1,977,892	-	981,587	22,409,590
EXPENDITURES:					
Current:					
Regular Instruction	5,704,484	469,109			6,173,593
Special Education Instruction	1,221,235	308,619			1,529,854
Other Instruction	556,400				556,400
Support Services and Undistributed Costs:					
Tuition	777,052	235,533			1,012,585
Student and Instruction Related Services	1,613,258	771,231			2,384,489
General Administrative Services	427,067				427,067
School Administrative Services	906,008				906,008
Central Services	225,592				225,592
Administrative Information Technology	93,463				93,463
Plant Operations and Maintenance	1,442,898				1,442,898
Pupil Transportation	800,164				800,164
Unallocated Benefits	5,283,377	189,645			5,473,022
Debt Service:					
Principal				715,000	715,000
Interest and Other Charges				436,806	436,806
Capital Outlay	275,323				275,323
Total Expenditures	19,326,321	1,974,137	-	1,151,806	22,452,264
Excess (Deficiency) of Revenues over Expenditures	123,790	3,755	-	(170,219)	(42,674)
Net Change in Fund Balances	123,790	3,755	-	(170,219)	(42,674)
Fund Balance -- July 1	1,391,533	(32,134)	-	171,221	1,530,620
Fund Balance -- June 30	\$ 1,515,323	\$ (28,379)	\$ -	\$ 1,002	\$ 1,487,946

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

Borough of Clayton School District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	(42,674)
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Amounts reported for governmental activities in the statement
of activities (A-2) are different because:

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

Depreciation Expense	\$	(974,939)	
Capital Outlays		275,323	
Capital Outlays not being depreciated		(118,451)	
Debt Service Assessment Charged to Capital Outlay		<u>(156,872)</u>	
			(974,939)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.		715,000
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In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation. (+)		16,459
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In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+).		<u>(18,688)</u>
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Change in Net Position of Governmental Activities	\$	<u><u>(304,842)</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

Borough of Clayton School District
Proprietary Funds
Statement of Net Position
June 30, 2014

	Business-Type Activities - <u>Enterprise Funds</u>
	<u>Food Service</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 198,959
Accounts Receivable:	
State	832
Federal	24,607
Inventories	<u>3,272</u>
Total Current Assets	<u>227,670</u>
Noncurrent Assets:	
Equipment	273,110
Less Accumulated Depreciation	<u>215,895</u>
Total Noncurrent Assets	<u>57,215</u>
Total Assets	<u>284,885</u>
LIABILITIES :	
Current Liabilities:	
Accounts Payable	<u>19,824</u>
Total Current Liabilities	<u>19,824</u>
NET POSITION:	
Net Investment in Capital Assets	57,215
Unrestricted	<u>207,846</u>
Total Net Position	<u><u>\$ 265,061</u></u>

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

Borough of Clayton School District
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Position
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - <u>Enterprise Fund</u>
	<u>Food Service</u>
OPERATING REVENUES:	
Charges for Services:	
Daily Sales - Reimbursable Programs	\$ 100,444
Daily Sales - Non-Reimbursable Programs	90,196
Special Functions	<u>2,706</u>
Total Operating Revenues	<u>193,346</u>
OPERATING EXPENSES:	
Salaries	186,409
Employee Benefits	35,999
Supplies and Materials	18,042
Cost of Sales	266,938
Management Fee	26,715
Other Purchased Services	4,841
Depreciation	<u>14,637</u>
Total Operating Expenses	<u>553,581</u>
Operating Income (Loss)	<u>(360,235)</u>
NONOPERATING REVENUES:	
State Sources:	
State School Lunch Program	7,258
Federal Sources:	
Special Milk Program	978
National School Lunch Program	290,103
Healthy Hunger Free Kids Program	8,100
School Breakfast Program	72,315
United States Department of Agriculture Commodities	43,482
Interest and Investment Revenue	<u>243</u>
Total Nonoperating Revenues	<u>422,479</u>
Change in Net Position	62,244
Total Net Position -- July 1	<u>202,817</u>
Total Net Position -- June 30	<u><u>\$ 265,061</u></u>

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

Borough of Clayton School District
Proprietary Funds
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2014

	Business-Type Activities - <u>Enterprise Funds</u>
	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 196,992
Payments to Employees	(186,409)
Payments for Employee Benefits	(35,999)
Payments to Suppliers	<u>(281,815)</u>
Net Cash Provided by (used for) Operating Activities	<u>(307,231)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash Received from State and Federal Reimbursements	<u>421,403</u>
Net Cash Provided by (used for) Non-Capital Financing Activities	<u>421,403</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and Dividends	<u>243</u>
Net Cash Provided by (used for) Investing Activities	<u>243</u>
Net Increase (Decrease) in Cash and Cash Equivalents	114,415
Cash and Cash Equivalents -- July 1	<u>84,544</u>
Cash and Cash Equivalents -- June 30	<u><u>\$ 198,959</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (360,235)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (used for) Operating Activities:	
Depreciation and Net Amortization	14,637
Federal Commodities	43,482
(Increase) Decrease in Inventories	723
Increase (Decrease) in Other Current Liabilities	<u>(5,838)</u>
Total Adjustments	<u>53,004</u>
Net Cash Provided by (used for) Operating Activities	<u><u>\$ (307,231)</u></u>

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

Borough of Clayton School District
Fiduciary Funds
Statement of Fiduciary Net Position
For the Fiscal Year Ended June 30, 2014

	<u>Trust Funds</u>	<u>Agency Funds</u>		
	<u>Private Purpose Scholarship Fund</u>	<u>Student Activity</u>	<u>Payroll</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	\$ 5,351	\$ 133,779	\$ 147,780	\$ 286,910
Total Assets	<u>\$ 5,351</u>	<u>\$ 133,779</u>	<u>\$ 147,780</u>	<u>\$ 286,910</u>
LIABILITIES:				
Payable to Student Groups		\$ 133,779		\$ 133,779
Payroll Deductions and Withholdings			\$ 147,780	147,780
Total Liabilities		<u>\$ 133,779</u>	<u>\$ 147,780</u>	<u>281,559</u>
NET POSITION:				
Held in Trust for Other Purposes	<u>\$ 5,351</u>			<u>\$ 5,351</u>

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

Borough of Clayton School District
Fiduciary Funds
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

	Private Purpose Scholarship <u>Fund</u>
ADDITIONS:	
Local Sources	
Gifts and Contributions	\$ 6,880
Total Contributions	<u>6,880</u>
Investment Earnings	
Interest	<u>10</u>
Net Investment Earnings	<u>10</u>
Total Additions	<u>6,890</u>
DEDUCTIONS:	
Scholarship Payments	<u>4,400</u>
Total Deductions	<u>4,400</u>
Change in Net Position	2,490
Net Position -- July 1	<u>2,861</u>
Net Position -- June 30	<u><u>\$ 5,351</u></u>

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

BOROUGH OF CLAYTON SCHOOL DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 1: **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Borough of Clayton School District (the "School District") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Description of the Financial Reporting Entity

The School District is a Type II district located in the County of Gloucester, State of New Jersey. As a Type II district, the School District functions independently through a Board of Education. The Board is comprised of nine members elected to three-year terms. These terms are staggered so that three member's terms expire each year. The purpose of the School District is to educate students in grades kindergarten - 12 at the School District's three schools. The Borough of Clayton School District has an approximate enrollment at June 30, 2014 of 1,399.

The primary criterion for including activities within the School District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the School District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the School District over which the Board exercises operating control. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the School District is not includable in any other reporting entity on the basis of such criteria.

Component Units

In evaluating how to define the School District for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and / or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Component Units (cont'd)**

Based upon the application of these criteria, the School District has no component units, and is not a component unit of another governmental agency.

Government-wide and Fund Financial Statements

The School District's basic financial statements consist of government-wide statements, and fund financial statements which provide a more detailed level of financial information.

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. It is the policy of the School District to not allocate indirect expenses to functions in the statement of activities. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Property taxes and other items not properly included among program revenues are reported instead as general revenues.

In regards to the fund financial statements, the School District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are deemed both available and measurable. Available means when revenues are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within sixty (60) days of the end of the current fiscal year. Measurable means that the amount of revenue can be determined. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, tuition, reimbursable-type grants, and interest associated with the current fiscal year are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal year. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)**

The School District reports the following major governmental fund:

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

As required by the New Jersey State Department of Education, the School District includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America, as they pertain to governmental entities, state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid, ad valorem tax revenues, and appropriated fund balance. Expenditures are those which result in the acquisition of or additions to capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to, or remodeling of buildings, and the purchase of built-in equipment.

The School District reports the following major governmental funds (cont'd):

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

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

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

Proprietary funds are used to account for the School District's ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All items not meeting this definition are reported as nonoperating revenues and expenses.

The School District maintains the following enterprise funds:

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

Fiduciary funds are used to account for assets held by the School District on behalf of outside related organizations or on behalf of other funds within the School District. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The School District maintains the following fiduciary funds:

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

Agency Funds - Agency funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and / or other funds (i.e., payroll and student activities). The School District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District maintains the following agency funds: student activity fund and payroll fund.

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for the principal and income for all other trust arrangements that benefit individuals, private organizations, or other governments. The School District maintains the following private-purpose trust funds:

Scholarship Fund - Revenues consist of donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with the trust requirements.

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

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

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets / Budgetary Control

Annual appropriated budgets are prepared in the spring of each fiscal year for the general, special revenue, and debt service funds, and are submitted to the county office. In accordance with P.L. 2011, c. 202, the School District passed a resolution to move the school board election to the first Tuesday after the first Monday in November, starting in November of 2012, to be held simultaneously with the general election. The budgets are voted upon at the annual school election on the third Tuesday in April. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23A-16.2(f)1. Transfers of appropriations may be made by school board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23A-13.3.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only, and the special revenue fund. N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Budgets / Budgetary Control (Cont'd)**

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

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation, is utilized for budgetary control purposes. Encumbrances are a component of fund balance at fiscal year-end as they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services. Open encumbrances in the governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included within committed or assigned fund balance, as appropriate.

Open encumbrances in the special revenue fund, however, for which the School District has received advances of grant awards, are reflected on the balance sheet as unearned revenues at fiscal year-end.

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

Cash, Cash Equivalents and Investments

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Inventories

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

The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed.

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

Tuition Receivable

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

Prepaid Expenses

Prepaid expenses recorded on the government-wide financial statements and in the proprietary fund types represent payments made to vendors for services that will benefit periods beyond June 30, 2014.

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

Short-Term Interfund Receivables / Payables

Short-term interfund receivables / payables (internal balances) represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund within the School District, and that are due within one year. Such balances are eliminated in the statement of net position to minimize the grossing up of internal balances, thus leaving a net amount due between the governmental and business-type activities that are eliminated in the total government column. Balances with fiduciary activities are not considered to be internal balances; therefore, such balances appear on the statement of net position.

Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the School District. Purchased capital assets are recorded as expenditures in the governmental fund financial statements and are capitalized at cost on the government-wide statement of net position and proprietary fund statement of net position. In the case of gifts or contributions, such capital assets are recorded at fair market value at the time received.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Capital Assets (Cont'd)**

The School District's capitalization threshold is \$2,000. Other costs incurred for repairs and maintenance is expensed as incurred. All reported capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Activities Estimated Lives</u>
Site Improvements	10-20 Years
Buildings and Improvements	20-50 Years
Equipment	5-15 Years

The School District does not possess any infrastructure.

Tuition Payable

Tuition charges for the fiscal years ended June 30, 2014 and 2013 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

Unearned Revenue

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

Accrued Salaries and Wages

Certain School District employees, who provide services to the School District over the ten-month academic year, have the option to have their salaries evenly disbursed during the entire twelve-month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account. As of June 30, 2014, the amounts earned by these employees were disbursed to the employees' own individual credit union accounts.

Compensated Absences

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

The School District uses the vesting method to calculate the compensated absences amount. The entire compensated absence liability, including the employer's share of applicable taxes, is reported on the government-wide financial statements. The portion related to employees in the proprietary funds is recorded at the fund level. The current portion is the amount estimated to be used in the following fiscal year. An expenditure is recognized in the governmental funds as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Bond Discounts / Premiums

Bond discounts / premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in systematic and rational method, as a component of interest expense. Bond discounts / premiums are presented as an adjustment of the face amount of the bonds on the government-wide statement of net position and on the proprietary fund statement of net position.

Net Position

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

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

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

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

Restricted - The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Fund Balance (cont'd)**

Committed - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, which, for the School District, is the Board of Education. Such formal action consists of an affirmative vote by the Board of Education, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purpose unless the Board of Education removes, or changes, the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Assigned - The assigned fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. *Intent* is expressed by either the Board of Education or by the business administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business administrator is established by way of a formal job description for the position, approved by the Board of Education.

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

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

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures / expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources / uses in governmental funds and after non-operating revenues / expenses in proprietary funds. Reimbursements from funds responsible for particular expenditures / expenses to the funds that initially paid for them are not presented on the financial statements.

Accounting Estimates

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles****Recently Issued and Adopted Accounting Pronouncements**

In March 2012, the GASB issued Statement 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. GASBS 66 is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASBS 66, however, does not have a material impact on the School District's financial statements.

In April 2013, the GASB issued Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASBS 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement is effective for periods beginning after June 15, 2013. The adoption of GASBS 70, however, does not have any impact on the School District's financial statements.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. GASBS 67 is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. This Statement is effective for periods beginning after June 15, 2013. The School District does not administer any state or local pension plans; therefore, the adoption of GASBS 67 will not have any impact on the School District's financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles (Cont'd)****Recently Issued Accounting Pronouncements (Cont'd)**

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. GASBS 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements and expects the impact to be material.

In January 2013, the GASB issued Statement 69, *Government Combinations and Disposals of Government Operations*. GASBS 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements although no impact is expected.

In November 2013, the GASB issued Statement 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASBS 71 is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This Statement is effective for fiscal years beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements and expects the impact to be material when considered in conjunction with the adoption of Statement No. 68.

Note 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be recovered. Although the School District does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the School District in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, athletic and student activity funds, or funds that may pass to the School District relative to the happening of a future condition. Such funds are shown as uninsured and uncollateralized in the schedule below.

Note 2: CASH AND CASH EQUIVALENTS (CONT'D)

As of June 30, 2014, the School District's bank balance of \$2,363,940 was exposed to custodial credit risk as follows:

Insured	\$ 993,572
Collateralized under GUDPA	1,370,368
Uninsured/Uncollateralized	<u>-</u>
	<u><u>\$ 2,363,940</u></u>

Note 3: CAPITAL RESERVE ACCOUNT

A capital reserve account was established by the School District by inclusion of \$105 on October 10, 2000 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

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

The activity of the capital reserve for the July 1, 2013 to June 30, 2014 fiscal year is as follows:

Beginning balance July 1, 2013	\$ 165,731
Interest Earnings	249
Withdrawals	<u>-</u>
Ending balance June 30, 2014	<u><u>\$ 165,980</u></u>

The June 30, 2014 LRFP balance of local support costs of uncompleted capital projects at June 30, 2014 is \$5,044,884.

Note 4: RECEIVABLES

Accounts receivable at June 30, 2014 consisted of accounts (fees) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

Note 4: RECEIVABLES (CONT'D)

Accounts receivable as of fiscal year-end for the School District's individual major and fiduciary funds, in the aggregate, are as follows:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Enterprise Funds</u>	<u>Total</u>
Intergovernmental	<u>\$ 163,049</u>	<u>\$ 216,572</u>	<u>\$ 25,439</u>	<u>\$ 405,060</u>
Total	<u><u>\$ 163,049</u></u>	<u><u>\$ 216,572</u></u>	<u><u>\$ 25,439</u></u>	<u><u>\$ 405,060</u></u>

Note 5: INVENTORY

Inventory in the Food Service Fund at June 30, 2014 consisted of the following:

Food	\$ 2,072
Supplies	<u>1,200</u>
	<u><u>\$ 3,272</u></u>

Note 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 510,670			\$ 510,670
Construction in Progress	-			-
Total Capital Assets, not being Depreciated	510,670	-	-	510,670
Capital Assets, being Depreciated:				
Site Improvements	1,748,753			1,748,753
Building and Improvements	35,581,503			35,581,503
Equipment	1,876,286			1,876,286
Total Capital Assets, being Depreciated	39,206,542	-	-	39,206,542
Less Accumulated Depreciation for:				
Site Improvements	(681,688)	\$ (67,420)		(749,108)
Building and Improvements	(9,588,969)	(775,706)		(10,364,675)
Equipment	(864,953)	(131,813)		(996,766)
Total Accumulated Depreciation	(11,135,610)	(974,939)	-	(12,110,549)
Total Capital Assets, being Depreciated, Net	28,070,932	(974,939)	-	27,095,993
Governmental Activities Capital Assets, Net	<u>\$ 28,581,602</u>	<u>\$ (974,939)</u>	<u>\$ -</u>	<u>\$ 27,606,663</u>
Business-Type Activities:				
Capital Assets, being Depreciated:				
Equipment	\$ 273,110			\$ 273,110
Less Accumulated Depreciation for:				
Equipment	(201,258)	\$ (14,637)		(215,895)
Total Business-Type Activities Capital Assets, Net	<u>\$ 71,852</u>	<u>\$ (14,637)</u>	<u>-</u>	<u>\$ 57,215</u>

Note 6: CAPITAL ASSETS (CONT'D)

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

Governmental Activities:

Instruction	\$ 620,113
Student & Instruction Related Services	133,706
General and Business Administrative Services	101,533
Plant Operations and Maintenance	<u>119,587</u>
Total Depreciation - Governmental Activities	<u>\$ 974,939</u>

Business-Type Activities:

Food Service	<u>\$ 14,637</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 14,637</u>

Note 7: LONG-TERM OBLIGATIONS

During the fiscal year ended June 30, 2014, the following changes occurred in long-term obligations:

	<u>Principal Outstanding July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2014</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 11,057,000		\$ (715,000)	\$ 10,342,000	\$ 725,000
Compensated Absences	<u>283,169</u>	<u>\$ 192,316</u>	<u>(173,629)</u>	<u>301,857</u>	<u>74,464</u>
Governmental Activity Long-term Liabilities	<u>\$ 11,340,169</u>	<u>\$ 192,316</u>	<u>\$ (888,629)</u>	<u>\$ 10,643,857</u>	<u>\$ 799,464</u>

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

Principal due on the serial bonds is as follows:

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Amount</u>
2004	\$ 5,120,000	2015	3.75%	\$ 625,000
2010	10,017,000	2014 to 2035	3.25-4.375%	<u>9,717,000</u>
				<u>\$ 10,342,000</u>

Note 7: LONG-TERM OBLIGATIONS (CONT'D)

Principal and interest due on bonds outstanding is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 725,000	\$ 402,806	\$ 1,127,806
2016	295,000	375,294	670,294
2017	305,000	365,544	670,544
2018	325,000	355,306	680,306
2019	340,000	344,075	684,075
2020-2024	2,045,000	1,513,931	3,558,931
2025-2029	2,395,000	1,079,588	3,474,588
2030-2034	3,165,000	511,622	3,676,622
2035	747,000	16,341	763,341
	<u>\$ 10,342,000</u>	<u>\$ 4,964,507</u>	<u>\$ 15,306,507</u>

Bonds Authorized But Not Issued - As of June 30, 2014, the School District had no authorized but not issued bonds.

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

Note 8: OPERATING LEASES

At June 30, 2014, the School District had operating lease agreements in effect for copy machines and postage machines. The present value of the future minimum rental payments under lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 113,711
2016	136,393
2017	77,386
2018	14,947
2019	8,254
	<u>\$ 350,691</u>

Rental payments under operating leases for the fiscal year ended June 30, 2014 were \$223,404.

Note 9: PENSION PLANS

A substantial number of the School District's employees participate in one of the following defined benefit pension plans: the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System, which are administered by the New Jersey Division of Pensions and Benefits. In addition, several School District employees participate in the Defined Contribution Retirement Program, which is a defined contribution pension plan. This too is administered by the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

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

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

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

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

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

Note 9: PENSION PLANS (CONT'D)

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

Public Employees Retirement System

<u>Fiscal Year</u>	<u>Normal Contribution</u>	<u>Accrued Liability</u>	<u>Total Liability</u>	<u>Paid by District</u>
2014	\$ 58,220	\$ 135,371	\$ 193,591	\$ 193,591
2013	53,905	139,768	193,673	193,673
2012	70,587	154,665	225,252	225,252

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

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

The School District's contribution, equal to the required contribution for each fiscal year, was as follows:

Defined Contribution Retirement System

<u>Fiscal Year</u>	<u>Total Liability</u>	<u>Paid by District</u>
2014	\$ 29,423	\$ 29,423
2013	10,512	10,512
2012	13,373	13,373

Early Retirement Incentive Program - The School District approved an "Early Retirement Incentive Program" during 1991 and 1993 for certain members of the TPAF and PERS. Since no accrual has been made for the additional costs related to the Program, the School District will fund such cost in an annual budget appropriation on a pay-as-you-go basis.

Note 10: STATE POST-RETIREMENT MEDICAL BENEFITS

P.L. 1987, c.384 of P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of postemployment medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of postemployment medical benefits for retired State employees and retired educational employees. As of June 30, 2013, there were 100,134 retirees receiving postemployment medical benefits, and the State contributed \$1.07 billion on their behalf. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992 c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service. The State paid \$173.8 million toward Chapter 126 benefits for 17,356 eligible retired members in fiscal year 2013.

Note 11: ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2014, the School District has recognized as revenues and expenditures on-behalf payments made by the State for normal costs and post-retirement medical costs related to TPAF. The amounts recognized as revenues and expenditures for normal costs and post-retirement medical costs were \$334,449 and \$546,372, respectively.

Note 12: RISK MANAGEMENT

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

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

Note 13: DEFERRED COMPENSATION

The School District offers its employees a choice of (5) deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, which are administered by the entities listed below, permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death, or unforeseeable emergency. The plan administrators are as follows:

Equitable
Lincoln Investment Planning
Lincoln National
N.Y. Life & Mainstay
Valic

Note 14: COMPENSATED ABSENCES

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

School District employees who are employed for ten months are entitled to ten paid sick leave days per fiscal school year. School District employees who are employed for twelve months are entitled to twelve paid sick leave days per fiscal school year. Unused sick leave may be accumulated and carried forward to the subsequent years. School District employees are entitled to two personal days which may be carried forward to subsequent years. Vacation days not used during the year may not be accumulated and carried forward. Benefits paid in any future year will be calculated according to formulas outlined in the School Districts' agreements with the various employee unions and included in the current years' budget.

The liability for vested compensated absences is recorded within those funds as the benefits accrue to employees. As of June 30, 2014, the liability for compensated absences reported on the government-wide statement of net position was \$301,857.

Note 15: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2014 is as follows:

<u>Fund</u>	<u>Interfunds Receivable</u>	<u>Interfunds Payable</u>
General	\$ 96,836	
Special Revenue		\$ 96,836
	<u>\$ 96,836</u>	<u>\$ 96,836</u>

The interfund receivables and payables above predominately resulted from payments made by certain funds on behalf of other funds. During the fiscal year 2014, the School District expects to liquidate such interfunds, depending upon the availability of cash flow.

Note 16: CONTINGENCIES

Grantor Agencies - Amounts received or receivable from grantor agencies could be subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the School District expects such amount, if any, to be immaterial.

Litigation - The School District is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the School District, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

Note 17: CONCENTRATIONS

The School District depends on financial resources flowing from, or associated with, both the federal government and the State of New Jersey. As a result of this dependency, the School District is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and State laws and federal and State appropriations.

Note 18: DEFICIT FUND BALANCES

The School District has a deficit fund balance of \$551,601 in the general fund and \$28,379 in the special revenue fund as of June 30, 2014 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The statute provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the June state aid payments in the subsequent fiscal year, the School District cannot recognize the June state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the June state aid payments, the general and special revenue fund balance deficit does not alone indicate that the School District is facing financial difficulties.

Pursuant to N.J.S.A. 18A:22-44.2 any negative unassigned general fund balance that is reported as a direct result from a delay in the June payments of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The School District deficit in the GAAP funds statements of \$579,980 is less than the June state aid payments.

Note 19: DEFICIT NET POSITION

As reflected on exhibit A-1, statement of net position, an unrestricted deficit of \$501,567 exists for the governmental activities. In addition to the delay in the payment of state aid until the following fiscal year another cause of the deficit is a result of the recording of accrued interest and compensated absences. In accordance with the rules and regulations that govern the School District in the formulation of their annual budget (see note 1), accrued interest and compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the School District and its employees, are funded in the period in which such services are rendered or in which such events take place; however, in accordance with full accrual accounting, which is the basis of accounting for exhibit A-1, statement of net position, such liabilities are required to be recorded in the period in which they are incurred.

Note 20: FUND BALANCES**RESTRICTED**

As stated in note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the School District's fund balance are summarized as follows:

Note 20: FUND BALANCES (CONT'D)**RESTRICTED (CONT'D)****General Fund -**

For Excess Surplus - In accordance with N.J.S.A. 18A:7F-7, as amended, the designation of restricted fund balance - excess surplus is the result of a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve general fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2014 is \$1,275,943. Additionally, \$792,876 of excess fund balance generated during 2012-2013 has been restricted and designated for utilization in the 2014-2015 budget.

For Capital Reserve Account - As of June 30, 2014, the balance in the capital reserve account is \$165,980. These funds are restricted for future capital outlay expenditures for capital projects in the School District's approved Long Range Facilities Plan (LRFP).

Debt Service Fund - As of June 30, 2014, the balance is \$1,002. These funds are restricted for future debt service expenditures.

ASSIGNED

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

General Fund -

Other Purposes - As of June 30, 2014, the School District had \$380,270 of encumbrances outstanding for purchase orders and contracts signed by the School District, but not completed, as of the close of the fiscal year.

For Subsequent Year's Expenditures - The School District has appropriated and included as an anticipated revenue for the fiscal year ending June 30, 2015 \$244,731 of general fund balance at June 30, 2014.

UNASSIGNED

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

General Fund - As of June 30, 2014, (\$551,601) of general fund balance was unassigned.

Special Revenue Fund - As of June 30, 2014, the fund balance of the special revenue fund was a deficit of \$28,379, thus resulting in the fund balance classification of unassigned. The deficit is a result from a delay in the payment of state aid until the following fiscal year. As stated in note 15, since the State is recording the June state aid payments in the subsequent fiscal year, the School District cannot recognize the June state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the June state aid payments, the special revenue fund balance deficit does not alone indicate that the School District is facing financial difficulties. The unassigned deficit on the GAAP financial statements of \$28,379 is less than the last state aid payment.

FISCAL YEAR 2013

BASIC FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

The Honorable President and
Members of the Board of Education
Borough of Clayton School District
County of Gloucester

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Clayton School District, in the County of Gloucester, State of New Jersey, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Borough of Clayton School District in the County of Gloucester, State of New Jersey, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Clayton School District's basic financial statements. The School District's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013, includes certain supplementary information, including the required budgetary comparisons and management's discussion and analysis, that is not included with this presentation of the basic financial statements.

Respectfully submitted,

/s/ BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

/s/ Glen J. Walton
Certified Public Accountant
Public School Accountant
No. 20CS00205000

Voorhees, New Jersey
November 27, 2013

BOROUGH OF CLAYTON SCHOOL DISTRICT

Statement of Net Position

June 30, 2013

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS:			
Cash and Cash Equivalents	\$ 540,793	\$ 84,544	\$ 625,337
Receivables, net	896,332	68,088	964,420
Inventory		3,995	3,995
Restricted Assets:			
Capital Reserve Account - Cash	165,731		165,731
Restricted Cash and Cash Equivalents	348,499		348,499
Capital Assets, net (Note 6)	<u>28,581,602</u>	<u>71,852</u>	<u>28,653,454</u>
 Total Assets	 <u>30,532,957</u>	 <u>228,479</u>	 <u>30,761,436</u>
 LIABILITIES:			
Accounts Payable	298,135	25,662	323,797
Payable to State Government	70,050		70,050
Unearned Revenue	52,550		52,550
Accrued Interest Payable	154,785		154,785
Noncurrent Liabilities (Note 7):			
Due within One Year	785,792		785,792
Due beyond One Year	<u>10,554,377</u>		<u>10,554,377</u>
 Total Liabilities	 <u>11,915,689</u>	 <u>25,662</u>	 <u>11,941,351</u>
 NET POSITION:			
Net Investment in Capital Assets	17,369,817	71,852	17,441,669
Restricted for:			
Debt Service	171,221		171,221
Other Purposes	1,910,209		1,910,209
Unrestricted (Deficit)	<u>(833,979)</u>	<u>130,965</u>	<u>(703,014)</u>
 Total Net Position	 <u>\$ 18,617,268</u>	 <u>\$ 202,817</u>	 <u>\$ 18,820,085</u>

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

Borough of Clayton School District
Statement of Activities
For the Fiscal Year Ended June 30, 2013

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:					
Instruction:					
Regular	\$ 8,895,815		\$ 498,448	\$ (8,397,367)	\$ (8,397,367)
Special Education	2,125,994	\$ 416,185	345,167	(1,364,642)	(1,364,642)
Other Instruction	691,470			(691,470)	(691,470)
Support Services:					
Tuition	1,412,073		279,592	(1,132,481)	(1,132,481)
Student and Instruction Related Services	3,778,608		1,304,882	(2,473,726)	(2,473,726)
General Administrative Services	384,920			(384,920)	(384,920)
School Administrative Services	1,862,950			(1,862,950)	(1,862,950)
Plant Operations and Maintenance	2,081,648			(2,081,648)	(2,081,648)
Pupil Transportation	822,445			(822,445)	(822,445)
Interest on Long-Term Debt	384,664			(384,664)	(384,664)
Total Governmental Activities	22,440,587	416,185	2,428,089	(19,596,313)	(19,596,313)
Business-Type Activities:					
Food Service	654,518	197,050	421,538		\$ (35,930)
Total Business-Type Activities	654,518	197,050	421,538		(35,930)
Total Primary Government	\$ 23,095,105	\$ 613,235	\$ 2,849,627	(19,596,313)	(35,930)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes, net				7,411,722	7,411,722
Taxes Levied for Debt Service				924,356	924,356
Federal and State Aid Not Restricted				11,358,679	11,358,679
State Aid Restricted				303,406	303,406
Transportation Fees from other LEAs within State				24,501	24,501
Interest and Investment Earnings				4,884	5,055
Miscellaneous Income				269,082	269,082
Total General Revenues, Special Items, Extraordinary Items and Transfers				20,296,630	171
Change in Net Position				700,317	(35,759)
Net Position -- July 1				17,916,951	238,576
Net Position -- June 30				\$ 18,617,268	\$ 202,817

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

Borough of Clayton School District
Balance Sheet
Governmental Funds
June 30, 2013

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:					
Cash and Cash Equivalents	\$ 706,524		\$ 11,547	\$ 171,221	\$ 889,292
Capital Reserve Account	165,731				165,731
Accounts Receivable					
State	117,380	\$ 4,848			122,228
Federal	825	639,512			640,337
Other	132,818	949			133,767
Interfunds Receivable	413,600				413,600
Total Assets	<u>\$ 1,536,878</u>	<u>\$ 645,309</u>	<u>\$ 11,547</u>	<u>\$ 171,221</u>	<u>\$ 2,364,955</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable	\$ 145,345	\$ 152,790			\$ 298,135
Interfunds Payable		402,053	\$ 11,547		413,600
Payable to State Government		70,050			70,050
Unearned Revenue		52,550			52,550
Total Liabilities	<u>145,345</u>	<u>677,443</u>	<u>11,547</u>		<u>834,335</u>
Fund Balances:					
Restricted:					
Capital Reserve Account	165,731				165,731
Excess Surplus--Designated for Subsequent Year's					
Expenditures	951,602				951,602
Excess Surplus	792,876				792,876
Assigned:					
Other Purposes	28,464				28,464
Unassigned	(547,140)	(32,134)		\$ 171,221	(408,053)
Total Fund Balances	<u>1,391,533</u>	<u>(32,134)</u>		<u>171,221</u>	<u>1,530,620</u>
Total Liabilities and Fund Balances	<u>\$ 1,536,878</u>	<u>\$ 645,309</u>	<u>\$ 11,547</u>	<u>\$ 171,221</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. The cost of the assets is \$39,717,212, and the accumulated depreciation is \$11,135,610.

28,581,602

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

11,340,169

Accrued interest payable

154,785

Net position of governmental activities

\$ 18,617,268

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

Borough of Clayton School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES:					
Local Tax Levy	\$ 7,411,722			\$ 924,356	\$ 8,336,078
Tuition Charges	416,185				416,185
Interest	4,112		\$ 772		4,884
Transportation Charges	24,501				24,501
Unrestricted Miscellaneous Revenues	200,551				200,551
State Sources	11,328,386	\$ 819,178		303,406	12,450,970
Federal Sources	30,293	1,544,999			1,575,292
Local Sources	68,531	63,912			132,443
Total Revenues	19,484,281	2,428,089	772	1,227,762	23,140,904
EXPENDITURES:					
Current:					
Regular Instruction	5,611,620	440,683			6,052,303
Special Education Instruction	1,191,492	305,248			1,496,740
Other Instruction	462,640				462,640
Support Services and Undistributed Costs:					
Tuition	1,132,481	279,592			1,412,073
Student and Instruction Related Services	1,651,697	1,153,972			2,805,669
General Administrative Services	384,918				384,918
School Administrative Services	907,994				907,994
Central Services	226,195				226,195
Administrative Information Technology	112,249				112,249
Plant Operations and Maintenance	1,392,761				1,392,761
Pupil Transportation	822,445				822,445
Unallocated Benefits	5,024,506	248,458			5,272,964
Debt Service:					
Principal				767,000	767,000
Interest and Other Charges				459,761	459,761
Capital Outlay	274,573				274,573
Total Expenditures	19,195,571	2,427,953	-	1,226,761	22,850,285
Excess (Deficiency) of Revenues over Expenditures	288,710	136	772	1,001	290,619
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	772				772
Operating Transfers Out			(772)		(772)
Total Other Financing Sources (Uses)	772	-	(772)	-	-
Net Change in Fund Balances	289,482	136	-	1,001	290,619
Fund Balance -- July 1	1,102,051	(32,270)	-	170,220	1,240,001
Fund Balance -- June 30	\$ 1,391,533	\$ (32,134)	\$ -	\$ 171,221	\$ 1,530,620

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

Borough of Clayton School District
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended June 30, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	290,619
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Amounts reported for governmental activities in the statement of activities (A-2) are different because:

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

Depreciation Expense	\$	(966,331)	
Capital Outlays		274,573	
Other Capital Additions		<u>274,693</u>	
			(417,065)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and is not reported in the statement of activities.		767,000
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In the statement of activities, interest on long-term debt in the statement of activities is accrued, regardless of when due. In the governmental funds, interest is reported when due. The accrued interest is an addition in the reconciliation. (+)		75,097
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In the statement of activities, certain operating expenses, e.g., compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are reported in the amount of financial resources used (paid). When the earned amount exceeds the paid amount, the difference is reduction in the reconciliation (-); when the paid amount exceeds the earned amount the difference is an addition to the reconciliation (+).		<u>(15,334)</u>
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Change in Net Position of Governmental Activities	\$	<u><u>700,317</u></u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

Borough of Clayton School District
Statement of Net Position
Proprietary Funds
June 30, 2013

	Business-Type Activities - <u>Enterprise Funds</u>
	<u>Food Service</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 84,544
Accounts Receivable:	
State	1,649
Federal	66,439
Inventories	<u>3,995</u>
Total Current Assets	<u>156,627</u>
Noncurrent Assets:	
Furniture, Machinery and Equipment	273,110
Less Accumulated Depreciation	<u>201,258</u>
Total Noncurrent Assets	<u>71,852</u>
Total Assets	<u>228,479</u>
LIABILITIES :	
Current Liabilities:	
Accounts Payable	<u>25,662</u>
Total Current Liabilities	<u>25,662</u>
NET POSITION:	
Net Investment in Capital Assets	71,852
Unrestricted	<u>130,965</u>
Total Net Position	<u><u>\$ 202,817</u></u>

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

Borough of Clayton School District
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Business-Type Activities - <u>Enterprise Fund</u>
	<u>Food Service</u>
OPERATING REVENUES:	
Charges for Services:	
Daily Sales - Reimbursable Programs	\$ 103,770
Daily Sales - Non-Reimbursable Programs	91,251
Special Functions	<u>2,029</u>
Total Operating Revenues	<u>197,050</u>
OPERATING EXPENSES:	
Salaries	180,784
Employee Benefits	34,319
Supplies and Materials	16,438
Cost of Sales	302,051
Management Fee	26,337
Other Purchased Services	6,339
Depreciation	<u>88,250</u>
Total Operating Expenses	<u>654,518</u>
Operating Income (Loss)	<u>(457,468)</u>
NONOPERATING REVENUES:	
State Sources:	
State School Lunch Program	7,259
Federal Sources:	
Special Milk Program	1,737
National School Lunch Program	275,506
Healthy Hunger Free Kids Program	7,325
School Breakfast Program	82,450
United States Department of Agriculture Commodities	47,261
Interest and Investment Revenue	<u>171</u>
Total Nonoperating Revenues	<u>421,709</u>
Change in Net Position	(35,759)
Total Net Position -- July 1	<u>238,576</u>
Total Net Position -- June 30	<u><u>\$ 202,817</u></u>

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

Borough of Clayton School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Business-Type Activities - <u>Enterprise Funds</u>
	<u>Food Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from Customers	\$ 197,050
Payments to Employees	(180,784)
Payments for Employee Benefits	(34,319)
Payments to Suppliers	<u>(278,501)</u>
Net Cash Provided by (used for) Operating Activities	<u>(296,554)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Cash Received from State and Federal Reimbursements	<u>338,036</u>
Net Cash Provided by (used for) Non-Capital Financing Activities	<u>338,036</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Purchase of Capital Assets	<u>(11,303)</u>
Net Cash Provided by (used for) Capital and Related Financing Activities	<u>(11,303)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest and Dividends	<u>171</u>
Net Cash Provided by (used for) Investing Activities	<u>171</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,350
Cash and Cash Equivalents -- July 1	<u>54,194</u>
Cash and Cash Equivalents -- June 30	<u><u>\$ 84,544</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (457,468)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (used for) Operating Activities:	
Depreciation and Net Amortization	88,250
Federal Commodities	47,261
(Increase) Decrease in Inventories	(259)
Increase (Decrease) in Other Current Liabilities	<u>25,662</u>
Total Adjustments	<u>160,914</u>
Net Cash Provided by (used for) Operating Activities	<u><u>\$ (296,554)</u></u>

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

Borough of Clayton School District
Statement of Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013

	<u>Trust Funds</u>	<u>Agency Funds</u>		
	<u>Private Purpose Scholarship Fund</u>	<u>Student Activity</u>	<u>Payroll</u>	<u>Total</u>
ASSETS:				
Cash and Cash Equivalents	\$ 2,861	\$ 121,102	\$ 161,511	\$ 285,474
Total Assets	<u>\$ 2,861</u>	<u>\$ 121,102</u>	<u>\$ 161,511</u>	<u>\$ 285,474</u>
LIABILITIES:				
Payable to Student Groups		\$ 121,102		\$ 121,102
Payroll Deductions and Withholdings			\$ 161,511	161,511
Total Liabilities		<u>\$ 121,102</u>	<u>\$ 161,511</u>	<u>282,613</u>
NET POSITION:				
Held in Trust for Unemployment Claims and Other Purposes	<u>\$ 2,861</u>			<u>\$ 2,861</u>

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

Borough of Clayton School District
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013

	Private Purpose Scholarship <u>Fund</u>
ADDITIONS:	
Local Sources	
Gifts and Contributions	\$ 1,056
Interest on Investments	<u>4</u>
Total Contributions	<u>1,060</u>
DEDUCTIONS:	
Scholarship Payments	<u>600</u>
Total Deductions	<u>600</u>
Change in Net Position	460
Net Position -- July 1	<u>2,401</u>
Net Position -- June 30	<u><u>\$ 2,861</u></u>

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

BOROUGH OF CLAYTON SCHOOL DISTRICT

Notes to Financial Statements
For the Fiscal Year Ended June 30, 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Borough of Clayton School District (the "School District") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Description of the Reporting Entity

The School District is a Type II district located in the County of Gloucester, State of New Jersey. As a Type II district, the School District functions independently through a Board of Education. The Board is comprised of nine members elected to three-year terms. These terms are staggered so that three member's terms expire each year. The purpose of the School District is to educate students in grades kindergarten - 12 at the School District's three schools. The Borough of Clayton School District has an approximate enrollment at June 30, 2013 of 1,384.

The primary criterion for including activities within the School District's reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board Codification of Governmental Accounting and Financial Reporting Standards, is the degree of oversight responsibility maintained by the School District. Oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The combined financial statements include all funds of the School District over which the Board exercises operating control. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the School District is not includable in any other reporting entity on the basis of such criteria.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The School District's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide financial statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. It is the policy of the School District to not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)**

Fund Financial Statements - The School District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Fund financial statements report detailed information about the School District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Fiduciary funds are reported by fund type.

Governmental Funds - Governmental funds are those through which most School District functions are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related liabilities, except those accounted for in the proprietary fund and fiduciary funds, are accounted for through the governmental funds. The measurement focus is upon determination of changes in financial resources rather than upon determination of net income. The following are the School District's major governmental funds:

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

As required by the New Jersey State Department of Education, the School District includes budgeted capital outlay in this fund. Accounting principles generally accepted in the United States of America, as they pertain to governmental entities, state that general fund resources may be used to directly finance capital outlays for long-lived improvements as long as the resources in such cases are derived exclusively from unrestricted revenues.

Resources for budgeted capital outlay purposes are normally derived from State of New Jersey aid, ad valorem tax revenues, and appropriated fund balance. Expenditures are those which result in the acquisition of or additions to capital assets for land, existing buildings, improvements of grounds, construction of buildings, additions to, or remodeling of buildings, and the purchase of built-in equipment.

In addition to the capital outlay sub-fund, the School District is accountable for an additional sub-fund, the Education Jobs Fund ("Ed Jobs"), resulting from federal legislation signed into law on August 10, 2010. The Ed Jobs program was created to provide funding assistance to states in order to save or create education jobs for the 2010-2011 school year, through September 30, 2012. Jobs funded under this program include those that provide educational and related services for early childhood, elementary, and secondary education. Ed Jobs revenues and expenditures are recorded in the general fund (fund 18) on a reimbursement basis. As such, revenue is not included in the fiscal year surplus, and no portion of general fund balance at June 30, 2013 is considered to be attributable to Ed Jobs. Ed Jobs expenditures during the fiscal year ended June 30, 2013 are included as a component of overall general fund expenditures, and also are included in total general fund expenditures for purposes of the excess surplus calculation.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)****Governmental Funds (Cont'd)**

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

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

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

Proprietary Funds

Proprietary funds are used to account for the School District's ongoing organizations and activities, which are operated and financed in a manner similar to those found in the private sector. The measurement focus is upon the determination of net income. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All items not meeting this definition are reported as nonoperating revenues and expenses.

The School District maintains the following enterprise funds:

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

Fiduciary Funds

Fiduciary funds are used to account for assets held by the School District on behalf of outside related organizations or on behalf of other funds within the School District. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The School District maintains the following fiduciary funds:

Agency Funds - Agency funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governments, and / or other funds (i.e., payroll and student activities). The School District retains no equity interest in these funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District maintains the following agency funds: student activity fund and payroll fund.

Private-Purpose Trust Funds - Private-purpose trust funds are used to account for the principal and income for all other trust arrangements that benefit individuals, private organizations, or other governments. The School District maintains the following private-purpose trust funds:

Scholarship Fund - Revenues consist of donations and interest income. Expenditures represent scholarships for future teachers, which are awarded in accordance with the trust requirements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)****Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Modified Accrual

Under the modified accrual basis, revenues are recognized in the accounting period in which they become susceptible to accrual, i.e. both available and measurable. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include ad valorem taxes, reimbursable-type grants, and interest on investments. The School District considers all revenues, with the exception of the expenditure-driven grants, as available if they are collected within sixty (60) days after fiscal year-end. The expenditure driven grants are considered available if received within one fiscal year from the balance sheet date. Property tax revenue is recognized when taxes are received, except at fiscal year end when revenue is recognized for taxes received by the School District within sixty (60) days subsequent to fiscal year end. Expenditures are recognized in the accounting period in which the liability is incurred. However, exceptions include the amount of unmatured principal and interest on general long-term debt, compensated absences, claims and judgments and certain prepaids which are recognized when due / paid.

In applying the susceptible to accrual concept to revenues from federal and state sources, the legal contractual requirements of the numerous individual programs are used as guidance. Revenue from grants and entitlements is recognized when all eligibility requirements have been satisfied. There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before the School District will receive any amounts; therefore, revenues are recognized based on the occurrence of expenditures. In the other type, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed legal and contractual requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. In cases where monies are received and all eligibility requirements, including timing, have been satisfied, but the occurrence of expenditure has yet to happen, amounts are reported as unearned revenue. Conversely, where monies are received but eligibility requirements, including timing, have yet to be satisfied, such amounts are reported as deferred inflows of resources.

Accrual

Under the accrual basis of accounting, revenues are recognized in the period earned and expenses are recognized in the period incurred.

Revenue Recognition

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (Cont'd)

Basis of Accounting (Cont'd)

Revenue Recognition (Cont'd)

When both restricted and unrestricted resources are available for use, it is the School District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Budgets / Budgetary Control

Annual appropriated budgets are prepared in the spring of each fiscal year for the general, special revenue, and debt service funds, and are submitted to the county office. In accordance with P.L. 2011, c. 202, the School District passed a resolution to move the school board election to the first Tuesday after the first Monday in November, starting in November of 2012, to be held simultaneously with the general election. The budgets are voted upon at the annual school election on the third Tuesday in April. Budgets are prepared using the modified accrual basis of accounting. The legal level of budgetary control is established at line item accounts within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6A:23A-16.2(f)1. Transfers of appropriations may be made by school board resolution at any time during the fiscal year in accordance with N.J.A.C. 6A:23A-13.3.

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and generally accepted accounting principles, with the exception of the legally mandated revenue recognition of the one or more June state aid payments for budgetary purposes only, and the special revenue fund. N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The bill provides legal authority for school districts to recognize this revenue in the current budget year. Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year-end.

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation, is utilized for budgetary control purposes. Encumbrances are a component of fund balance at fiscal year-end as they do not constitute expenditures or liabilities, but rather commitments related to unperformed contracts for goods and services. Open encumbrances in the governmental funds, other than the special revenue fund, which have not been previously restricted, committed, or assigned, should be included within committed or assigned fund balance, as appropriate.

Open encumbrances in the special revenue fund, however, for which the School District has received advances of grant awards, are reflected on the balance sheet as unearned revenues at fiscal year-end.

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

Cash, Cash Equivalents and Investments

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

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

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

Inventories

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

The cost of inventories in governmental fund types is recorded as expenditures when purchased rather than when consumed.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Tuition Receivable**

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

Prepaid Expenses

Prepaid expenses recorded on the government-wide financial statements and in the proprietary fund types represent payments made to vendors for services that will benefit periods beyond June 30, 2013.

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

Short-Term Interfund Receivables / Payables

Short-term interfund receivables / payables (internal balances) represent amounts that are owed, other than charges for goods or services rendered to / from a particular fund within the School District, and that are due within one year. Such balances are eliminated in the statement of net position to minimize the grossing up of internal balances, thus leaving a net amount due between the governmental and business-type activities that are eliminated in the total government column. Balances with fiduciary activities are not considered to be internal balances; therefore, such balances appear on the statement of net position.

Capital Assets

Capital assets represent the cumulative amount of capital assets owned by the School District. Purchased capital assets are recorded as expenditures in the governmental fund financial statements and are capitalized at cost on the government-wide statement of net position and proprietary fund statement of net position. In the case of gifts or contributions, such capital assets are recorded at fair market value at the time received.

The School District's capitalization threshold is \$2,000. Other costs incurred for repairs and maintenance is expensed as incurred. All reported capital assets, except land and construction in progress, are depreciated. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Activities Estimated Lives</u>
Land Improvements	10-20 Years
Buildings and Improvements	20-50 Years
Furniture and Equipment	5-15 Years

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Tuition Payable

Tuition charges for the fiscal years ended June 30, 2013 and 2012 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been determined.

Unearned Revenue

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

Accrued Salaries and Wages

Certain School District employees, who provide services to the School District over the ten-month academic year, have the option to have their salaries evenly disbursed during the entire twelve-month year. New Jersey statutes require that these earned but undisbursed amounts be retained in a separate bank account. As of June 30, 2013, the amounts earned by these employees were disbursed to the employees' own individual credit union accounts.

Compensated Absences

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

The entire compensated absence liability, including the employer's share of applicable taxes, is reported on the government-wide financial statements. The portion related to employees in the proprietary funds is recorded at the fund level. The current portion is the amount estimated to be used in the following fiscal year. An expenditure is recognized in the governmental funds as payments come due each period, for example, as a result of employee resignations and retirements. Compensated absences not recorded at the fund level represent a reconciling item between the fund level and government-wide presentations.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Bond Discounts / Premiums**

Bond discounts / premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in systematic and rational method, as a component of interest expense. Bond discounts / premiums are presented as an adjustment of the face amount of the bonds on the government-wide statement of net position and on the proprietary fund statement of net position.

Net Position

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

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

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

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, such as inventories and prepaid amounts.

Restricted - The restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources either by being (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the School District's highest level of decision-making authority, which, for the School District, is the Board of Education. Such formal action consists of an affirmative vote by the Board of Education, memorialized by the adoption of a resolution. Once committed, amounts cannot be used for any other purpose unless the Board of Education removes, or changes, the specified use by taking the same type of action (resolution) it employed to previously commit those amounts.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Fund Balance (Cont'd)**

Assigned - The assigned fund balance classification includes amounts that are constrained by the School District's *intent* to be used for specific purposes, but are neither restricted nor committed. *Intent* is expressed by either the Board of Education or by the business administrator, to which the Board of Education has delegated the authority to assign amounts to be used for specific purposes. Such authority of the business administrator is established by way of a formal job description for the position, approved by the Board of Education.

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

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

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures / expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources / uses in governmental funds and after non-operating revenues / expenses in proprietary funds. Reimbursements from funds responsible for particular expenditures / expenses to the funds that initially paid for them are not presented on the financial statements.

Accounting Estimates

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

Impact of Recently Issued Accounting Principles**Recently Issued and Adopted Accounting Pronouncements**

In November 2010, the GASB issued Statement 60, Accounting and Financial Reporting for Service Concession Arrangements. GASBS 60 provides financial reporting guidance for service concession arrangements (SCAs). SCAs are defined as an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. This Statement is effective for periods beginning after December 15, 2011. The School District does not have any SCAs and therefore the adoption of GASBS 60 does not have any impact on the School District's financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Impact of Recently Issued Accounting Principles (Cont'd)

Recently Issued and Adopted Accounting Pronouncements (Cont'd)

In November 2010, the GASB issued Statement 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. GASBS 61 provides additional criteria for classifying entities as component units to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. This Statement is effective for periods beginning after June 15, 2012. The School District elected to early implement GASBS 61 effective for fiscal year 2013. The adoption of GASBS 61, however, does not have any impact on the School District's financial statements.

In December 2010, the GASB issued Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASBS 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011. The adoption of GASBS 62 does not have any impact on the School District's financial statements.

In June 2011, the GASB issued Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASBS 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes four components: assets, deferred outflows of resources, liabilities, and deferred inflows of resources. This Statement is effective for financial statements for periods beginning after December 15, 2011. The adoption of GASBS 63 does not have any impact on the School District's financial statements.

In March 2012, the GASB issued Statement 65, Items Previously Reported as Assets and Liabilities. GASBS 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective for periods beginning after December 15, 2012. The School District elected to early implement GASBS 65 effective for fiscal year 2013. The adoption of GASBS 65 did not materially affect the classification of several balances on the statement of net position.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles (Cont'd)****Recently Issued Accounting Pronouncements**

In March 2012, the GASB issued Statement 66, Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62. GASBS 66 is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, Accounting for Operating Leases with Scheduled Rent Increases, regarding the reporting of certain operating lease transactions, and No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. This Statement is effective for periods beginning after December 15, 2012. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements although no impact is expected.

In June 2012, the GASB issued Statement 67, Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25. GASBS 67 is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. This Statement is effective for periods beginning after June 15, 2013. The School District does not administer any state or local pension plans; therefore, the adoption of GASBS 67 will not have any impact on the School District's financial statements.

In June 2012, the GASB issued Statement 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27. GASBS 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. In addition, this Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is effective for periods beginning after June 15, 2014. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements and expects the impact to be material.

In January 2013, the GASB issued Statement 69, Government Combinations and Disposals of Government Operations. GASBS 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for periods beginning after December 15, 2013. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements although no impact is expected.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles (Cont'd)****Recently Issued Accounting Pronouncements (Cont'd)**

In April 2013, the GASB issued Statement 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. GASBS 70 is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to report the obligation until legally released as an obligor. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This Statement is effective for periods beginning after June 15, 2013. Management is currently evaluating the impact of the adoption of this Statement on the School District's financial statements although no impact is expected.

Note 2: CASH AND CASH EQUIVALENTS

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits might not be recovered. Although the School District does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the School District in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, athletic and student activity funds, or funds that may pass to the School District relative to the happening of a future condition. Such funds are shown as uninsured and uncollateralized in the schedule below.

As of June 30, 2013, the School District's bank balance of \$1,978,835 was exposed to custodial credit risk as follows:

Insured	\$ 877,156
Collateralized under GUDPA	1,101,679
Uninsured/Uncollateralized	-
	<u>\$ 1,978,835</u>

Note 3: CAPITAL RESERVE ACCOUNT

A capital reserve account was established by the School District by inclusion of \$105 on October 10, 2000 for the accumulation of funds for use as capital outlay expenditures in subsequent fiscal years. The capital reserve account is maintained in the general fund and its activity is included in the general fund annual budget.

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

The activity of the capital reserve for the July 1, 2012 to June 30, 2013 fiscal year is as follows:

Beginning balance July 1, 2012	\$ 15,696
Deposits	150,035
Withdrawals	<u>-</u>
Ending balance June 30, 2013	<u><u>\$ 165,731</u></u>

The June 30, 2013 LRFP balance of local support costs of uncompleted capital projects at June 30, 2013 is \$5,044,884.

Note 4: RECEIVABLES

Accounts receivable at June 30, 2013 consisted of accounts (fees) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds.

Accounts receivable as of fiscal year-end for the School District's individual major and fiduciary funds, in the aggregate, are as follows:

	General Fund	Special Revenue Fund	Enterprise Funds	Total
Intergovernmental	<u>\$ 251,023</u>	<u>\$ 645,309</u>	<u>\$ 68,088</u>	<u>\$ 964,420</u>
Total	<u><u>\$ 251,023</u></u>	<u><u>\$ 645,309</u></u>	<u><u>\$ 68,088</u></u>	<u><u>\$ 964,420</u></u>

Note 5: INVENTORY

Inventory in the Food Service Fund at June 30, 2013 consisted of the following:

Food	\$	2,964
Supplies		<u>1,031</u>
	\$	<u><u>3,995</u></u>

Note 6: CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	\$ 510,670			\$ 510,670
Construction in Progress	<u>-</u>			<u>-</u>
Total Capital Assets, not being Depreciated	<u>510,670</u>	<u>-</u>	<u>-</u>	<u>510,670</u>
Capital Assets, being Depreciated:				
Site Improvements	1,584,487	\$ 214,465	\$ (50,199)	1,748,753
Building and Improvements	35,446,497	135,006		35,581,503
Equipment	<u>5,005,341</u>	<u>199,795</u>	<u>(3,328,850)</u>	<u>1,876,286</u>
Total Capital Assets, being Depreciated	<u>42,036,325</u>	<u>549,266</u>	<u>(3,379,049)</u>	<u>39,206,542</u>
Less Accumulated Depreciation for:				
Site Improvements	(594,979)	(136,908)	50,199	(681,688)
Building and Improvements	(8,891,421)	(697,548)		(9,588,969)
Equipment	<u>(4,061,928)</u>	<u>(131,875)</u>	<u>3,328,850</u>	<u>(864,953)</u>
Total Accumulated Depreciation	<u>(13,548,328)</u>	<u>(966,331)</u>	<u>3,379,049</u>	<u>(11,135,610)</u>
Total Capital Assets, being Depreciated, Net	<u>28,487,997</u>	<u>(417,065)</u>	<u>-</u>	<u>28,070,932</u>
Governmental Activities Capital Assets, Net	<u>\$ 28,998,667</u>	<u>\$ (417,065)</u>	<u>\$ -</u>	<u>\$ 28,581,602</u>
Business-Type Activities:				
Capital Assets, being Depreciated:				
Equipment	\$ 233,361	\$ 39,749		\$ 273,110
Less Accumulated Depreciation	<u>(84,562)</u>	<u>(116,696)</u>		<u>(201,258)</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 148,799</u>	<u>\$ (76,947)</u>	<u>-</u>	<u>\$ 71,852</u>

Note 6: CAPITAL ASSETS (CONT'D)

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

Instruction	\$ 607,540
Student & Instruction Related Services	138,110
General and Business Administrative Services	104,223
Plant Operations and Maintenance	<u>116,458</u>
Total Depreciation Expense	<u>\$ 966,331</u>

Note 7: LONG-TERM OBLIGATIONS

During the fiscal year ended June 30, 2013, the following changes occurred in long-term obligations:

	<u>Principal Outstanding July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding June 30, 2013</u>	<u>Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds	\$ 11,824,000		\$ (767,000)	\$ 11,057,000	\$ 715,000
Compensated Absences	<u>267,835</u>	<u>\$ 173,654</u>	<u>(158,320)</u>	<u>283,169</u>	<u>70,792</u>
Governmental Activity Long-term Liabilities	<u>\$ 12,091,835</u>	<u>\$ 173,654</u>	<u>\$ (925,320)</u>	<u>\$ 11,340,169</u>	<u>\$ 785,792</u>

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

Principal due on the serial bonds is as follows:

<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Maturities</u>	<u>Interest Rate</u>	<u>Amount</u>
2004	\$ 5,120,000	2014 to 2015	2.00-3.75%	\$ 1,240,000
2010	10,017,000	2013 to 2035	3.25-4.375%	<u>9,817,000</u>
				<u>\$ 11,057,000</u>

Note 7: LONG-TERM OBLIGATIONS (CONT'D)

Principal and interest due on bonds outstanding is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 715,000	\$ 436,806	\$ 1,151,806
2015	725,000	402,806	1,127,806
2016	295,000	375,294	670,294
2017	305,000	365,544	670,544
2018	325,000	355,306	680,306
2019-24	1,865,000	1,585,669	3,450,669
2025-28	2,370,000	1,176,688	3,546,688
2029-33	3,015,000	638,975	3,653,975
2034-35	1,442,000	64,225	1,506,225
	<u>\$ 11,057,000</u>	<u>\$ 5,401,313</u>	<u>\$ 16,458,313</u>

Bonds Authorized But Not Issued - As of June 30, 2013, the School District had no authorized but not issued bonds.

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

Note 8: PENSION PLANS

A substantial number of the School District's employees participate in one of the following defined benefit pension plans: the Teachers' Pension and Annuity Fund and the Public Employees' Retirement System, which are administered by the New Jersey Division of Pensions and Benefits. In addition, several School District employees participate in the Defined Contribution Retirement Program, which is a defined contribution pension plan. This too is administered by the New Jersey Division of Pensions and Benefits. Each plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

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

Note 8: PENSION PLANS (CONT'D)

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

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

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

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

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

Public Employees Retirement System

<u>Fiscal Year</u>	<u>Normal Contribution</u>	<u>Accrued Liability</u>	<u>Total Liability</u>	<u>Paid by District</u>
2013	\$ 53,905	\$ 139,768	\$ 193,673	\$ 193,673
2012	70,587	154,665	225,252	225,252
2011	79,359	126,454	205,813	205,813

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

Note 8: PENSION PLANS (CONT'D)

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

The School District's contribution, equal to the required contribution for each fiscal year, was as follows:

Defined Contribution Retirement System

<u>Fiscal Year</u>	<u>Total Liability</u>	<u>Paid by District</u>
2013	\$ 10,512	\$ 10,512
2012	13,373	13,373
2011	-	-

Early Retirement Incentive Program - The School District approved an "Early Retirement Incentive Program" during 1991 and 1993 for certain members of the TPAF and PERS. Since no accrual has been made for the additional costs related to the Program, the School District will fund such cost in an annual budget appropriation on a pay-as-you-go basis. Program costs are billed annually by the Division of Pension and Benefits.

Note 9: STATE POST-RETIREMENT MEDICAL BENEFITS

P.L. 1987, c.384 of P.L. 1990, c.6 required Teachers' Pensions and Annuity Fund ("TPAF") and the Public Employees' Retirement System ("PERS"), respectively, to fund post-retirement medical benefits for those State employees who retire after accumulating 25 years of credited service or on a disability retirement. P.L. 2007, c.103 amended the law to eliminate the funding of postemployment medical benefits through the TPAF and PERS. It created separate funds outside of the pension plans for the funding and payment of postemployment medical benefits for retired State employees and retired educational employees. As of June 30, 2012, there were 97,661 retirees receiving postemployment medical benefits. The cost of these benefits is funded through contributions by the State in accordance with P.L. 1994, c.62. Funding of post-retirement medical premiums changed from a pre-funding basis to a pay-as-you-go basis beginning in fiscal year 1994.

The State is also responsible for the cost attributable to P.L. 1992 c.126, which provides free health benefits to members of PERS and the Alternate Benefit Program who retire from a board of education or county college with 25 years of service. The State paid \$146.6 million toward Chapter 126 benefits for 16,618 eligible retired members in fiscal year 2012.

Note 10: ON-BEHALF PAYMENTS

For the fiscal year ended June 30, 2013, the School District has recognized as revenues and expenditures on-behalf payments made by the State for normal costs and post-retirement medical costs related to TPAF. The amounts recognized as revenues and expenditures for normal costs and post-retirement medical costs were \$503,469 and \$569,297, respectively.

Note 11: RISK MANAGEMENT

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

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

Note 12: DEFERRED COMPENSATION

The School District offers its employees a choice of (5) deferred compensation plans created in accordance with Internal Revenue Code Sections 403(b) and 457. The plans, which are administered by the entities listed below, permit participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death, or unforeseeable emergency. The plan administrators are as follows:

Equitable
Lincoln Investment Planning
Lincoln National
N.Y. Life & Mainstay
Valic

Note 13: COMPENSATED ABSENCES

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

School District employees who are employed for ten months are entitled to ten paid sick leave days per fiscal school year. School District employees who are employed for twelve months are entitled to twelve paid sick leave days per fiscal school year. Unused sick leave may be accumulated and carried forward to the subsequent years. School District employees are entitled to two personal days which may be carried forward to subsequent years. Vacation days not used during the year may not be accumulated and carried forward. Benefits paid in any future year will be calculated according to formulas outlined in the School Districts' agreements with the various employee unions and included in the current years' budget.

The liability for vested compensated absences is recorded within those funds as the benefits accrue to employees. As of June 30, 2013, the liability for compensated absences reported on the government-wide statement of net position was \$283,169.

Note 14: INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2013 is as follows:

<u>Fund</u>	<u>Interfunds Receivable</u>	<u>Interfunds Payable</u>
General	\$ 413,600	
Special Revenue		\$ 402,053
Capital Projects		11,547
	<u>\$ 413,600</u>	<u>\$ 413,600</u>

The interfund receivables and payables above predominately resulted from payments made by certain funds on behalf of other funds. During the fiscal year 2014, the School District expects to liquidate such interfunds, depending upon the availability of cash flow.

Note 15: DEFICIT FUND BALANCES

The School District has a deficit fund balance \$547,140 in the general fund and \$32,134 in the special revenue fund as of June 30, 2013 as reported in the fund statements (modified accrual basis). N.J.S.A. 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, school districts must record the delayed one or more June state aid payments as revenue, for budget purposes only, in the current school budget year. The statute provides legal authority for school districts to recognize this revenue in the current budget year. For intergovernmental transactions, GASB Statement No. 33 requires that recognition (revenue, expenditure, asset, liability) should be in symmetry, i.e., if one government recognizes an asset, the other government recognizes a liability. Since the State is recording the June state aid payments in the subsequent fiscal year, the School District cannot recognize the June state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the June state aid payments, the general and special revenue fund balance deficit does not alone indicate that the School District is facing financial difficulties.

Pursuant to N.J.S.A. 18A:22-44.2 any negative unassigned general fund balance that is reported as a direct result from a delay in the June payments of state aid until the following fiscal year, is not considered in violation of New Jersey statute and regulation nor in need of corrective action. The School District deficit in the GAAP funds statements of \$579,274 is less than the June state aid payments.

Note 16: DEFICIT NET POSITION

As reflected on exhibit A-1, statement of net position, an unrestricted deficit of \$833,979 exists for the governmental activities. In addition to the delay in the payment of state aid until the following fiscal year another cause of the deficit is a result of the recording of accrued interest and compensated absences. In accordance with the rules and regulations that govern the School District in the formulation of their annual budget (see note 1), accrued interest and compensated absences that relate to future services, or that are contingent on a specific event that is outside the control of the School District and its employees, are funded in the period in which such services are rendered or in which such events take place; however, in accordance with full accrual accounting, which is the basis of accounting for exhibit A-1, statement of net position, such liabilities are required to be recorded in the period in which they are incurred.

Note 17: FUND BALANCES**RESTRICTED**

As stated in note 1, the restricted fund balance classification includes amounts that are restricted to specific purposes. Such restrictions, or constraints, are placed on the use of resources by either of the following: (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation. Specific restrictions of the School District's fund balance are summarized as follows:

General Fund -

For Excess Surplus - In accordance with N.J.S.A. 18A:7F-7, as amended, the designation of restricted fund balance - excess surplus is the result of a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve general fund balance at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent years' budget. The excess fund balance at June 30, 2013 is \$951,602. Additionally, \$792,876 of excess fund balance generated during 2012-2013 has been restricted and designated for utilization in the 2014-2015 budget.

For Capital Reserve Account - As of June 30, 2013, the balance in the capital reserve account is \$165,731. These funds are restricted for future capital outlay expenditures for capital projects in the School District's approved Long Range Facilities Plan (LRFP).

ASSIGNED

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

General Fund -

Other Purposes - As of June 30, 2013, the School District had \$28,464 of encumbrances outstanding for purchase orders and contracts signed by the School District, but not completed, as of the close of the fiscal year.

UNASSIGNED

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

General Fund - As of June 30, 2013, (\$547,140) of general fund balance was unassigned.

Special Revenue Fund - As of June 30, 2013, the fund balance of the special revenue fund was a deficit of \$32,134, thus resulting in the fund balance classification of unassigned. The deficit is a result from a delay in the payment of state aid until the following fiscal year. As stated in note 15, since the State is recording the June state aid payments in the subsequent fiscal year, the School District cannot recognize the June state aid payment on the GAAP financial statements until the year the State records the payable. Due to the timing difference of recording the June state aid payments, the special revenue fund balance deficit does not alone indicate that the School District is facing financial difficulties. The unassigned deficit on the GAAP financial statements of \$32,134 is less than the last state aid payment.

Debt Service Fund - As of June 30, 2013 \$171,221 of debt service fund balance was unassigned.

Note 18: LITIGATION

The School District is a defendant in several legal proceedings that are in various stages of litigation. It is believed that the outcome, or exposure to the School District, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

_____, 2015

The Board of Education of the
Borough of Clayton in the
County of Gloucester, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the Borough of Clayton in the County of Gloucester, New Jersey (the "Board of Education") in connection with the issuance by the Board of Education of \$9,730,000 School Bonds, dated the date hereof (the "Bonds"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us, as we have deemed necessary.

The Bonds are issued pursuant to (i) Title 18A, Education, Chapter 24 of the New Jersey Statutes, (ii) a proposal adopted by the Board of Education on October 21, 2014 and approved by the affirmative vote of a majority of the legal voters present and voting at the school district election held on December 9, 2014 and (iii) a resolution duly adopted by the Board of Education on January 22, 2015. The Bonds are secured under the provisions of the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c.72 , approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003).

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

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

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

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

Very truly yours,