

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 17, 2018

NEW ISSUE – Book-Entry Only

Ratings: See “RATINGS” herein

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

\$17,604,000

SCHOOL BONDS, SERIES 2018

THE BOARD OF EDUCATION OF THE TOWNSHIP OF MONTVILLE

IN THE COUNTY OF MORRIS, NEW JERSEY

(New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended)

CALLABLE

Dated: Date of Delivery

Due: February 1, as shown on inside cover

The \$17,604,000 aggregate principal amount of School Bonds, Series 2018 (the “Bonds”), of The Board of Education of the Township of Montville in the County of Morris, New Jersey (the “Board” when referring to the governing body and the “School District” when referring to the territorial boundaries governed by the Board) are valid and legally binding general obligations of the Board, and unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the School District for the payment of the Bonds and the interest thereon without limitation as to rate or amount. Payment of the principal of and interest on the Bonds is also secured under the provisions of the New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended.

The Bonds will be issued as fully registered bonds in book-entry only form (without certificates) in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of and held by Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in the principal amount of \$1,000 each or any integral multiple thereof with a minimum purchase of \$5,000 required, through book-entries made on the books and records of DTC and its participants. Individual purchasers of the Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each book-entry Bond owner will receive a credit balance on the books of its nominee, and this credit balance will be confirmed by an initial transaction statement stating the details of the Bonds purchased. See “BOOK-ENTRY ONLY SYSTEM” herein.

The Bonds shall bear interest from their date of delivery, which interest shall be payable semi-annually on the first day of February and August in each year, commencing August 1, 2018, until maturity or prior redemption. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each immediately preceding July 15 and January 15 (the “Record Dates” for the payment of interest on the Bonds).

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

The Bonds are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel to the Board, and certain other conditions described herein. Certain legal matters will be passed upon for the Board by Schwartz Edelstein Law Group, Whippany, New Jersey, General Counsel to the Board. Phoenix Advisors, LLC, Bordentown, New Jersey, served as Municipal Advisor in connection with the Bonds. Delivery of the Bonds in definitive form to DTC in Jersey City, New Jersey, is anticipated to occur on or about February 14, 2018.

ELECTRONIC SUBMISSIONS FOR THE BONDS, IN ACCORDANCE WITH THE FULL NOTICE OF SALE, MUST BE MADE VIA PARITY AT 11:00 A.M. EASTERN STANDARD TIME ON JANUARY 24, 2018. FOR MORE DETAILS ON HOW TO BID ELECTRONICALLY, VIEW THE FULL NOTICE OF SALE POSTED AT WWW.MUNIHUB.COM.

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

\$17,604,000
THE BOARD OF EDUCATION OF THE
TOWNSHIP OF MONTVILLE
IN THE COUNTY OF MORRIS, NEW JERSEY
SCHOOL BONDS, SERIES 2018

(New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended)

CALLABLE

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,
YIELDS AND CUSIP NUMBERS**

<u>Maturity</u> <u>(February 1)</u>	<u>Principal</u> <u>Amounts</u>	<u>Interest</u> <u>Rates</u>	<u>Yields</u>	<u>CUSIP</u> <u>Numbers*</u>
2020	\$894,000			615309__
2021	500,000			615309__
2022	550,000			615309__
2023	660,000			615309__
2024	1,000,000			615309__
2025	1,000,000			615309__
2026	1,000,000			615309__
2027	1,000,000			615309__
2028	1,000,000			615309__
2029	1,000,000			615309__
2030	1,000,000			615309__
2031	1,000,000			615309__
2032	1,000,000			615309__
2033	1,000,000			615309__
2034	1,000,000			615309__
2035	1,000,000			615309__
2036	1,000,000			615309__
2037	1,000,000			615309__
2038	1,000,000			615309__

* A registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. The CUSIP numbers listed above are being provided solely for the convenience of Bondholders only at the time of issuance of the Bonds and the Board does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

**THE BOARD OF EDUCATION OF THE
TOWNSHIP OF MONTVILLE
IN THE COUNTY OF MORRIS, NEW JERSEY**

BOARD MEMBERS

President – Charles Grau
Vice President – Michael Palma

Dr. Karen Cortellino
Joseph Daughtry
Dr. David Modrak
John Morella
Michael O'Brien
Michael Palma
Michelle Zuckerman

SUPERINTENDENT

Dr. Rene T. Rovtar

BUSINESS ADMINISTRATOR/BOARD SECRETARY

Katine M. Slunt

BOARD ATTORNEY

Schwartz Edelstein Law Group
Whippany, New Jersey

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Lerch, Vinci & Higgins, LLP
Fair Lawn, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

BOND COUNSEL

Wilentz, Goldman & Spitzer, P.A.
Woodbridge, New Jersey

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

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

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

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

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

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

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

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OFFICIAL STATEMENT

OF

**THE BOARD OF EDUCATION OF THE
TOWNSHIP OF MONTVILLE
IN THE COUNTY OF MORRIS, NEW JERSEY**

\$17,604,000

SCHOOL BONDS, SERIES 2018

(NEW JERSEY SCHOOL BOND RESERVE ACT, 1980 N.J. Laws c. 72, as amended)

CALLABLE

INTRODUCTION

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by The Board of Education of the Township of Montville in the County of Morris, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the offering, sale and issuance of its \$17,604,000 aggregate principal amount of School Bonds, Series 2018 (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the Business Administrator/Board Secretary and its distribution and use in connection with the offering and sale of the Bonds have been authorized by the Board.

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

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

DESCRIPTION OF THE BONDS

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

Terms and Interest Payment Dates

The Bonds shall be dated their date of delivery and shall mature on February 1 in each of the years and in the amounts set forth on the cover page hereof. The Bonds shall bear interest from their date of delivery which interest shall be payable semi-annually on the first day of February and August (each an "Interest Payment Date"), commencing on August 1, 2018, in each of the years and at the interest rates set forth on the cover page hereof until maturity or prior redemption by check mailed by the Board or a duly appointed paying agent to the registered owners of the Bonds as of each July 15 and January 15 immediately preceding the respective Interest Payment Date (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC participants, which will in turn remit such payments to the beneficial owners of the Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

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

Redemption

The Bonds of this issue maturing prior to February 1, 2026 are not subject to redemption prior to their stated maturities. The Bonds of this issue maturing on or after February 1, 2026 are redeemable at the option of the Board in whole or in part on any date on or after February 1, 2025 upon notice as required herein at one hundred percent (100%) of the principal amount being redeemed (the "Redemption Price"), plus accrued interest to the date fixed for redemption.

Notice of Redemption

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

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

Security for the Bonds

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable real property within the School District without limitation as to rate or amount. The Bonds are additionally secured by the New Jersey School Bond Reserve Act, 1980 N.J. Laws c. 72, as amended.

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

All school bonds are secured by the School Bond Reserve (the "School Bond Reserve") established in the Fund for the Support of Free Public Schools of the State of New Jersey (the "Fund") in accordance with the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-17 et seq. (P.L. 1980, c. 72, approved July 16, 1980, as amended by P.L. 2003, c. 118, approved July 1, 2003 (the "Act")). The 2003

amendments to the Act provide that the Fund will be divided into two School Bond Reserve accounts. All bonds issued prior to July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1-1/2% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes (the "Old School Bond Reserve Account") and all bonds, including the Bonds, issued on or after July 1, 2003 shall be benefited by a School Bond Reserve account funded in an amount equal to 1% of the aggregate issued and outstanding bonded indebtedness of counties, municipalities or school districts for school purposes (the "New School Bond Reserve Account"), provided such amounts do not exceed the moneys available in the Fund. If a municipality, county or school district is unable to make payment of principal of or interest on any of its bonds issued for school purposes, the trustees of the Fund will purchase such bonds at par value and will pay to the bondholders the interest due or to become due within the limits of funds available in the applicable School Bond Reserve account in accordance with the provisions of the Act.

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

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

Authorization and Purpose

The Bonds have been authorized and are issued pursuant to (i) Title 18A, Chapter 24 of the New Jersey Statutes, Chapter 271 of the Laws of 1967, as amended and supplemented, (ii) proposals adopted by the Board on July 18, 2017, and approved by the affirmative vote of a majority of the legal voters present and voting at a special school district election held on September 26, 2017 and (iii) a resolution duly adopted by the Board on December 19, 2017 (the "Resolution").

The proceeds of the Bonds will be used to finance various capital improvements in and for the School District (the "Project") and to pay the costs of issuance associated with the issuance of the Bonds. The State has awarded the School District aid for the Project in the amount of 40% of the eligible costs of such Project. As such, the State has agreed to pay 40% of the annual debt service on the eligible costs financed by the Bonds each year.

BOOK-ENTRY ONLY SYSTEM

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

DTC will act as Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, as set forth on the inside front cover hereof, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Board or Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct and Indirect Participant and not of DTC, nor its nominee, Paying Agent or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Discontinuance of Book-Entry Only System

In the event that the book-entry-only system is discontinued and the Beneficial Owners become registered owners of the Bonds, the following provisions apply: (i) the Bonds may be exchanged for an equal aggregate principal amount of Bonds in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Board or its paying agent; (ii) the transfer of any Bonds may be registered on the books maintained by the registrar for such purposes only upon the surrender thereof to the Board or its paying agent together with the duly executed assignment in form satisfactory to the Board

or its paying agent; and (iii) for every exchange or registration of transfer of Bonds, the Board or its paying agent may make a charge sufficient to reimburse for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Bonds. Interest on the Bonds will be payable by check or draft mailed on each Interest Payment Date to the registered owners thereof as of the close of business on the Record Dates.

THE SCHOOL DISTRICT AND THE BOARD

The Board is a nine (9) member board with members elected for staggered three (3) year terms. The Superintendent of Schools is the chief administrative officer of the School District. The Business Administrator/Board Secretary is the chief financial officer of the School District and oversees the Board's business functions. The Business Administrator/Board Secretary reports to the Superintendent of Schools.

The School District provides a full range of educational services appropriate to Kindergarten (K) through grade twelve (12), including regular and special education programs for students in the Township of Montville, in the County of Morris (the "Township"). The School District operates five (5) elementary schools, one (1) middle school and one (1) high school. See "APPENDIX A – Certain Economic and Demographic Information Relating to the School District and the Township of Montville, in the County of Morris, State of New Jersey."

THE STATE'S ROLE IN PUBLIC EDUCATION

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

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

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

An Executive County Superintendent of Schools (the "County Superintendent") is appointed for each county in the State by the Governor, upon the recommendation of the Commissioner with the advice and consent of the State Senate. The County Superintendent is the local representative of the Commissioner. The County Superintendent is responsible for the daily supervision of the school districts in the county and is charged with the enforcement of rules pertaining to the certification of teachers, pupil registers and financial reports and the review of budgets. Under the Uniform Shared Services and Consolidation Act, P.L. 2007, c. 63, approved April 3, 2007 (A4), the role of the County Superintendent was changed to create the post of the Executive County Superintendent with expanded powers for the

operation and management of school districts to, among other things, promote administrative and operational efficiencies, eliminate non-operating school districts and recommend a school district consolidation plan to eliminate districts through the establishment or enlargement of regional school districts, subject to voter approval.

STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY

Categories of School Districts

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

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

(2) Type II, in which the registered voters within a school district elect the members of a board of education and either (a) the registered voters also vote upon all fiscal matters with the exception set forth in the new Budget Election Law (as hereinafter defined in "School Budgetary Process"), or (b) a board of school estimate, consisting of two (2) members of the governing body of and the CEO of each municipality within the school district and the president of and one member of the board of education, and approves all fiscal matters;

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

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

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

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

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

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

In a Type I school district, a separate body from the school district, known as the board of school estimate, examines the budget requests and fixes the appropriation amounts for the next year's operating budget at or after a public hearing. This board, whose composition is fixed by statute, certifies the budget to the municipal governing body or board of education. If the board of education disagrees with the certified budget of the board of school estimate, then it can appeal to the Commissioner to request changes if such certified budget is less than or equal to the maximum T&E budget and may appeal to the Commissioner if such certified budget amount is in excess of the maximum T&E budget. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

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

The New Budget Election Law (P.L. 2011, c. 202, effective January 17, 2012) (the "Budget Election Law") establishes procedures that allow the date of the annual school election of a Type II school district, without a board of school estimate, to be moved from April to the first Tuesday after the first Monday in November, to be held simultaneously with the general election. Such change in the annual school election date must be authorized by resolution of either the board of education or the governing body of the municipality, or by an affirmative vote of a majority of the voters whenever a petition, signed by at least fifteen percent (15%) of the legally qualified voters, is filed with the board of education. Once the annual school election is moved to November, such election may not be changed back to an April annual school election for four (4) years.

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

SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT

Levy and Collection of Taxes

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

Budgets and Appropriations

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

Tax and Spending Limitations

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

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

The Comprehensive Educational Improvement and Financing Act of 1996, N.J.S.A. 18A:7F-1 et seq., P.L. 1996, c. 138 (the "CEIFA"), as amended by P.L. 2004, c. 732, effective July 1, 2004 and P.L. 2010, c. 44, effective July 13, 2010, which followed QEA, also limits the annual increase in a school district's general fund tax levy which does not exceed the school district's adjusted tax levy, defined as the amount raised by property taxation for the purposes of the school district, excluding any debt service payments (the "Adjusted Tax Levy"). The CEIFA limited the amount school districts can increase their annual current expense and capital outlay budgets (the "Spending Growth Limitations"). Generally, budgets could increase either by two and one-half percent (2.5%) or the consumer price index, whichever is greater. Prior amendments to the CEIFA decreased the budget cap to two and one-half percent (2.5%) from three percent (3%). As a result of recent amendments to CEIFA, the budget presented to the voters may not have an increase in the Adjusted Tax Levy that exceeds the pre-budget year Adjusted Tax Levy and an adjustment for enrollment by two percent (2%). See the description of the New Cap Law (as defined herein) below. A school district is required to submit, as applicable, to the board of school estimate or to the voters of the district at the annual school budget election, a general fund tax levy if it exceeds the school district's Adjusted Tax Levy as calculated by N.J.S.A. 18A:7F-38 and 39. Any school district may also submit at the annual school budget election, a separate proposal or proposals for additional funds, including interpretive statements, specifically identifying the program purposes for which the proposed funds shall be used. The Executive County Superintendent may prohibit the submission of such a separate proposal if he or she determines that the district has not implemented all potential efficiencies in the administrative operations of the district, which efficiencies would eliminate the need for such additional funds. Parts of the CEIFA have been found to be unconstitutional. See "SUMMARY OF STATE AID TO SCHOOL DISTRICTS" herein.

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

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

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

Issuance of Debt

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

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

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

Capital Lease Financing

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

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

Except as provided below, no additional debt shall be authorized if the principal amount, when added to the net debt previously authorized, exceeds a statutory percentage of the average equalized valuation of taxable property in a school district. As a Kindergarten (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 – Certain Economic and Demographic Information Relating to the School District and the Township of Montville, in the County of Morris, State of New Jersey."

Exceptions to Debt Limitation

A Type II school district (other than a regional district) may also utilize its constituent municipality's remaining statutory borrowing power (i.e. the excess of 3.5% of the average equalized valuation of taxable property within the constituent municipality over the constituent municipality's net debt). A school district may also authorize debt in excess of this limit with the consent of the Commissioner and the Local Finance Board.

Energy Saving Obligations

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

SUMMARY OF STATE AID TO SCHOOL DISTRICTS

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

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

The School District is not an "SDA District".

The legislative response to *Abbott v. Burke* was the passage of the QEA (now repealed). The QEA established a new formula for the distribution of State aid for public education, beginning with the 1991-92 fiscal year. The QEA provided a formula that took into account property values and personal income to determine a school district's capacity to raise money for public education. A budgetary limitation, or "CAP" on expenditures, was also provided in the law. The "CAP" was intended to control the growth in local property taxes. The QEA was amended and revised by chapter 62 of the Laws of New Jersey of 1991, and further amended by chapter 7 of the Laws of New Jersey of 1993.

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

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

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

On May 14, 1997, the Court held that the CEIFA was unconstitutional as applied to the SDA Districts because (1) its funding provisions failed to assure that students in such districts would receive a thorough and efficient education and (2) supplemental programs to increase student performance in such districts were neither adequately identified nor funded. The Court recognized the Core Curriculum

Content Standards as a valid means of identifying a "thorough and efficient" education under the State Constitution, but found that the State did not adequately determine or provide the adequate funding level to allow those standards to be met in the SDA Districts. To bridge the gap between SDA Districts and non-special needs districts, the Court ordered the parity remedy, designed as an interim remedy whereby the State would provide parity aid and supplemental funding to SDA Districts. The CEIFA has not been used to calculate State aid for public schools since the 2001-2002 school year.

Pursuant to the Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 (the "EFCFA"), which became law on July 18, 2000, the State provides aid to school facilities projects. Under the EFCFA, the State provides one hundred percent (100%) State funding for school facilities projects undertaken by SDA Districts; for non-SDA Districts, the State provides aid in an amount equal to the greater of the district aid percentage or forty percent (40%) times the eligible costs determined by the Commissioner either in the form of a grant or debt service aid as determined under the EFCFA. The amount of the aid is established prior to the authorization of the project.

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

The School Funding Reform Act of 2008

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

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

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

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

Recent Developments in the Reduction of State Aid

The State provides aid to school districts in accordance with amounts provided annually in the State budget. Such aid includes equalization aid, special education categorical aid, transportation aid,

preschool education aid, supplemental core curriculum standards aid, choice aid, education adequacy aid, security aid, adjustment aid and other aid as determined in the discretion of the Commissioner.

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

SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS

Federal funds are available for certain programs approved by the Federal government with allocation decided by the State, which assigns a proportion to each local school district. The Every Student Succeeds Act of 2015, enacted December 10, 2015, is a Federal assistance program for which a school district qualifies to receive aid. A remedial enrichment program for children of low income families is available under Chapter 1 Aid. Such Federal aid is generally received in the form of block grants. Aid is also provided under the Individuals with Disabilities Education Act although never in the amounts federal law required.

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

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

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

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

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

A municipality may sell "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as it may be amended and supplemented,

creating such capital expenditure. A local unit's bond anticipation notes may be issued for periods not exceeding one (1) year. Generally, bond anticipation notes may not be outstanding for longer than ten (10) years. An additional period may be available following the tenth anniversary date equal to the period from the notes' maturity to the end of the tenth fiscal year in which the notes mature plus four (4) months in the next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by the minimum amount required for the first year's principal payment for a bond issue.

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

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

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

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

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

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

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

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

Emergency appropriations (those made after the adoption of the budget and the determination of the tax rate) may be authorized by the governing body. However, with minor exceptions, such

appropriations must be included in full in the following year's budget. When such appropriations exceed three percent (3%) of the adopted operating budget, consent of the Director must be obtained.

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

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

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

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

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

Every board of education is required to provide an annual audit of the school district's accounts and financial transactions. The audit must be performed by a licensed public school accountant no later than five (5) months after the end of the school fiscal year. The audit, in conformity with statutory requirements, must be filed with the board of education and the Commissioner. Additionally, the audit must be summarized and discussed at a regular public meeting of the local board of education within thirty (30) days following receipt of the annual audit by such board of education.

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

Chapter 75 of the Laws of New Jersey of 1991, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year.

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

State Supervision

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

Appropriations “Cap”

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

Additionally, P.L. 2010, c.44, effective July 13, 2010, imposes a two percent (2%) cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments. The exclusions from the limit include increases required to be raised for capital expenditures, including debt service, increases in pension contributions in excess of 2%, certain increases in health care over 2%, and extraordinary costs incurred by a local unit directly related to a declared emergency. The governing body of a local unit may request approval, through a public question submitted to the legal voters residing in its territory, to increase the amount to be raised by taxation, and voters may approve increases above 2% not otherwise permitted under the law by an affirmative vote of 50%.

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

Tax Assessment and Collection Procedure

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

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

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

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

Tax Appeals

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

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

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

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

FINANCIAL STATEMENTS

The audited financial statements of the Board as of and for the fiscal year ended June 30, 2017 together with the notes to the financial statements have been provided by Lerch, Vinci & Higgins, LLP, Fair Lawn, New Jersey (the "Auditor"), and are presented in APPENDIX B to this Official Statement (the "Financial Statements"). See "APPENDIX B – Financial Statements of The Board of Education of the Township of Montville as of and for the Fiscal Year Ended June 30, 2017."

MUNICIPAL ADVISOR

Phoenix Advisors, LLC, Bordentown, New Jersey, has served as Municipal Advisor to the Board with respect to the issuance of the Bonds (the "Municipal Advisor"). The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and the Appendices hereto. The Municipal Advisor is an independent firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

LITIGATION

To the knowledge of the Board Attorney, Schwartz Edelstein Law Group, Whippany, New Jersey (the "Board Attorney"), without independent inquiry or investigation and based upon the representation of the Board's Business Administrator/Board Secretary, there is no litigation of any nature now pending or threatened against the Board, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the Board or the School District or the title of any of the present officers. To the knowledge of the Board Attorney, without independent inquiry or investigation and based upon the representation of the Board's Business Administrator/Board Secretary, no litigation is presently pending or threatened that, in the opinion of the Board Attorney, would have a materially adverse impact on the financial condition of the Board if adversely decided. A certificate to such effect will be executed by the Board Attorney and delivered to the Underwriter (as hereinafter defined) of the Bonds at the closing.

TAX EXEMPTION

Federal Income Tax Treatment

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance of the Bonds in order for the interest thereon to be and remain excluded from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause such interest to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. The Board has covenanted to comply with the provisions of the Code applicable to the Bonds, and has covenanted not to take any action or fail to take any action that would cause interest on the Bonds to lose the exclusion from gross income under Section 103 of the Code.

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

Premium Bonds

[The Bonds [maturing on February 1 of the years 20__ through 20__, inclusive (collectively, the "Premium Bonds")], have been sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the [Premium] Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a [Premium] Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a [Premium] Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such [Premium] Bonds and not as interest.]

Discount Bonds

[Bond Counsel is also of the opinion that the difference between the stated principal amount of the Bonds maturing on February 1 in the years 20__ through 20__, inclusive (collectively, the "Discount Bonds") and their respective initial public offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which prices a substantial amount of the [Discount] Bonds of the same maturity and interest rate were sold, constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Bonds. In the case of any holder of the [Discount] Bonds, the amount of such original issue discount which is treated as having accrued with respect to the [Discount] Bonds is added to the cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, redemption or payment at maturity). Holders of the [Discount] Bonds should consult their tax advisors for an explanation of the original issue discount rules.]

Additional Federal Income Tax Consequences Relating to Bonds

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional Federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Bonds should also consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

State Taxation

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

Prospective Tax Law Changes

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

Other Tax Consequences

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

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

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

RISK TO HOLDERS OF BONDS

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

Municipal Bankruptcy

THE BOARD HAS NOT AUTHORIZED THE FILING OF A BANKRUPTCY PETITION. THIS REFERENCE TO THE BANKRUPTCY CODE OR THE STATE STATUTE SHOULD NOT CREATE ANY IMPLICATION THAT THE BOARD EXPECTS TO UTILIZE THE BENEFITS OF ITS PROVISIONS, OR THAT IF UTILIZED, SUCH ACTION WOULD BE APPROVED BY THE LOCAL FINANCE BOARD, OR THAT ANY PROPOSED PLAN WOULD INCLUDE A DILUTION OF THE SOURCE OF PAYMENT OF AND SECURITY FOR THE BONDS, OR THAT THE BANKRUPTCY CODE COULD NOT BE AMENDED AFTER THE DATE HEREOF.

The undertakings of the Board should be considered with reference to 11 U.S.C. §101 *et seq.*, as amended and supplemented (the "Bankruptcy Code"), and other bankruptcy laws affecting creditors' rights and municipalities in general. The Bankruptcy Code permits the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any judicial or other proceeding against the petitioner; grants priority to certain debts owed, and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount and more than one-half in number of the allowed claims of at least one (1) impaired class. The Bankruptcy Code specifically does not limit or impair the power of a state to control, by legislation or otherwise, the procedures that a political subdivision must follow in order to take advantage of the provisions of the Bankruptcy Code.

The Bankruptcy Code provides that special revenue acquired by the debtor after the commencement of the case shall remain subject to any lien resulting from any security agreement entered into by such debtor before the commencement of such bankruptcy case. However, special revenues acquired by the debtor after commencement of the case shall continue to be available to pay debt service secured by those revenues. Furthermore, the Bankruptcy Code provides that a transfer of property of a debtor to or for the benefit of any holder of a bond or note, on account of such bond or note, may be avoided pursuant to certain preferential transfer provisions set forth in such act.

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

APPROVAL OF LEGAL PROCEEDINGS

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

PREPARATION OF OFFICIAL STATEMENT

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

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

The Municipal Advisor has participated in the review of this Official Statement but has not participated in the preparation of this Official Statement or in the collection of financial, statistical or demographic information contained in this Official Statement nor verified the accuracy, completeness or fairness thereof, and, accordingly, takes no responsibility and expresses no opinion with respect thereto.

The Auditor has participated in the preparation of the information contained in APPENDIX A hereto and also takes responsibility for the Financial Statements to the extent specified in the Independent Auditors' Report appearing in APPENDIX B hereto.

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

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

RATINGS

S&P Global Ratings, acting through Standard & Poor's Financial Services LLC (the "Rating Agency"), has assigned an underlying rating of "AA" (stable outlook) to the Bonds based upon the creditworthiness of the School District. The Bonds are additionally secured by the New Jersey School Bond Reserve Act, and the Rating Agency has also assigned a rating of "A-" (stable outlook) based solely upon such Act.

The ratings reflect only the views of the Rating Agency and an explanation of the significance of such ratings may only be obtained from the Rating Agency. The Board forwarded to the Rating Agency certain information and materials concerning the Bonds and the School District. There can be no assurance that the ratings will be maintained for any given period of time or that the ratings will not be raised, lowered or withdrawn entirely if, in the Rating Agency's judgment, circumstances so warrant. Any

downward change in or withdrawal of such ratings may have an adverse effect on the marketability or market price of the Bonds.

The inclusion of the Rating Agency's "Outlook", if any, has been provided herein for informational purposes only and is not part of the "Rating" described in the above paragraphs. The "Outlook" is only the Rating Agency's forward-looking view of the School District. The School District has no obligation to treat any change in the "Outlook" as a "Material Event", as defined and described under the SEC Rule (as hereinafter defined) or under the provisions of the School District's Continuing Disclosure Agreement, or to notify Bondholders as to any changes to the "Outlook" after the date hereof.

UNDERWRITING

The Bonds are being purchased from the Board by _____ (the "Underwriter"), at a price of \$_____. The purchase price of the Bonds reflects the par amount of Bonds equal to \$17,604,000.00, minus an Underwriter's discount of \$_____ less/plus a[n] [net] original issue discount/premium of \$_____. The Underwriter is obligated to purchase all of the Bonds if any Bonds are so purchased.

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

SECONDARY MARKET DISCLOSURE

The Board has covenanted for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Board by no later than each January 31 after the end of each fiscal year, commencing with the fiscal year ending June 30, 2017 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the Board with the Municipal Securities Rulemaking Board (the "MSRB") or any other entity designated by the MSRB. The notices of material events will be filed by the Board with the MSRB through its Electronic Municipal Market Access ("EMMA") system and with any other entity designated by the MSRB, as applicable. The nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX D - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "SEC Rule").

The Board previously failed to file, in accordance with the SEC Rule, in a timely manner, under previous filing requirements: (i) operating data for the fiscal years ending June 30, 2014 and 2015 and (ii) annual audited financial statements for the fiscal years ending June 30, 2014 and 2015. 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.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to the Business Administrator/Board Secretary, Katine M. Slunt, (973) 331-7100, or to Lisa A. Gorab, Esq., Wilentz, Goldman & Spitzer, P.A., Bond Counsel to the Board, (732) 855-6459.

CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT

At the time of the original delivery of the Bonds, the Board will deliver a certificate of one or more of its authorized officials to the effect that he/she has examined this Official Statement (including the Appendices) and the financial and other data concerning the School District contained herein and that, to the best of his knowledge and belief, (i) this Official Statement, both as of its date and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading and (ii) between the date of 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 (financial or otherwise) of the Board since the date hereof.

The Board has authorized the preparation of this final Official Statement containing pertinent information relative to the Bonds, and this Official Statement is deemed to be the final Official Statement as required by Rule 15c2-12, promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended and supplemented. By awarding the Bonds to the Underwriter, the Board agrees that, within the earlier of seven (7) business days following the date of such award or to accompany the purchasers' confirmations requesting payment for the Bonds, it shall provide without cost to the Underwriter, for distribution purposes, copies of this final Official Statement. The underwriter agrees that (i) it shall accept such designation, and (ii) it shall assure the distribution of the final Official Statement.

**THE BOARD OF EDUCATION OF THE TOWNSHIP OF
MONTVILLE IN THE COUNTY OF MORRIS, NEW JERSEY**

**KATINE M. SLUNT,
Business Administrator/Board Secretary**

DATED: _____, 2018

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APPENDIX A

**Certain Economic and Demographic Information Relating to the
School District and the Township of Montville,
in the County of Morris, State of New Jersey**

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**CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING
TO THE SCHOOL DISTRICT AND THE TOWNSHIP OF MONTVILLE,
IN THE COUNTY OF MORRIS, STATE OF NEW JERSEY**

Summary

The public school system in the Township of Montville, in the County of Morris, State of New Jersey (the “Township”) is operated by The Board of Education of the Township of Montville in the County of Morris, New Jersey (the “Board” when referring to the governing body and the “School District” when referring to the territorial boundaries governed thereby), as a Type II School District. It functions independently through a nine (9) member board, elected by the voters in staggered three (3) year terms. The Board appoints a Superintendent who is responsible for budgeting, planning and operational functions of the School District. The Board operates a Kindergarten through grade twelve (12) district which houses its students in five (5) elementary schools, one (1) middle school and one (1) high school. These schools include class rooms for music, art, sciences, computer studies, a library, multi-purpose rooms, a cafeteria and gymnasium.

SCHOOL DISTRICT ENROLLMENT

<u>Fiscal Year</u>	<u>Total School District Enrollment</u>
2016-2017	3,734
2015-2016	3,777
2014-2015	3,915
2013-2014	3,989
2012-2013	4,095
2011-2012	4,166
2010-2011	4,271
2009-2010	4,288
2008-2009	4,264

Staff¹

The Superintendent is the chief administrative officer of the School District. The School Business Administrator/Board Secretary oversees the business functions of the Board and reports through the Superintendent to the Board. As of June 30, 2017, the School District employed the following staff (including part-time employees):

Description

Instruction/Teaching Staff.....	386
Student and Instructional Related Services.....	202
Administrators/Professionals/Office Staff	71
Custodial/Maintenance.....	14
Total	673

Labor Relations²

The Board’s contract with the Montville Township Education Association (“MTEA”) expires on June 30, 2018.

¹ Source: Business Administrator/Board Secretary; Board records.

² Source: Business Administrator/Board Secretary; Board records.

Comparison of General Fund Revenues and Appropriations – Budgetary Basis

	(Budget) Fiscal Year <u>2017-2018</u>	(Actual) Fiscal Year <u>2016-2017</u>	(Actual) Fiscal Year <u>2015-2016</u>	(Actual) Fiscal Year <u>2014-2015</u>
REVENUES				
Budgeted Fund Balance	\$ 2,200,000			
Withdrawal from Reserves	540,000			
Local Sources:				
Local Tax Levy	67,536,323	\$ 66,212,082	\$ 64,913,806	\$ 63,640,987
Tuition	151,083	131,082	147,706	140,049
Transportation Fees from Individuals	314,000	284,396	292,525	302,324
Miscellaneous	452,851	221,902	345,027	307,576
Federal Sources	23,056			-
State Sources	<u>3,480,323</u>	<u>4,734,954</u>	<u>4,042,319</u>	<u>3,843,425</u>
TOTAL REVENUES	<u>\$ 74,697,636</u>	<u>\$ 71,584,416</u>	<u>\$ 69,741,383</u>	<u>\$ 68,234,361</u>
APPROPRIATIONS/EXPENDITURES				
Instruction:				
Regular Programs	\$ 23,887,594	\$ 24,171,119	\$ 22,575,083	\$ 23,276,681
Special Education	8,229,520	7,982,557	7,634,801	6,931,191
Basic Skills/Remedial	938,987	957,494	810,365	913,813
Bilingual Education	343,141	336,796	305,878	278,976
School-Sponsored Co-Curricular Activities	465,712	519,839	486,207	484,573
School-Sponsored Athletic Activities	1,075,572	1,058,595	1,057,561	992,395
Undistributed Expenditures:				
Tuition	4,103,151	3,510,004	3,357,873	3,591,055
Attendance and Social Work Services	76,164	74,288	67,649	84,643
Health	895,184	858,530	800,640	783,575
Speech, OT, PT, Related & Extraordinary Svcs.	2,576,424	2,617,252	2,312,639	2,394,644
Guidance	1,846,286	1,789,637	1,774,794	1,756,867
Child Study Teams	2,227,588	2,038,552	1,975,047	1,933,801
Improvement of Instructional Services	926,363	989,246	951,753	892,970
Educational Media Services - School Library	609,061	624,193	606,530	564,983
Instructional Staff Training	84,600	85,090	45,419	67,166
General Administration	1,275,855	1,483,764	1,630,597	1,278,798
School Administration	2,341,376	2,306,740	2,288,496	2,230,874
Central Services & Admin. Info. Tech.	1,212,904	1,079,245	1,032,968	1,031,880
Operation and Maintenance of Plant Services	5,082,321	4,806,380	4,379,491	4,402,724
Student Transportation	3,956,761	4,039,036	4,074,670	3,839,252
Personnel Services - Employee Benefits	<u>11,850,604</u>	<u>11,199,417</u>	<u>10,462,215</u>	<u>9,861,845</u>
Interest Earned on Maintenance Reserve	1,000			
Capital Outlay	664,788	394,517	3,194,676	880,674
Transfers to Charter School	<u>26,680</u>	<u>26,795</u>	<u>12,295</u>	<u>8,111</u>
TOTAL APPROPRIATIONS/EXPENDITURES	<u>\$ 74,697,636</u>	<u>\$ 72,949,086</u>	<u>\$ 71,837,647</u>	<u>\$ 68,481,491</u>
Other Financing Sources/(Uses) - Net		<u>975,936</u>	<u>(127,076)</u>	<u>366,971</u>
Excess (Deficiency) of Revenues Over/(Under)				
Expenditures and Other Financing Sources/(Uses)		(388,734)	(2,223,340)	119,841
Fund Balance, Beginning of Year		<u>9,322,755</u>	<u>11,546,095</u>	<u>11,426,254</u>
Fund Balance, End of Year		<u>\$ 8,934,021</u>	<u>\$ 9,322,755</u>	<u>\$ 11,546,095</u>

* All years exclude TPAF Pension and Social Security on behalf payments.

School District Debt Limit and Borrowing Margin³

The debt limitation of the School District is established pursuant to N.J.S.A. 18A:24-19. The School District is permitted to incur debt up to four percent (4.0%) of the average equalized valuation of taxable property in the School District before requiring an extension of credit from the Township and the Local Finance Board. The total equalized valuation of real property, including improvements, in the Township for the last three (3) years and the School District's available borrowing margin as of December 1, 2017 (Unaudited) are summarized below:

<u>Year</u>	<u>Amount</u>
2014	\$ 4,858,882,727
2015	4,827,726,649
2016	<u>5,027,460,020</u>
	<u>\$ 14,714,069,396</u>
Average for the Three (3) Year Period	<u>\$ 4,904,689,799</u>
School District Borrowing Margin (4.0% of \$4,904,689,799)	196,187,592
School Debt as of December 1, 2017 (Unaudited)	<u>25,705,877</u>
Available School District Borrowing Margin	<u>\$ 170,481,715</u>

COMPUTATION OF SCHOOL AND OVERLAPPING DEBT AS OF DECEMBER 1, 2017 (Unaudited)⁴

Debt of School District as of December 1, 2017 (Unaudited)	\$ 25,705,877
Overlapping Debt of School District:	
Township of Montville	20,128,566
County of Morris (December 31, 2016)	11,994,491
Township of Montville Fire Districts (A)	<u>-</u>
Total School and Overlapping Bonded Debt	<u>\$ 57,828,934</u>

(A) Unavailable

³ Source: The Township of Montville 2016 Audit and Supplemental Debt Statements

⁴ Source: The Township of Montville 2016 Audit and Supplemental Debt Statements

GENERAL INFORMATION OF THE TOWNSHIP OF MONTVILLE, IN THE COUNTY OF MORRIS, STATE OF NEW JERSEY

Size and Geographical Location

The Township, which is situated in the central part of the County is approximately 19 square miles and is about 10 miles north of Morristown, the County Seat, and 30 miles west of New York City. Neighboring communities include: Kinnelon, Lincoln Park, Fairfield, East Hanover, Parsippany, and Boonton Township.

Form of Government

The area now known as Montville Township was first settled by Dutch farmers. By the 1740's, the settlement had grown in size and construction of the first road began connecting various farms. The mid-19th century saw the development of two smaller village centers set apart from Montville: Pine Brook and Towaco. On April 11, 1867, the three sections of Towaco, Montville and Pine Brook were formally united and chartered into the Township of Montville.

The Township is governed by a Township Committee, which has both legislative and executive powers, and is comprised of five members, elected at large, for three-year terms. The Mayor is chosen annually by ballot and majority vote of all governing body members.

The executive powers are implemented through a professional staff comprised of a Township Administrator, Township Clerk, Chief Financial Officer, and various Department Heads.

Transportation

The Township's proximity and access to major transportation systems and international markets is appealing to many. It is nestled between Interstate Highways 80 and 287, and U.S. Route 46. These major highways make it possible to reach New York City in about 40 minutes. Westbound Route 80 makes the Delaware Water Gap in a pleasant 40 minute drive. Northbound Route 287 provides access to the New York Thruway and points north within 20 minutes. Township residents commuting to New York City and northeastern New Jersey are serviced by New Jersey Transit Rail and Bus Lines, as well as several other regional bus lines. Additionally, Montville is within a 30-minute drive of Newark Liberty International Airport.

Protection

Montville is served by a Police Department consisting of 33 police officers and 4 detectives and operates 16 marked and 6 unmarked vehicles. The Township is comprised of three Fire Districts: Montville District #1, Towaco District #2, and Pine Brook District #3. Each district is governed by a Board of Fire Commissioners elected from the Fire Districts and funding for operations and capital improvements are raised by a voter approved special tax levy and contributions. Each Fire Department is comprised of two fire companies. All companies maintain the most up-to-date equipment and are staffed by volunteers.

Refuse Collection

The Township provides garbage collection for all homes on a semi-weekly basis. Recycling collection is provided for all homes on a weekly basis. The Township contracts with a private contractor for both of these services. Payment for such garbage and recycling collection services is part of the general property tax levy.

Recreation

The Township's network of parks and open space needs to respond to the additional demands of a growing population and to preserve land from over development in the future. To service the expanding needs of the community, the Township took its 84-acres Community Center tract and constructed 4 competition-grade, lighted athletic fields and basketball courts, upgraded the community gardens available as gardening/farming space for any resident, and completed an amphitheater for outdoor concerts and performances. The barn, which served as the Community Center is now a 1,400 square foot facility includes meeting rooms, a kitchen and locker rooms. The Township in partnership with the Montville Kiwanis constructed an extensive playground in Community Park. To help preserve valuable open space, the combined efforts of the Township and the County have acquired over 900 acres in northern Montville since 1990. These areas include miles of walking/hiking trails, waterfalls and mountain-top views of the Township and the New York City skyline.

Population Trends⁵

Population trends for the Township, County and State since 1980 are shown below:

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016</u>
Township of Montville	14,290	15,600	20,839	21,528	21,700
County of Morris	407,630	421,353	470,212	492,276	498,423
State of New Jersey	7,365,011	7,730,188	8,414,378	8,791,894	8,944,469

Money Income as of 2016⁶

	<u>Median Household Income</u>	<u>Median Family Income</u>	<u>Per Capita Income</u>
Township of Montville	\$ 128,625	\$ 149,886	\$ 61,069
County of Morris	102,798	123,650	51,182
State of New Jersey	73,702	90,757	37,538

⁵ Source: State of New Jersey, Data Center, Census Data

⁶ Source: U.S. Census Bureau, 2012-2016 American Community Survey

Employment and Unemployment Data⁷

For the years 2012 to 2016 the New Jersey Department of Labor reported the following annual average employment information for the Township, the County and the State:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Township of Montville</u>				
2016	10,859	10,455	404	3.7%
2015	10,938	10,521	417	3.8%
2014	10,977	10,474	503	4.6%
2013	11,321	10,701	620	5.5%
2012	12,251	11,746	505	4.1%
<u>Morris County</u>				
2016	260,506	250,348	10,158	3.9%
2015	263,272	252,148	11,124	4.2%
2014	263,878	250,919	12,959	4.9%
2013	274,179	257,024	17,155	6.3%
2012	275,962	255,907	20,055	7.3%
<u>State of New Jersey</u>				
2016	4,524,300	4,299,900	224,400	5.0%
2015	4,530,500	4,267,900	262,600	5.8%
2014	4,518,700	4,218,400	300,300	6.6%
2013	4,537,800	4,166,000	371,800	8.2%
2012	4,595,500	4,159,300	436,200	9.5%

⁷ Source: State of New Jersey Data Center

**STATEMENT OF STATUTORY NET DEBT
FOR THE TOWNSHIP OF MONTVILLE⁸
AS OF DECEMBER 1, 2017 (UNAUDITED)**

GENERAL PURPOSES

Bonds and Notes Issued and Outstanding		
Bonds	\$ 22,106,000	
Loans	889,061	
Bonds and Notes Authorized But Not Issued	<u>2,408,706</u>	
		\$ 25,403,767

WATER UTILITY

Bonds	\$ 1,940,000	
Notes	885,000	
Bonds and Notes Authorized But Not Issued	<u>3,099</u>	
		2,828,099

SEWER UTILITY

Bonds	\$ 5,881,000	
Loans	1,187,478	
Bonds and Notes Authorized But Not Issued	<u>1,728</u>	
		7,070,206

LOCAL SCHOOL

Debt Issued, Outstanding and Authorized		<u>25,705,877</u>
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TOTAL GROSS DEBT 61,007,949

STATUTORY DEDUCTIONS

School Debt	\$ 25,705,877	
Water/Sewer Utility	9,898,305	
Municipal	<u>5,447,675</u>	
		<u>41,051,857</u>

TOTAL NET DEBT \$ 19,956,092

OVERLAPPING DEBT

County of Morris (Note 1)	\$ 11,994,491	
Township of Montville Fire Districts (A)	<u>-</u>	
		<u>\$ 11,994,491</u>

GROSS DEBT

Per Capita (2016 - 21,700)	\$ 2,811
Percent of Net Valuation Taxable (2017 - \$4,514,824,700)	1.35%
Percent of Estimated True Value of Real Property (2017 - \$5,043,362,487)	1.21%

NET MUNICIPAL DEBT

Per Capita (2016 - 21,700)	\$ 920
Percent of Net Valuation Taxable (2017 - \$4,514,824,700)	0.44%
Percent of Estimated True Value of Real Property (2017 - \$5,043,362,487)	0.40%

OVERALL DEBT (Gross and Overlapping Debt)

Per Capita (2016 - 21,700)	\$ 3,364
Percent of Net Valuation Taxable (2017 - \$4,514,824,700)	1.62%
Percent of Estimated True Value of Real Property (2017 - \$5,043,362,487)	1.45%

(A) Unavailable

Note 1: Overlapping debt was computed based upon the real property ratio of equalized valuations of the Township to all municipalities within the County, as provided in the 2016 Abstract of Ratables published by the Morris County Board of Taxation.

Note 2: Overlapping debt was computed based upon the annual flow of the Township to all participants within the Authority.

⁸ Source: The Township of Montville 2016 Audit and 2017 Supplemental Debt Statements

Largest Taxpayers⁹

The largest taxpayers in the Township and their 2017 assessed valuations are listed below:

<u>Taxpayer</u>	<u>Assessment</u>	<u>% of Total Assessed Value</u>
RG Realty Investors LLC	\$ 75,000,500	1.54%
19 Chapin C/O AEW Capital Mgm	48,000,000	0.99%
Newark Morning Ledger	19,500,000	0.40%
Milwe, Jane	18,969,000	0.39%
O'Dowd's, Inc.	16,717,000	0.34%
RCS Montville LLC	16,437,000	0.34%
Trianlge 46 Prop LLC	16,150,500	0.33%
Algonquin Gas Trans Co	15,592,300	0.32%
O'Dowd's, Inc.	15,222,000	0.31%
RCS Montville LLC	<u>13,902,000</u>	<u>0.29%</u>
	<u>\$ 255,490,300</u>	<u>5.25%</u>

Assessed Valuations/Land and Improvements by Class¹⁰

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartment</u>	<u>Total</u>
2017	\$ 56,975,700	\$ 3,744,584,200	\$ 8,963,900	\$ 255,186,600	\$ 369,089,500	\$ 77,158,000	\$ 4,511,957,900
2016	56,943,100	3,737,842,800	10,582,700	253,655,400	371,941,400	77,158,000	4,508,123,400
2015	59,263,100	3,729,974,300	9,697,000	252,267,500	373,495,200	77,158,000	4,501,855,100
2014	59,887,700	3,724,787,100	9,261,100	258,164,500	374,440,000	77,158,000	4,503,698,400
2013	64,615,400	3,711,437,300	9,512,800	259,359,200	376,923,100	77,158,000	4,499,005,800

Assessed Valuations/Net Valuation Taxable¹¹

<u>Year</u>	<u>Real Property</u>	<u>Business Personal Property</u>	<u>Net Valuation Taxable</u>	<u>Ratio of Assessed Value to True Value of Real Property</u>	<u>Total True Value of Assessed Property</u>
2017	\$ 4,511,957,900	\$ 2,866,800	\$ 4,514,824,700	89.67%	\$ 5,043,362,487
2016	4,508,123,400	3,005,634	4,511,129,034	93.25%	4,834,448,686
2015	4,501,855,100	3,037,248	4,504,892,348	92.69%	4,868,850,280
2014	4,503,698,400	3,036,582	4,506,734,982	94.47%	4,779,541,828
2013	4,499,005,800	4,878,055	4,503,883,855	93.17%	4,843,403,476

⁹ Township of Montville Tax Assessor

¹⁰ Township of Montville Tax Duplicate

¹¹ Morris County Abstract of Ratables

Components of Real Estate Tax Rate (per \$100 of Assessment)¹²

<u>Year</u>	<u>Total</u>	<u>Municipal</u>	<u>Local School</u>	<u>County</u>	<u>Fire Districts</u>
2017	\$ 2.346	\$ 0.483	\$ 1.534	\$ 0.290	\$ 0.039
2016	2.296	0.475	1.507	0.275	0.039
2015	2.220	0.433	1.480	0.272	0.035
2014	2.227	0.466	1.451	0.271	0.039
2013	2.276	0.462	1.426	0.269	0.119

Board Tax Collections¹³

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Total Levy</u>	<u>Collection During</u> <u>Year of Levy</u>	
		<u>Amount</u>	<u>Percentage</u>
2017	\$ 68,592,541	\$ 68,592,541	100.00%
2016	67,293,875	67,293,875	100.00%
2015	66,018,760	66,018,760	100.00%
2014	64,762,751	64,762,751	100.00%
2013	63,672,519	63,672,519	100.00%

¹² Montville Board of Education Annual Audit Reports

¹³ Montville Board of Education Annual Audit Reports

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APPENDIX B

**Financial Statements of The Board of Education of the
Township of Montville
in the County of Morris, New Jersey as of and for
the Fiscal Year Ended June 30, 2017**

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LERCH, VINCI & HIGGINS, LLP

CERTIFIED PUBLIC ACCOUNTANTS
REGISTERED MUNICIPAL ACCOUNTANTS

DIETER P. LERCH, CPA, RMA, PSA
GARY J. VINCI, CPA, RMA, PSA
GARY W. HIGGINS, CPA, RMA, PSA
JEFFREY C. BLISS, CPA, RMA, PSA
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MARK SACO, CPA
SHERYL M. NICOLosi, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Trustees
Montville Township Public Schools
Montville, New Jersey

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 Montville Township Public Schools, as of and for the fiscal year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Montville Township Public Schools' basic financial statements.

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, the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States and audit requirements as prescribed by the Office of School 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montville Township Public Schools as of June 30, 2017, 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 Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2017 on our consideration of the Montville Township Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Montville Township Public Schools' internal control over financial reporting and compliance.

By/s/

LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants

Fair Lawn, New Jersey
October 24, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MONTVILLE TOWNSHIP PUBLIC SCHOOLS
Management's Discussion and Analysis
for the Fiscal Year Ended June 30, 2017

This discussion and analysis of the Montville Township School District's financial performance provides an overall review of its financial activities for the fiscal year ended June 30, 2017. The intent of this analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2017 are as follows:

- The District's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources at year end by \$16,008,853 (net position). The District's net position decreased \$2,601,699, or 14% from the previous year.
- General revenues accounted for \$69,059,409 or 68 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$31,898,672 or 32 percent of total revenues of \$100,958,081.
- The School District had \$101,897,960 in governmental activity expenses; only \$30,212,028 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily property taxes) were adequate to provide for these programs.
- Among governmental funds, the General Fund had \$80,185,557 in revenues and \$82,201,477 in expenditures. After allowing for capital lease proceeds and operating transfers, the General Fund's fund balance decreased \$1,039,984, or 15 percent from 2016.
- The General Fund unassigned budgetary basis fund balance at June 30, 2017 was \$2,643,146 which represents an increase of \$92,723 compared to the ending unassigned budgetary basis fund balance at June 30, 2016 of \$2,550,423.

Using this Comprehensive Annual Financial Report (CAFR)

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document reports on all funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and ask the question, "How did we do financially during fiscal year 2017?" The Statement of Net Position and the Statement of Activities answer that question. These statements include all assets, deferred outflows of resources and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector businesses. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid, as well as the activity of capital assets and long-term liabilities.

These two statements report the School District's net position and changes in net position. This change is important because it tells the reader that, for the school district as a whole, its financial position improved or diminished. The causes of this change may be the result of many factors. Non-financial factors include the District's property tax base, current laws in New Jersey restricting revenue growth, and reserve balances, facility condition, required educational programs and other factors.

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

- Governmental Activities – All programs and services are reported here including instruction, support services, operation and maintenance of plant facilities, pupil transportation and extracurricular activities.
- Business-Type Activity – These services are provided on a charge-for- goods or services basis to recover all the expenses of the goods or services provided. The Food Service Fund and the Montville Extended Day Learning Center (MEDLC) Enterprise Funds are reported as business-type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's funds. The District's governmental funds include the General Fund, Special Revenue Fund, Capital Projects Fund, and Debt Service Fund.

Governmental Funds

The District's activities are reported in governmental funds. These funds are reported using an accounting method known as modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Enterprise Fund

The enterprise fund uses the same basis of accounting as business-type activities; therefore, these statements are essentially the same as the District-wide statements.

The District as a Whole

The Statement of Net Position provides one perspective of the District as a whole.

A comparative summary of the District's net position as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Assets		
Current and Other Assets	\$ 7,058,118	\$ 7,614,689
Capital Assets, net of accumulated depreciation	<u>35,882,137</u>	<u>37,374,538</u>
Total Assets	<u>42,940,255</u>	<u>44,989,227</u>
Deferred Outflows of Resources	<u>7,552,371</u>	<u>4,122,448</u>
Total Assets and Deferred Outflows of Resources	<u>50,492,626</u>	<u>49,111,675</u>
Liabilities		
Long-Term Liabilities	33,278,823	28,646,392
Other Liabilities	<u>1,204,950</u>	<u>851,338</u>
Total Liabilities	<u>34,483,773</u>	<u>29,497,730</u>
Deferred Inflows of Resources	<u>-</u>	<u>243,817</u>
Total Liabilities and Deferred Inflows of Resources	<u>34,483,773</u>	<u>29,741,547</u>
Net Position		
Net Investment in Capital Assets	25,944,247	25,330,397
Restricted	3,013,172	3,399,251
Unrestricted	<u>(12,948,566)</u>	<u>(9,359,520)</u>
Total Net Position	<u>\$ 16,008,853</u>	<u>\$ 19,370,128</u>

A comparative schedule of the changes in net position for fiscal years ended June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Revenues		
Program Revenues:		
Charges for Services	\$ 2,102,122	\$ 2,033,394
Grants and Contributions	29,796,550	22,952,113
General Revenues:		
Property Taxes	68,592,541	67,293,875
Grants and Entitlements	244,503	208,927
Other	<u>222,365</u>	<u>345,441</u>
Total Revenues	<u>100,958,081</u>	<u>92,833,750</u>
Program Expenses		
Instruction	67,268,064	59,063,977
Support Services:		
Pupils and Instructional Staff	15,521,847	13,470,822
General Administration, School Administration, Business, Operations and Maintenance of Facilities	14,679,620	13,652,601
Pupil Transportation	4,068,580	4,098,468
Interest on Debt	359,849	606,495
Food Service and Extended Day Learning Center	<u>1,661,820</u>	<u>1,700,913</u>
Total Expenses	<u>103,559,780</u>	<u>92,593,276</u>
Increase (Decrease) in Net Position	<u>\$ (2,601,699)</u>	<u>\$ 240,474</u>

Governmental Activities

Property taxes comprise 69 percent of revenues for governmental activities for the Montville Township Public Schools in fiscal year 2017. The District's total governmental activities revenues were \$99,223,549 for the fiscal year ended June 30, 2017. Federal, state, and local grants accounted for 29 percent of this total revenue. The total cost of all governmental programs and services was \$101,897,960. Instruction comprises 66 percent of District governmental expenses.

Business-Type Activities

Revenues for the District's business-type activities (food service and extended day learning center programs) were comprised of charges for services and federal reimbursements.

- Business-Type Activities revenues and transfers exceeded expenses by \$72,712.
- Charges for services represent 99 percent of revenue. This represents amounts paid for food service and extended day learning center fees.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The total cost of services and the net cost of services for the fiscal years ended June 30, 2017 and 2016 are summarized below. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

	Total Cost of Services		Net Cost of Services	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Instruction	\$ 67,268,064	\$ 59,063,977	\$ 42,443,644	\$ 39,409,046
Support Services				
Pupils and Instructional Staff	15,521,847	13,470,822	12,035,931	10,999,554
General Administration, School Admin., Business, Operation and Maintenance of Facilities	14,679,620	13,652,601	13,383,805	12,683,297
Pupil Transportation	4,068,580	4,098,468	3,490,746	3,838,891
Interest and Fiscal Charges	<u>359,849</u>	<u>606,495</u>	<u>331,806</u>	<u>569,231</u>
Total	<u>\$ 101,897,960</u>	<u>\$ 90,892,363</u>	<u>\$ 71,685,932</u>	<u>\$ 67,500,019</u>

Instruction expenses include activities directly dealing with the teaching of pupils and the interactions between teacher and student, including extracurricular activities.

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

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

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

Governmental Activities (Continued)

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Interest on debt involves the transactions associated with the payment of interest and other related charges to debt of the District.

The District's Funds

All governmental funds (i.e., general fund, special revenue fund, capital projects fund and debt service fund presented in the fund-based statements) are accounted for using the modified accrual basis of accounting. Total revenues amounted to \$83,811,818 and expenditures were \$85,758,733.

As demonstrated by the various statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound fiscal management. The following schedule presents a comparative summary of the governmental fund revenues for the fiscal years ended June 30, 2017 and 2016.

<u>Revenue</u>	<u>Fiscal Year Ended</u>		<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
	<u>June 30, 2017</u>	<u>June 30, 2016</u>		
Local Sources	\$ 69,270,702	\$ 68,118,197	\$ 1,152,505	1.7%
State Sources	13,614,393	12,271,912	1,342,481	10.9%
Federal Sources	<u>926,723</u>	<u>1,032,314</u>	<u>(105,591)</u>	-10.2%
Total Revenues	<u>\$ 83,811,818</u>	<u>\$ 81,422,423</u>	<u>\$ 2,389,395</u>	2.9%

The following schedule represents a comparative summary of general fund, special revenue fund, capital projects fund and debt service fund expenditures for the fiscal years ended June 30, 2017 and 2016.

<u>Expenditures</u>	<u>Fiscal Year Ended</u>		<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
	<u>June 30, 2017</u>	<u>June 30, 2016</u>		
Current				
Instruction	\$ 53,970,537	\$ 50,505,041	\$ 3,465,496	6.9%
Support Services	28,461,748	27,158,081	1,303,667	4.8%
Capital Outlay	354,701	3,200,110	(2,845,409)	-88.9%
Debt Service				
Principal	2,521,931	2,310,074	211,857	9.2%
Interest and Other	<u>449,816</u>	<u>672,800</u>	<u>(222,984)</u>	-33.1%
Total Expenditures	<u>\$ 85,758,733</u>	<u>\$ 83,846,106</u>	<u>\$ 1,912,627</u>	2.3%

General Fund Budgeting Highlights

The District's budget is prepared according to New Jersey law, and is based on accounting for certain transactions on the basis of cash receipts, disbursements and encumbrances. The most significant budgetary fund is the General Fund.

Over the course of the year, the District revised the annual operating budget several times. Revisions in the budget were made to prevent over expenditures in specific line item accounts. Several of these revisions bear notation.

- Salary accounts were adjusted to reflect: changes in staff assignments; retirements, resignations and the resulting new hires; program adjustments necessitated by student population changes.
- Energy (Heat and Electricity) – There was a substantial decrease in the cost of electricity. A large portion of this reduction is attributed to energy saving initiatives/programs that the district participated with in recent years such as the NJ BPU's Clean Energy Program. These savings contributed to the additional fund balance generated this school year.
- Special Education (OOD Tuition) – These line items generally require significant transfers each year due to the frequently changing needs of these students. These costs, which are associated with the classified population are mandated by law and difficult to anticipate.
- Capital Outlay – Transfers were made to cover the costs related to capital improvement projects throughout the District.
- TPAF, which is the state's contribution to the pension fund and social security is neither a revenue item nor an expenditure item in the District's budget but is required to be reflected in the financial statements. The amounts reported for 2017 increased from the previous year due to the continued implementation of GASB Statement No. 68 in recent years.

Capital Assets

At the end of fiscal year 2017, the District had \$73,971,614 invested in land, buildings, furniture, equipment and vehicles. Accumulated depreciation on these assets at June 30, 2017 was \$38,089,477. The Table below compares the fiscal year 2017 balances to the 2016 balances.

Capital Assets (Net of Depreciation) at June 30

	<u>2017</u>	<u>2016</u>
Land	\$ 129,801	\$ 129,801
Construction in Progress		
Improvements Other Than Buildings	31,186,862	3,204,259
Building and Building Improvements	3,252,852	32,534,957
Machinery and Equipment	<u>1,312,622</u>	<u>1,505,521</u>
Total Capital Assets, Net	<u>\$35,882,137</u>	<u>\$37,374,538</u>

Debt Administration

At June 30, 2017, the District had \$33,278,823 of long-term liabilities. Of this amount, \$767,237 is for compensated absences; \$1,617,573 is for outstanding capital leases, \$20,763,330 is the net pension liability, and \$10,130,683 for outstanding serial bonds (including the unamortized premium) issued to fund school construction projects.

Outstanding Bonded Debt at June 30

	<u>2017</u>	<u>2016</u>
2004 Refunding Bonds	\$ 1,680,000	\$ 2,530,000
2008 Refunding Bonds	3,255,000	3,880,000
2016 Refunding Bonds	<u>4,635,000</u>	<u>5,200,000</u>
Sub-total	9,570,000	11,610,000
Add: Unamortized Premium on Refunding Bonds	<u>560,683</u>	<u>683,258</u>
Total	<u>\$ 10,130,683</u>	<u>\$ 12,293,258</u>

For the Future

The district continues to experience declining student enrollments, a trend forecasted to continue for another few years. This drop in the overall student population however has not affected the districts stable economic position. The district continues to maintain healthy fund balances, despite a number of financial limits placed on school districts by state law, such as an annual 2% cap on the increase in the local tax levy. Everyone associated with the Montville Township Public Schools is grateful for the community support of the schools. A major concern is the prospect of flat state funding for the foreseeable future, which results in an ever-increasing reliance on local property taxes.

In conclusion, the Montville Township Public Schools has committed itself to financial excellence for several years now. Its system for financial planning, budgeting and internal financial controls is audited annually and the district intends to continue to prioritize its financial management so that it is prepared to face and weather tomorrows challenges.

Contacting the District's Financial Management

If you have questions about this report or need additional information, contact the School Business Administrator at the Montville Township Public Schools, 86 River Road, Montville, NJ 07045.

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BASIC FINANCIAL STATEMENTS

MONTVILLE TOWNSHIP PUBLIC SCHOOLS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 5,131,878	\$ 556,396	\$ 5,688,274
Receivables, net			
Receivables from Other Governments	1,342,360		1,342,360
Accounts	9,964	10,305	20,269
Inventories		7,215	7,215
Internal Balances	497,179	(497,179)	
Capital Assets			
Not Being Depreciated	129,801		129,801
Being Depreciated, Net	35,648,079	104,257	35,752,336
	<u>42,759,261</u>	<u>180,994</u>	<u>42,940,255</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Net Pension Liability	7,398,484		7,398,484
Deferred Amount on Refunding of Debt	153,887	-	153,887
	<u>7,552,371</u>	<u>-</u>	<u>7,552,371</u>
Total Assets and Deferred Outflows of Resources	<u>50,311,632</u>	<u>180,994</u>	<u>50,492,626</u>
LIABILITIES			
Accounts Payable and Other Current Liabilities	652,208	35,906	688,114
Payable to Other Governments	6,590		6,590
Unearned Revenue	262,786	77,560	340,346
Accrued Interest Payable	169,900		169,900
Noncurrent Liabilities			
Due Within One Year	2,740,875		2,740,875
Due Beyond One Year	30,537,948		30,537,948
	<u>34,370,307</u>	<u>113,466</u>	<u>34,483,773</u>
NET POSITION			
Net Investment in Capital Assets	25,839,990	104,257	25,944,247
Restricted for:			
Capital Projects	2,892,172		2,892,172
Other Purposes	121,000		121,000
Unrestricted	(12,911,837)	(36,729)	(12,948,566)
	<u>\$ 15,941,325</u>	<u>\$ 67,528</u>	<u>\$ 16,008,853</u>

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
Instruction							
Regular	\$ 43,938,994	\$ 131,082	\$ 15,059,692		\$ (28,748,220)		\$ (28,748,220)
Special Education	18,580,325		8,680,000		(9,900,325)		(9,900,325)
Other Instruction	2,540,006		953,646		(1,586,360)		(1,586,360)
School Sponsored Activities and Athletics							
	2,208,739				(2,208,739)		(2,208,739)
Support Services							
Student and Instruction Related Svcs.	15,521,847		3,485,916		(12,035,931)		(12,035,931)
General Administrative Services	1,911,715				(1,911,715)		(1,911,715)
School Administrative Services	4,258,151		1,209,126		(3,049,025)		(3,049,025)
Plant Operations and Maintenance	6,905,148		86,689		(6,818,459)		(6,818,459)
Pupil Transportation	4,068,580	284,396	293,438		(3,490,746)		(3,490,746)
Business Services	1,604,606				(1,604,606)		(1,604,606)
Interest on Long-Term debt	359,849		28,043		(331,806)		(331,806)
Total Governmental Activities	<u>101,897,960</u>	<u>415,478</u>	<u>29,796,550</u>	<u>-</u>	<u>(71,685,932)</u>	<u>-</u>	<u>(71,685,932)</u>
Business-Type Activities							
Food Service	935,370	912,660				\$ (22,710)	(22,710)
Extended Day Learning Center	<u>726,450</u>	<u>773,984</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,534</u>	<u>47,534</u>
Total Business-Type Activities	<u>1,661,820</u>	<u>1,686,644</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,824</u>	<u>24,824</u>
Total Primary Government	<u>\$103,559,780</u>	<u>\$ 2,102,122</u>	<u>\$ 29,796,550</u>	<u>\$ -</u>	<u>(71,685,932)</u>	<u>24,824</u>	<u>(71,661,108)</u>
General Revenues:							
Property Taxes, Levied for General Purposes, Net					66,212,082		66,212,082
Taxes Levied for Debt Service					2,380,459		2,380,459
State Aid - Unrestricted					112,061		112,061
State Aid - Restricted for Debt Service					132,442		132,442
Investment Earnings					54,846	463	55,309
Miscellaneous Income					167,056		167,056
Transfers					(47,425)	47,425	-
Total General Revenues and Transfers					<u>69,011,521</u>	<u>47,888</u>	<u>69,059,409</u>
Change in Net Position					(2,674,411)	72,712	(2,601,699)
Net Position, Beginning of Year (Restated)					<u>18,615,736</u>	<u>(5,184)</u>	<u>18,610,552</u>
Net Position, End of Year					<u>\$ 15,941,325</u>	<u>\$ 67,528</u>	<u>\$ 16,008,853</u>

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

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FUND FINANCIAL STATEMENTS

MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2017

	<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	\$ 5,062,872			\$ 69,006	\$ 5,131,878
Receivables					
Due From Other Funds	1,580,811				1,580,811
Intergovernmental	<u>161,247</u>	<u>\$ 823,152</u>	<u>\$ 357,961</u>	<u>-</u>	<u>1,342,360</u>
Total Assets	<u>\$ 6,804,930</u>	<u>\$ 823,152</u>	<u>\$ 357,961</u>	<u>\$ 69,006</u>	<u>\$ 8,055,049</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 635,152	\$ 17,056			\$ 652,208
Due To Other Funds		765,167	\$ 308,501		1,073,668
Payable to Other Governments		6,590			6,590
Unearned Revenue	<u>226,150</u>	<u>34,339</u>	<u>2,297</u>		<u>262,786</u>
Total Liabilities	<u>861,302</u>	<u>823,152</u>	<u>310,798</u>	<u>-</u>	<u>1,995,252</u>
Fund Balances					
Restricted					
Capital Reserve	2,422,172				2,422,172
Capital Reserve - Designated for Subsequent Year's Budget	470,000				470,000
Maintenance Reserve	51,000				51,000
Maintenance Reserve - Designated for Subsequent Year's Budget	70,000				70,000
Excess Surplus- Designated for Subsequent Year's Budget	1,000,000				1,000,000
Excess Surplus	1,000,000				1,000,000
Capital Projects			47,163		47,163
Debt Service				\$ 69,006	69,006
Assigned					
Encumbrances	77,703				77,703
Designated for Subsequent Year's Budget	1,200,000				1,200,000
Unassigned	<u>(347,247)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(347,247)</u>
Total Fund Balances	<u>5,943,628</u>	<u>-</u>	<u>47,163</u>	<u>69,006</u>	<u>6,059,797</u>
Total Liabilities and Fund Balances	<u>\$ 6,804,930</u>	<u>\$ 823,152</u>	<u>\$ 357,961</u>	<u>\$ 69,006</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 \$73,587,761 and the accumulated depreciation is \$37,809,881. 35,777,880

Deferred Inflows and Outflows related to the debt refundings and net pension liability are not reported in the funds. (See Note 2) 7,552,371

The District has financed capital assets through the issuance of general obligation bonds. The accrued interest at year end is: (169,900)

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 (Note 2). (33,278,823)

Net Position of Governmental Activities (Exhibit A-1) \$ 15,941,325

MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES					
Local Sources					
Property Tax Levy	\$ 66,212,082			\$ 2,380,459	\$ 68,592,541
Tuition	131,082				131,082
Transportation	284,396				284,396
Interest	54,846				54,846
Miscellaneous	167,056	\$ 40,781	-	-	207,837
Total - Local Sources	66,849,462	40,781	-	2,380,459	69,270,702
State Sources	13,336,095	117,813		160,485	13,614,393
Federal Sources	-	926,723	-	-	926,723
Total Revenues	80,185,557	1,085,317	-	2,540,944	83,811,818
EXPENDITURES					
Current					
Instruction					
Regular Instruction	34,325,632	148,290			34,473,922
Special Education Instruction	14,792,638	755,393			15,548,031
Other Instruction	1,932,790	21,506			1,954,296
School Sponsored Activities and Athletics	1,994,288				1,994,288
Support Services and Undistributed Costs					
Student and Instruction Related Services	12,609,424	143,228			12,752,652
General Administrative Services	1,773,321				1,773,321
School Administrative Services	3,310,431				3,310,431
Plant Operations and Maintenance	5,128,949	16,900			5,145,849
Pupil Transportation	4,058,528				4,058,528
Business/Central Services	1,420,967				1,420,967
Debt Service					
Principal	481,931			2,040,000	2,521,931
Interest and Other Charges	17,877			431,939	449,816
Capital Outlay	354,701	-	-	-	354,701
Total Expenditures	82,201,477	1,085,317	-	2,471,939	85,758,733
Excess (Deficiency) of Revenues Over Expenditures	(2,015,920)	-	-	69,005	(1,946,915)
OTHER FINANCING SOURCES (USES)					
Capital Lease Proceeds	1,023,361				1,023,361
Transfers Out	(47,425)	-	-	-	(47,425)
Total Other Financing Sources and Uses	975,936	-	-	-	975,936
Net Change in Fund Balances	(1,039,984)	-	-	69,005	(970,979)
Fund Balance, Beginning of Year	6,983,612	-	47,163	1	7,030,776
Fund Balance, End of Year	\$ 5,943,628	\$ -	\$ 47,163	\$ 69,006	\$ 6,059,797

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
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, 2017**

Total Net Change in Fund Balances - Governmental Funds (Exhibit B-2) \$ (970,979)

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 and reported as depreciation expense.

Depreciation Expense	\$ (1,882,734)	
Capital Outlay - Additions	<u>354,701</u>	
		(1,528,033)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. These transactions have no effect on net position.

Debt Issued		
Capital Lease		(1,023,361)
Principal Repayments		
Serial Bonds	2,040,000	
Capital Lease	<u>481,931</u>	
		2,521,931

Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Decrease in Accrued Interest	23,716	
Increase in Net Pension Liability	(1,868,726)	
Amortization of Original Issue Premium	122,575	
Amortization of Deferred Amount on Refunding	(56,324)	
Net Decrease in Compensated Absences	<u>104,790</u>	
		<u>(1,673,969)</u>

Change in Net Position of Governmental Activities (Exhibit A-2) \$ (2,674,411)

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 AS OF JUNE 30, 2017**

	<u>Business- Type Activities Enterprise Funds Non - Major</u>
ASSETS	
Current Assets	
Cash and Cash Equivalents	\$ 556,396
Receivables	
Other	10,305
Inventory	<u>7,215</u>
Total Current Assets	<u>573,916</u>
Capital Assets	
Furniture, Machinery and Equipment	383,853
Less: Accumulated Depreciation	<u>(279,596)</u>
Total Capital Assets	<u>104,257</u>
Total Assets	<u>678,173</u>
LIABILITIES	
Current Liabilities	
Accounts Payable	33,931
Due to Other Funds	497,179
Unearned Revenue	77,560
Other Current Liabilities	<u>1,975</u>
Total Current Liabilities	<u>610,645</u>
NET POSITION	
Net Investment in Capital Assets	104,257
Unrestricted	<u>(36,729)</u>
Total Net Position	<u><u>\$ 67,528</u></u>

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Business-Type Activities Enterprise Fund Non-Major</u>
OPERATING REVENUES	
Charges for Services	
Daily Sales	\$ 885,625
Special Functions	27,035
Program Fees	<u>773,984</u>
 Total Operating Revenues	 <u>1,686,644</u>
OPERATING EXPENSES	
Salaries and Wages	1,030,164
Management Fee	52,179
Supplies and Materials	71,287
Repairs and Maintenance	12,061
Utilities	18,750
Miscellaneous	55,511
Cost of Sales	408,849
Depreciation	<u>13,019</u>
 Total Operating Expenses	 <u>1,661,820</u>
 Operating Income (Loss)	 <u>24,824</u>
NONOPERATING REVENUES	
Interest	<u>463</u>
 Total Nonoperating Revenues	 <u>463</u>
 Income Before Transfers	 25,287
Transfer in	<u>47,425</u>
 Change in Net Position	 72,712
Net Position, Beginning of Year	<u>(5,184)</u>
Net Position, End of Year	<u>\$ 67,528</u>

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Business-Type Activities Enterprise Funds Non-Major
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 1,711,013
Cash Payments for Employees Salaries and Benefits	(1,030,164)
Cash Payments to Suppliers for Goods and Services	(608,164)
	72,685
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Cash Received From Other Funds	102,426
	102,426
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(48,651)
	(48,651)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earnings	463
	463
Net Change in Cash and Cash Equivalents	126,923
Cash and Cash Equivalents, Beginning of Year	429,473
Cash and Cash Equivalents, End of Year	\$ 556,396
Reconciliation of Operating (Loss) to Net Cash (Used for) Operating Activities:	
Operating Income (Loss)	\$ 24,824
Adjustments to Reconcile Operating (Loss) to Net Cash (Used) for Operating Activities	
Depreciation	13,019
Change in Assets and Liabilities	
(Increase) / Decrease in Accounts Receivable	(4,150)
Increase / (Decrease) in Accounts Payable	11,209
Increase/(Decrease) in Other Current Liabilities	(2,167)
Increase / (Decrease) in Unearned Revenue	30,686
(Increase) / Decrease in Inventory	(736)
Total Adjustments	47,861
Net Cash (Used for) Operating Activities	\$ 72,685

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2017**

	<u>Private Purpose Trust Funds</u>	<u>Escrow Fund</u>	<u>Unemployment Compensation Trust Fund</u>	<u>Agency Fund</u>
ASSETS				
Cash and Cash Equivalents	\$ 12,102	\$ 79,706	\$ 292,091	\$ 1,748,292
Due from Other Funds			126,156	
Total Assets	<u>12,102</u>	<u>79,706</u>	<u>418,247</u>	<u>\$ 1,748,292</u>
LIABILITIES				
Due to Student Groups				\$ 229,394
Due to Other Funds				136,120
Intergovernmental Accounts Payable			6,684	
Accrued Salaries and Wages				72
Summer Savings				951,283
Reserve for Flex Spending				23,805
Reserve for Cobra				3,933
Payroll Deductions and Withholdings Payable				403,685
Total Liabilities	<u>-</u>	<u>-</u>	<u>6,684</u>	<u>\$ 1,748,292</u>
NET POSITION				
Held In Trust For Unemployment Claims and Other Purposes	<u>\$ 12,102</u>	<u>\$ 79,706</u>	<u>\$ 411,563</u>	

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	Private Purpose Trust Funds	Escrow Fund	Unemployment Compensation Trust Fund
ADDITIONS			
Interest Earnings	\$ 19	\$ 456	\$ 2,030
Donations	200		
Board Contributions		10,000	
Employee Deductions		-	69,221
Total Additions	<u>219</u>	<u>10,456</u>	<u>71,251</u>
DEDUCTIONS			
Scholarships Awarded	1,000		
Unemployment Claims and Contributions		-	79,542
Total Deductions	<u>1,000</u>	<u>-</u>	<u>79,542</u>
Change in Net Position	(781)	10,456	(8,291)
Net Position, Beginning of Year	<u>12,883</u>	<u>69,250</u>	<u>419,854</u>
Net Position, End of Year	<u>\$ 12,102</u>	<u>\$ 79,706</u>	<u>\$ 411,563</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Montville Township Public Schools (the “Board” or the “District”) is an instrumentality of the State of New Jersey, established to function as an education institution. The Board consists of nine elected officials and is responsible for the fiscal control of the District. A superintendent is appointed by the Board and is responsible for the administrative control of the District. Under existing statutes, the Board's duties and powers include, but are not limited to, the development and adoption of a school program; the establishment, organization and operation of schools; and the acquisition, maintenance and disposition of school property.

The Board also has broad financial responsibilities, including the approval of the annual budget and the establishment of a system of accounting and budgetary controls.

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the Montville Township Public Schools this includes general operations, food service, extended day learning and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization’s governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization’s resources; the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based on the foregoing criteria, the District has no component units. Furthermore, the District is not includable in any other reporting entity as a component unit.

B. New Accounting Standards

During fiscal year 2017, the District adopted the following GASB statements:

- GASB No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- GASB No. 77, *Tax Abatement Disclosures*. The requirements of this Statement will improve financial reporting by providing disclosure of information about the nature and magnitude of tax abatements that will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government’s financial position and economic condition.
- GASB No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14. *The Financial Reporting Entity, as amended*.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards (Continued)

- GASB No. 82, *Pension Issues – An Amendment of GASB Statements No.67, No.68, and No.73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pension*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are Not Within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Other accounting standards that the District is currently reviewing for applicability and potential impact on the financial statements include:

- GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- GASB No. 84, *Fiduciary Activities*, will be effective with the fiscal year ending June 30, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement established criteria for identifying fiduciary activities of all state and local governments.
- GASB No. 85, *Omnibus 2017*, will be effective with the fiscal year ending June 30, 2018. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post-employment benefits (pensions and other post-employment benefits (OPEB)).
- GASB No. 86, *Certain Debt Extinguishment Issues*, will be effective with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.
- GASB No. 87, *Leases*, will be effective with the fiscal year ending June 30, 2021. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

C. Basis of Presentation - Financial Statements

The financial statements include both district-wide financial statements (based on the District as a whole) and fund financial statements (based on specific District activities or objectives). Both the district-wide and fund financial statements categorize activities as either governmental activities or business-type activities. While separate district-wide and fund financial statements are presented, they are interrelated. In the district-wide financial statements, the governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the District's enterprise funds. Fiduciary funds are excluded from the district-wide financial statements.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Financial Statements (Continued)

District-Wide Financial Statements

The district-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 Board of Education. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the statement of net position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) reflect on a full accrual economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or other governmental entities, including other school districts, who purchase, use, or directly benefit from goods or services 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, unrestricted state aid, and other items not properly included among program revenues are reported instead as general revenues.

As a general rule the effect of interfund activity has been eliminated from the district-wide financial statements. Exceptions to this general rule are charges between the Board's proprietary and fiduciary funds since elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Separate fund financial statements are provided for governmental, proprietary, and fiduciary activities, even though the latter are excluded from the district-wide financial statements. The emphasis of fund financial statements is on major individual governmental and enterprise funds, each reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. The District considers all of its governmental funds to be major funds.

The District reports the following major governmental funds:

The *general fund* is the School District's primary operating fund. It accounts for all financial resources of the District, except those to be accounted for in another fund.

The *special revenue fund* accounts for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes. This fund accounts for federal, state and local financial programs, with the exception of grants for major capital projects and the child nutrition programs.

The *capital projects fund* accounts for the proceeds from the sale of bonds, lease purchases and other revenues used for the acquisition or construction of capital facilities and other capital assets, other than those financed by the proprietary funds.

The *debt service fund* accounts for the accumulation of resources that are restricted, committed or assigned for the payment of principal and interest on long-term general obligation debt of governmental funds.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

The District reports the following non-major proprietary funds which are organized to be self-supporting through user charges:

The *food service fund* accounts for the activities of the school cafeteria, which provides food service to students as well as a la carte and catering services for teachers and special events.

The *Montville Extended Day Learning Center (MEDLC) fund* accounts for the activities of the District's after school child care program.

Additionally, the government reports the following fund types:

The *fiduciary trust fund* is used to account for resources legally held in trust for the Administrative Offices, for the state unemployment insurance claims, for private donations for scholarship awards, payroll related activities and student related activities which are supported and controlled by student organizations and clubs. All resources of the fund, including any earnings on invested resources, may be used to support the intended purpose. There is no requirement that any portion of these resources be preserved as capital.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the district-wide financial statements as "internal balances".

Reclassifications

Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The district-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 with the exception of the agency fund which does not have a measurement focus. All assets, all liabilities and all deferred outflows/inflows of resources associated with these operations (with the exception of the fiduciary funds) are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded at the time liabilities are 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.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus and Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual (i.e. when they are both measurable and available). Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when a liability is incurred, as under accrual basis of accounting, with the exception of debt service expenditures as well as expenditures related to compensated absences and claims and judgments which are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, tuition, transportation fees, unrestricted state aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements (formula-type grants and aid) are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source. Expenditure-driven grants and similar awards (reimbursement-type grants and awards) are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements imposed by the grantor or provider have been met, and the amount is received during the period or within the availability period for this revenue source. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value and are limited by N.J.S.A. 18A:20-37.

2. Receivables

All receivables are reported at their gross value, and where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

3. Inventories

The cost of inventories of the governmental fund types are recorded as expenditures at the time individual inventory items are purchased.

Food Service Fund inventories are valued at cost, using the first-in first-out (FIFO) method and consist of food and expendable supplies. The cost of such inventories is recorded as expenses when consumed rather than when purchased.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

4. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the district-wide financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of \$2,000 and an estimated useful life in excess of two years. The District was able to estimate the historical cost for the initial reporting of these capital assets through back trending. As the District constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Land and construction in progress are not depreciated. The other property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Site Improvements	20
Buildings	40-50
Building Improvements	20
Heavy Equipment	10
Office Equipment and Furniture	10
Computer Equipment	5

5. Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board has two items which arise only under the accrual basis of accounting that qualify for reporting in this category. One item is the deferred amounts on refunding of debt which results from the loss on a debt refunding reported in the district-wide statement of net position. Deferred amounts on debt refunding result from the loss on the transaction when the debt's reacquisition price is greater than the carrying value of the refunded debt. These amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item that qualifies for reporting in this category is the deferred amounts on net pension liability. Deferred amounts on net pension liability are reported in the district-wide statement of net position and result from: (1) differences between expected and actual experience; (2) changes in assumptions; (3) net difference between projected and actual investment earnings on pension plan investments; (4) changes in proportion and differences between employer contributions and proportionate share of contributions; and (5) contributions made subsequent to the measurement date. These amounts are deferred and amortized over future years.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

6. Compensated Absences

It is the District's policy to permit employees to accumulate (with certain restrictions) earned but unused vacation and sick leave benefits. A long-term liability of accumulated vacation, personal and sick leave and salary related payments has been recorded in the governmental activities in the district-wide financial statements, representing the Board's commitment to fund such costs from future operations. Proprietary Funds do not permit the accrual of unused vacation, personal and sick leave. A liability is reported in the governmental funds only to the amount actually due at year end as a result of employee resignations and retirements.

7. Pensions

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

In the governmental fund financial statements, net pension liabilities represent amounts normally expected to be liquidated with expendable available financial resources for required pension contributions that are due and payable at year end. Pension expenditures are recognized based on contractual pension contributions that are required to be made to the pension plan during the fiscal year.

8. Long-Term Obligations

In the district-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Gains resulting from debt refundings are classified as deferred inflows of resources and losses are reported as deferred outflows or resources. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Gains and losses resulting from debt refundings are also deferred and amortized over the life of the refunded bonds or new bonds whichever is less using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs (other than for prepaid insurance) are treated as an expense.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

9. *Net Position/Fund Balance*

District-Wide Statements

In the district-wide statements, there are three classes of net position:

- **Net Investment in Capital Assets** – consists of net capital assets (cost less accumulated depreciation) reduced by outstanding balances of related debt obligations from the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or related debt also should be included.
- **Restricted Net Position** – reports net position when constraints placed on the residual amount of noncapital assets are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted Net Position** – any portion of net position not already classified as either net investment in capital assets or net position – restricted is classified as net position – unrestricted.

Governmental Fund Statements

Fund balance categories are designed to make the nature and extent of the constraints placed on the District's fund balance more transparent. These categories are comprised of a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Capital Reserve – This restriction was created by the District in accordance with NJAC 6A:23A-14.1 to fund future capital expenditures.

Capital Reserve - Designated for Subsequent Year's Budget – This designation was created to dedicate the portion of capital reserve fund balance appropriated in the adopted 2017/2018 District budget certified for taxes.

Maintenance Reserve – This restriction was created by the Board in accordance with NJAC 6A:23A-14.2 to accumulate funds for the required maintenance of school facilities in accordance with the EFCA (NJSA 18A:7G-9) for a thorough and efficient education.

Maintenance Reserve - Designated for Subsequent Year's Budget – This designation was created to dedicate the portion of maintenance reserve fund balance appropriated in the adopted 2017/2018 District budget certified for taxes.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (Continued)

9. Net Position/Fund Balance (Continued)

Governmental Fund Statements (Continued)

Restricted Fund Balance (Continued)

Excess Surplus – Designated for Subsequent Year’s Budget - This restriction was created in accordance with NJSA 18A:7F-7 to represent the June 30, 2016 audited excess surplus that was appropriated in the 2017/2018 original budget certified for taxes.

Excess Surplus – This restriction was created in accordance with NJSA 18A:7F-7 to represent the June 30, 2017 audited excess surplus that is required to be appropriated in the 2018/2019 original budget certified for taxes.

Capital Projects – Represents fund balance restricted specifically for capital acquisitions and improvements in the Capital Projects Fund.

Debt Service – Represents fund balance restricted specifically for the repayment of long-term debt principal and interest in the Debt Service Fund.

Assigned Fund Balance – Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Encumbrances – Represent outstanding purchase orders for goods or services approved by management for specific purposes from available resources of the current year for which the goods and materials have not yet been received or the services have not yet been rendered at June 30.

Designated for Subsequent Year’s Budget – This designation was created to dedicate the portion of fund balance appropriated in the adopted 2017/2018 District budget certified for taxes.

Unassigned Fund Balance – Represents fund balance that has not been restricted, committed or assigned to specific purposes within the governmental funds.

F. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues in the district-wide statement of activities include 1) charges to customers or applicants for goods or services, 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 property taxes, unrestricted state aid, investment earnings and miscellaneous revenues.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenues and Expenditures/Expenses (Continued)

2. *Property Taxes*

Property taxes are levied pursuant to law and are collected by the municipality and are transferred to the District as requested. Property tax revenues are recognized in the year they are levied and become available. Property taxes collected in advance of the year-end for which they are levied and transferred to the District are reported as deferred inflows of resources. The tax bills are mailed annually in June by the municipal tax collector and are levied and due in four quarterly installments on August 1, November 1, February 1 and May 1 of the fiscal year. When unpaid, taxes or any other municipal lien, or part thereof, on real property, remains in arrears on April 1st in the year following the calendar year levy when the same became in arrears, the tax collector of the municipality shall, subject to the provisions of New Jersey Statute, enforce the lien by placing the property on a tax sale. The municipality may institute annual “in rem” tax foreclosure proceedings to enforce the tax collection or acquisition of title to the property.

3. *Tuition Revenues and Expenditures*

Tuition Revenues - Tuition charges were established by the Board of Education based on estimated costs. The charges are subject to adjustment when the final costs are determined and certified by the State Department of Education.

Tuition Expenditures - Tuition charges for the fiscal years 2015-2016 and 2016-2017 were based on rates established by the receiving district. These rates are subject to change when the actual costs have been certified by the State Department of Education.

4. *Proprietary Funds, Operating and Nonoperating Revenues and Expenses*

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. The principal operating revenues of the food service and MEDLC enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 2 RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the district-wide statement of net position

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position– governmental activities as reported in the district-wide statement of net position. One element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details are as follows:

Bonds Payable	\$ 9,570,000
Add: Issuance Premium (to be amortized over life of debt)	560,683
Capital Leases Payable	1,617,573
Compensated Absences	767,237
Net Pension Liability	<u>20,763,330</u>
 Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	 <u>\$ 33,278,823</u>

Another element of that reconciliation states that “Deferred inflows and outflows related for debt refundings and net pension liability are not reported in the fund”. The details are as follows:

Deferred Outflows of Resources	
Deferred Amount on Net Pension Liability	\$ 7,398,484
Deferred Amount on Refunding (to be amortized as interest expense)	<u>153,887</u>
	<u>\$ 7,552,371</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

In accordance with the requirements of the New Jersey Department of Education (“the Department”), the District annually prepares its operating budget for the forthcoming year. The budget, except for the general fund and special revenue fund, which is more fully explained below and in the notes to the required supplementary information, is prepared in accordance with accounting principles generally accepted in the United States of America and serves as a formal plan for expenditures and the proposed means for financing them. Capital lease transactions are accounted for on the GAAP basis.

The annual budget is adopted in the spring of the preceding year for the general, special revenue and debt service funds. The District is not required to adopt an annual budget for the capital projects fund. The budget is submitted to the county superintendent for review and approval prior to adoption. Prior to the 2012/2013 budget year, the annual budget was required to be voted upon at the annual school election held on the third Tuesday in April. On January 17, 2012, Chapter 202 of the Laws of P.L. 2011 was approved which established procedures for moving the date of a school district’s annual school election from April to the general election in November. Under the new law, districts that have their school board members elected in November no longer have to submit their budgets that meet levy cap requirements for voter approval beginning with the 2012/2013 budget year. Only a school board decision to exceed the tax levy cap would require voter approval for the additional amount on the November ballot. On February 7, 2012, the Board adopted a resolution to move its annual election to the date of the general elections in accordance with the law; therefore voter approval of the annual budget is not required.

Budget adoptions and amendments are recorded in the District's board minutes. The budget is amended by the Board of Trustees as needed throughout the year. The budget for revenues, other resources, other uses, and fund balances is prepared by fund source and amount. The budget for expenditures is prepared by fund, program, function, object and amount. The legal level of budgetary control is established at the line item account within each fund. Line item accounts are defined as the lowest (most specific) level of detail as established pursuant to the minimum chart of accounts referenced in N.J.A.C. 6:20-2A.2(m)1. The Board approved several budget transfers during 2016/2017. Also, during 2016/2017 the Board increased the original budget by \$1,699,304. The increase was funded by the appropriation of prior year extraordinary aid, additional grant awards and the reappropriation of prior year general fund encumbrances.

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 accounting principles generally accepted in the United States of America, with the exception of the legally mandated revenue recognition of certain state aid payments for budgetary purposes only and the treatment of encumbrances in the special revenue fund as described in the Notes to Required Supplementary Information (RSI). Encumbrance accounting is also employed as an extension of formal budgetary integration in the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Excess Expenditures Over Appropriations

The following is a summary of expenditures in excess of available appropriations. The overexpended appropriations resulted in unfavorable variances.

	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
General Fund			
Undistributed Expenditures			
Instruction			
Tuition to County Special Services and Regional Day Schools		\$ 86,960	\$ 86,960

The above variance was the result of an audit adjustment and was offset with other available resources.

C. Deficit Fund Equity

The Food Service Enterprise Fund has a cumulative deficit in unrestricted net position of \$87,788 as of June 30, 2017. The District expects to eliminate this deficit through normal operations in the 2017/2018 fiscal year.

The District has an unassigned fund balance deficit of \$347,247 in the General Fund as of June 30, 2017 as reported in the fund financial statements (modified accrual basis). NJSA 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record these delayed 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. GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", requires that intergovernmental transactions (revenue, expenditure, asset, liability) should be recognized in symmetry (i.e., if one government recognizes an asset, the other government recognizes a liability). Since the State of New Jersey is recording certain 2016/2017 budgeted state aid payments in the subsequent fiscal year, the school district cannot recognize such payments on the GAAP (fund) financial statements until the year the State records the payable. Due to the timing difference of recording these delayed state aid payments, the General Fund deficit does not alone indicate that the District is facing financial difficulties; however, unless the State of New Jersey budgets the delayed payments in future years, the District may also report fund deficits in the future.

Pursuant to NJSA 18A:22-44.2, any negative unreserved, undesignated (i.e., unassigned) general fund balance that is reported as a direct result of a delay in the payment of state aid until the following fiscal year, is not considered as a violation of New Jersey Statute or regulation and is not considered an item in need of corrective action. The District deficit in the GAAP (fund) financial statements of \$347,247 in the General Fund is less than the delayed state aid payments at June 30, 2017.

D. Capital Reserve

A capital reserve account was established by the District. The accumulation of funds will be used for capital outlay expenditures in subsequent fiscal years. The capital reserve is maintained in the general fund and its activity is included in the general fund annual budget.

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

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

D. Capital Reserve (Continued)

The activity of the capital reserve for the fiscal year ended June 30, 2017 is as follows:

Balance, July 1, 2016		\$ 3,130,251
Increased by		
Interest Earned	\$ 1,500	
Deposits Approved by Board Resolution	<u>669,046</u>	
		<u>670,546</u>
		3,800,797
Withdrawals		
Approved in District Budget		<u>(908,625)</u>
Balance, June 30, 2017		<u>\$ 2,892,172</u>

Analysis of Restricted Capital Reserve Fund Balance, June 30, 2017

Capital Reserve		\$ 2,422,172
Designated for Subsequent Year's Budget		<u>470,000</u>
		<u>\$ 2,892,172</u>

The withdrawals from the capital reserve were for use in a department approved facilities project, consistent with the district's Long Range Facilities Plan.

E. Maintenance Reserve

A maintenance reserve account was established by the District. The accumulation of funds will be used for required maintenance of school facilities expenditures in subsequent fiscal years. The maintenance reserve is maintained in the General Fund and its activity is included in the General Fund annual budget.

Funds placed in the maintenance reserve are restricted to required maintenance activities for a school facility as reported in the comprehensive maintenance plan. A District may appropriate funds into the maintenance reserve in the annual General Fund budget certified for taxes or by transfer by board resolution at year end of any unanticipated revenue or unexpended line item appropriation amounts or both. Pursuant to N.J.A.C. 6A:23A-14.2(g), the balance in the reserve cannot at any time exceed four percent of the replacement cost of the school district's school facilities for the current year.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

E. Maintenance Reserve (Continued)

The activity of the maintenance reserve for the fiscal year ended June 30, 2017 is as follows:

Balance, July 1, 2016	\$ 269,000
Increased by:	
Interest Earned	<u>1,000</u>
	270,000
Withdrawals	
Approved in District Budget	<u>(149,000)</u>
Balance, June 30, 2017	<u>\$ 121,000</u>

Analysis of Restricted Maintenance Reserve Fund Balance, June 30, 2017

Maintenance Reserve	\$ 51,000
Designated for Subsequent Year's Budget	<u>70,000</u>
	<u>\$ 121,000</u>

The withdrawals from the maintenance reserve were for use in required maintenance activities for school facilities.

F. Calculation of Excess Surplus

In accordance with N.J.S.A. 18A:7F-7, as amended, the restricted fund balance for Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to restrict General Fund fund balance in excess of 2% of budget expenditures at the fiscal year end of June 30 if they did not appropriate a required minimum amount as budgeted fund balance in their subsequent year's budget. The excess fund balance at June 30, 2017 is \$2,000,000. Of this amount, \$1,000,000 was designated and appropriated in the 2017/2018 original budget certified for taxes and the remaining amount of \$1,000,000 will be appropriated in the 2018/2019 original budget certified for taxes.

NOTE 4 DETAILED NOTES ON ALL FUNDS

A. Cash Deposits and Investments

Cash Deposits

The Board's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), Securities Investor Protection Corporation (SIPC) or New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Board is required to deposit their funds in a depository which is protecting such funds pursuant to GUDPA. The New Jersey Governmental Unit Deposit Protection Act requires all banks doing business in the State of New Jersey to pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million for all deposits not covered by the FDIC.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash Deposits and Investments (Continued)

Cash Deposits (Continued)

Bank balances are insured up to \$250,000 in the aggregate by the FDIC for each bank. NCUSIF insures credit union accounts up to \$250,000 in the aggregate for each financial institution. SIPC replaces cash claims up to a maximum of \$250,000 for each failed brokerage firm. At June 30, 2017, the book value of the Board's deposits were \$7,820,465 and bank and brokerage firm balances of the Board's deposits amounted to \$9,714,627. The Board's deposits which are displayed on the various fund balance sheets as "cash and cash equivalents" are categorized as:

Depository Account

Insured	<u>\$ 9,714,627</u>
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Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Board does not have a policy for custodial credit risk. As of June 30, 2017 the Board's bank balances were not exposed to custodial credit risk since all deposits were considered insured by FDIC, SIPC or GUDPA.

Investments

The Board is permitted to invest public funds in accordance with the types of securities authorized by N.J.S.A. 18A:20-37. Examples of the allowable investments are bonds or other obligations of the United States or obligations guaranteed by the United States of America, Government Money Market Mutual Funds, bonds or other obligations of the school district or bonds or other obligations of the local unit or units within which the school district is located, Local Government investment pools, and agreements or the repurchase of fully collateralized securities, if transacted in accordance with the above statute.

As of June 30, 2017, the Board had no outstanding investments.

Investment and interest earnings in the Capital Projects Fund if any, are assigned to the General Fund in accordance with Board policy.

B. Receivables

Receivables as of June 30, 2017 for the district's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>MEDLC</u>	<u>Total</u>
Receivables:					
Accounts				\$ 10,305	\$ 10,305
Intergovernmental					
Federal		\$ 823,152			823,152
State	\$ 161,247	-	\$ 357,961	-	519,208
Gross Receivables	161,247	823,152	357,961	10,305	1,352,665
Less: Allowance for Uncollectibles	-	-	-	-	-
Net Total Receivables	<u>\$ 161,247</u>	<u>\$ 823,152</u>	<u>\$ 357,961</u>	<u>\$ 10,305</u>	<u>\$ 1,352,665</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

C. Unearned Revenue

Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

General Fund	
Prepayment of Subscription Busing Fees	\$ 222,300
Prepayment of Tuition Fees	3,850
Special Revenue Fund	
Unencumbered Grant Draw Downs	34,339
Capital Projects Fund	
Unrealized School Facilities Grants	<u>2,297</u>
Total Unearned Revenue for Governmental Funds	<u>\$ 262,786</u>

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance, <u>July 1, 2016</u>	<u>Increases</u>	Adjustments/ <u>Decreases</u>	Balance, <u>June 30, 2017</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 129,801	-	-	\$ 129,801
Total Capital Assets, Not Being Depreciated	<u>129,801</u>	<u>-</u>	<u>-</u>	<u>129,801</u>
Capital Assets, Being Depreciated:				
Buildings	60,317,708			60,317,708
Improvements Other Than Buildings	5,345,090	\$ 292,477		5,637,567
Machinery and Equipment	<u>7,440,461</u>	<u>62,224</u>	-	<u>7,502,685</u>
Total Capital Assets Being Depreciated	<u>73,103,259</u>	<u>354,701</u>	<u>-</u>	<u>73,457,960</u>
Less Accumulated Depreciation for:				
Buildings	(27,782,751)	(1,348,095)		(29,130,846)
Improvements Other Than Buildings	(2,140,831)	(243,884)		(2,384,715)
Machinery and Equipment	<u>(6,003,565)</u>	<u>(290,755)</u>	-	<u>(6,294,320)</u>
Total Accumulated Depreciation	<u>(35,927,147)</u>	<u>(1,882,734)</u>	<u>-</u>	<u>(37,809,881)</u>
Total Capital Assets, Being Depreciated, Net	<u>37,176,112</u>	<u>(1,528,033)</u>	<u>-</u>	<u>35,648,079</u>
Governmental Activities Capital Assets, Net	<u>\$ 37,305,913</u>	<u>\$ (1,528,033)</u>	<u>\$ -</u>	<u>\$ 35,777,880</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Balance, <u>July 1, 2016</u>	<u>Increases</u>	<u>Decreases</u>	Balance, <u>June 30, 2017</u>
Business-Type Activities:				
Capital Assets, Being Depreciated:				
Machinery and Equipment	\$ 335,202	\$ 48,651	-	\$ 383,853
Total Capital Assets Being Depreciated	<u>335,202</u>	<u>48,651</u>	<u>-</u>	<u>383,853</u>
Less Accumulated Depreciation for:				
Machinery and Equipment	(266,577)	(13,019)	-	(279,596)
Total Accumulated Depreciation	<u>(266,577)</u>	<u>(13,019)</u>	<u>-</u>	<u>(279,596)</u>
Total Capital Assets, Being Depreciated, Net	<u>68,625</u>	<u>35,632</u>	<u>-</u>	<u>104,257</u>
Business-Type Activities Capital Assets, Net	<u>\$ 68,625</u>	<u>\$ 35,632</u>	<u>\$ -</u>	<u>\$ 104,257</u>

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

Governmental Activities:	
Instruction	
Regular	\$ 151,324
Special	3,275
Other	<u>5,616</u>
Total Instruction	<u>160,215</u>
Support Services	
Student and Instruction Related	18,455
General Administration	5,082
School Administration	94,087
Operations and Maintenance of Plant	1,597,478
Business/Central Services	<u>7,417</u>
Total Support Services	<u>1,722,519</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 1,882,734</u>
Business-Type Activities:	
Food Service Fund	<u>\$ 13,019</u>
Total Depreciation Expense-Business-Type Activities	<u>\$ 13,019</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2017, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 765,167
General Fund	Capital Projects Fund	308,501
General Fund	Agency Fund	9,964
General Fund	Food Service Fund	87,179
General Fund	MEDLC Fund	410,000
Unemployment Trust Fund	Agency Fund	<u>126,156</u>
		<u>\$ 1,706,967</u>

The above balances are the result of revenues earned or other financing sources received in one fund which are due to another fund and/or expenditures paid by one fund on behalf of another fund and/or to cover cash balances which were in an overdraft position.

The District expects all interfund balances to be liquidated within one year except for the amount due to General Fund from the Capital Projects Fund, which will be liquidated upon collection of outstanding capital grants receivable.

F. Leases

Capital Leases

The District is leasing computers totaling \$2,778,849 under capital leases. The leases are for terms of 3 to 5 years.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017 were as follows:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>
2018	\$ 564,362
2019	545,732
2020	<u>545,732</u>
Total minimum lease payments	1,655,826
Less: amount representing interest	<u>(38,253)</u>
Present value of minimum lease payments	<u>\$ 1,617,573</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Debt

General Obligation Bonds

The Board issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities and other capital assets. The full faith and credit of the Board are irrevocably pledged for the payment of the principal of the bonds and the interest thereon.

Bonds payable at June 30, 2017 are comprised of the following issues:

\$10,755,000, 2004 Refunding Bonds, due in annual installments of \$835,000 to \$845,000 through July 15, 2018, interest at 5.00%	\$1,680,000
\$7,230,000, 2008 Refunding Bonds, due in annual installments of \$620,000 to \$670,000 through August 1, 2021, interest at 4.25%-5.00%	3,255,000
\$5,200,000, 2016 Refunding Bonds, due in annual installments of \$640,000 to \$850,000 through February 1, 2023, interest at 3.00%-4.00%	<u>4,635,000</u>
Total	<u>\$9,570,000</u>

The Board's schedule of principal and interest for long-term debt issued and outstanding is as follows:

Governmental Activities:

Fiscal Year Ending June 30,	<u>Serial Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$ 2,110,000	\$ 364,956	\$ 2,474,956
2019	2,180,000	274,975	2,454,975
2020	1,445,000	200,100	1,645,100
2021	1,475,000	144,606	1,619,606
2022	1,520,000	82,256	1,602,256
2023	<u>840,000</u>	<u>33,600</u>	<u>873,600</u>
	<u>\$ 9,570,000</u>	<u>\$ 1,100,493</u>	<u>\$ 10,670,493</u>

Statutory Borrowing Power

The Board's remaining borrowing power under N.J.S. 18A:24-19, as amended, at June 30, 2017 was as follows:

4% of Equalized Valuation Basis (Municipal)	\$ 196,187,592
Less: Net Debt	<u>(9,570,000)</u>
Remaining Borrowing Power	<u>\$ 186,617,592</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

H. Other Long-Term Liabilities (Continued)

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2017, was as follows:

	Balance, <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	Balance, <u>June 30, 2017</u>	Due Within <u>One Year</u>
Governmental Activities:					
Bonds Payable	\$ 11,610,000		\$ 2,040,000	\$ 9,570,000	\$ 2,110,000
Add: Premium	<u>683,258</u>	<u>-</u>	<u>122,575</u>	<u>560,683</u>	<u>-</u>
 Total Bonds Payable	 12,293,258	 -	 2,162,575	 10,130,683	 2,110,000
 Capital Leases	 1,076,143	 \$ 1,023,361	 481,931	 1,617,573	 550,055
Net Pension Liability	15,164,540	6,221,600	622,810	20,763,330	
Compensated Absences	<u>872,027</u>	<u>73,753</u>	<u>178,543</u>	<u>767,237</u>	<u>80,820</u>
 Governmental Activity Long-Term Liabilities	 <u>\$ 29,405,968</u>	 <u>\$ 7,318,714</u>	 <u>\$ 3,445,859</u>	 <u>\$ 33,278,823</u>	 <u>\$ 2,740,875</u>

For the governmental activities, the liabilities for compensated absences are generally liquidated by the general fund.

NOTE 5 OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to property, general liability, automobile coverage, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; student accident; termination of employees and natural disasters. The Board has obtained commercial insurance coverage to guard against these events to minimize the exposure to the District should they occur. A complete schedule of insurance coverage can be found in the statistical section of this Comprehensive Annual Financial Report.

The District is a member of the Pooled Insurance Program (the "Fund"). The Fund is a risk sharing public entity pool, established for the purpose of insuring against worker's compensation claims.

The relationship between the Board and the Fund is governed by a contract and by-laws that have been adopted by resolution of each unit's governing body. The Board is contractually obligated to make all annual and supplementary contributions to the Fund, to report claims on a timely basis, cooperate with the management of the Fund, its claims administrator and attorneys in claims investigation and settlement, and to follow risk management procedures as outlined by the Fund. Members have a contractual obligation to fund any deficit of the fund attributable to a membership year during which they were a member.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The fund provides its members with risk management services, including the defense of and settlement of claims and to establish reasonable and necessary loss reduction and prevention procedures to be followed by the members. Complete financial statements of the insurance fund is on file with the School's Business Administrator.

There has been no significant reduction in insurance coverage from the previous year nor have there been any settlements in excess of insurance coverage's in any of the prior three years.

The District has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan the District is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The District is billed quarterly for amounts due to the State. The following is a summary of District contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the District's fiduciary trust fund for the current and previous two years:

<u>Fiscal Year Ended</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2017		\$ 69,221	\$ 79,542	\$ 411,563
2016		66,452	91,741	419,854
2015		64,905	36,194	443,331

B. Contingent Liabilities

The District is a party defendant in some lawsuits, none of a kind unusual for a school district of its size and scope of operation. In the opinion of the Board's Attorney the potential claims against the District not covered by insurance policies would not materially affect the financial condition of the District.

Federal and State Awards – The Board participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Board may be required to reimburse the grantor government. As of June 30, 2017, significant amounts of grant expenditures have not been audited by the various grantor agencies but the Board believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

C. Federal Arbitrage Regulations

The District is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At June 30, 2017, the District has not estimated its arbitrage earnings due to the IRS, if any.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement systems (retirement systems) covering substantially all eligible Board employees:

Public Employees' Retirement System (PERS) – Established in January 1955, under the provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. PERS is a cost sharing multi-employer defined benefit pension plan.

Teachers' Pension and Annuity Fund (TPAF) – Established in January 1955, under the provisions of N.J.S.A. 18A:66 to provide coverage including post-retirement health care to substantially all full time certified teachers or professional staff of the public school systems in the State. Membership is mandatory for such employees and vesting occurs after 10 years of service for pension benefits and 25 years for post-retirement health care coverage. TPAF is a cost sharing plan with special funding situations.

The State of New Jersey sponsors and administers the following defined contribution public employee retirement program covering certain state and local government employees which include those Board employees who are eligible for pension coverage.

Defined Contribution Retirement Program (DCRP) – established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected, certain appointed officials, and certain Board employees not eligible for enrollment in PERS or TPAF. Effective July 1, 2007 membership is mandatory for such individuals with vesting occurring after one (1) year of membership. DCRP is a defined contribution pension plan.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local government employers do not appropriate funds to SACT.

The cost of living increase for PERS and TPAF, are funded directly by each of the respective systems but are currently suspended as a result of reform legislation.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund. The financial reports may be obtained in writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290 or at www.state.nj/treasury/doinvest.

Funding Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the aggregate funded ratio for the State administered TPAF and local PERS retirement systems, is 28 percent with an unfunded actuarial accrued liability of \$108.6 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded TPAF system is 22.33 percent and \$79.0 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS is 40.14 percent and \$29.6 billion, respectively.

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

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2015 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (a) an investment rate of return for the retirement systems of 7.65 percent and (b) projected salary increases applied through the year 2026 of 1.65-5.15 percent based on age for the PERS and varying percentages based on experience for TPAF.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 7.06% for PERS, 7.06% for TPAF and 5.50% for DCRP of the employee’s annual compensation.

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 *Accounting for Pensions by State and Local Government Employees*, for the fiscal year ended June 30, 2017 for TPAF, which is a cost sharing plan with special funding situations, the annual pension cost differs from the annual required contribution. For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. TPAF employer contributions are made annually by the State of New Jersey to the pension system on behalf of the Board. PERS employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the fiscal years ended June 30, 2017, 2016 and 2015 the Board was required to contribute for PERS and DCRP and the State of New Jersey was required to contribute for TPAF, respectively, for normal cost pension and accrued liability contributions (including non-contributory group life insurance (NCGI)) the following amounts:

Year Ended <u>June 30,</u>	<u>PERS</u>	On-behalf <u>TPAF</u>	<u>DCRP</u>
2017	\$ 622,810	\$ 3,674,030	\$ 18,500
2016	580,784	2,591,710	23,758
2015	500,916	1,738,450	29,254

In addition, for fiscal year 2016/2017 the District contributed \$7,699 for PERS and the State contributed \$8,552 for TPAF for Long Term Disability Insurance Premium (LTDI).

The PERS contributions are recognized in the governmental fund financial statements (modified accrual basis) as an expenditure. The on-behalf TPAF contributions are recognized in the governmental fund financial statements (modified accrual basis) as both a revenue and expenditure in accordance with GASB No. 24. The DCRP contributions are recognized in the governmental fund financial statements (modified accrual basis) as an expenditure, as well as, the district-wide financial statements (accrual basis) as an expense.

Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Board \$2,508,506 during the fiscal year ended June 30, 2017 for the employer’s share of social security contributions for TPAF members as calculated on their base salaries. This amount has been recognized in the district-wide financial statements (accrual basis) and the governmental fund financial statements (modified accrual basis) as a revenue and expense/expenditure in accordance with GASB No. 24.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employees Retirement System (PERS)

At June 30, 2017, the District reported in the statement of net position (accrual basis) a liability of \$20,763,330 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. At June 30, 2016, the District's proportionate share was 0.07010 percent, which was an increase of 0.00255 percent from its proportionate share measured as of June 30, 2015 of 0.06755.

For the fiscal year ended June 30, 2017, the District recognized in the district-wide statement of activities (accrual basis) pension expense of \$2,491,536 for PERS. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to PERS pension from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 386,135	
Changes of Assumptions	4,301,053	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	791,725	
Changes in Proportion and Differences Between Borough Contributions and Proportionate Share of Contributions	<u>1,919,571</u>	<u>-</u>
Total	<u>\$ 7,398,484</u>	<u>\$ -</u>

At June 30, 2017, the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized in pension expense as follows:

Fiscal Year Ending <u>June 30,</u>	<u>Total</u>
2018	\$ 1,747,832
2019	1,747,832
2020	1,916,978
2021	1,544,526
2022	441,316
Thereafter	<u>-</u>
	<u>\$ 7,398,484</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The District's total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate	3.08%
Salary Increases:	
Through 2026	1.65-4.15% Based on Age
Thereafter	2.65-5.15% Based on Age
Investment Rate of Return	7.65%
Mortality Rate Table	RP-2000

Assumptions for mortality improvements are based on Society of Actuaries Scale AA.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan at the measurement date of June 30, 2016 was 3.98%.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Public Employees Retirement System (PERS) (Continued)

Discount Rate (Continued)

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

Period of Projected Benefit

Payments for which the Following
 Rates were Applied:

Long-Term Expected Rate of Return	Through June 30, 2034
Municipal Bond Rate *	From July 1, 2034 and Thereafter

* The municipal bond return rate used is 2.85% as of the measurement date of June 30, 2016. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the District's proportionate share of the PERS net pension liability calculated using the discount rate of 3.98%, as well as what the District's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98 percent) or 1-percentage-point higher (4.98 percent) than the current rate:

	1% Decrease <u>(2.98%)</u>	Current Discount Rate <u>(3.98%)</u>	1% Increase <u>(4.98%)</u>
District's Proportionate Share of the PERS Net Pension Liability	<u>\$ 25,443,037</u>	<u>\$ 20,763,330</u>	<u>\$ 16,899,826</u>

The sensitivity analysis was based on the proportionate share of the District's net pension liability at June 30, 2016. A sensitivity analysis specific to the District's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/trasury/pensions.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF)

In accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the District is not required to recognize a net pension liability for TPAF. The State of New Jersey is the only entity that has a legal obligation to make employer contributions to TPAF on behalf of the District. Accordingly, the District's proportionate share percentage determined under Statement No. 68 is zero percent and the State's proportionate share is 100% of the net pension liability attributable to the District for TPAF. Therefore, in addition, the District does not recognize any portion of the TPAF collective deferred outflows of resources and deferred inflows of resources.

For the fiscal year ended June 30, 2017, the District recognized in the district-wide statement of activities (accrual basis) pension expense of \$19,133,186 for TPAF. This amount has been included in the district-wide statement of activities (accrual basis) as a revenue and expense in accordance with GASB No. 24.

At June 30, 2017 the State's proportionate share of the net pension liability attributable to the District is \$254,647,090. The nonemployer allocation percentages are based on the ratio of the State's contributions made as an employer and nonemployer towards the actuarially determined contribution amount adjusted by locations who participated in the State early retirement incentives to total contributions to TPAF during the year ended June 30, 2016. At June 30, 2016, the state's share of the net pension liability attributable to the District was 0.32370 percent, which was an increase of 0.00215 percent from its proportionate share measured as of June 30, 2015 of 0.32155 percent.

Actuarial Assumptions

The total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.50%
Salary Increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment Rate of Return	7.65%

Assumptions for mortality rates were based on the experience of TPAF members reflecting mortality improvement on a generational bases based on a 60-year average of Social Security data from 1953 to 2013.

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Cash	5.00%	0.39%
US Government Bonds	1.50%	1.28%
US Credit Bonds	13.00%	2.76%
US Mortgages	2.00%	2.38%
US Inflation-Indexed Bonds	1.50%	1.41%
US High Yield Bonds	2.00%	4.70%
US Equity Market	26.00%	5.14%
Foreign-Developed Equity	13.25%	5.91%
Emerging Markets Equity	6.50%	8.16%
Private Real Estate Property	5.25%	3.64%
Timber	1.00%	3.86%
Farmland	1.00%	4.39%
Private Equity	9.00%	8.97%
Commodities	0.50%	2.87%
Hedge Funds - MultiStrategy	5.00%	3.70%
Hedge Funds - Equity Hedge	3.75%	4.72%
Hedge Funds - Distressed	3.75%	3.49%

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF) (Continued)

Discount Rate

The discount rate used to measure the total pension liabilities of the TPAF plan of the measurement date of June 30, 2016 was 3.22%.

The following table represents the crossover period, if applicable, for the TPAF defined benefit plan:

Period of Projected Benefit

Payments for which the Following
 Rates were Applied:

Long-Term Expected Rate of Return	Through June 30, 2029
Municipal Bond Rate *	From July 1, 2029 and Thereafter

* The municipal bond return rate used is 2.85% as of the measurement date of June 30, 2016. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability

The following presents the State's proportionate share of the TPAF net pension liability attributable to the District calculated using the discount rate of 3.22%, as well as what the State's proportionate share of the TPAF net pension liability attributable to the District that would be if it were calculated using a discount rate that is 1-percentage-point lower (2.22 percent) or 1-percentage-point higher (4.22 percent) than the current rate:

	1% Decrease <u>(2.22%)</u>	Current Discount Rate <u>(3.22%)</u>	1% Increase <u>(4.22%)</u>
State's Proportionate Share of the TPAF Net Pension Liability Attributable to the District	<u>\$ 304,105,533</u>	<u>\$ 254,647,090</u>	<u>\$ 214,257,889</u>

The sensitivity analysis was based on the State's proportionate share of the net pension liability attributable to the District at June 30, 2016. A sensitivity analysis specific to the State's proportionate share of the net pension liability attributable to the District at June 30, 2016 was not provided by the pension system.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Teachers Pension and Annuity Fund (TPAF) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the TPAF pension plan's fiduciary net position is available in the separately issued financial report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

E. Post-Retirement Medical Benefits

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for school districts. The Plans are classified as either single employer plans or cost sharing multiple employer defined benefit plans depending on the plan the eligible employee is covered under.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and TPAF are combined and reported as Pension and Other employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, and the PRM of the PERS are combined and reported as a Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost-sharing multiple-employer plan in the State's CAFR. The post-retirement benefit programs had a total of 584 state and local participating employers and contributing entities for Fiscal Year 2016.

The State of New Jersey sponsors and administers the following health benefit programs covering certain state and local government employees, including those Board employees and retirees eligible for coverage.

Health Benefits Program Fund (HBPF) – Local Education (including Prescription Drug Program Fund) – The State of New Jersey provides paid coverage to members of the Teachers' Pension and Annuity Fund who retire from a board of education or county college with 25 years of service or on a disability retirement. Under the provisions of P.L. 1992, c.126, the State also provides paid coverage to members of the Public Employees' Retirement System and Alternate Benefits Program who retire from a board of education or county college with 25 years of service or on a disability retirement if the member's employer does not provide this coverage. Certain local participating employers also provide post-retirement medical coverage to their employees. Retirees who are not eligible for state paid health coverage at retirement can continue in the program if their employer participates in this program or if they are participating in the health benefits plan of their former employer and are enrolled in Medicare parts A and B by paying the cost of the insurance for themselves and their covered dependents. Also, education employees are eligible for the PDP coverage after 60 days of employment.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above Fund. The financial reports may be accessed via the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

Basis of Accounting

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

Significant Legislation

P.L. 2011, c.78, effective October 2011, sets new employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to this new legislation's effective date with a minimum contribution required to be at least 1.5% of salary.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair values.

Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the State had a \$84.3 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) which is made up to \$25.9 billion for state active and retired members and \$41.6 billion for education employees and retirees that become the obligation of the State of New Jersey upon retirement.

The funded status and funding progress of the OPEB includes actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the OPEB in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at the point in time. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2015, OPEB actuarial valuation, the projected unit credit was used as the actuarial cost method, and the market value was used as asset valuation method for the OPEB. The actuarial assumptions included an assumed investment rate of return of 4.50 percent.

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

NOTE 5 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

Post-Retirement Medical Benefits Contributions

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Teachers' Pension and Annuity Fund (TPAF) and Public Employees' Retirement System (PERS), respectively to fund post-retirement medical benefits for those State employees and education employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2016, there were 110,512, retirees receiving post-retirement medical benefits and the State contributed \$1.37 billion on their behalf. The cost of these benefits is funded through contributions by the State and in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

The State is also responsible for the cost attributable to P.L. 1992, c.126, which provides employer paid health benefits to members of PERS and the Alternate Benefit Program (ABP) who retired from a board of education or county college with 25 years of service. The State paid \$231.2 million toward Chapter 126 benefits for 20,045 eligible retired members in Fiscal Year 2016.

The School Employees Health Benefits Program (SEHBP) Act is found in New Jersey Statutes Annotated, Title 52, Article 17.25 et.seq. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for SEHBP. That report may be obtained from the Treasury website at: <http://www.nj.gov/treasury/pensions/pdf/financial/2015divisioncombined.pdf>.

The State sets the contribution rate based on a pay as you go basis and not on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to the State Health Benefits Program Fund for TPAF retirees' post-retirement benefits on behalf of the School District for the fiscal years ended June 30, 2017, 2016 and 2015 were \$3,061,303, \$3,086,010 and \$2,759,790, respectively, which equaled the required contributions for each year. The State's contributions to the State Health Benefits Program Fund for PERS retirees' post-retirement benefits on behalf of the School District was not determined or made available by the State of New Jersey.

NOTE 6 RESTATEMENT

The Net Position, beginning of year, has been restated to reflect a capital lease obligation of the District that was previously unrecorded. The effect of this restatement is a decrease of \$759,576 in the Governmental Activities Net Position, beginning of year, from an original amount of \$19,375,312 to a restated balance of \$18,615,736.

NOTE 7 SUBSEQUENT EVENT

On September 26, 2017, the voters of the Montville Township Public School District approved a bond referendum for capital projects to upgrade and renovate various schools in the District. The total amount of funding approved in the referendum was \$17,605,887. The District is anticipating receiving grants from the State of New Jersey equal to forty percent of the eligible costs associated with the projects.

BUDGETARY COMPARISON SCHEDULES

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final To Actual</u>
REVENUES					
Local Sources					
Property Tax Levy	\$ 66,212,082		\$ 66,212,082	\$ 66,212,082	
Tuition From Individuals	149,289		149,289	131,082	\$ (18,207)
Transportation Fees from Individuals	335,000		335,000	284,396	(50,604)
Interest Earned on Capital Reserve	1,500		1,500	1,500	
Interest Earned on Maintenance Reserve	1,000		1,000	1,000	
Miscellaneous, including Interest	368,350	-	368,350	219,402	(148,948)
Total Local Sources	<u>67,067,221</u>	<u>-</u>	<u>67,067,221</u>	<u>66,849,462</u>	<u>(217,759)</u>
State Sources					
Special Education Aid	1,434,192		1,434,192	1,434,192	
Security Aid	70,614		70,614	70,614	
Transportation Aid	259,947		259,947	259,947	
PARCC Readiness Aid	39,280		39,280	39,280	
Per Pupil Growth Aid	39,280		39,280	39,280	
Professional Learning Community Aid	37,010		37,010	37,010	
Extraordinary Aid	1,650,000		1,650,000	2,817,481	1,167,481
Non Public Transportation Reimbursement				37,150	37,150
On Behalf TPAF Contributions (Non-Budgeted)					
Pension Contribution				3,545,566	3,545,566
Non Contributory Insurance				128,464	128,464
Post Retirement Medical Contribution				3,061,303	3,061,303
Long Term Disability Insurance				8,552	8,552
Social Security Contribution	-	-	-	2,508,506	2,508,506
Total State Sources	<u>3,530,323</u>	<u>-</u>	<u>3,530,323</u>	<u>13,987,345</u>	<u>10,457,022</u>
Federal Sources					
Medicaid Reimbursement	21,958	-	21,958	-	(21,958)
Total Federal Sources	<u>21,958</u>	<u>-</u>	<u>21,958</u>	<u>-</u>	<u>(21,958)</u>
Total Revenues	<u>70,619,502</u>	<u>-</u>	<u>70,619,502</u>	<u>80,836,807</u>	<u>10,217,305</u>
EXPENDITURES					
CURRENT					
Instruction - Regular Programs					
Salaries of Teachers					
Kindergarten	1,102,323	\$ 13,089	1,115,412	1,114,786	626
Grades 1-5	7,278,187	(146,710)	7,131,477	7,130,799	678
Grades 6-8	5,092,543	176,487	5,269,030	5,269,030	
Grades 9-12	7,368,568	(343,921)	7,024,647	7,024,647	
Regular Programs - Home Instruction					
Salaries of Teachers	20,000	(8,300)	11,700	11,700	
Purchased Professional/Educational Services	24,000	(20,425)	3,575	3,575	
General Supplies	100		100		100
Regular Programs - Undistributed Instruction					
Other Salaries for Instruction	211,718	(22,686)	189,032	189,032	
Purchased Technical Services	431,176	(18,275)	412,901	412,732	169
Other Purchased Services	1,247,730	79,311	1,327,041	940,831	386,210
General Supplies	884,011	30,525	914,536	882,731	31,805
Textbooks	155,700	14,116	169,816	164,342	5,474
Other Objects	5,200	-	5,200	3,553	1,647
Acquisitions Under Capital Leases (Non-Budgeted)	-	-	-	1,023,361	(1,023,361)
Total Regular Programs	<u>23,821,256</u>	<u>(246,789)</u>	<u>23,574,467</u>	<u>24,171,119</u>	<u>(596,652)</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final To Actual</u>
EXPENDITURES					
CURRENT					
Special Education					
Cognitive Mild					
Salaries of Teachers	\$ 111,336		\$ 111,336	\$ 111,336	
Other Salaries for Instruction	93,503	\$ 12,835	106,338	106,338	
General Supplies	<u>2,000</u>	<u>3,411</u>	<u>5,411</u>	<u>5,363</u>	\$ 48
Total Cognitive Mild	<u>206,839</u>	<u>16,246</u>	<u>223,085</u>	<u>223,037</u>	<u>48</u>
Learning and/or Language Disabilities					
Salaries of Teachers	369,853	(8,708)	361,145	361,145	
Other Salaries for Instruction	395,072	54,327	449,399	449,399	
General Supplies	7,500	(1,102)	6,398	5,897	501
Other Objects	<u>-</u>	<u>1,048</u>	<u>1,048</u>	<u>629</u>	<u>419</u>
Total Learning and/or Language Disabilities	<u>772,425</u>	<u>45,565</u>	<u>817,990</u>	<u>817,070</u>	<u>920</u>
Behavioral Disabilities					
Salaries of Teachers	308,460	(58,574)	249,886	249,886	
Other Salaries for Instruction	152,195	(24,071)	128,124	127,430	694
General Supplies	<u>2,300</u>	<u>-</u>	<u>2,300</u>	<u>1,827</u>	<u>473</u>
Total Behavioral Disabilities	<u>462,955</u>	<u>(82,645)</u>	<u>380,310</u>	<u>379,143</u>	<u>1,167</u>
Multiple Disabilities					
Other Purchased Services	<u>-</u>	<u>1,891</u>	<u>1,891</u>	<u>751</u>	<u>1,140</u>
Total Multiple Disabilities	<u>-</u>	<u>1,891</u>	<u>1,891</u>	<u>751</u>	<u>1,140</u>
Resource Room/Resource Center					
Salaries of Teachers	4,783,642	79,792	4,863,434	4,863,434	
Other Salaries for Instruction	701,588	(98,618)	602,970	602,970	
General Supplies	16,450	10,850	27,300	25,958	1,342
Textbooks	<u>5,000</u>	<u>(1,849)</u>	<u>3,151</u>	<u>2,060</u>	<u>1,091</u>
Total Resource Room	<u>5,506,680</u>	<u>(9,825)</u>	<u>5,496,855</u>	<u>5,494,422</u>	<u>2,433</u>
Autism					
Salaries of Teachers	214,185	(12,029)	202,156	201,871	285
Other Salaries for Instruction	431,092	(2,279)	428,813	428,813	
General Supplies	<u>23,100</u>	<u>(1,491)</u>	<u>21,609</u>	<u>10,622</u>	<u>10,987</u>
Total Autism	<u>668,377</u>	<u>(15,799)</u>	<u>652,578</u>	<u>641,306</u>	<u>11,272</u>
Preschool Disabilities - Part-Time					
Salaries of Teachers	159,934		159,934	159,934	
Other Salaries for Instruction	165,570	475	166,045	166,045	
General Supplies	<u>500</u>	<u>-</u>	<u>500</u>	<u>450</u>	<u>50</u>
Total Preschool Disabilities - Part-Time	<u>326,004</u>	<u>475</u>	<u>326,479</u>	<u>326,429</u>	<u>50</u>

(Continued)

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final To Actual</u>
EXPENDITURES					
CURRENT					
Special Education (Continued)					
Home Instruction					
Other Salaries for Instruction	\$ 35,000	\$ (9,340)	\$ 25,660	\$ 25,490	\$ 170
Purchased Professional/Educational Services	78,000	5,000	83,000	74,909	8,091
General Supplies	100	-	100	-	100
Total Home Instruction	<u>113,100</u>	<u>(4,340)</u>	<u>108,760</u>	<u>100,399</u>	<u>8,361</u>
Total Special Education	<u>8,056,380</u>	<u>(48,432)</u>	<u>8,007,948</u>	<u>7,982,557</u>	<u>25,391</u>
Basic Skills/Remedial					
Salaries of Teachers	922,910	33,263	956,173	956,173	
General Supplies	1,600	112	1,712	1,321	391
Total Basic Skills/Remedial	<u>924,510</u>	<u>33,375</u>	<u>957,885</u>	<u>957,494</u>	<u>391</u>
Bilingual Education					
Salaries of Teachers	329,424		329,424	328,293	1,131
General Supplies	8,100	6	8,106	7,320	786
Textbooks	1,500	-	1,500	1,183	317
Total Bilingual Education	<u>339,024</u>	<u>6</u>	<u>339,030</u>	<u>336,796</u>	<u>2,234</u>
School Sponsored Co-Curricular Activities					
Salaries	398,069	51,309	449,378	446,927	2,451
Purchased Services	2,500	(1,200)	1,300		1,300
Supplies and Materials	8,500	(2,500)	6,000	5,604	396
Other Objects	70,500	5,388	75,888	67,308	8,580
Total School Sponsored Co-Curricular Activities	<u>479,569</u>	<u>52,997</u>	<u>532,566</u>	<u>519,839</u>	<u>12,727</u>
School Sponsored Athletics - Instruction					
Salaries	760,120	(13,031)	747,089	747,089	
Purchased Services	216,798	4,561	221,359	219,985	1,374
Supplies and Materials	73,500	2,184	75,684	67,961	7,723
Other Objects	24,000	-	24,000	23,560	440
Total School Sponsored Athletics - Instruction	<u>1,074,418</u>	<u>(6,286)</u>	<u>1,068,132</u>	<u>1,058,595</u>	<u>9,537</u>
Total - Instruction	<u>34,695,157</u>	<u>(215,129)</u>	<u>34,480,028</u>	<u>35,026,400</u>	<u>(546,372)</u>
Undistributed Expenditures					
Instruction					
Tuition LEA's within State - Special	575,722	(204,974)	370,748	291,374	79,374
Tuition to County Vocational School District-Reg.	473,682		473,682	345,165	128,517
Tuition to County Vocational School District-Spec.	63,000		63,000	21,000	42,000
Tuition to County Special Svcs. & Regional Day Schools				86,960	(86,960)
Tuition to Private Schools - Disabled w/i State	1,953,943	1,206,576	3,160,519	2,538,706	621,813
Tuition to Private Schools - Disabled O/of State	162,695	77,739	240,434	226,799	13,635
Total Undistributed Expenditures - Instruction	<u>3,229,042</u>	<u>1,079,341</u>	<u>4,308,383</u>	<u>3,510,004</u>	<u>798,379</u>

(Continued)

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final To Actual</u>
EXPENDITURES					
CURRENT					
Undistributed Expenditures (Continued)					
Attendance and Social Work Services					
Salaries	\$ 74,288	-	\$ 74,288	\$ 74,288	-
Health Services					
Salaries	820,122	\$ 4,419	824,541	824,243	\$ 298
Purchased Professional Technical Services	32,601	(2,373)	30,228	24,255	5,973
Supplies and Materials	11,700	530	12,230	10,032	2,198
Total Health Services	864,423	2,576	866,999	858,530	8,469
Speech, OT, PT and Related Services					
Salaries	1,301,282	5,398	1,306,680	1,306,680	
Purchased Professional/Educational Services	246,208	(470)	245,738	206,317	39,421
Supplies and Materials	7,500	2,935	10,435	10,205	230
Total Speech, OT, PT and Related Services	1,554,990	7,863	1,562,853	1,523,202	39,651
Other Support Services - Students - Extra.Serv.					
Salaries	738,683	240,892	979,575	979,575	
Purchased Professional/Educational Services	80,000	50,404	130,404	114,475	15,929
Total Other Support Services - Students - Extra Services	818,683	291,296	1,109,979	1,094,050	15,929
Guidance					
Salaries of Other Professional Staff	1,650,688	(65,141)	1,585,547	1,585,547	
Salaries of Secretarial and Clerical Assistants	134,949	2,023	136,972	136,972	
Purchased Professional - Educational Services	1,500	1,800	3,300	3,300	
Other Purchased Prof. and Technical Services	51,500		51,500	46,896	4,604
Other Purchased Services	1,600	38	1,638	944	694
Supplies and Materials	17,350	(550)	16,800	11,731	5,069
Other Objects	17,500	(1,800)	15,700	4,247	11,453
Total Guidance	1,875,087	(63,630)	1,811,457	1,789,637	21,820
Child Study Teams					
Salaries of Other Professional Staff	1,635,717	15,808	1,651,525	1,646,967	4,558
Salaries of Secretarial and Clerical Assistants	172,412	1,009	173,421	173,421	
Other Purchased Prof. and Technical Services	245,631	12,480	258,111	172,167	85,944
Other Purchased Services	5,600	1,808	7,408	6,025	1,383
Misc. Purchased Services	200		200		200
Supplies and Materials	27,000	(4,326)	22,674	17,254	5,420
Other Objects	23,000	(282)	22,718	22,718	-
Total Child Study Teams	2,109,560	26,497	2,136,057	2,038,552	97,505

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final To Actual</u>
EXPENDITURES					
CURRENT					
Undistributed Expenditures (Continued)					
Improvement of Instructional Services					
Salaries of Supervisors of Instruction	\$ 884,952	\$ (23,383)	\$ 861,569	\$ 861,569	
Salaries of Secretarial and Clerical Assistants	38,265		38,265	38,265	
Other Salaries	77,000	1,500	78,500	78,500	
Other Purchased Services	4,700	894	5,594	4,420	\$ 1,174
Supplies and Materials	1,200		1,200	699	501
Other Objects	5,440	400	5,840	5,793	47
Total Improvement of Instruction Services	<u>1,011,557</u>	<u>(20,589)</u>	<u>990,968</u>	<u>989,246</u>	<u>1,722</u>
Educational Media Services/School Library					
Salaries	560,426		560,426	559,788	638
Purchased Professional and Technical Services	48,000	1,750	49,750	48,086	1,664
Supplies and Materials	17,500	(385)	17,115	16,319	796
Total Educational Media Services/School Library	<u>625,926</u>	<u>1,365</u>	<u>627,291</u>	<u>624,193</u>	<u>3,098</u>
Instructional Staff Training Services					
Other Salaries	500		500		500
Purchased Professional –Education Services	89,100	(11,573)	77,527	70,287	7,240
Other Purchased Services	2,000	110	2,110	1,977	133
Supplies and Materials	1,000		1,000	490	510
Other Objects	11,250	2,800	14,050	12,336	1,714
Total Instructional Staff Training Services	<u>103,850</u>	<u>(8,663)</u>	<u>95,187</u>	<u>85,090</u>	<u>10,097</u>
Support Services General Administration					
Salaries	696,424	50,989	747,413	746,511	902
Legal Services	304,500	148,200	452,700	452,620	80
Audit Fees	37,300	(1,838)	35,462	33,250	2,212
Architectural/Engineering Services	2,231	50,886	53,117	53,117	
Other Purchased Professional Services	16,283	2,721	19,004	19,004	
Communications/Telephone	20,500	1,879	22,379	18,453	3,926
Miscellaneous Purchased Services	118,333	(3,684)	114,649	111,777	2,872
General Supplies	7,300	3,003	10,303	9,479	824
Misc. Expenditures	16,612	(2,333)	14,279	12,890	1,389
BOE Membership Dues and Fees	29,730	(626)	29,104	26,663	2,441
Total Support Services General Administration	<u>1,249,213</u>	<u>249,197</u>	<u>1,498,410</u>	<u>1,483,764</u>	<u>14,646</u>
Support Services School Administration					
Salaries of Principals/Asst. Principals/Prog. Dir.	1,666,147		1,666,147	1,666,146	1
Salaries of Secretarial and Clerical Assistants	568,795	5,576	574,371	562,446	11,925
Purchased Professional and Technical Services	1,500	100	1,600	1,500	100
Other Purchased Services	13,750	486	14,236	5,610	8,626
Supplies and Materials	48,800	24,968	73,768	59,738	14,030
Other Objects	13,200	300	13,500	11,300	2,200
Total Support Services School Administration	<u>2,312,192</u>	<u>31,430</u>	<u>2,343,622</u>	<u>2,306,740</u>	<u>36,882</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

EXPENDITURES	Original Budget	Budget Adjustments	Final Budget	Actual	Variance - Final To Actual
CURRENT					
Undistributed Expenditures (Continued)					
Central Services					
Salaries	\$ 516,846	\$ 9,282	\$ 526,128	\$ 525,772	\$ 356
Purchased Professional Services	1,450	9,620	11,070	910	10,160
Purchased Technical Services	49,685	8,568	58,253	58,253	
Misc. Purchased Services	23,150	(7,666)	15,484	15,352	132
Supplies and Materials	15,000	1,094	16,094	15,988	106
Miscellaneous Expenditures	2,700	(650)	2,050	2,025	25
Total Central Services	608,831	20,248	629,079	618,300	10,779
Admin. Info. Tech.					
Salaries	481,286	(24,005)	457,281	457,281	
Other Purchased Services	1,925	(1,314)	611	418	193
Supplies and Materials	5,250	(1,089)	4,161	3,246	915
Total Admin. Info. Tech.	488,461	(26,408)	462,053	460,945	1,108
Required Maintenance for School Facilities					
Salaries	580,898	21,209	602,107	591,638	10,469
Cleaning, Repair and Maintenance Services	267,500	(35,073)	232,427	207,682	24,745
General Supplies	154,000	10,115	164,115	143,755	20,360
Total Required Maint. For School Facilities	1,002,398	(3,749)	998,649	943,075	55,574
Security					
Salaries	21,500	(21,500)	-	-	-
Total Security	21,500	(21,500)	-	-	-
Custodial Services					
Salaries	364,711	(46,394)	318,317	307,988	10,329
Purchased Professional and Technical Services	2,067,032	32,763	2,099,795	2,041,145	58,650
Cleaning, Repair and Maintenance Services	162,200	(21,690)	140,510	119,998	20,512
Rental of Land and Bldg. Oth. Than Lease Purchase	10,001		10,001	10,000	1
Other Purchased Property Services	62,200	434	62,634	59,048	3,586
Insurance	284,163	(23,400)	260,763	260,382	381
Miscellaneous Purchased Services	22,625	904	23,529	22,715	814
General Supplies	188,500	3,645	192,145	182,478	9,667
Energy (Gas)	320,000	(18,926)	301,074	265,065	36,009
Energy (Electricity)	530,000	112,795	642,795	592,365	50,430
Other Objects	1,800	561	2,361	2,121	240
Total Custodial Services	4,013,232	40,692	4,053,924	3,863,305	190,619

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

EXPENDITURES	Original Budget	Budget Adjustments	Final Budget	Actual	Variance - Final To Actual
CURRENT					
Undistributed Expenditures (Continued)					
Student Transportation Services					
Sal. Pupil Trans (Between Home and School) - Reg.	\$ 55,600	\$ 272	\$ 55,872	\$ 55,872	
Management Fee - ESC Transp. Prog.	4,370		4,370	3,511	\$ 859
Contracted Services – Aid In Lieu of Payment for Non-public School Students	201,552	1,548	203,100	154,337	48,763
Contracted Services (Between Home and School) - Vendors	2,251,111	(14,511)	2,236,600	2,198,760	37,840
Contracted Services (Other Than Between Home and School) - Vendors	296,250	28,891	325,141	310,244	14,897
Contracted Services (Special Education Students)- Vendors	1,303,985	17,935	1,321,920	1,306,954	14,966
Contracted Services (Special Education Students)- Joint Agreements	5,356	2,585	7,941	5,908	2,033
Misc. Purchased Svc. - Transportation	3,700		3,700	3,250	450
Other Objects	2,200	-	2,200	200	2,000
	<u>4,124,124</u>	<u>36,720</u>	<u>4,160,844</u>	<u>4,039,036</u>	<u>121,808</u>
Total Student Transportation Services					
Unallocated Benefits - Employee Benefits					
Social Security Contributions	750,000	12,982	762,982	762,982	
Other Retirement Contributions - PERS	557,580	73,000	630,580	630,509	71
Other Retirement Contributions - DCRP	24,715	(1,807)	22,908	18,500	4,408
Workmen's Compensation	280,796	-	280,796	258,248	22,548
Health Benefits	9,661,098	(583,852)	9,077,246	8,900,006	177,240
Tuition Reimbursement	261,620	125,592	387,212	371,388	15,824
Other Employee Benefits	80,820	178,532	259,352	257,784	1,568
	<u>11,616,629</u>	<u>(195,553)</u>	<u>11,421,076</u>	<u>11,199,417</u>	<u>221,659</u>
Total Unallocated Benefits					
On Behalf TPAF Payments (Non-Budgeted)					
Pension Contribution				3,545,566	(3,545,566)
Non Contributory Insurance				128,464	(128,464)
Post Retirement Medical Contribution				3,061,303	(3,061,303)
Long Term Disability Insurance				8,552	(8,552)
Social Security Contribution	-	-	-	2,508,506	(2,508,506)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,252,391</u>	<u>(9,252,391)</u>
Total On-Behalf Payments					
Total Undistributed Expenditures	<u>37,703,986</u>	<u>1,447,133</u>	<u>39,151,119</u>	<u>46,753,765</u>	<u>(7,602,646)</u>
Interest Earned on Maintenance Reserve					
	<u>1,000</u>	<u>(1,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total - Current Expenditures					
	<u>72,400,143</u>	<u>1,231,004</u>	<u>73,631,147</u>	<u>81,780,165</u>	<u>(8,149,018)</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance - Final To Actual</u>
EXPENDITURES					
CAPITAL OUTLAY					
Equipment					
Undistributed Expenditures					
Child Study Team		\$ 6,800	\$ 6,800	\$ 6,800	
School Admin		7,923	7,923	4,624	\$ 3,299
Required Maintenance for School Facilities (Non Instr.)	\$ 35,000	47,983	82,983	50,800	32,183
Total Equipment	35,000	62,706	97,706	62,224	35,482
Facilities Acquisition and Construction Services					
Salaries	10,000	(3,299)	6,701		6,701
Architectural/Engineering Services		16,000	16,000	8,773	7,227
Other Purchased Professional and Technical Services		230,000	230,000	158,424	71,576
Construction Services	1,087,625	(98,248)	989,377	134,053	855,324
General Supplies	20,000	(18,500)	1,500		1,500
Assessment for Debt Service on SDA Funding	31,043	-	31,043	31,043	-
Total Facilities Acquisition and Construction Services	1,148,668	125,953	1,274,621	332,293	942,328
Interest Deposit to Capital Reserve	1,500	(1,500)	-	-	-
Total Capital Outlay	1,185,168	187,159	1,372,327	394,517	977,810
Transfer to Charter Schools	25,821	2,798	28,619	26,795	1,824
Total Expenditures - General Fund	73,611,132	1,420,961	75,032,093	82,201,477	(7,169,384)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,991,630)	(1,420,961)	(4,412,591)	(1,364,670)	3,047,921
Other Financing Sources					
Capital Lease Proceeds	-	-	-	1,023,361	1,023,361
Operating Transfer Out - Food Service Enterprise Fund	-	(47,425)	(47,425)	(47,425)	-
Total Other Financing Sources	-	(47,425)	(47,425)	975,936	1,023,361
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources	(2,991,630)	(1,468,386)	(4,460,016)	(388,734)	4,071,282
Fund Balances, Beginning of Year	9,322,755	-	9,322,755	9,322,755	-
Fund Balances, End of Year	<u>\$ 6,331,125</u>	<u>\$ (1,468,386)</u>	<u>\$ 4,862,739</u>	<u>\$ 8,934,021</u>	<u>\$ 4,071,282</u>
Recapitulation of Fund Balance:					
Capital Reserve				\$ 2,422,172	
Capital Reserve - Designated for Subsequent Year's Budget				470,000	
Maintenance Reserve				51,000	
Maintenance Reserve - Designated for Subsequent Year's Budget				70,000	
Excess Surplus				1,000,000	
Excess Surplus- Designated for Subsequent Year's Budget				1,000,000	
Encumbrances				77,703	
Designated for Subsequent Year's Budget				1,200,000	
Unassigned				2,643,146	
Reconciliation to Governmental Funds Statements (GAAP):				8,934,021	
Less: State Aid Not Recognized on GAAP Basis				(2,990,393)	
Fund Balance Per Governmental Funds (GAAP)				<u>\$ 5,943,628</u>	

(Continued)

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

	<u>Original Budget</u>	<u>Budget Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final to Actual</u>
REVENUES					
Local Sources		\$ 42,931	\$ 42,931	\$ 39,273	\$ (3,658)
State Sources	\$ 121,500	2,903	124,403	117,813	(6,590)
Federal Sources	834,222	185,084	1,019,306	926,723	(92,583)
 Total Revenues	 <u>955,722</u>	 <u>230,918</u>	 <u>1,186,640</u>	 <u>1,083,809</u>	 <u>(102,831)</u>
EXPENDITURES					
Instruction					
Salaries of Teachers	86,912	8,939	95,851	86,351	9,500
Purchased Professional Services	12,820	33,390	46,210	12,750	33,460
Other Purchased Services		19,885	19,885	18,580	1,305
Tuition	698,290	47,007	745,297	719,519	25,778
General Supplies		77,021	77,021	68,921	8,100
Textbooks	22,500	(2,902)	19,598	19,129	469
Other Objects	-	2,180	2,180	500	1,680
 Total Instruction	 <u>820,522</u>	 <u>185,520</u>	 <u>1,006,042</u>	 <u>925,750</u>	 <u>80,292</u>
Support Services					
Salaries		6,000	6,000	6,000	
Personal Services - Employee Benefits		15,443	15,443	15,290	153
Purchased Prof./Educational Services		29,567	29,567	19,925	9,642
Other Purchased Services	135,200	(11,112)	124,088	111,894	12,194
Supplies and Materials		5,000	5,000	4,950	50
Other Objects	-	500	500	-	500
 Total Support Services	 <u>135,200</u>	 <u>45,398</u>	 <u>180,598</u>	 <u>158,059</u>	 <u>22,539</u>
 Total Expenditures	 <u>955,722</u>	 <u>230,918</u>	 <u>1,186,640</u>	 <u>1,083,809</u>	 <u>102,831</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund Balances, Beginning of Year	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund Balances, End of Year	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>

**MONTVILLE TOWNSHIP PUBLIC SCHOOLS
BUDGETARY COMPARISON SCHEDULE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

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

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

The following presents a reconciliation of the General and Special Revenue Funds from the budgetary basis of accounting as presented in the Budgetary Comparison Schedule - General Fund and Special Revenue Fund to the GAAP basis of accounting as presented in the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds.

	General Fund	Special Revenue Fund
Sources/Inflows of Resources		
Actual revenue amounts (budgetary basis) (Exhibits C-1 and C-2)	\$ 80,836,807	\$ 1,083,809
Difference - Budget to GAAP		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		
Encumbrances, June 30, 2017		
Encumbrances, June 30, 2016		1,508
2016/2017 State Aid recognized for budgetary purposes, not recognized for GAAP statements	(2,990,393)	
2015/2016 State Aid recognized for GAAP purposes, not recognized for budgetary statements	<u>2,339,143</u>	<u>-</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (Exhibit B-2)	<u>\$ 80,185,557</u>	<u>\$ 1,085,317</u>
Uses/Outflows of Resources		
Actual expenditure amounts (budgetary basis) (Exhibits C-1 and C-2)	\$ 82,201,477	\$ 1,083,809
Differences - Budget to GAAP		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but in the year the supplies are received for financial reporting purposes		
Encumbrances, June 30, 2017	-	
Encumbrances, June 30, 2016	<u>-</u>	<u>1,508</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit B-2)	<u>\$ 82,201,477</u>	<u>\$ 1,085,317</u>

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APPENDIX C

Form of Bond Counsel's Approving Legal Opinion

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

_____, 2018

The Board of Education of the
Township of Montville
Montville, New Jersey

Ladies and Gentlemen:

We have served as bond counsel in connection with the authorization, sale and issuance of \$17,604,000 aggregate principal amount of School Bonds, Series 2018 (the “Bonds”) of The Board of Education of the Township of Montville in the County of Morris, New Jersey (the “Board” when referring to the governing body and the “School District” when referring to the territorial boundaries governed by the Board).

The Bonds are issued pursuant to: (i) Title 18A, Chapter 24 of the New Jersey Statutes, as amended and supplemented (the “Education Law”); (ii) a proposal adopted by the Board on July 18, 2017 (the “Proposal”) and approved by the affirmative vote of a majority of the legal voters present and voting at the special School District election held on September 26, 2017 and (iii) a resolution adopted by the Board on December 19, 2017 (the “Resolution”).

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

The Bonds are dated their date of delivery and shall bear interest from such date, which interest shall be payable commencing August 1, 2018 and semi-annually thereafter on the first day of February and August in each year until maturity or prior redemption, and shall mature on February 1 of the years and in the principal amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2020	\$894,000		2030	\$1,000,000	
2021	500,000		2031	1,000,000	
2022	550,000		2032	1,000,000	
2023	660,000		2033	1,000,000	
2024	1,000,000		2034	1,000,000	
2025	1,000,000		2035	1,000,000	
2026	1,000,000		2036	1,000,000	
2027	1,000,000		2037	1,000,000	
2028	1,000,000		2038	1,000,000	
2029	1,000,000				

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

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

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

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

In our opinion, under existing law, and assuming continuing compliance by the Board with the aforementioned covenant, under existing statutes, regulations, rulings and court

decisions, interest on the Bonds is not includable for Federal income tax purposes in the gross income of the owners of the Bonds pursuant to Section 103 of the Code. The Bonds are not “specified private activity bonds” within the meaning of Section 57 of the Code and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the Federal alternative minimum tax imposed on individuals.

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

[The Bonds maturing on February 1 in the years 20__ through 20__, inclusive (the “[Premium] Bonds”), have been sold to the public at a premium. Section 171 of the Code provides rules under which a bond premium may be amortized and a deduction allowed for the amount of the amortizable bond premium for a taxable year. Under Section 171(a)(2) of the Code, however, no deduction is allowable for the amortizable bond premium in the case of bonds, like the [Premium] Bonds, the interest on which is excludable from gross income. Under Section 1016(a)(5) of the Code, the purchaser's basis in a [Premium] Bond will be reduced by the amount of the amortizable bond premium disallowable as a deduction under Section 171(2) of the Code. Proceeds received from the sale, exchange, redemption or payment of a [Premium] Bond in excess of the owner's adjusted basis (as reduced pursuant to Section 1016(a)(5) of the Code), will be treated as a gain from the sale or exchange of such [Premium] Bonds and not as interest.]

[We are also of the opinion that the difference between the stated principal amount of the Bonds maturing on February 1 in the years 20__ through 20__ (the “[Discount] Bonds”) and their respective initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers), at which price a substantial amount of the [Discount] Bonds of the same maturity and interest rate were sold, constitutes original issue discount which is excluded from gross income for Federal income tax purposes to the same extent as interest on the Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each [Discount] Bond and the basis of each [Discount] Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount.]

Except as stated in the preceding _____ (____) paragraphs, we express no opinion as to any Federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

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

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

Very truly yours,

WILENTZ, GOLDMAN & SPITZER, P.A.

APPENDIX D

Form of Continuing Disclosure Certificate

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CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate dated as of _____, 2018 (the "Disclosure Certificate") is executed and delivered by The Board of Education of the Township of Montville in the County of Morris, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the issuance of its \$17,604,000 aggregate principal amount of School Bonds, Series 2018 dated their date of delivery (the "Bonds"). The Bonds are being by virtue of a proposal adopted by the Board on July 18, 2017 and approved by the affirmative vote of a majority of the legal voters present and voting at the special School District election held on September 26, 2017 and pursuant to a resolution entitled, "RESOLUTION DETERMINING THE FORM AND OTHER DETAILS OF \$17,604,000 AGGREGATE PRINCIPAL AMOUNT OF SCHOOL BONDS, SERIES 2018 OF THE BOARD OF EDUCATION OF THE TOWNSHIP OF MONTVILLE IN THE COUNTY OF MORRIS, NEW JERSEY, PROVIDING FOR THEIR SALE AND DETERMINING OTHER MATTERS IN CONNECTION THEREWITH", duly adopted by the Board on December 19, 2017 (the "Bond Resolution"). The Board covenants and agrees as follows:

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

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

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

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

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

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

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

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

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

“MSRB” shall mean the Municipal Securities Rulemaking Board.

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

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

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

“State” shall mean the State of New Jersey.

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

SECTION 3. Provision of Annual Reports. (a) The Board shall provide or cause to be provided to the Dissemination Agent not later than December 31 of each year, commencing December 31, 2018 (for the fiscal year ending June 30, 2018), an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. Each Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Board may be submitted separately from the balance of the Annual Report; and provided, further, that if the audited financial statements of the Board are not available by December 31, the Board shall include unaudited financial statements with its Annual Report and when such audited financial statements become available to the Board, the same shall be submitted to the Dissemination Agent no later than thirty (30) days after the receipt of the same by the Board.

(b) Not later than January 31 of each year (commencing January 31, 2019) the Dissemination Agent shall provide to EMMA a copy of the Annual Report received by the Dissemination Agent pursuant to subsection (a) hereof.

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

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

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

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

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

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

- (2) The general financial information and operating data of the Board consistent with the information set forth in the Official Statement dated January 24, 2018, prepared in connection with the sale of the Bonds (the "Official Statement") in Appendix A.

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

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

- (1) Principal and interest payment delinquencies;
- (2) Nonpayment related defaults, if material;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Board, the Dissemination Agent, the Underwriters, and the Beneficial Owners of the Bonds, including Bondholders, and shall create no rights in any other person or entity.

SECTION 14. Notices. All notices and submissions required hereunder shall be given to the following, or their successors, by facsimile transmission (with written confirmation of receipt), followed by hard copy sent by certified or registered mail, personal delivery or recognized overnight delivery:

(a) If to the Board of Education:

The Board of Education of the
Township of Montville
86 River Road
Montville, New Jersey 07045
Attention: Business Administrator/Board Secretary

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

The Board of Education of the
Township of Montville
86 River Road
Montville, New Jersey 07045
Attention: Business Administrator/Board Secretary

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

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

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

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

**THE BOARD OF EDUCATION OF THE
TOWNSHIP OF MONTVILLE**

By: _____
KATINE M. SLUNT,
Business Administrator/
Board Secretary

EXHIBIT A

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

Name of Issuer: The Board of Education of the
Township of Montville
in the County of Morris, New Jersey

Name of Issue: \$17,604,000 School Bonds, Series 2018
Dated: _____, 2018
(CUSIP Number: 615309___)

Date of Issuance: _____, 2018

NOTICE IS HEREBY GIVEN that the above designated Board has not provided an Annual Report with respect to the above-named Bonds as required by the Bond Resolution and a Continuing Disclosure Certificate for the Bonds dated as of _____, 2018 executed by the Board.

DATED: _____

DISSEMINATION AGENT
(on behalf of the Board)

cc: The Board

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