

PRELIMINARY OFFICIAL STATEMENT DATED JULY 10, 2019

**NEW ISSUE
SERIAL BONDS**

**RATINGS: Standard & Poor's: "AA" (Underlying)
"BBB+" (School Bond Reserve Act)**

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

**\$2,964,000 SCHOOL BONDS
THE BOARD OF EDUCATION OF THE TOWNSHIP OF CEDAR GROVE
IN THE COUNTY OF ESSEX, NEW JERSEY
(Book-Entry-Only) (Non-Callable) (Bank-Qualified)**

Dated: August 1, 2019

Due: August 15, as shown below

The School Bonds (the "Bonds") of The Board of Education of the Township of Cedar Grove in the County of Essex, New Jersey (the "Board" or "School District"), will be issued as fully registered bonds registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), as registered owner of the Bonds, with the Bonds immobilized in the custody of DTC. Owners of beneficial interests in the Bonds will not receive physical delivery of bond certificates, but are to receive statements or other evidence of such ownership of beneficial interests from sources from which such interests were purchased. Investors may purchase beneficial interests in the Bonds in book-entry form in the denomination of \$5,000 or any integral multiple thereof (except for one odd piece in excess of \$5,000). See "BOOK-ENTRY-ONLY SYSTEM" herein. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of principal of and interest on the Bonds will be made directly to DTC or its nominee, Cede & Co., which will remit such payments to the DTC Participants, which will in turn remit such payments to the owners of beneficial interests in the Bonds. Principal of the Bonds is payable on August 15 of each of the years set forth below, and interest on the Bonds is payable on each February 15 and August 15, commencing February 15, 2020, in each year until maturity.

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

The Bonds are general obligations of the Board and are secured by a pledge of the full faith and credit of the Board for the payment of the principal thereof and the interest thereon, and unless paid from other sources, the Bonds and the interest thereon 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 also secured under the provisions of the New Jersey School Bond Reserve Act, P.L. 1980, c. 72, as amended.

MATURITIES, AMOUNTS, INTEREST RATES AND YIELDS

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2020	\$274,000			2025	\$300,000		
2021	265,000			2026	310,000		
2022	275,000			2027	315,000		
2023	285,000			2028	325,000		
2024	290,000			2029	325,000		

The Bonds are offered for sale upon the terms of the notice of sale and subject to the final approving opinion of Rogut McCarthy LLC, Cranford, New Jersey, Bond Counsel. Phoenix Advisors, LLC, Bordentown, New Jersey has served as Municipal Advisor in connection with the issuance of the Bonds. It is anticipated that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August 1, 2019.

**ELECTRONIC BIDS VIA PARITY AND
SEALED PROPOSALS WILL BE RECEIVED
UNTIL 11:00 A.M. ON JULY 18, 2019
AT THE CEDAR GROVE BOARD OF EDUCATION OFFICE
520 POMPTON AVENUE
CEDAR GROVE, NEW JERSEY 07009**

This is a Preliminary Official Statement "deemed final" within the meaning of, and with the exception of certain information permitted to be omitted by, Rule 15c2-12 of the Securities and Exchange Commission, and the information contained herein is subject to completion or amendment in accordance with applicable law. The Issuer will deliver a final Official Statement in compliance with Rule 15c2-12. This Preliminary Official Statement shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or exemption under the securities laws of any such jurisdiction.

**THE BOARD OF EDUCATION OF THE
TOWNSHIP OF CEDAR GROVE
IN THE COUNTY OF ESSEX, NEW JERSEY**

MEMBERS OF THE BOARD

Christine Dye, President
David Schoner, Vice President
Leonard Splendoria
Nicole DiChiara
Michele Mega

SUPERINTENDENT

Michael J. Fetherman

**SCHOOL BUSINESS ADMINISTRATOR/
BOARD SECRETARY**

Michael DeVita

BOARD ATTORNEY

Sciarrillo, Cornell, Merlino, McKeever & Osborne, LLC
Westfield, New Jersey

BOARD AUDITOR

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

MUNICIPAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

BOND COUNSEL

Rogut McCarthy LLC
Cranford, New Jersey

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

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

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale.

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**OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION OF THE
TOWNSHIP OF CEDAR GROVE
IN THE COUNTY OF ESSEX, NEW JERSEY**

**\$2,964,000
SCHOOL BONDS
(BOOK-ENTRY-ONLY) (NON-CALLABLE) (BANK-QUALIFIED)**

INTRODUCTION

This Official Statement (the "Official Statement") which includes the cover page and the appendices attached hereto, has been prepared by The Board of Education of the Township of Cedar Grove (the "Board" when referring to the governing body and the "School District" when referring to the geographical area governed thereby), in the County of Essex (the "County"), State of New Jersey (the "State") in connection with the sale and issuance of its \$2,964,000 School Bonds (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the School Business Administrator/Board Secretary.

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

THE BONDS

General Description

The Bonds shall be dated August 1, 2019 and shall mature on August 15 in each of the years and in the amounts as set forth below. The Bonds shall bear interest from their dated date, which interest shall be payable semi-annually on the fifteenth day of February and August, commencing on February 15, 2020 (each an "Interest Payment Date"), in each of the years and at the interest rates set forth on the front cover page hereof in each year until maturity by the Board or a duly appointed paying agent to the registered owners of the Bonds as of the last business day of the month preceding the month in which such Interest Payment Date occurs (the "Record Dates"). So long as The Depository Trust Company, New York, New York ("DTC"), or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the Board or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC Participants, which will in turn remit such payments to the beneficial owners of the Bonds. *See* "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds will be issued in fully registered book-entry only form, without certificates. One certificate shall be issued for the aggregate principal amount of Bonds maturing in each year, and when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as Securities Depository for the Bonds. The certificates will be on deposit with DTC. DTC will be responsible for maintaining a book-entry system for recording the interests of its participants and transfers of the interests among its participants. The participants will be responsible for maintaining records regarding the beneficial ownership interests in the Bonds on behalf of the individual purchasers. Individual purchases may be made in the denomination of \$5,000 each or integral multiples thereof (except for one odd piece in excess of \$5,000), through book entries made on the books and the records of DTC and its participants. Individual purchasers of the Bonds will not receive certificates representing their beneficial ownership interests in the Bonds, but each book-entry owner will receive a credit balance on the books of its nominee, and this credit

balance will be confirmed by an initial transaction statement stating the details of the Bonds purchased. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Maturity Schedule

<u>Year</u>	<u>Principal Amount</u>
2020	\$274,000
2021	265,000
2022	275,000
2023	285,000
2024	290,000
2025	300,000
2026	310,000
2027	315,000
2028	325,000
2029	325,000

Prior Redemption

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

Security for the Bonds

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

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

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

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

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

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

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

There have not been any required withdrawals from the School Bond Reserve since its establishment. The School Bond Reserve Act does not contain a covenant by the State to refrain from repealing, revoking, rescinding, modifying or amending the provisions of such Act.

Authorization and Purpose

The Bonds are authorized and are issued pursuant to Title 18A, Education, of the New Jersey Statutes and by virtue of a proposal adopted by the Board of Education on July 24, 2018 and approved by a majority of legal voters of the School District voting thereon on October 2, 2018 and by resolutions of the Board of Education adopted on June 18, 2019.

The purpose of the referendum is to provide funds: (a) to undertake various improvements and/or renovations, including, but not limited to, security and safety upgrades, at the Cedar Grove High School, Memorial Middle School, North End Elementary School, and South End Elementary School; and (b) to acquire the necessary equipment as well as undertake any associated site work. The total cost of the project is \$2,964,816. The Board will fund the project primarily with \$2,964,000 funded through the issuance of the

Bonds. The Board also expects to receive 40% debt service aid on the \$2,964,816 eligible costs of the project.

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

BOOK-ENTRY-ONLY SYSTEM¹

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

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

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

¹ Source: The Depository Trust Company

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

NO DEFAULT

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

MARKET PROTECTION

The Board does not intend to issue any additional bonds or notes during the remainder of calendar year 2019.

THE SCHOOL DISTRICT AND THE BOARD

The Board consists of five (5) members elected to three-year terms. The purpose of the School District is to educate students in grades Pre-K through twelve (12). The Superintendent of the School District is appointed by the Board and is responsible for the administrative control of the School District. The School District is coterminous with the boundaries of the Township of Cedar Grove (the "Township"), in the County of Essex. The School District is a Type II school district without a board of school estimate.

THE STATE'S ROLE IN PUBLIC EDUCATION

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

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

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

An Executive County Superintendent of Schools (the "County Superintendent") is appointed for each county in the State by the Governor, upon the recommendation of the Commissioner and with the advice and consent of the State Senate. The County Superintendent reports to the Commissioner or a person designated by the Commissioner. The County Superintendent is responsible for the supervision of the school districts in the county and is charged with the enforcement of rules pertaining to the certification of teachers, pupil

registers and financial reports and the review of budgets. Under the Uniform Shared Services and Consolidation Act, P.L. 2007, c. 63 approved April 3, 2007 (A4), the role of the County Superintendent was changed to create the post of the Executive County Superintendent with expanded powers for the operation and management of school districts to, among other things, promote administrative and operational efficiencies, eliminate non-operating school districts and recommend a school district consolidation plan to eliminate school districts through the establishment or enlargement of regional school districts, subject to voter approval.

STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY

Categories of School Districts

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

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

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

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

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

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

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

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

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

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

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

In a Type II school district, the elected board of education develops the budget proposal and, at or after a public hearing, submits it for voter approval unless the board has moved its annual election to November as discussed below. Debt service provisions are not subject to public referendum. If approved, the budget goes into effect. If defeated, the governing body of the municipality must develop the school budget by May 19 of each year. Should the governing body be unable to do so, the Commissioner establishes the local school budget.

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

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

The Board opted to change the annual school election to the November general election. The 2012-2013 through the 2019-2020 budgets were within the permitted budget Cap under the Tax Levy Cap Law (as hereinafter defined) and were not subject to voter approval.

Spending Growth Limitation

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

SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT

Levy and Collection of Taxes

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

Budgets and Appropriations

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

Tax and Spending Limitations

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

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

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

P.L. 2007, c. 62, effective April 3, 2007 ("Chapter 62"), provided additional limitations on school district spending by limiting the amount a school district could raise for school district purposes through the

property tax levy by 4% over the prior budget year's tax levy. Chapter 62 provided for adjustments to the cap for increases in enrollment, reductions in State aid and increased health care costs and for certain other extraordinary cost increases that required approval by the Commissioner. Chapter 62 granted discretion to the Commissioner to grant other waivers from the cap for increases in special education costs, capital outlay, and tuition charges. The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

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

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

The previous legislation was amended by P.L. 2010, c. 44, approved July 13, 2010 and became applicable to the next local budget year following enactment. This law limits the school district tax levy for the general fund budget to increases of 2% over the prior budget year with exceptions only for enrollment increases, increases for certain normal and accrued liability for pension contributions in excess of 2%, certain healthcare increases, and amounts approved by a simple majority of voters voting at a special election (the "Tax Levy Cap Law"). Additionally, also becoming effective in the 2011-2012 fiscal year, a school district that has not been granted approval to exceed the tax levy CAP by a separate proposal to bank the unused tax levy for use in any of the next three succeeding budget years. A school district can request a use of "banked CAP" only after it has fully exhausted all eligible statute spending authority in the budget year. The process for obtaining waivers from the Commissioner for additional increases over the tax levy cap or Spending Growth Limitations was eliminated under Chapter 44. Notwithstanding the foregoing, under P.L. 2018, c. 67, approved, July 24, 2018, which increases State school aid to underfunded districts and decreases state school aid to over funded districts, during the 2018-2019 through 2024-2025 fiscal years, SDA Districts, which are certain urban districts formerly referred to as Abbott Districts referred to herein under "Summary of State Aid to School Districts", are permitted increases in the tax levy over the 2% limit to raise a general fund tax levy to an amount that does not exceed its local share of the adequacy budget.

The restrictions are solely on the tax levy for the general fund and are not applicable to the debt service fund. There are no restrictions on a local school district's ability to raise funds for debt service, and nothing would limit the obligation of a school district to levy *ad valorem* taxes upon all taxable real property within the school district to pay debt service on its bonds or notes with one exception. School districts are subject to GAAP accounting, and under GAAP interest on obligations maturing within one year must be treated as operating expenses. Accordingly, under the Department of Education's Chart of Accounts, interest on notes is raised in the General Fund of a school district and therefore is counted within its 2% tax levy cap on spending.

Issuance of Debt

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

debt statement and a school debt statement setting forth the amount of bonds and notes authorized but unissued and outstanding for such school district.

When a school district changes from a type I to a type II school district and obligations have been authorized and remain unissued by the municipality pursuant to ordinances adopted by the municipality to authorize and issue school debt, the new type II district assumes the obligation of any outstanding notes issued for such purposes and is authorized to issue notes or bonds without further voter approval to fund such purposes or pay off or permanently finance the notes pursuant to N.J.S.A. 18A:24-63. The school district does not assume the obligation of outstanding school bonds issued by the municipality, but the debt would count towards the school district borrowing margin.

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

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

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

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

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

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

Exceptions to Debt Limitation

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

Capital Lease Financing

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

Energy Saving Obligations

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

Promissory Notes for Cash Flow Purposes

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

Investment of School Funds

Investment of funds by New Jersey school districts is governed by State statute. Pursuant to N.J.S.A. 18A:20-37, school districts are limited to purchasing the following securities: (1) direct obligations of, or obligations guaranteed by, the United States of America ("Government Obligations"); (2) U.S. Government money market mutual funds; (3) obligations of Federal Government agencies or instrumentalities having a maturity of 397 days or less, provided such obligations bear a fixed rate of interest not dependent on any index or external factor; (4) bonds or other obligations of the particular school district or municipalities or counties within which the school district is located; (5) bonds or other obligations having a maturity of 397 days or less approved by the Division of Local Government Services of the State Department of Community Affairs; (6) local government investment pools, rated in the highest rating category, investing in U.S. government securities and repurchase agreements fully collateralized by securities set forth in (1) and (3) above; (7) deposits with the New Jersey Cash Management Fund (created pursuant to N.J.S.A. 52:18A-90.4; the "Cash Management Fund"); and (8) repurchase agreements with a maximum 30 day maturity fully collateralized by securities set forth in (1) and (3) above. School districts are required to deposit their funds in interest-bearing bank accounts in banks satisfying certain security requirements set forth in N.J.S.A. 17:9-

41 et seq. or invest in permitted investments to the extent practicable, and may invest in bank certificates of deposit.

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

The Board has no investments in derivatives.

SUMMARY OF STATE AID TO SCHOOL DISTRICTS

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

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

Since that time there has been much litigation and many cases affecting the State's responsibilities to fund public education and many legislative attempts to distribute State aid in accordance with the court cases and the constitutional requirement. The cases addressed not only current operating fund aid but also addressed the requirement to provide facilities aid as well. The legislation has included the QEA (now repealed), CEIFA and EFCFA, which became law on July 18, 2000. For many years, aid has simply been determined in the State Budget, which itself is an act of the legislature, based upon amounts provided in prior years. The school funding formula provided in the School Funding Reform Act of 2008, P.L. 2007, c. 260, approved January 1, 2008 (A500), removed the special status given to certain school districts known as Abbott Districts after the school funding cases and instead has funding follow students with certain needs and provides aid in a way that takes into account the ability of the local school district to raise local funds to support the budget in amounts deemed adequate to provide for a thorough and efficient education as required by the State constitution. This legislation was challenged in the Court, and the Court held that the State's then current plan for school aid was a "constitutionally adequate scheme". However, the State continued to underfund certain school districts and to overfund other school districts in its budgets based on the statutory scheme. In its budget process for FY 2019 and with the enactment of P.L. 2018, c. 67, approved July 24, 2018, the State is moving the school districts toward the intent of the statutory scheme by increasing funding for underfunded school districts and decreasing funding for overfunded school districts over the next six years and providing cap relief for overfunded school districts to enable them to pick up more of the local share.

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

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

The State reduced debt service aid by fifteen percent (15%) for the fiscal years 2011 through 2019. As a result of the debt service aid reduction for those fiscal years, school districts received eighty-five percent (85%) of the debt service aid that they would have otherwise received. In addition, school districts which received grants under the EFCFA, which grants were financed through the New Jersey Economic Development Authority (the "EDA"), were assessed an amount in their fiscal years 2011 through 2019 budgets representing 15% of the school district's proportionate share of the principal and interest payments on the outstanding EDA bonds issued to fund such grants.

SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS

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

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

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

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

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

The Township may exceed its debt limit with the approval of the Local Finance Board, a State regulatory agency, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the Township may apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the Township or substantially reduce the ability of the Township to meet its obligations or to provide essential public improvements and services, or if it makes certain other statutory determinations, approval is granted. In addition, debt in excess of the statutory limit may be issued by the Township to fund certain notes, to provide for self-liquidating purposes, and, in each fiscal year, to provide

for purposes in an amount not exceeding 2/3 of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of utility and assessment obligations).

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

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

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

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

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

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

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

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

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

fiscal year that was received in cash by the last day of that fiscal year. The budget also must provide for any cash deficits of the prior year.

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

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

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

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

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

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

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

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

Tax Assessment and Collection Procedure

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

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

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

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

In response to the \$10,000 annual limitation on an individual's federal income tax deduction for state and local taxes paid (beginning in 2018 and ending in 2025) contained in the federal "Tax Cuts and Jobs Act", Pub. L. No. 115-97, New Jersey Governor Murphy signed into law Senate Bill No. 1893 ("S-1893") on May 4, 2018. S-1893, which will take effect when implementing regulations are adopted by various State agencies, authorizes municipalities, counties and school districts ("local units") to establish one or more charitable funds, each for specific public purposes, and permits certain donations to those charitable funds to be credited toward the donor's property tax obligation. Moneys held in a charitable fund are immediately available to pay debt service. On June 13, 2019, the Internal Revenue Service issued final regulations, effective August 12, 2019, denying the deductibility (except for a de minimis amount) for federal income tax purposes of the property tax credit donation mechanisms authorized by S-1893 and similar laws adopted in other states. The Board makes no representations as to whether any local units will establish charitable funds pursuant to S-1893 or how S-1893 will be implemented.

Tax Appeals

The New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessment deemed excessive. Prior to February 1 in each year, the Township must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the Essex County Board of Taxation on or before April 1 for review. The County Board of Taxation has the authority after a

hearing to decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer feels his petition was unsatisfactorily reviewed by the County Board of Taxation, appeal may be made to the Tax Court of New Jersey, for further hearing. Some State Tax Court appeals may take several years prior to settlement, and any losses in tax collections from prior years are charged directly to operations, or with the permission of the Local Finance Board, may be financed, generally over a three to five year period.

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

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

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

FINANCIAL STATEMENTS

The financial statements of the Board for the year ended June 30, 2018 are presented in Appendix B to this Official Statement (the "Financial Statements"). The Financial Statements have been audited by Lerch, Vinci & Higgins, LLP, Fair Lawn, New Jersey, an independent auditor (the "Auditor"), as stated in its report appearing in Appendix B to this Official Statement. See "APPENDIX B - Financial Statements of The Board of Education of the Township of Cedar Grove in the County of Essex, New Jersey". Such Financial Statements are included herein for informational purposes only, and the information contained in these Financial Statements should not be used to modify the description of the security for the Bonds contained herein.

LITIGATION

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

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. Such requirements include requirements relating to the use and investment of

proceeds of the Bonds and other amounts and rebate of certain arbitrage earnings to the United States. Noncompliance by the Board with such requirements may cause interest on the Bonds to be included in gross income of the owners thereof retroactive to the date of issuance of the Bonds, regardless of when such noncompliance occurs.

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

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

Tax Opinions

In the opinion of Rogut McCarthy LLC, Bond Counsel to the Board, assuming compliance by the Board with the Tax Certificate, under existing law, interest on the Bonds is excluded from gross income of the owners thereof for Federal income tax purposes pursuant to Section 103 of the Code. In addition, under existing law, interest on the Bonds is not treated as a preference item for purposes of the alternative minimum tax imposed under the Code with respect to individuals. For other Federal tax information, see "Tax Matters - Additional Federal Income Tax Consequences" herein.

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

Additional Federal Income Tax Consequences

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

Proposals for Legislative Change

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It

cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

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

DOCUMENTS ACCOMPANYING THE DELIVERY OF THE BONDS

Absence of Litigation

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

Legal Matters

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

1. The Bonds have been duly authorized, executed and delivered and constitute valid and legally binding obligations of the Board, enforceable in accordance with their terms, except as enforcement of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation or other laws relating to or affecting the enforcement of creditors' rights generally now or hereafter in effect to the extent constitutionally applicable, and enforcement may also be subject to the exercise of judicial discretion in certain cases.
2. The Board has pledged its full faith and credit for the payment of the principal of and interest on the Bonds, and, unless paid from other sources, the Bonds and the interest thereon are payable from ad valorem taxes levied on all taxable real property in the School District, without limitation as to rate or amount.

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

Certificates of Board Officials

The original purchaser of the Bonds shall also receive a certificate dated as of the date of delivery of the Bonds and signed by the School Business Administrator/Board Secretary certifying that (a) as of the date of the Official Statement furnished by the Board in relation to the Bonds, said Official Statement did not

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

LEGALITY FOR INVESTMENT

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

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 Rogut McCarthy LLC, Cranford, New Jersey, Bond Counsel to the Board, whose approving legal opinion will be delivered with the Bonds substantially in the form set forth as Appendix C.

PREPARATION OF OFFICIAL STATEMENT

The Board hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects, and it will confirm same to the purchasers of the Bonds by a certificate signed by the School Business Administrator/Board Secretary.

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

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

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

RATINGS

S&P Global Ratings, acting through Standard & Poor's Financial Services LLC (the "Rating Agency") has assigned an underlying rating of "AA" to the Bonds. In addition, the Rating Agency has assigned the Bonds an enhanced rating of "BBB+" based on the additional security provided by the New Jersey School Bond Reserve Act.

The ratings will reflect only the view of the Rating Agency and an explanation of the significance of any such ratings may only be obtained from the Rating Agency at 55 Water Street, New York, New York 10041. The Board furnished to the Rating Agency certain information and materials concerning the Bonds and the Board. There can be no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward entirely by the Rating Agency if, in their judgment, circumstances so warrant. Any downward change in or withdrawal of any such ratings may have an adverse effect on the marketability or market price of the Bonds.

UNDERWRITING

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

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.

SECONDARY MARKET DISCLOSURE

The Board has agreed, pursuant to a resolution adopted on June 18, 2019, to undertake for the benefit of the Bondholders and the beneficial owners of the Bonds to provide certain secondary market disclosure information pursuant to Rule 15c2-12 to the Municipal Securities Rulemaking Board (the "MSRB") in an electronic format, as prescribed by the MSRB. Specifically, the Board will do the following for the benefit of the holders of the Bonds and the beneficial owners thereof:

(A) Not later than seven months after the end of the Board's fiscal year (presently June 30), commencing with the report for the fiscal year ending June 30, 2019, provide or cause to be provided, annual financial information with respect to the Board consisting of (i) audited financial statements (or unaudited financial statements if audited financial statements are not then available by the date of filing, which audited financial statements will be delivered when and if available) of the Board and (ii) certain financial information and operating data consisting of (a) information concerning the Board's debt and overlapping indebtedness, including a schedule of outstanding debt issued by the Board, (b) property valuation information, (c) budget information, and (d) tax rate, levy and collection data. The audited financial statements will be prepared in accordance with generally accepted accounting principles, as modified by governmental accounting standards as may be required by New Jersey law in effect from time to time. Audited financial statements if not available by the filing date will be submitted separately when available.

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

- (1) Principal or interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to the rights of Bondholders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution or sale of property which secures the repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the Board (the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Board in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Board, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Board);
- (13) The consummation of a merger, consolidation, or acquisition involving the Board or the sale of all or substantially all of the assets of the Board, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (15) Incurrence of a financial obligation of the Board, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Board, any of which affect Bondholders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Board, any of which reflect financial difficulties. The Board intends the words used in paragraphs (15) and (16) and the definition of "financial obligation" to have the meanings ascribed to them in SEC Release No. 34-83885 (August 20, 2018).

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

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

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

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

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

The School District has previously entered into continuing disclosure undertakings under Rule 15c2-12. The School District appointed Phoenix Advisors, LLC, Bordentown, New Jersey in January of 2015 to act as Continuing Disclosure Agent/Dissemination Agent to assist in the filing of certain information with the MSRB's Electronic Municipal Market Access Dataport ("EMMA") as required under its obligations.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Michael DeVita, School Business Administrator/Board Secretary, at (973) 239-1550, ext. 6123, or to the Municipal Advisor, Phoenix Advisors, LLC, at 625 Farnsworth Avenue, Bordentown, New Jersey 08505, (609) 291-0130.

APPROVAL OF OFFICIAL STATEMENT

Prior to the delivery of the Bonds, the Board will have adopted a resolution approving this Official Statement, deeming it a "final official statement" for purposes of Rule 15c2-12 and directing the School Business Administrator/Board Secretary to deliver a reasonable number of copies thereof in final form to the Underwriters for their use in the sale, resale or distribution of the Bonds.

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MISCELLANEOUS

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

This Official Statement has been duly executed and delivered on behalf of the Board by the School Business Administrator/Board Secretary.

**THE BOARD OF EDUCATION OF THE
TOWNSHIP OF CEDAR GROVE IN THE
COUNTY OF ESSEX, NEW JERSEY**

By:/s/

Michael DeVita

School Business Administrator/Board Secretary

Dated:

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APPENDIX A

**Economic and Demographic Information Relating
to the School District and the Township of Cedar Grove**

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**CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING
TO THE SCHOOL DISTRICT AND THE TOWNSHIP OF
CEDAR GROVE, IN THE COUNTY OF ESSEX, STATE OF NEW JERSEY**

Summary

The public school system in the Township of Cedar Grove, in the County of Essex, State of New Jersey (the “Township”) is operated by The Board of Education of the Township of Cedar Grove in the County of Essex, 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 five (5) member board, elected by the voters in staggered three (3) year terms. The Board appoints a Superintendent who is responsible for the budgeting, planning and operational functions of the School District. The Board operates a Pre-Kindergarten through grade twelve (12) School District which houses its students in two (2) elementary schools, one (1) middle school and one (1) high school. The schools include class rooms with 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>
2017-2018	1,570
2016-2017	1,599
2015-2016	1,614
2014-2015	1,651
2013-2014	1,650
2012-2013	1,639
2011-2012	1,627

Staff¹

The Superintendent is the chief administrative officer of the School District. The Business Administrator/Board Secretary oversees the business functions of the Board and reports through the Superintendent to the Board. The School District employs the following staff (Including part-time employees):

Description

Teaching Staff (Instruction)	180
Administration and Administrative Services	19
Student Services	21
Custodial/Maintenance.....	20
Total	240

Labor Relations²

The Board’s contract with the Cedar Grove Educational Association which includes teachers, secretaries, aides and custodial workers, expires on June 30, 2020.

¹ Source: Business Administrator/Board Secretary; Board records

² Source: Business Administrator/Board Secretary; Board records

Comparison of General Fund Revenues and Appropriations

	(Budget) Fiscal Year <u>2019-2020</u>	(Budget) Fiscal Year <u>2018-2019</u>	(Actual) Fiscal Year <u>2017-2018</u>	(Actual) Fiscal Year <u>2016-2017</u>
GENERAL FUND				
REVENUES				
Budgeted Fund Balance	\$ 821,501	\$ 874,182		
Withdrawal from Maintenance Reserve	282,888			
Local Sources:				
Local Tax Levy	28,112,945	27,295,448	\$ 26,532,424	\$ 25,859,739
Miscellaneous	879,156	860,683	960,867	703,907
State Sources	<u>1,458,678</u>	<u>1,258,315</u>	<u>1,214,430</u>	<u>1,163,715</u>
TOTAL REVENUES	<u>\$ 31,555,168</u>	<u>\$ 30,288,628</u>	<u>\$ 28,707,721</u>	<u>\$ 27,727,361</u>
APPROPRIATIONS				
Instruction:				
Regular Programs	\$ 8,946,076	\$ 8,756,213	\$ 8,360,637	\$ 8,220,314
Special Education	2,108,827	2,078,010	2,030,933	1,846,886
Basic Skills/Remedial	60,449	60,793	58,278	106,697
Bilingual Education	105,307	112,480	107,730	90,621
School-Sponsored Co-Curricular Activities	188,019	182,019	176,682	186,113
School-Sponsored Athletic Activities	647,846	611,158	563,224	516,270
Undistributed Expenditures:				
Tuition	2,638,081	2,765,567	2,409,693	2,567,677
Attendance and Social Work Services	46,555	43,855	43,362	50,996
Health	405,838	390,055	369,264	374,902
Speech, OT, PT, Related Services	828,877	789,542	780,211	777,332
Other Support Services/Extraordinary	494,751	412,610	450,110	466,923
Guidance	386,827	375,944	359,026	349,709
Child Study Teams	552,106	531,719	530,844	549,797
Improvement of Instructional Services	64,394	57,702	55,711	62,065
Educational Media Services - School Library	294,528	285,021	285,724	305,569
Instructional Staff Training	177,440	184,063	144,884	148,728
General Administration	770,223	747,329	633,781	770,057
School Administration	1,486,413	1,472,975	1,354,929	1,330,912
Central Services	352,294	338,074	324,758	423,720
Administration Info Tech.	306,291	272,862	234,187	276,042
Operation and Maintenance of Plant Services	2,946,524	2,913,030	2,654,332	2,883,745
Student Transportation	1,319,740	1,196,543	1,329,420	1,223,382
Personnel Services - Employee Benefits	6,378,743	5,649,045	4,810,494	4,621,449
Food Services	8,000	11,000		
Interest Earned On Maintenance Reserve	<u>500</u>	<u>500</u>	<u>-</u>	<u>-</u>
	31,514,649	30,238,109	28,068,214	28,149,906
Capital Outlay	<u>40,519</u>	<u>50,519</u>	<u>58,111</u>	<u>106,639</u>
TOTAL APPROPRIATIONS/EXPENDITURES	<u>\$ 31,555,168</u>	<u>\$ 30,288,628</u>	<u>28,126,325</u>	<u>28,256,545</u>
Other Financing Sources			<u>2,398</u>	<u>(1,041,207)</u>
Excess (Deficiency) of Revenues Over/(Under)				
Expenditures and Other Financing Uses			583,794	(1,570,391)
Fund Balance, Beginning of Year			<u>3,076,635</u>	<u>4,647,026</u>
Fund Balance, End of Year			<u>\$ 3,660,429</u>	<u>\$ 3,076,635</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 31, 2018 (Unaudited) are summarized below:

<u>Year</u>	<u>Amount</u>
2016	\$ 2,287,531,599
2017	2,290,691,751
2018	<u>2,533,802,846</u>
	<u>\$ 7,112,026,196</u>
Average for the Three (3) Year Period	2,370,675,399
School District Borrowing Margin (4.0% of \$2,370,675,399)	94,827,016
School Debt as of December 31, 2018 (Unaudited)	<u>25,210,816</u>
Available School District Borrowing Margin	<u>\$ 69,616,200</u>

**COMPUTATION OF SCHOOL AND OVERLAPPING DEBT
AS OF DECEMBER 31, 2018 (UNAUDITED)⁴**

Debt of School District as of December 31, 2018 (Unaudited)	\$ 25,210,816
Overlapping Debt of School District:	
Township of Cedar Grove	22,252,000
County of Essex	13,503,175
NJDWSC	<u>214,520</u>
Total School and Overlapping Bonded Debt	<u>\$ 61,180,511</u>

³ Source: The Township of Cedar Grove 2018 Annual Debt Statement

⁴ Source: The Township of Cedar Grove 2018 Annual Debt Statement

**GENERAL INFORMATION OF THE TOWNSHIP OF CEDAR GROVE,
IN THE COUNTY OF ESSEX, STATE OF NEW JERSEY**

Size and Geographical Location

The Township is a suburban municipality located in the northeastern part of Essex County occupying approximately 4.5 square miles. Neighboring communities include the Boroughs of Verona and North Caldwell and the Townships of Montclair and Little Falls.

Form of Government

Cedar Grove operates under the Municipal Manager form of government. There is a Mayor and four member Council. The Township Manager runs the day to day operations.

The Mayor is elected to serve a four-year term and may succeed that term by re-election. The Mayor is empowered, amongst his legal powers as head of the municipal government, to: (i) provide for the proper execution of local and State laws; (ii) recommend to the Township Council measures he deems in the best interest of the Township; (iii) nominate and, with the advice and consent of the Township Council, appoint most subordinate officers of the Township; and (iv) maintain peace and order. Although he presides over meetings of the Township Council, the Mayor votes only in case of a tie. State law requires that he be a member of the Planning Board and the Board of Trustees of the municipal Public Library.

The four Council members are elected at-large for terms of four years. The Council exercises general legislative powers conferred upon it by State law to protect and promote the general welfare of the Township. Among these are the right to enact ordinances, approve resolutions, approve mayoral appointments, adopt the annual budget and determine the tax levy. The Council, acting in committees, oversees the various departments and functions of the Township Government.

Transportation

The Township is 15 miles west of New York City and many major interstate and local highways are just minutes away including Routes 23, 3, 46 and 280.

Protection

The Township is served by a police department, a volunteer fire service, and a volunteer rescue squad.

Population Trends⁵

Population trends for the Township, County of Essex and the State of New Jersey since 1970 are shown below:

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2018</u>
Township of Cedar Grove	12,600	12,053	12,300	12,411	12,549
County of Essex	851,304	778,206	793,633	783,969	799,767
State of New Jersey	7,365,011	7,730,188	8,414,350	8,791,894	8,908,520

⁵ Source: State of New Jersey, Data Center, Census Data and population estimates

Money Income as of 2017⁶

	Median Household Income	Median Family Income	Per Capita Income
Township of Cedar Grove	\$ 115,926	\$ 142,578	\$ 51,017
County of Essex	57,365	74,434	35,133
State of New Jersey	73,702	90,757	37,538

Employment and Unemployment Data⁷

The New Jersey Department of Labor reported the following annual average employment information for The Township of Cedar Grove, the County of Essex and the State of New Jersey:

	Total Labor Force	Employed Labor Force	Total Unemployed	Unemployment Rate
<u>Township of Cedar Grove</u>				
2018	6,044	5,845	199	3.3%
2017	6,075	5,864	211	3.5%
2016	6,137	5,885	252	4.1%
2015	6,243	5,949	294	4.7%
2014	6,206	5,872	334	5.4%
<u>County of Essex</u>				
2018	364,346	345,495	18,851	5.2%
2017	367,390	346,604	20,786	5.7%
2016	367,908	345,779	22,129	6.0%
2015	375,600	350,400	25,200	6.7%
2014	375,900	345,900	30,000	8.0%
<u>State of New Jersey</u>				
2018	4,422,900	4,239,600	183,300	4.1%
2017	4,518,800	4,309,700	209,100	4.6%
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%

⁶ Source: U.S. Census Bureau, 2013 - 2017 American Community Survey 5 Year Estimates

⁷ Source: State of New Jersey Data Center

**STATEMENT OF STATUTORY NET DEBT
FOR THE TOWNSHIP OF CEDAR GROVE⁸
AS OF DECEMBER 31, 2018 (UNAUDITED)**

GENERAL PURPOSES

Bonds and Notes Issued and Outstanding	\$ 10,064,000	
Bonds and Notes Authorized but Not Issued	12,188,000	
		\$ 22,252,000

LOCAL SCHOOL

Bonds and Notes Issued and Outstanding	22,246,000	
Bonds and Notes Authorized but Not Issued	2,964,816	
		25,210,816

WATER UTILITY

Bonds and Notes Issued, Outstanding and Authorized		4,136,000
--	--	-----------

SEWER UTILITY

Bonds and Notes Issued and Outstanding		5,148,000
--	--	-----------

SWIMMING POOL UTILITY

Bonds Issued and Outstanding		1,063,000

TOTAL GROSS DEBT 57,809,816

STATUTORY DEDUCTIONS

School Debt	25,210,816	
Water Utility	4,136,000	
Sewer Utility	5,148,000	
Swimming Pool Utility	1,063,000	
		35,557,816

TOTAL NET DEBT \$ 22,252,000

OVERLAPPING DEBT

County of Essex (Note 1)	\$ 13,503,175	
NJDWSC (Note 2)	214,520	

TOTAL OVERLAPPING DEBT \$ 13,717,695

GROSS DEBT

Per Capita (2018 - 12,549)		\$ 4,607
Percent of Net Valuation Taxable (2018 - \$2,227,463,200)		2.60%
Percent of Estimated True Value of Real Property (2018 - \$2,310,079,883)		2.50%

NET MUNICIPAL DEBT

Per Capita (2018 - 12,549)		\$ 1,773
Percent of Net Valuation Taxable (2018 - \$2,227,463,200)		1.00%
Percent of Estimated True Value of Real Property (2018 - \$2,310,079,883)		0.96%

OVERALL DEBT (Gross and Overlapping Debt)

Per Capita (2018 - 12,549)		\$ 5,700
Percent of Net Valuation Taxable (2018 - \$2,227,463,200)		3.21%
Percent of Estimated True Value of Real Property (2018 - \$2,310,079,883)		3.10%

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 2018 Abstract of Ratables published by the Essex County Board of Taxation.
 Note 2: Overlapping debt was computed based upon usage.

⁸ Source: The Township of Cedar Grove's 2018 Annual Debt Statement

Largest Taxpayers⁹

The largest taxpayers in the Township and their 2019 assessed valuations are listed below:

<u>Taxpayer</u>	<u>Assessment</u>
Bradford Farms	\$ 17,715,000
Grove Associates	16,320,000
Cedar Hill Realty Associates LLC	15,170,000
691 Pompton Avenue Realty LLC	13,780,700
Health Resources of Cedar Grove LLC	11,875,000
Canterbury At Cedar Grove LLC	11,250,000
11 Cliffside Drive LLC	9,960,000
Contract Filling Inc.	9,235,400
Cedar Grove Properties Inc	8,385,000
Pilgrim Plaza, LLC	7,900,000
	<u>\$ 121,591,100</u>

Total as of a % of 2019 Assessed Value **5.48%**

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>
2019	\$ 37,088,000	\$ 1,835,488,500	\$ 2,105,100	\$ 194,009,500	\$ 95,236,100	\$ 54,387,800	\$ 2,218,315,000
2018	59,401,200	1,829,464,900	2,105,100	191,506,500	95,531,100	47,937,000	2,225,945,800
2017	60,513,100	1,818,783,800	2,105,100	189,695,100	97,221,100	47,697,000	2,216,015,200
2016	63,709,300	1,813,293,900	2,105,100	191,728,300	97,324,000	47,085,000	2,215,245,600
2015	47,228,100	1,812,915,000	1,259,700	196,140,700	97,524,000	47,345,000	2,202,412,500

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>
2019	\$ 2,218,315,000	\$ 1,517,300	\$ 2,219,832,300	96.09%	\$ 2,317,629,210
2018	2,225,945,800	1,517,400	2,227,463,200	96.74%	2,310,079,883
2017	2,216,015,200	1,503,700	2,217,518,900	96.84%	2,297,797,503
2016	2,215,245,600	1,476,000	2,216,721,600	95.43%	2,330,420,358
2015	2,202,412,500	1,545,700	2,203,958,200	99.06%	2,232,552,179

⁹ Township of Cedar Grove Tax Assessor

¹⁰ Township of Cedar Grove Tax Duplicates

¹¹ Essex County Abstract of Ratables

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

<u>Year</u>	<u>Total</u>	<u>Municipal (1)</u>	<u>Local School</u>	<u>County (1)</u>
2018	\$ 2.396	\$ 0.569	\$ 1.305	\$ 0.522
2017	2.370	0.556	1.276	0.538
2016	2.297	0.537	1.212	0.548
2015	2.244	0.526	1.192	0.526
2014	2.198	0.513	1.162	0.523

(1) - Includes Open Space tax and Garbage District tax

Board Current 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>
2018	\$28,294,388	\$28,294,388	100%
2017	26,869,964	26,869,964	100%
2016	26,274,455	26,274,455	100%
2015	25,693,226	25,693,226	100%
2014	25,193,964	25,193,964	100%

¹² Township of Cedar Grove Tax Collector

¹³ Cedar Grove Board of Education Comprehensive Annual Financial Report

APPENDIX B

**Financial Statements of The Board of Education of the
Township of Cedar Grove in the County of Essex, New Jersey**

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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
PAUL J. LERCH, CPA, RMA, PSA
DONNA L. JAPHET, CPA, PSA
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DEBRA GOLLE, CPA
MARK SACO, CPA
SHERYL M. NICOLosi, CPA
ROBERT LERCH, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Trustees
Cedar Grove Public Schools
Cedar Grove, 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 Cedar Grove Public Schools as of and for the fiscal year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Board of Education's 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 Cedar Grove Public Schools as of June 30, 2018, 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.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in Note 1 to the financial statements, in the fiscal year ended June 30, 2018 the Cedar Grove Public Schools adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Our opinion is not modified with respect to this matter.

By/s/

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

Fair Lawn, New Jersey
January 23, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

**CEDAR GROVE PUBLIC SCHOOLS
CEDAR GROVE, NEW JERSEY**

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

This discussion and analysis of the Cedar Grove Public Schools' financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2018. The intent of this is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- District-Wide - Overall revenues were \$41,132,107. General revenues accounted for \$28,816,489 or 70 percent of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$12,315,618 or 30 percent of total revenues of \$41,132,107.
- District-Wide - The School District had \$40,488,329 in expenses; only \$12,315,618 of these expenses were offset by program specific charges for services, grants or contributions and capital grants and contributions. General revenues (primarily taxes) of \$28,816,489 were adequate to provide for these programs.
- Fund Financials - As of the close of the current fiscal year, the Cedar Grove Public Schools governmental funds reported combined ending fund balances of \$4,214,182, an increase of \$519,403 in comparison with the prior year.
- Fund Financials - At the end of June 30, 2018, unassigned fund balance for the General Fund was \$221,796 a decrease of \$113,452 in comparison with the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information which includes the management’s discussion and analysis (this section), the district-wide financial statements, fund financial statements and notes to the financial statements.

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the Cedar Grove Public Schools’ overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Cedar Grove Public Schools, reporting the Cedar Grove Public Schools’ operation in more detail than the district-wide statements.
 - The governmental fund statements tell how basic services such as regular and special education were financed in short term as well as what remains for future spending.
 - Proprietary fund statements offer short and long-term financial information about the activities the Cedar Grove Public Schools operates like a business.
 - Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

Table A-1 summarizes the major features of the Cedar Grove Public Schools’ financial statements, including the portion of the Cedar Grove Public Schools’ activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Table A-1 Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance and food service	Activities the district operates similar to private businesses
Required financial statements	Statements of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position Statement of Revenues, Expenses, and Changes in Fund Net Position and Statement of Cash Flows
Accounting Basis and Measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset, deferred outflows/inflows of resources and liability information	All assets, deferred outflows/inflows of resources and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows/inflows of resources and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid.

District-wide Statements

District-wide. The *District-wide financial statements* are designed to provide readers with a broad overview of the Cedar Grove Public Schools' finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Cedar Grove Public Schools' assets, deferred outflows/inflows of resources and liabilities, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, when assessing the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of the school buildings and other facilities.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

District-wide Statements (Continued)

In the district-wide financial statements the District's activities are shown in two categories:

- *Governmental activities*- Most of the District's basic services are included here, such as regular and special education, transportation, maintenance and administration services. Property taxes and state aids finance most of these activities.
- *Business-type activities*- The District charges fees to customers to help it cover the costs of the District's Food Service Fund and Summer Music Academy.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or “major” funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District uses other funds, established in accordance with the State of New Jersey Uniform Chart of Accounts, to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal funds).

The District has three kinds of funds:

Governmental funds. The District's basic services are included in the governmental funds, which generally focus on near-term inflows and outflows of spendable resources and the balances of spendable resources at year-end. Consequently, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide a reconciliation at the bottom of the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances to facilitate this comparison between governmental funds and governmental activities.

The District adopts an annual appropriated budget for the General Fund, Special Revenue Fund and Debt Service Fund. Budgetary comparison statements have been provided for the General Fund, Special Revenue Fund and Debt Service Fund.

Fund Financial Statements (Continued)

Proprietary Funds. The District maintains one type of Proprietary Fund, an Enterprise Fund, which is used to report the activity of the Food Service Fund and the Music Program Fund. Proprietary Funds provide the same type of information as the district-wide financial statements and is presented as business-type activities in the district-wide financial statements.

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government, such as the Payroll Agency Fund, Unemployment Trust Fund, Scholarship Funds, Lease Rental Security Deposit and the Student Activity Funds. Fiduciary Funds are *not* reflected in the district-wide financial statement because the resources of those funds are not available to support the District's own programs. The accounting used for Fiduciary Funds is much like that used for Proprietary Funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements.

DISTRICT-WIDE FINANCIAL ANALYSIS OF THE CEDAR GROVE PUBLIC SCHOOLS AS A WHOLE

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Table A-2 provides a summary of the school district's net position for fiscal years 2018 and 2017. For 2018 and 2017 net position were \$6,457,382 and \$5,813,604, respectively.

By far the largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide regular and special education, transportation, maintenance and administration services. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

DISTRICT-WIDE FINANCIAL ANALYSIS OF THE CEDAR GROVE PUBLIC SCHOOLS AS A WHOLE (Continued)

**Table A-2
Statement of Net Position
As of June 30, 2018 and 2017**

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets						
Current and Other Assets	\$ 5,452,836	\$ 4,418,557	\$ 92,023	\$ 96,890	\$ 5,544,859	\$ 4,515,447
Capital Assets, net	<u>34,616,726</u>	<u>35,613,778</u>	<u>-</u>	<u>-</u>	<u>34,616,726</u>	<u>35,613,778</u>
Total Assets	<u>40,069,562</u>	<u>40,032,335</u>	<u>92,023</u>	<u>96,890</u>	<u>40,161,585</u>	<u>40,129,225</u>
Deferred Outflows of Resources						
Deferred Amounts on Net Pension Liability	2,338,462	3,305,766			2,338,462	3,305,766
Deferred Amounts on Debt Refunding	<u>27,691</u>	<u>37,345</u>	<u>-</u>	<u>-</u>	<u>27,691</u>	<u>37,345</u>
Total Deferred Outflows of Resources	<u>2,366,153</u>	<u>3,343,111</u>	<u>-</u>	<u>-</u>	<u>2,366,153</u>	<u>3,343,111</u>
Total Assets and Deferred Outflows of Resources	<u>42,435,715</u>	<u>43,375,446</u>	<u>92,023</u>	<u>96,890</u>	<u>42,527,738</u>	<u>43,472,336</u>
Liabilities						
Current Liabilities	1,440,099	940,525	61,409	73,735	1,501,508	1,014,260
Non-Current Liabilities	<u>32,714,073</u>	<u>36,461,172</u>	<u>-</u>	<u>-</u>	<u>32,714,073</u>	<u>36,461,172</u>
Total Liabilities	<u>34,154,172</u>	<u>37,401,697</u>	<u>61,409</u>	<u>73,735</u>	<u>34,215,581</u>	<u>37,475,432</u>
Deferred Inflows of Resources						
Deferred Amounts on Net Pension Liability	<u>1,854,775</u>	<u>183,300</u>	<u>-</u>	<u>-</u>	<u>1,854,775</u>	<u>183,300</u>
Total Deferred Inflows of Resources	<u>1,854,775</u>	<u>183,300</u>	<u>-</u>	<u>-</u>	<u>1,854,775</u>	<u>183,300</u>
Total Liabilities and Deferred Inflows of Resources	<u>36,008,947</u>	<u>37,584,997</u>	<u>61,409</u>	<u>73,735</u>	<u>36,070,356</u>	<u>37,658,732</u>
Net Position:						
Net Investment in Capital Assets	11,757,662	11,390,785			11,757,662	11,390,785
Restricted	1,320,494	570,167			1,320,494	570,167
Unrestricted	<u>(6,651,388)</u>	<u>(6,170,503)</u>	<u>30,614</u>	<u>23,155</u>	<u>(6,620,774)</u>	<u>(6,147,348)</u>
Total Net Position	<u>\$ 6,426,768</u>	<u>\$ 5,790,449</u>	<u>\$ 30,614</u>	<u>\$ 23,155</u>	<u>\$ 6,457,382</u>	<u>\$ 5,813,604</u>

DISTRICT-WIDE FINANCIAL ANALYSIS OF THE CEDAR GROVE PUBLIC SCHOOLS AS A WHOLE (Continued)

Governmental activities. Governmental activities increased the District's net position by \$636,319.

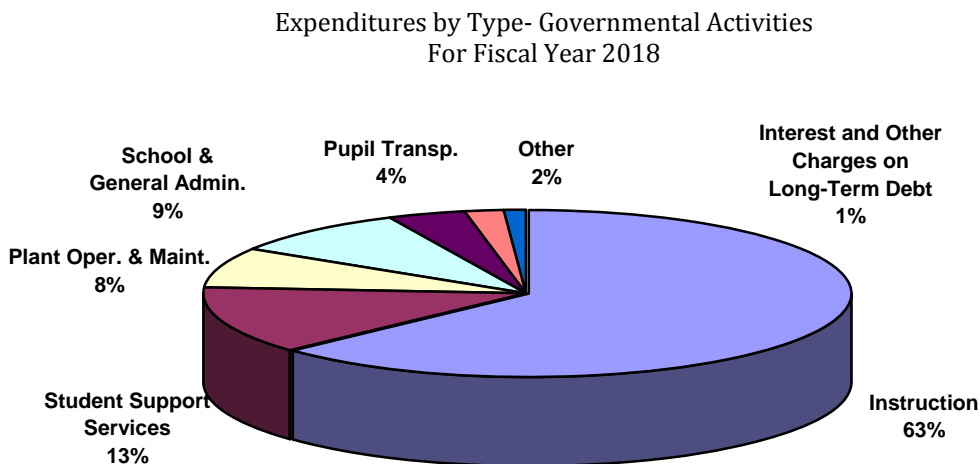
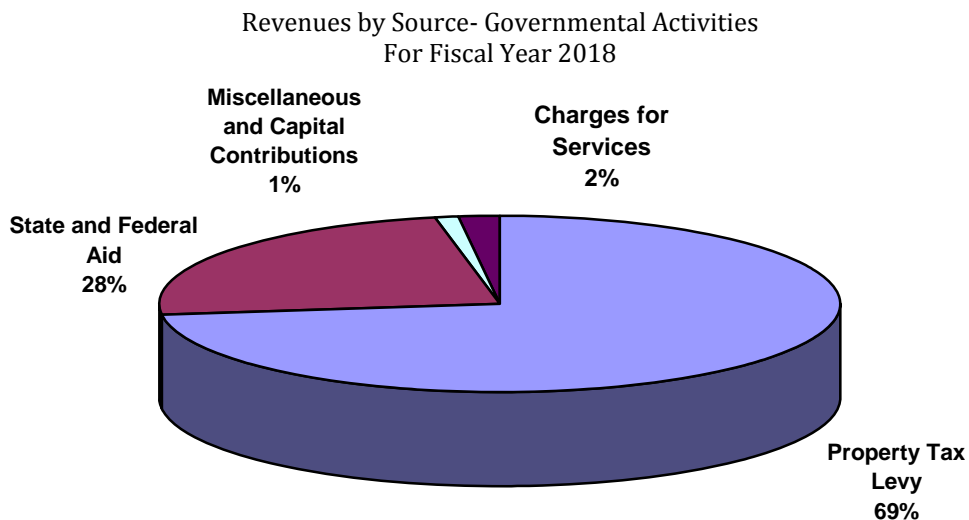
**Table A-3
Changes in Net Position
For the Fiscal Years Ended June 30, 2018 and 2017**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues						
Program Revenues						
Charges for Services	\$ 745,832	\$ 613,469	\$ 320,203	\$ 330,045	\$ 1,066,035	\$ 943,514
Operating Grants and Contributions	11,225,166	9,916,787	-	-	11,225,166	9,916,787
Capital Grants and Contributions	24,417	5,000			24,417	5,000
General Revenues						
Property Taxes	28,294,388	26,869,964			28,294,388	26,869,964
Other	521,606	156,429	495	211	522,101	156,640
Total Revenues	<u>40,811,409</u>	<u>37,561,649</u>	<u>320,698</u>	<u>330,256</u>	<u>41,132,107</u>	<u>37,891,905</u>
Expenses						
Instruction						
Regular	16,433,466	16,136,455			16,433,466	16,136,455
Special Education	6,817,166	6,377,511			6,817,166	6,377,511
Other Instruction	593,998	614,640			593,998	614,640
School Sponsored Activities and Athletics	1,293,421	1,245,130			1,293,421	1,245,130
Support Services						
Student and Instruction Related Serv.	4,048,218	4,036,538			4,048,218	4,036,538
Health Services	709,038	726,508			709,038	726,508
Educational Media/School Library	545,286	568,988			545,286	568,988
General Administrative Services	927,489	1,057,660			927,489	1,057,660
School Administrative Services	2,673,355	2,642,851			2,673,355	2,642,851
Plant Operations and Maintenance	3,399,212	3,505,089			3,399,212	3,505,089
Pupil Transportation	1,342,877	1,233,998			1,342,877	1,233,998
Central Services	824,790	820,993			824,790	820,993
Food Service			306,650	317,286	306,650	317,286
Other			15,586	16,643	15,586	16,643
Interest on Long-Term Debt	557,777	639,324	-	-	557,777	639,324
Total Expenses	<u>40,166,093</u>	<u>39,605,685</u>	<u>322,236</u>	<u>333,929</u>	<u>40,488,329</u>	<u>39,939,614</u>
Decrease in Net Position, Before Transfers	645,316	(2,044,036)	(1,538)	(3,673)	643,778	(2,047,709)
Transfers	(8,997)	(10,991)	8,997	10,991	-	-
Change in Net Position	636,319	(2,055,027)	7,459	7,318	643,778	(2,047,709)
Net Position, Beginning of Year	5,790,449	7,845,476	23,155	15,837	5,813,604	7,861,313
Net Position, End of Year	<u>\$ 6,426,768</u>	<u>\$ 5,790,449</u>	<u>\$ 30,614</u>	<u>\$ 23,155</u>	<u>\$ 6,457,382</u>	<u>\$ 5,813,604</u>

DISTRICT-WIDE FINANCIAL ANALYSIS OF THE CEDAR GROVE PUBLIC SCHOOLS AS A WHOLE (Continued)

Governmental activities. The District’s total governmental activities revenues were \$40,811,409. The local share of the revenues that included property taxes, unrestricted state aid, state aid restricted for debt service, interest and miscellaneous revenue amounted to \$28,815,994 or 71% of total revenues. Funding from state and federal sources and capital contributions amounted to \$11,249,583 or 27%. Charges for services amounted to \$745,832 or 2%. (See Table A-3)

The District’s total governmental expenses were \$40,166,093 and are predominantly related to instruction and support services. Instruction totaled \$25,138,051 (63%), support services totaled \$14,470,265 (36%) and interest and other charges on long-term debt total \$557,777 (1%) of total expenditures. (See Table A-3.)



DISTRICT-WIDE FINANCIAL ANALYSIS OF THE CEDAR GROVE PUBLIC SCHOOLS AS A WHOLE (Continued)

**Table A-4
Total and Net Cost of Governmental Activities
For the Fiscal Years Ended June 30, 2018 and 2017**

<u>Functions/Programs</u>	<u>Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Governmental Activities				
Instruction				
Regular	\$ 16,433,466	\$ 16,136,455	\$ 11,335,254	\$ 11,503,433
Special Education	6,817,166	6,377,511	4,153,168	4,103,848
Other Instruction	593,998	614,640	229,816	279,557
School Sponsored Activities and Athletics	1,293,421	1,245,130	950,768	928,415
Support Services				
Student and Instruction Related Svcs.	4,048,218	4,036,538	2,984,046	3,063,318
Health Services	709,038	726,508	498,701	521,331
Educational Media/School Library	545,286	568,988	384,605	415,272
General Administrative Services	927,489	1,057,660	745,669	889,832
School Administrative Services	2,673,355	2,642,851	1,860,742	1,879,288
Plant Operations and Maintenance	3,399,212	3,505,089	2,496,730	2,894,745
Pupil Transportation	1,342,877	1,233,998	1,222,162	1,131,073
Central Services	824,790	820,993	751,240	820,993
Interest on Long-Term Debt	<u>557,777</u>	<u>639,324</u>	<u>557,777</u>	<u>639,324</u>
Total Governmental Activities	<u>\$ 40,166,093</u>	<u>\$ 39,605,685</u>	<u>\$ 28,170,678</u>	<u>\$ 29,070,429</u>

Business-Type Activities

The cost of Business-Type Activities for the fiscal year ended June 30, 2018 was \$322,236. These costs were funded by operating grants, charges for services and investment earnings (Detailed on Table A-3). The operations resulted in an increase in net position after transfers of \$7,459.

DISTRICT-WIDE FINANCIAL ANALYSIS OF THE CEDAR GROVE PUBLIC SCHOOLS AS A WHOLE (Continued)

Business-Type Activities (Continued)

Revenues for the District's business-type activities food service were comprised of charges for services.

Food Service Program

- Food service expenses were greater than revenues by \$3,552 prior to transfer from other funds.
- Charges for services represent 100 percent of revenue.
- Revenues include lunches and ala carte meals paid for by the students.

Summer Music Academy

The District approved this program during 2014-2015 school year to provide music instruction to the participating students. The program revenues exceeded expenses by \$2,014 resulting in an increase in net position.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

As the District completed the year, its governmental funds reported a combined fund balance of \$4,214,182. In 2016-2017 the fund balance was \$3,694,779.

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 \$35,154,023 and expenditures were \$34,625,623.

The District's Funds (Continued)

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 summary of the governmental funds revenues for the fiscal years ended June 30, 2018 and 2017.

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017	Amount of Increase (Decrease)	Percent Change
Local Sources	\$ 29,339,820	\$ 27,613,013	\$ 1,726,807	6.25%
State Sources	5,240,478	4,274,677	965,801	22.59%
Federal Sources	<u>573,725</u>	<u>535,358</u>	<u>38,367</u>	7.17%
 Total Revenues	 <u>\$ 35,154,023</u>	 <u>\$ 32,423,048</u>	 <u>\$ 2,730,975</u>	 8.42%

The following schedule represents a summary of general fund, special revenue fund, capital projects fund, and debt service fund expenditures for the fiscal years ended June 30, 2018 and 2017.

	Fiscal Year Ended June 30, 2018	Fiscal Year Ended June 30, 2017	Amount of Increase (Decrease)	Percent Change
Instruction	\$ 20,191,994	\$ 19,297,836	\$ 894,158	4.63%
Support Services	12,243,614	12,447,665	(204,051)	-1.64%
Capital Outlay	152,258	12,840,101	(12,687,843)	-98.81%
Debt Service				
Principal	1,435,000	790,000	645,000	81.65%
Cost of Bond Issuance	-	56,112	(56,112)	-100.00%
Interest	<u>602,757</u>	<u>567,947</u>	<u>34,810</u>	6.13%
 Total Expenditures	 <u>\$ 34,625,623</u>	 <u>\$ 45,999,661</u>	 <u>\$ (11,374,038)</u>	 -24.73%

General Fund Budgetary 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 recognize revenues that were not anticipated and to prevent overexpenditures in specific line item accounts.

The school district continues to be the beneficiary of gifts from individuals, parent/teacher organizations, and charitable foundations which significantly supplement the programs, supplies, and facilities funded through the budget.

The District received \$318,958 in Extraordinary Aid to help offset special education costs and \$41,180 in Nonpublic School Transportation Costs to help offset aid in lieu payments to Nonpublic parents.

Capital Assets. The Cedar Grove Public Schools' investment in capital assets for its governmental and business type activities as of June 30, 2018 and 2017 amounts to \$34,616,726 and \$35,613,778 (net of accumulated depreciation), respectively. This investment in capital assets includes land, construction in progress, land improvements, buildings and building improvements, and machinery and equipment. Additional information about the restatement can be found in the notes of this report.

Table A-5
Capital Assets
(net of accumulated depreciation) as of June 30, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Land	\$ 47,359	\$ 47,359			\$ 47,359	\$ 47,359
Construction in Progress	-	13,970,387			-	13,970,387
Land Improvements	559,985	555,548			559,985	555,548
Buildings and Building Improvements	46,106,765	32,035,629			46,106,765	32,035,629
Equipment and Furniture	<u>2,683,781</u>	<u>2,636,709</u>	<u>\$ 96,547</u>	<u>\$ 96,547</u>	<u>2,780,328</u>	<u>2,733,256</u>
Total	49,397,890	49,245,632	96,547	96,547	49,494,437	49,342,179
Less: Accumulated Depreciation	<u>14,781,164</u>	<u>13,631,854</u>	<u>96,547</u>	<u>96,547</u>	<u>14,877,711</u>	<u>13,728,401</u>
Total	<u>\$ 34,616,726</u>	<u>\$ 35,613,778</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,616,726</u>	<u>\$ 35,613,778</u>

Additional information on Cedar Grove Public Schools' capital assets can be found in the Notes of this report.

Debt Administration. As of June 30, 2018 and 2017 the school district had long-term debt and outstanding long-term liabilities in the amount of \$32,714,073 and \$36,461,172, respectively, as stated in Table A-6.

**Table A-6
Long-Term Debt
Outstanding Long-Term Liabilities**

	<u>2018</u>	<u>2017</u>
Bonds Payable, Gross	\$ 23,813,817	\$ 25,288,149
Compensated Absences Payable	373,323	379,999
Net Pension Liability	<u>8,526,933</u>	<u>10,793,024</u>
 Total	 <u>\$ 32,714,073</u>	 <u>\$ 36,461,172</u>

Additional information on Cedar Grove Public Schools’ long-term debt can be found in the Notes of this report.

FOR THE FUTURE

The District will continue to support professional development initiatives that target the New Jersey Student Learning Standards. We will also continue the development of 21st century classrooms through new technology initiatives that are student-focused and consistent with student achievement objectives and also build a strategic plan for digital learning using the Future Ready-NJ model.

The security of our students also remains a priority. We will be adding security vestibules to all schools, video surveillance upgrades to all schools, card access systems for North End, South End and Memorial Middle School, visitor management system to all schools, window film to all first floor windows in all schools, burglar alarm system in all schools, security gates in all schools, classroom phones in North End and South End, and make North End ADA compliant, fix site improvement and drainage issues at South End and install generators in all schools for technology and security equipment.

In grade 8, a new math textbook series will be implemented and additional Chromebooks will be added.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

If you have questions about this report or need additional information, contact the School Business Administrator at the Cedar Grove Public Schools, 520 Pompton Ave, Cedar Grove, NJ 07009.

BASIC FINANCIAL STATEMENTS

CEDAR GROVE PUBLIC SCHOOLS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 5,195,940	\$ 88,625	\$ 5,284,565
Receivables, net	256,896		256,896
Inventory		3,398	3,398
Capital Assets, net			
Not Being Depreciated	47,359		47,359
Being Depreciated	<u>34,569,367</u>	<u>-</u>	<u>34,569,367</u>
Total Assets	<u>40,069,562</u>	<u>92,023</u>	<u>40,161,585</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amounts on Net Pension Liability	2,338,462		2,338,462
Deferred Amounts on Debt Refunding	<u>27,691</u>	<u>-</u>	<u>27,691</u>
Total Deferred Outflows of Resources	<u>2,366,153</u>	<u>-</u>	<u>2,366,153</u>
Total Assets and Deferred Outflows of Resources	<u>42,435,715</u>	<u>92,023</u>	<u>42,527,738</u>
LIABILITIES			
Accounts Payable	1,162,776	48,289	1,211,065
Unearned Revenue	49,150	13,120	62,270
Accrued Interest Payable	201,445		201,445
Payable to Other Governments	26,728		26,728
Noncurrent Liabilities			
Due Within One Year	1,505,000		1,505,000
Due Beyond One Year	<u>31,209,073</u>	<u>-</u>	<u>31,209,073</u>
Total Liabilities	<u>34,154,172</u>	<u>61,409</u>	<u>34,215,581</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Amounts on Net Pension Liability	<u>1,854,775</u>	<u>-</u>	<u>1,854,775</u>
Total Deferred Inflows of Resources	<u>1,854,775</u>	<u>-</u>	<u>1,854,775</u>
Total Liabilities and Deferred Inflows of Resources	<u>36,008,947</u>	<u>61,409</u>	<u>36,070,356</u>
NET POSITION			
Net Investment in Capital Assets	11,757,662		11,757,662
Restricted for			
Capital Projects	940,658		940,658
Debt Service	27,560		27,560
Other Purposes	352,276		352,276
Unrestricted	<u>(6,651,388)</u>	<u>30,614</u>	<u>(6,620,774)</u>
Total Net Position	<u>\$ 6,426,768</u>	<u>\$ 30,614</u>	<u>\$ 6,457,382</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

CEDAR GROVE PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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	\$ 16,433,466	\$ 73,775	\$ 5,000,020	\$ 24,417	\$ (11,335,254)		\$ (11,335,254)
Special Education	6,817,166		2,663,998		(4,153,168)		(4,153,168)
Other Instruction	593,998		364,182		(229,816)		(229,816)
School Sponsored Activities and Athletics	1,293,421		342,653		(950,768)		(950,768)
Support Services							
Student and Instruction Related Services	4,048,218		1,064,172		(2,984,046)		(2,984,046)
Health Services	709,038		210,337		(498,701)		(498,701)
Educational Media/School Library	545,286		160,681		(384,605)		(384,605)
General Administrative Services	927,489		181,820		(745,669)		(745,669)
School Administrative Services	2,673,355		812,613		(1,860,742)		(1,860,742)
Central Services	824,790		73,550		(751,240)		(751,240)
Plant Operations and Maintenance	3,399,212	662,548	239,934		(2,496,730)		(2,496,730)
Pupil Transportation	1,342,877	9,509	111,206		(1,222,162)		(1,222,162)
Interest and Other Charges on Long-Term Debt	557,777	-	-	-	(557,777)	-	(557,777)
Total Governmental Activities	40,166,093	745,832	11,225,166	24,417	(28,170,678)	-	(28,170,678)
Business-Type Activities							
Food Service	306,650	302,603	-	-	-	\$ (4,047)	(4,047)
Other	15,586	17,600	-	-	-	2,014	2,014
Total Business-Type Activities	322,236	320,203	-	-	-	(2,033)	(2,033)
Total Primary Government	\$ 40,488,329	\$ 1,066,035	\$ 11,225,166	\$ 24,417	(28,170,678)	(2,033)	(28,172,711)
General Revenues and Other Items							
Taxes:							
Property Taxes, Levied for General Purposes, Net					26,532,424		26,532,424
Property Taxes Levied for Debt Service					1,761,964		1,761,964
Debt Service State Aid					244,432		244,432
Unrestricted State Aid					50,075		50,075
Miscellaneous Income					227,099	495	227,594
Transfers					(8,997)	8,997	-
Total General Revenues and Transfers					28,806,997	9,492	28,816,489
Change in Net Position					636,319	7,459	643,778
Net Position, Beginning of Year					5,790,449	23,155	5,813,604
Net Position, End of Year					\$ 6,426,768	\$ 30,614	\$ 6,457,382

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

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FUND FINANCIAL STATEMENTS

CEDAR GROVE PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2018

	<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	\$ 4,207,085		\$ 960,953	\$ 27,902	\$ 5,195,940
Receivables from Other Governments	84,992	\$ 135,569			220,561
Other Receivables	32,417				32,417
Due from Other Funds	<u>37,145</u>	<u>6,679</u>	<u>-</u>	<u>-</u>	<u>43,824</u>
Total Assets	<u>\$ 4,361,639</u>	<u>\$ 142,248</u>	<u>\$ 960,953</u>	<u>\$ 27,902</u>	<u>\$ 5,492,742</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	\$ 1,084,900	\$ 76,870	\$ 1,006		\$ 1,162,776
Due to Other Funds	6,679		32,885	\$ 342	39,906
Payable to State Government		26,711			26,711
Payable to Federal Government		17			17
Unearned Revenue	<u>10,500</u>	<u>38,650</u>	<u>-</u>	<u>-</u>	<u>49,150</u>
Total Liabilities	<u>1,102,079</u>	<u>142,248</u>	<u>33,891</u>	<u>342</u>	<u>1,278,560</u>
Fund Balances					
Restricted Fund Balance					
Excess Surplus- Designated for Subsequent Year's Expenditures	688,563				688,563
Excess Surplus	804,389				804,389
Maintenance Reserve	352,276				352,276
Capital Reserve	940,658				940,658
Capital Projects			927,062		927,062
Debt Service				27,560	27,560
Assigned Fund Balance					-
Year End Encumbrances	66,259				66,259
Designated for Subsequent Year's Expenditures	185,619				185,619
Unassigned Fund Balance	<u>221,796</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>221,796</u>
Total Fund Balances	<u>3,259,560</u>	<u>-</u>	<u>927,062</u>	<u>27,560</u>	<u>4,214,182</u>
Total Liabilities and Fund Balances	<u>\$ 4,361,639</u>	<u>\$ 142,248</u>	<u>\$ 960,953</u>	<u>\$ 27,902</u>	<u>\$ 5,492,742</u>

CEDAR GROVE PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
AS OF JUNE 30, 2018

Total Fund Balances (Exhibit B-1) \$ 4,214,182

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 \$49,397,890 and the accumulated depreciation is \$14,781,164. 34,616,726

Certain amounts resulting from the measurement of the net pension liability are reported as either deferred inflows of resources or deferred outflows of resources on the statement of net position and amortized over future years.

Deferred Outflows of Resources	\$ 2,338,462	
Deferred Inflows of Resources	<u>(1,854,775)</u>	483,687

The District has financed capital assets through the issuance of serial bonds, loans and long term-lease obligations. The interest accrual at year end is: (201,445)

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. Long-term liabilities at year end consist of:

Bonds Payable, Gross	(23,813,817)	
Deferred Outflows of Resources-		
Deferred Amounts on Debt Refunding	27,691	
Compensated Absences	(373,323)	
Net Pension Liability	<u>(8,526,933)</u>	<u>(32,686,382)</u>

Net Position of governmental activities (Exhibit A-1) \$ 6,426,768

CEDAR GROVE PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES					
Local Sources					
Property Tax Levy	\$ 26,532,424			\$ 1,761,964	\$ 28,294,388
Miscellaneous	960,867	\$ 72,501	\$ 11,395	669	1,045,432
Total - Local Sources	27,493,291	72,501	11,395	1,762,633	29,339,820
State Sources	4,870,156	125,890		244,432	5,240,478
Federal Sources	-	573,725	-	-	573,725
Total Revenues	32,363,447	772,116	11,395	2,007,065	35,154,023
EXPENDITURES					
Current					
Instruction					
Regular Instruction	12,689,633	65,502			12,755,135
Special Education Instruction	5,529,356	352,523			5,881,879
Other Instruction	255,773	261,673			517,446
School Sponsored Activities and Athletics	1,037,534				1,037,534
Support Services					
Student and Instructional Related Services	3,236,293	68,001			3,304,294
Health Services	551,962				551,962
Educational Media/School Library	425,292				425,292
General Administrative Services	791,709				791,709
School Administrative Services	2,066,510				2,066,510
Plant Operations and Maintenance	3,062,452				3,062,452
Pupil Transportation	1,336,793				1,336,793
Central Services	704,602				704,602
Debt Service					
Principal				1,435,000	1,435,000
Interest and Other Charges	31,019			571,738	602,757
Capital Outlay	27,092	24,417	100,749	-	152,258
Total Expenditures	31,746,020	772,116	100,749	2,006,738	34,625,623
Excess (Deficiency) of Revenues Over (Under) Expenditures	617,427	-	(89,354)	327	528,400
OTHER FINANCING SOURCES (USES)					
Transfers In	11,395				11,395
Transfers Out	(8,997)	-	(11,395)	-	(20,392)
Total Other Financing Sources and (Uses)	2,398	-	(11,395)	-	(8,997)
Net Change in Fund Balances	619,825	-	(100,749)	327	519,403
Fund Balance, Beginning of Year	2,639,735	-	1,027,811	27,233	3,694,779
Fund Balance, End of Year	\$ 3,259,560	\$ -	\$ 927,062	\$ 27,560	\$ 4,214,182

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CEDAR GROVE PUBLIC SCHOOLS
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
WITH THE DISTRICT-WIDE STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Total net change in fund balances - governmental funds (Exhibit B-2) \$ 519,403

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expense. This is the amount by which depreciation exceeds capital outlay in in the current period.

Capital Outlay	\$ 152,258	
Depreciation Expense	<u>(1,149,310)</u>	
		(997,052)

In the statement of activities, "the issuance of long-term debt (e.g. bonds, loans and leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and other such items related to the refunding bond when they are first issued, whereas these amounts are deferred and amortized in the statement of activities.

Amortization of Bond Premium	39,332	
Amortization of Deferred Amounts on Debt Refunding	(9,654)	
Principal Repayments		
Bond Principal	<u>1,435,000</u>	
		1,464,678

In the statement of activities, certain operating expenses - compensated absences are and pension expenses measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid):

Decrease Compensated Absences		6,676
Increase in Pension Expense		(372,688)

Some 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.

The details are as follows:

Decrease in accrued interest		<u>15,302</u>
------------------------------	--	---------------

Change in net position of governmental activities (Exhibit A-2) **\$ 636,319**

**CEDAR GROVE PUBLIC SCHOOLS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018**

ASSETS	Business-Type Activities		<u>Total</u>
	Non-Major Enterprise Fund	Food Service	
Current Assets			
Cash and Cash Equivalents	\$ 18,543	\$ 70,082	\$ 88,625
Inventory	<u>-</u>	<u>3,398</u>	<u>3,398</u>
Total Current Assets	<u>18,543</u>	<u>73,480</u>	<u>92,023</u>
Non-Current Assets			
Equipment		96,547	96,547
Less: Accumulated Depreciation	<u>-</u>	<u>(96,547)</u>	<u>(96,547)</u>
Total Non-Current Assets	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>18,543</u>	<u>73,480</u>	<u>92,023</u>
 LIABILITIES			
Current Liabilities			
Accounts Payable		48,289	48,289
Unearned Revenue	<u>13,120</u>	<u>-</u>	<u>13,120</u>
Total Current Liabilities	<u>13,120</u>	<u>48,289</u>	<u>61,409</u>
 NET POSITION			
Unrestricted	<u>5,423</u>	<u>25,191</u>	<u>30,614</u>
Total Net Position	<u>\$ 5,423</u>	<u>\$ 25,191</u>	<u>\$ 30,614</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CEDAR GROVE PUBLIC SCHOOLS
 PROPRIETARY FUND
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	Business-Type Activities		Total
	<u>Non-Major Enterprise Fund</u>	<u>Food Service</u>	
OPERATING REVENUES			
Charges for Services			
Daily Sales		\$ 295,388	\$ 295,388
Program Fees	\$ 17,600	7,215	24,815
Total Operating Revenues	<u>17,600</u>	<u>302,603</u>	<u>320,203</u>
OPERATING EXPENSES			
Salaries, Benefits and Payroll Taxes	15,179	139,477	154,656
Cost of Sales		134,902	134,902
Purchased Services		22,448	22,448
Supplies and Materials	407	9,823	10,230
Total Operating Expenses	<u>15,586</u>	<u>306,650</u>	<u>322,236</u>
Operating Income/(Loss)	<u>2,014</u>	<u>(4,047)</u>	<u>(2,033)</u>
NONOPERATING REVENUES			
Interest Income	-	495	495
Total Nonoperating Revenues	<u>-</u>	<u>495</u>	<u>495</u>
Net Income/(Loss) Before Transfers	<u>2,014</u>	<u>(3,552)</u>	<u>(1,538)</u>
Transfers			
Transfers In	-	8,997	8,997
Change in Net Position	2,014	5,445	7,459
Net Position, Beginning of Year	<u>3,409</u>	<u>19,746</u>	<u>23,155</u>
Net Position, End of Year	<u>\$ 5,423</u>	<u>\$ 25,191</u>	<u>\$ 30,614</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CEDAR GROVE PUBLIC SCHOOLS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Business-Type Activities</u>		<u>Total</u>
	<u>Non-Major Enterprise Fund</u>	<u>Food Service</u>	
Cash Flows From Operating Activities			
Receipts from Customers	\$ 13,220	\$ 302,603	\$ 315,823
Payments for Employees' Salaries and Benefits	(15,179)	(139,477)	(154,656)
Payments to Suppliers for Goods and Services	<u>(407)</u>	<u>(175,850)</u>	<u>(176,257)</u>
Net Cash Provided (Used) By Operating Activities	<u>(2,366)</u>	<u>(12,724)</u>	<u>(15,090)</u>
Cash Flows form Investing Activities			
Interest on Investments	<u>-</u>	<u>495</u>	<u>495</u>
Net Cash Provided By Investing Activities	<u>-</u>	<u>495</u>	<u>495</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,366)	(12,229)	(14,595)
Cash Flows form Investing Activities			
Cash Received from General Fund	<u>-</u>	<u>19,987</u>	<u>19,987</u>
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>19,987</u>	<u>19,987</u>
Net Increase/ (Decrease) in Cash and Cash Equivalents	<u>-</u>	<u>7,758</u>	<u>7,758</u>
Cash and Cash Equivalents, Beginning of Year	<u>20,909</u>	<u>62,324</u>	<u>83,233</u>
Cash and Cash Equivalents, End of Year	<u>\$ 18,543</u>	<u>\$ 70,082</u>	<u>\$ 88,625</u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities:			
Operating Income (Loss)	<u>\$ 2,014</u>	<u>\$ (4,047)</u>	<u>\$ (2,033)</u>
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By Operating Activities			
(Increase)/ Decrease in Inventory		(732)	(732)
Increase/ (Decrease) in Accounts Payable		(7,945)	(7,945)
Increase/ (Decrease) in Unearned Revenue	<u>\$ (4,380)</u>	<u>-</u>	<u>(4,380)</u>
Total Adjustments	<u>(4,380)</u>	<u>(8,677)</u>	<u>(13,057)</u>
Net Cash Provided/(Used) By Operating Activities	<u>\$ (2,366)</u>	<u>\$ (12,724)</u>	<u>\$ (15,090)</u>

The accompanying Notes to the Financial Statements are an Integral Part of this Statement.

**CEDAR GROVE PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2018**

	<u>Unemployment Compensation Trust</u>	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
ASSETS			
Cash and Cash Equivalents	\$ 196,433	\$ 157,029	\$ 155,591
Total Assets	<u>196,433</u>	<u>157,029</u>	<u>\$ 155,591</u>
LIABILITIES			
Payroll Deductions and Withholdings			\$ 1,585
Accrued Salary and Wages			1,637
Due to Other Funds			3,918
Flex Spending			17,917
Due to Student Groups	<u>-</u>	<u>-</u>	<u>130,534</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 155,591</u>
NET POSITION			
Held in Trust for Unemployment Claims and Other Purposes	<u>\$ 196,433</u>	<u>\$ 157,029</u>	

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

**CEDAR GROVE PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Unemployment Compensation Trust</u>	<u>Private Purpose Trust Funds</u>
ADDITIONS		
Donations		\$ 325
Employee	\$ 26,400	
Investment Earnings		
Interest	2,068	<u>1,805</u>
 Total Additions	 <u>28,468</u>	 <u>2,130</u>
DEDUCTIONS		
Scholarships Awarded		4,100
Unemployment Compensation Claims	<u>11,790</u>	<u>-</u>
 Total Deductions	 <u>11,790</u>	 <u>4,100</u>
 Change in Net Position	 16,678	 (1,970)
Net Position, Beginning of Year	<u>179,755</u>	<u>158,999</u>
Net Position, End of Year	<u>\$ 196,433</u>	<u>\$ 157,029</u>

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

NOTES TO THE FINANCIAL STATEMENTS

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Cedar Grove 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 five 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 Cedar Grove Public Schools this includes general operations, food service, summer music academy 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 2018, the District adopted the following GASB statements:

- GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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. 85, *Omnibus 2017*. 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 Issue*. 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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards (Continued)

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

- 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. 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.
- GASB No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, will be effective beginning with the year ending June 30, 2019. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistency provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms association with debt will be disclosed.
- GASB No. 89, *Accounting for Interest Costs Incurred Before the End of a Construction Period*, will be effective beginning with the year ending June 30, 2020. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 and enterprise funds to be major funds, except for the summer music academy enterprise fund.

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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Financial Statements (Continued)

Fund Financial Statements (Continued)

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

The *summer music academy fund* provides music instruction to the participating students.

Additionally, the government reports the following fund types:

The *fiduciary trust funds* are used to account for resources legally held in trust for state unemployment insurance claims, private donations for scholarship awards and lease rental security deposits. All resources of the funds, 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.

The *fiduciary agency funds* account for assets held by the District as an agent for student activities and for payroll deductions and withholdings. The funds for the student activities fund are solely for noninstructional student activities that are supported and controlled by student organizations and clubs for which school administration does not have management involvement. The payroll funds are held to remit employee withholdings to respective state, federal and other agencies.

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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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>
Land Improvements	20
Buildings and Building Improvements	20-40
Machinery Equipment and Furniture	5-10

5. Deferred Outflows/Inflows 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 a future period(s) 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 amount 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.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item which arises only under the accrual basis of accounting that qualifies for reporting in this category. The 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; and (4) changes in proportion and differences between employer contributions and proportionate share of contributions. These amounts are deferred and amortized over future years.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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 sick leave benefits. A long-term liability of accumulated 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. 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

In the district-wide financial statements, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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 of 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 with the unamortized 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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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.

Excess Surplus – This restriction was created in accordance with NJSA 18A:7F-7 to represent the June 30, 2018 audited excess surplus that is required to be appropriated in the 2019/2020 original budget certified for taxes.

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

Capital Reserve – This restriction was created by the District in accordance with NJAC 6A:23A-14.1 to fund future capital expenditures (See Note 2).

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. (See Note 2).

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

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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)

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.

Year-End 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 Expenditures – This designation was created to dedicate the portion of fund balance appropriated in the adopted 2018/2019 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.

In the general operating fund and other governmental funds (capital projects and debt service fund types), it is the District's policy to consider restricted resources to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted (i.e., committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

10. *Fund Balance Policies*

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the government that can, by adoption of a resolution or formal Board action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The Board has authorized the School Business Administrator/Board Secretary to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, state aid restricted for debt service, investment earnings and miscellaneous revenues.

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 2016-2017 and 2017-2018 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 enterprise fund and the summer music academy enterprise fund 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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 2 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 January 24, 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 2017/2018. Also, during 2017/2018 the Board increased the original budget by \$380,154. The increase was funded by 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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 2 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>General Fund</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Unfavorable Variance</u>
Required Maintenance for School Facilities			
Cleaning, Repair and Maintenance Services	\$ 229,732	\$ 233,832	\$ (4,100)
Other Financing Sources/Uses			
Transfer to Food Service Fund	-	8,997	(8,997)

The above variances were caused by an audit adjustment and were offset with other available resources.

C. 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.

The activity of the capital reserve for the fiscal year ended June 30, 2018 is as follows:

Balance, July 1, 2017	\$ 440,658
Increased by:	
Deposits Approved by Board Resolution	<u>500,000</u>
Balance, June 30, 2018	<u>\$ 940,658</u>

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

D. 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.

The activity of the maintenance reserve for the fiscal year ended June 30, 2018 is as follows:

Balance, July 1, 2017	\$ 102,276
Increased by:	
Deposits Approved by Board Resolution	<u>250,000</u>
Balance, June 30, 2018	<u>\$ 352,276</u>

The June 30, 2018 comprehensive maintenance plan indicated a maximum maintenance reserve amount of \$1,885,604. The withdrawals from the maintenance reserve were for use in required maintenance activities for school facilities.

E. 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, 2018 is \$1,492,952. Of this amount, \$688,563 was designated and appropriated in the 2018/2019 original budget certified for taxes and the remaining amount of \$804,389 will be appropriated in the 2019/2020 original budget certified for taxes.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 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 and NCUSIF.

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, 2018, the book value of the Board's deposits were \$5,793,618 and bank and brokerage firm balances of the Board's deposits amounted to \$6,042,143. The Board's deposits which are displayed on the various fund balance sheets as "cash and cash equivalents" are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured	\$ <u>6,042,143</u>

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, 2018 the Board's bank balance was not exposed to custodial credit risk.

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; any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor; 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; Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law," (C.40A:5A-1 et seq.); Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Investment in the Department of the Treasury for investment by school districts; Local Government investment pools; deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4); and agreements for the repurchase of fully collateralized securities, if transacted in accordance with the above statute.

As of June 30, 2018, the Board had no outstanding investments.

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

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables

Receivables as of June 30, 2018 for the district’s individual major funds, in the aggregate, are as follows:

	General Fund	Special Revenue Fund	<u>Total</u>
Receivables:			
Accounts	\$ 32,417		\$ 32,417
Intergovernmental			
Federal		\$ 135,569	135,569
State	<u>84,992</u>	<u>-</u>	<u>84,992</u>
Net Total Receivables	<u>\$ 117,409</u>	<u>\$ 135,569</u>	<u>\$ 252,978</u>

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:

	<u>Unearned</u>
General Fund	
Preschool Tuition	\$ 10,500
Special Revenue Fund	
Unencumbered Grant Draw Downs	29,826
Grant Draw Downs Reserve for Encumbrances	<u>8,824</u>
 Total Deferred Revenue for Governmental Funds	 <u>\$ 49,150</u>

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	<u>Balance, July 1, 2017</u>	<u>Increases</u>	<u>Decreases/ Adjustment</u>	<u>Balance, June 30, 2018</u>
Governmental activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 47,359			\$ 47,359
Construction In Process	<u>13,970,387</u>	<u>\$ 100,749</u>	<u>\$(14,071,136)</u>	<u>-</u>
Total Capital Assets, Not Being Depreciated	<u>14,017,746</u>	<u>100,749</u>	<u>(14,071,136)</u>	<u>47,359</u>
Capital Assets, Being Depreciated:				
Land Improvements	555,548	4,437		559,985
Building and Building Improvements	32,035,629		14,071,136	46,106,765
Machinery and Equipment	<u>2,636,709</u>	<u>47,072</u>	<u>-</u>	<u>2,683,781</u>
Total Capital Assets Being Depreciated	<u>35,227,886</u>	<u>51,509</u>	<u>14,071,136</u>	<u>49,350,531</u>
Less Accumulated Depreciation for:				
Land Improvements	(329,759)	(19,646)	-	(349,405)
Building and Building Improvements	(11,039,786)	(1,019,917)	-	(12,059,703)
Machinery and Equipment	<u>(2,262,309)</u>	<u>(109,747)</u>	<u>-</u>	<u>(2,372,056)</u>
Total Accumulated Depreciation	<u>(13,631,854)</u>	<u>(1,149,310)</u>	<u>-</u>	<u>(14,781,164)</u>
Total Capital Assets, Being Depreciated, Net	<u>21,596,032</u>	<u>(1,097,801)</u>	<u>14,071,136</u>	<u>34,569,367</u>
Governmental Activities Capital Assets, Net	<u>\$ 35,613,778</u>	<u>\$ (997,052)</u>	<u>\$ -</u>	<u>\$ 34,616,726</u>
	<u>Balance, July 1, 2017</u>	<u>Increases</u>	<u>Balance, June 30, 2018</u>	
Business-type activities:				
Capital Assets, Being Depreciated:				
Machinery and Equipment	\$ 96,547	<u>-</u>	\$ 96,547	
Total Capital Assets Being Depreciated	<u>96,547</u>	<u>-</u>	<u>96,547</u>	
Less Accumulated Depreciation for:				
Machinery and Equipment	<u>(96,547)</u>	<u>-</u>	<u>(96,547)</u>	
Total Accumulated Depreciation	<u>(96,547)</u>	<u>-</u>	<u>(96,547)</u>	
Total Capital Assets, Being Depreciated, Net	<u>-</u>	<u>-</u>	<u>-</u>	
Business-Type Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

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

Governmental activities:

Instruction	
Regular	\$ 556,141
Special Education	141,153
Other Instruction	11,553
School-Sponsored Activities and Athletics	<u>38,618</u>
 Total Instruction	 <u>747,465</u>
 Support Services	
Student and Instructional Related Services	135,979
Educational Media/School Library	18,110
General Administrative Services	20,492
School Administrative Services	91,585
Central Services	35,218
Pupil Transportation	1,783
Plant Operations and Maintenance	<u>98,678</u>
 Total Support Services	 <u>401,845</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 1,149,310</u></u>

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2018, is as follows:

Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects	\$ 32,885
General Fund	Payroll Agency Fund	3,918
General Fund	Debt Service Fund	342
Special Revenue	General Fund	<u>6,679</u>
		<u>\$ 43,824</u>

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

The District expects all interfund balances to be liquidated within one year.

Interfund transfers

	<u>Transfer Out:</u>		
	<u>Capital Projects</u>	<u>General Fund</u>	<u>Total</u>
Transfer In:			
General Fund	\$ 11,395		\$ 11,395
Enterprise Fund	<u>-</u>	<u>\$ 8,997</u>	<u>8,997</u>
Total Transfers In:	<u>\$ 11,395</u>	<u>\$ 8,997</u>	<u>\$ 20,392</u>

The above transfers are the result of revenues earned and/or other financing sources received in one fund to finance expenditures in another fund.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

F. 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, 2018 are comprised of the following issues:

\$5,790,000, 2012 Refunding Bonds, due in annual installments of \$575,000 to \$675,000 through August 15, 2022, interest at 3.0% to 4.0%	\$ 3,115,000
\$7,582,000, 2012 School Bonds, due in annual installments of \$260,000 to \$500,000 through August 15, 2032, interest at 3.0%-2.5%	6,327,000
\$14,884,000, 2016 School Bonds, due in annual installments of \$625,000 to \$1,249,000 through August 15, 2032, interest at 2.0%-2.5%	<u>14,259,000</u>
	<u>\$ 23,701,000</u>

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

Governmental Activities:

Fiscal Year Ended <u>June 30,</u>	<u>Serial Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2019	\$ 1,455,000	\$ 537,188	\$ 1,992,188
2020	1,480,000	499,013	1,979,013
2021	1,515,000	456,913	1,971,913
2022	1,545,000	413,613	1,958,613
2023	1,575,000	369,163	1,944,163
2024-2028	8,635,000	1,302,752	9,937,752
2029-2033	<u>7,496,000</u>	<u>386,920</u>	<u>7,882,920</u>
	<u>\$ 23,701,000</u>	<u>\$ 3,965,562</u>	<u>\$ 27,666,562</u>

Statutory Borrowing Power

The Board's remaining borrowing power under N.J.S. 18A:24-19, as amended, at June 30, 2018 was as follows:

4% of Equalized Valuation Basis (Municipal)	\$ 91,814,748
Less: Net Debt	<u>23,701,719</u>
Remaining Borrowing Power	<u>\$ 68,113,029</u>

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 3 DETAILED NOTES ON ALL FUNDS (Continued)

G. Other Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

	<u>Balance, July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2018</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds Payable	\$ 25,136,000		\$ 1,435,000	\$ 23,701,000	\$ 1,455,000
Deferred Amounts					
Add: Original Issue Premium	<u>152,149</u>	<u>-</u>	<u>39,332</u>	<u>112,817</u>	<u>-</u>
Total Bonds Payable	25,288,149	-	1,474,332	23,813,817	1,455,000
Compensated Absences	379,999	\$ 49,997	56,673	373,323	50,000
Net Pension Liability	<u>10,793,024</u>	<u>-</u>	<u>2,266,091</u>	<u>8,526,933</u>	<u>-</u>
Governmental Activity Long-Term Liabilities	<u>\$ 36,461,172</u>	<u>\$ 49,997</u>	<u>\$ 3,797,096</u>	<u>\$ 32,714,073</u>	<u>\$ 1,505,000</u>

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

NOTE 4 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 School Alliance Insurance Fund (SAIF or Group). The Group 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 insurance funds 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 funds, to report claims on a timely basis, cooperate with the management of the funds, its claims administrator and attorneys in claims investigation and settlement, and to follow risk management procedures as outlined by the funds. Members have a contractual obligation to fund any deficit of the funds attributable to a membership year during which they were a member.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The School Alliance Insurance 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 respective insurance funds are 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 June 30,</u>	<u>District Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2018	None	\$ 26,400	\$ 11,790	\$ 196,433
2017	None	26,102	9,707	179,755
2016	None	32,486	21,640	162,637

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, 2018, 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, 2018, the District has not estimated its arbitrage earnings due to the IRS, if any.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans

Plan Descriptions and Benefits Provided

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. PERS is a cost sharing multiple employer defined benefit pension plan.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reached age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 or more years of service credit before age 62, and tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

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. TPAF is a cost sharing multiple employer defined benefit pension plan with a special funding situation, by which the State is responsible to fund 100% of local employer contributions, excluding any local employer early retirement incentive (ERI) contributions.

The vesting and benefit provisions are set by N.J.S.A. 18A:66. TPAF provides retirement, death, and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of TPAF. Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members’ beneficiaries are entitled to full interest credited to the members’ accounts.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

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

The following represent the membership tiers for TPAF:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tier 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reached age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tier 1 and 2 members before reaching age 60, tier 3 and 4 members with 25 or more years of service credit before age 62, and tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement for his/her respective tier. Deferred retirement is available to members who have at least ten years of service credit and have not reached the service retirement age for the respective tier.

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 (“Division”), 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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Plan Amendments

The authority to amend the provisions of the above plans rests with new legislation passed by the State of New Jersey. Pension reforms enacted pursuant to Chapter 78, P.L. 2011 included provisions creating special Pension Plan Design Committees for TPAF and PERS, once a Target Funded Ratio (TFR) is met. The Pension Plan Design Committees will have the discretionary authority to modify certain plan design features, including member contribution rate; formula for calculation of final compensation of final salary; fraction used to calculate a retirement allowance; age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. The committees will also have the authority to reactivate the cost of living adjustment (COLA) on pensions. However, modifications can only be made to the extent that the resulting impact does not cause the funded ratio to drop below the TFR in any one year of a 30-year projection period.

Measurement Focus and Basis of Accounting

The financial statements of the retirement systems are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the pension trust funds. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

The Division of Investment, Department of the Treasury, State of New Jersey (Division of Investment) manages and invests certain assets of the retirement systems. Investments are reported at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The 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.us/treasury/doinvest.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Funding Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the aggregate funded ratio for the State administered TPAF and local PERS retirement systems, is 33 percent with an unfunded actuarial accrued liability of \$90.90 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded TPAF system is 25.41 percent and \$67.6 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS is 48.10 percent and \$23.3 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, 2016 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 7.00 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.

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 7.34% for PERS, 7.34% for TPAF and 5.50% for DCRP of the employee's annual compensation for fiscal year 2018.

Annual Pension Costs (APC)

For the fiscal year ended June 30, 2018 for TPAF, which is a cost sharing multiple employer defined benefit pension plan with a special funding situation, the annual pension cost differs from the annual required contribution. For PERS, which is a cost sharing multiple 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.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Annual Pension Costs (APC) (Continued)

During the fiscal years ended June 30, 2018, 2017 and 2016 the Board was required to contribute for PERS and DCRP and the State of New Jersey, as a nonemployer contributing entity, 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:

Fiscal Year Ended <u>June 30,</u>	<u>PERS</u>	On-behalf <u>TPAF</u>	<u>DCRP</u>
2018	\$ 339,340	\$ 1,666,735	\$ 4,317
2017	325,655	1,185,754	5,462
2016	322,972	856,673	4,412

In addition for fiscal years 2017/2018 and 2016/2017 the District contributed \$5,321 and \$2,311, respectively for PERS and the State contributed \$3,259 and \$3,239, respectively 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 Statement No. 85, *Omnibus 2017* (GASB No. 85). 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 \$873,192 during the fiscal year ended June 30, 2018 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. 85.

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

Public Employees Retirement System (PERS)

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, (GASB No. 68) requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented are based on the ratio of the contributions as an individual employer to total contributions to the PERS during the fiscal year ended June 30, 2017. Employer allocation percentages have been rounded for presentation purposes.

Although the NJ Division of Pensions and Benefits (“Division”) administers one cost-sharing multiple employer defined benefit pension plan, separate actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the State and local groups of the plan.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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)

To facilitate the separate actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages are presented for each group. The allocation percentages for each group as of June 30, 2017 are based on the ratio of each employer’s contribution to total employer contributions of the group for the fiscal year ended June 30, 2017.

At June 30, 2018, the District reported in the statement of net position (accrual basis) a liability of \$8,526,933 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2017 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, 2017, the District’s proportionate share was .03663 percent, which was an increase of .00019 percent from its proportionate share measured as of June 30, 2016 of .03644 percent.

For the fiscal year ended June 30, 2018, the District recognized in the district-wide statement of activities (accrual basis) pension expense of \$727,554 for PERS. The pension contribution made by the District during the current 2017/2018 fiscal year is the contribution that is applied to the net pension liability reported at the end of the current fiscal year of June 30, 2018 with a measurement date of the prior fiscal year end of June 30, 2017. Since the State of New Jersey applies the current year pension contribution towards the calculation of the net pension liability reported at the end of the current fiscal year, which has a measurement date of the preceding fiscal year end, there is no deferred outflows of resources reported as of June 30, 2018 for contributions made subsequent to the current fiscal year end. At June 30, 2018, 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	\$ 200,780	
Changes of Assumptions	1,717,883	\$ 1,711,585
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	58,063	
Changes in Proportion and Differences Between Borough Contributions and Proportionate Share of Contributions	<u>361,736</u>	<u>143,190</u>
Total	<u>\$ 2,338,462</u>	<u>\$ 1,854,775</u>

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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)

At June 30, 2018, 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:

Year Ending <u>June 30,</u>	<u>Total</u>
2019	\$ 255,737
2020	255,737
2021	255,737
2022	(102,230)
2023	(181,294)
Thereafter	<u>-</u>
	<u>\$ 483,687</u>

Actuarial Assumptions

The District's total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

	<u>PERS</u>
Inflation Rate	2.25%
Salary Increases:	
Through 2026	1.65-4.15% Based on Age
Thereafter	2.65-5.15% Based on Age
Investment Rate of Return	7.00%
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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
US Equities	30.00%	8.19%
Non-US Developed Markets Equity	11.50%	9.00%
Emerging Market Equities	6.50%	11.64%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Estate	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
Buyouts/Venture Capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2018	June 30, 2017	5.00%
2017	June 30, 2016	3.98%

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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, 2040
Municipal Bond Rate *	From July 1, 2040 and Thereafter

* The municipal bond return rate used is 3.58% as of the measurement date of June 30, 2017. 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 5.00%, 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 (4.00 percent) or 1-percentage-point higher (6.00 percent) than the current rate:

	1% Decrease <u>(4.00%)</u>	Current Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
District's Proportionate Share of the PERS Net Pension Liability	\$ <u>10,578,239</u>	\$ <u>8,526,933</u>	\$ <u>6,817,941</u>

The sensitivity analysis was based on the proportionate share of the District's net pension liability at June 30, 2017. 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 report may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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)

GASB No. 68, requires participating employers in TPAF to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The non-employer allocation percentages presented are based on the ratio of the State's contributions made as a non-employer toward the actuarially determined contribution amount adjusted by locations who participated in the State early retirement incentives to total contributions to TPAF during the fiscal year ended June 30, 2017. Non-employer allocation percentages have been rounded for presentation purposes.

The contribution policy for TPAF is set by N.J.S.A. 18A:66 and requires contributions by active members and non-employer contributions by the State. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. For the fiscal year ended June 30, 2017, the State's pension contribution was less than the actuarial determined amount.

In accordance with GASB No. 68, the District is not required to recognize a net pension liability for TPAF. The State of New Jersey, as a nonemployer contributing entity, 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, 2018, the District recognized in the district-wide statement of activities (accrual basis) pension expense of \$4,923,868 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. 85.

At June 30, 2018 the State's proportionate share of the net pension liability attributable to the District is \$71,077,199. 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, 2017. At June 30, 2017, the state's share of the net pension liability attributable to the District was .10542 percent, which was a decrease of .00157 percent from its proportionate share measured as of June 30, 2016 of .10699 percent.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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)

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

	<u>TPAF</u>
Inflation Rate	2.25%
Salary Increases:	
2012-2021	Varies based on experience
Thereafter	Varies based on experience
Investment Rate of Return	7.00%

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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2015.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Estate	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Markets Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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 was as follows:

Fiscal Year	Measurement Date	Discount Rate
2018	June 30, 2017	4.25%
2017	June 30, 2016	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, 2036
Municipal Bond Rate *	From July 1, 2036 and Thereafter

* The municipal bond return rate used is 3.58% as of the measurement date of June 30, 2017. 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 4.25%, 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 (3.25 percent) or 1-percentage-point higher (5.25 percent) than the current rate:

	1% Decrease (3.25%)	Current Discount Rate (4.25%)	1% Increase (5.25%)
State's Proportionate Share of the TPAF Net Pension Liability Attributable to the District	<u>\$ 84,441,942</u>	<u>\$ 71,077,199</u>	<u>\$ 60,067,266</u>

The sensitivity analysis was based on the State's proportionate share of the net pension liability attributable to the District at June 30, 2017. A sensitivity analysis specific to the State's proportionate share of the net pension liability attributable to the District at June 30, 2017 was not provided by the pension system.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 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 report 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 plan for school districts.

As a result of implementing GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, the post-retirement health benefit program plan is reported in an Agency Fund in the New Jersey Comprehensive Annual Financial Report effective for the fiscal year ended June 30, 2017. Therefore, the plan has no assets accumulated in a trust. In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension* (GASB No. 75), the plan is classified as a single employer defined benefit OPEB plan with a special funding situation that is not administered through a trust that meets the criteria in paragraph 4 of GASB No. 75.

Plan Description and Benefits Provided

The State of New Jersey sponsors and administers the following post-retirement health benefit program plan covering certain local school district employees, including those Board employees and retirees eligible for coverage.

State Health Benefit Program Fund – Local Education Retired (including Prescription Drug Program Fund) – N.J.S.A. 52:14-17.32f provides medical coverage and prescription drug benefits to qualified retired education participants. The State of New Jersey provides employer-paid coverage to members of the TPAF who retire from a board of education or county college with 25 years of service or on a disability retirement. Under the provisions of Chapter 126, P.L. 1992, the State also provides employer-paid coverage to members of the PERS and Alternate Benefits Program (ABP) 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 employer 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.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

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.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

Plan Membership

Membership of the defined benefit OPEB plan consisted of the following at June 30, 2016:

Active Plan Members	\$223,747
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	142,331
Inactive Plan Members Entitled to but not yet Receiving Benefits	<u> -</u>
Total	<u>\$366,078</u>

Measurement Focus and Basis of Accounting

The financial statements of the post-employment health benefit plans are prepared in accordance with U.S. generally accepted accounting principles as applicable to governmental organizations. In doing so, the Division adheres to reporting requirements established by the Governmental Accounting Standards Board (GASB).

The accrual basis of accounting is used for measuring financial position and changes in net position of the post-employment health benefit plans. Under this method, contributions are recorded in the accounting period in which they are legally due from the employer or plan member, and deductions are recorded at the time the liabilities are due and payable in accordance with the terms of each plan. The accounts of the Division are organized and operated on the basis of funds. All funds are accounted for using an economic resources measurement focus.

Investment Valuation

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the State had a \$69.3 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) which is made up to \$25.5 billion for state active and retired members and \$43.8 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.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

Funded Status and Funding Progress (Continued)

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, 2016, 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.

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, 2017, there were 112,966, retirees receiving post-retirement medical benefits and the State contributed \$1.39 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 \$238.9 million toward Chapter 126 benefits for 20,913 eligible retired members in Fiscal Year 2017.

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, as a nonemployer contributing entity, to the State Health Benefits Program Fund – Local Education Retired for retirees' post-retirement benefits on behalf of the School District for the fiscal years ended June 30, 2018, 2017 and 2016 were \$1,076,509, \$988,003 and \$1,020,061, respectively, which equaled the required contributions for each year. The State's contributions to the State Health Benefits Program Fund – Local Education Retired for PERS retirees' post-retirement benefits on behalf of the School District was not determined or made available by the State of New Jersey. The on-behalf OPEB contributions are recognized in the governmental fund financial statements (modified accrual basis) as both a revenue and expenditure in accordance with GASB No. 85.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

GASB Statement No. 75 requires participating employers in the State Health Benefit Program Fund – Local Education Retired to recognize their proportionate share of the collective OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources and collective OPEB expense excluding that attributable to retiree-paid member contributions. The nonemployer allocation percentages presented are based on the ratio of the State’s contributions made as a nonemployer toward the actuarially determined contribution amount to total contributions to the plan during the fiscal year ended June 30, 2017. Nonemployer allocation percentages have been rounded for presentation purposes.

In accordance with GASB No. 75, the District is not required to recognize an OPEB liability for the post-employment health benefit plan. The State of New Jersey, as a nonemployer contributing entity, is the only entity that has a legal obligation to make employer contributions to the plan on behalf of the District. Accordingly, the District’s proportionate share percentage determined under Statement No. 75 is zero percent and the State’s proportionate share is 100% of the OPEB liability attributable to the District. Therefore, in addition, the District does not recognize any portion of the collective deferred outflows of resources and deferred inflows of resources related to the plan.

For the fiscal year ended June 30, 2018, the District recognized in the district-wide statement of activities (accrual basis) OPEB expense of \$3,476,762. This amount has been included in the district-wide statement of activities (accrual basis) as a revenue and expense in accordance with GASB No. 85.

At June 30, 2018 the State’s proportionate share of the OPEB liability attributable to the District is \$53,835,930. The nonemployer allocation percentages are based on the ratio of the State’s proportionate share of the OPEB liability attributable to the District at June 30, 2017 to the total OPEB liability of the State Health Benefit Program Fund – Local Education Retired Employees Plan at June 30, 2017. At June 30, 2017, the state’s share of the OPEB liability attributable to the District was .10037 percent, which was a decrease of .00007 percent from its proportionate share measured as of June 30, 2016 of .10044 percent.

Actuarial Assumptions

The OPEB liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement.

Inflation Rate	2.50%
Salary Increases *	
Initial Fiscal Year Applied Through	2026
Rate	1.55% to 4.55%
Rate Thereafter	2.00% to 5.45%
Mortality	RP-2014 Headcount-Weighted Healthy Employee, Healthy Annuitant and Disabled Male/Female Mortality Table with Fully Generational Mortality Improvement Projections from the Central Year Using Scale MP-2017
Long-Term Rate of Return	1.00%

*Salary increases are based on the defined benefit plan that the individual is enrolled in and his or her year of service for TPAF or his or her age for PERS.

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Actuarial Assumptions (Continued)

Healthcare cost trend rates for pre-Medicare Preferred Provider Organization (PPO) medical benefits, this amount initially is 5.9 percent and decreases to a 5.0 percent long-term trend rate after nine years. For self-insured post-65 PPO medical benefits, the trend rate is 4.5 percent. For health maintenance organization (HMO) medical benefits, the trend rate is initially 5.9 percent and decreases to a 5.0 percent long-term trend rate after nine years. For prescription drug benefits, the initial trend rate is 10.5 percent and decreases to a 5.0 percent long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0 percent. This reflects the known underlying cost of the Part B premium. The Medicare Advantage trend rate is 4.5 percent and will continue in all future years.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of the TPAF and PERS actuarial experience studies for the period July 1, 2012 to June 30, 2015 and July 1, 2011 to June 30, 2014, respectively.

Long-Term Expected Rate of Return

As the OPEB plan only invests in the State of New Jersey Cash Management Fund, the long-term expected rate of return on OPEB investments was based off the best-estimate ranges of future real rates of return (expected returns, net of OPEB plan investment expense and inflation) for cash equivalents, which is 1.00% as of June 30, 2017.

Discount Rate

The discount rate used to measure the total OPEB liabilities of the plan was as follows:

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2018	June 30, 2017	3.58%
2017	June 30, 2016	2.85%

The discount rate represents the municipal bond return rate as chosen by the Division. 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

**CEDAR GROVE PUBLIC SCHOOLS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Changes in the Total OPEB Liability

The change in the State's proportionate share of the OPEB liability attributable to the District for the fiscal year ended June 30, 2018 (measurement date June 30, 2017) is as follows:

	Total OPEB Liability (State Share 100%)
Balance, June 30, 2016 Measurement Date	\$ <u>58,085,087</u>
Changes Recognized for the Fiscal Year:	
Service Cost	\$ 2,515,423
Interest on the Total OPEB Liability	1,706,885
Changes of Assumptions	(7,112,505)
Gross Benefit Payments	(1,410,913)
Contributions from the Member	<u>51,953</u>
Net Changes	<u>\$ (4,249,157)</u>
Balance, June 30, 2017 Measurement Date	\$ <u><u>53,835,930</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 2.85 percent in 2016 to 3.58 percent in 2017.

The change in the total OPEB liability was based on the State's proportionate share of the OPEB liability attributable to the District at June 30, 2017. A change in the total OPEB liability specific to the State's proportionate share of the OPEB liability attributable to the District for the fiscal year ended June 30, 2017 was not provided by the pension system.

Sensitivity of OPEB Liability

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the State's proportionate share of the OPEB liability attributable to the District calculated using the discount rate of 3.58%, as well as what the State's proportionate share of the OPEB liability attributable to the District that would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
State's Proportionate Share of the OPEB Liability Attributable to the District	\$ <u>63,907,133</u>	\$ <u>53,835,930</u>	\$ <u>45,847,356</u>

**CEDAR GROVE PUBLIC SCHOOLS
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

NOTE 4 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

OPEB Liabilities, OPEB Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Sensitivity of OPEB Liability (Continued)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the State's proportionate share of the OPEB liability attributable to the District calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<u>1%</u> <u>Decrease</u>	<u>Healthcare</u> <u>Cost Trend</u> <u>Rates</u>	<u>1%</u> <u>Increase</u>
Total OPEB Liability (School Retirees)	\$ <u>44,274,848</u>	\$ <u>53,835,930</u>	\$ <u>66,532,934</u>

The sensitivity analyses were based on the State's proportionate share of the OPEB liability attributable to the District at June 30, 2017. Sensitivity analyses specific to the State's proportionate share of the OPEB liability attributable to the District at June 30, 2017 were not provided by the pension system.

F. Subsequent Events

On October 2, 2018, the District voters approved the issuance of bonds and/or notes in the amount of \$2,964,816 for the undertaking of various school improvements. As of the date of the audit, the District has not awarded the sale of said bonds and/or notes to finance the various school improvements.

BUDGETARY COMPARISON SCHEDULES

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
REVENUES					
Local Sources					
Local Tax Levy	\$ 26,532,424	-	\$ 26,532,424	\$ 26,532,424	
Miscellaneous	737,863	-	737,863	960,867	\$ 223,004
Total Revenues - Local Sources	<u>27,270,287</u>	<u>-</u>	<u>27,270,287</u>	<u>27,493,291</u>	<u>223,004</u>
State Sources					
Transportation Aid	66,137		66,137	66,137	-
Special Education Aid	630,950		630,950	703,504	72,554
Security Aid	30,041		30,041	30,041	-
PARRC Readiness Aid	17,010		17,010	17,010	
Per Pupil Growth Aid	17,010		17,010	17,010	
Professional Learning Comm. Aid	16,490		16,490	16,490	
Extraordinary Aid	300,000		300,000	318,958	18,958
Non-Public Transportation				41,180	41,180
Lead Testing Schools Aid				4,100	4,100
Reimbursed TPAF Social Security Contributions (Non-Budgeted)				873,192	873,192
On Behalf TPAF Pension System Contributions- (Non-Budgeted)- Pension Cost				1,627,246	1,627,246
(Non-Budgeted)- NCGI Premium				39,489	39,489
(Non-Budgeted)- LT Disability				3,259	3,259
(Non-Budgeted)- Pension Cost - Post Medical Cont.	-	-	-	1,076,509	1,076,509
Total State Sources	<u>1,077,638</u>	<u>-</u>	<u>1,077,638</u>	<u>4,834,125</u>	<u>3,756,487</u>
Total Revenues	<u>28,347,925</u>	<u>-</u>	<u>28,347,925</u>	<u>32,327,416</u>	<u>3,979,491</u>
CURRENT EXPENDITURES					
Instruction - Regular Programs					
Salaries of Teachers:					
Kindergarten	540,441	\$ (13,000)	527,441	500,911	26,530
Grades 1 - 5	2,767,105	-	2,767,105	2,733,937	33,168
Grades 6 - 8	2,026,826	1	2,026,827	2,009,491	17,336
Grades 9 - 12	2,797,179	(4,696)	2,792,483	2,708,682	83,801
Home Instruction:					
Salaries of Teachers	13,000	19,587	32,587	32,587	-
Purchased Professional - Educational Services	1,000	5,108	6,108	6,108	-
Regular Programs - Undistributed Instruction:					
Purchased Professional - Educational Services	7,500	-	7,500	4,500	3,000
Purchased Technical Services	34,286	40,807	75,093	52,067	23,026
Other Purchased Services	45,750	9,528	55,278	49,637	5,641
General Supplies	179,071	7,679	186,750	140,190	46,560
Textbooks	119,896	7,959	127,855	121,013	6,842
Miscellaneous Expenditures	2,400	(500)	1,900	1,514	386
Total Instruction Regular Programs	<u>8,534,454</u>	<u>72,473</u>	<u>8,606,927</u>	<u>8,360,637</u>	<u>246,290</u>
Special Education					
Learning/Language Disabilities					
Salaries of Teachers	90,366	33,864	124,230	122,678	1,552
Other Salaries for Instruction	69,118	(8,482)	60,636	55,367	5,269
General Supplies	500	-	500	500	-
Total Learning/Language Disabilities	<u>159,984</u>	<u>25,382</u>	<u>185,366</u>	<u>178,545</u>	<u>6,821</u>

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
CURRENT EXPENDITURES (Continued)					
Resource Room/Resource Center					
Salaries of Teachers	\$ 1,390,526	\$ 22,000	\$ 1,412,526	\$ 1,411,850	\$ 676
Other Salaries for Instruction	97,830	59,431	157,261	156,406	855
General Supplies	<u>2,000</u>	<u>276</u>	<u>2,276</u>	<u>2,007</u>	<u>269</u>
Total Resource Room/Resource Center	<u>1,490,356</u>	<u>81,707</u>	<u>1,572,063</u>	<u>1,570,263</u>	<u>1,800</u>
Preschool Disabilities - Full Time					
Salaries of Teachers	169,704	4,070	173,774	173,774	-
Other Salaries for Instruction	117,576	(10,836)	106,740	106,740	-
General Supplies	<u>1,805</u>	<u>-</u>	<u>1,805</u>	<u>1,611</u>	<u>194</u>
Total Preschool Disabilities - Full Time	<u>289,085</u>	<u>(6,766)</u>	<u>282,319</u>	<u>282,125</u>	<u>194</u>
Total Special Education	<u>1,939,425</u>	<u>100,323</u>	<u>2,039,748</u>	<u>2,030,933</u>	<u>8,815</u>
Basic Skills/Remedial					
Salaries of Teachers	102,050	(43,772)	58,278	58,278	-
General Supplies	<u>5,175</u>	<u>(5,175)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Basic Skills/Remedial	<u>107,225</u>	<u>(48,947)</u>	<u>58,278</u>	<u>58,278</u>	<u>-</u>
Bilingual Education					
Salaries of Teachers	99,430	8,184	107,614	107,614	-
Other Purchased Services	250	-	250	-	250
General Supplies	<u>575</u>	<u>(459)</u>	<u>116</u>	<u>116</u>	<u>-</u>
Total Bilingual Education	<u>100,255</u>	<u>7,725</u>	<u>107,980</u>	<u>107,730</u>	<u>250</u>
School Sponsored Co/Extra Curricular Activities					
Salaries	140,366	11,914	152,280	152,280	-
Supplies and Materials	22,030	1,500	23,530	20,592	2,938
Other Objects	<u>3,800</u>	<u>54</u>	<u>3,854</u>	<u>3,810</u>	<u>44</u>
Total School-Sponsored Co/Extra Curricular Activities	<u>166,196</u>	<u>13,468</u>	<u>179,664</u>	<u>176,682</u>	<u>2,982</u>
School Sponsored Athletics					
Salaries	407,651	(4,717)	402,934	402,241	693
Purchased Services	55,045	4,470	59,515	45,592	13,923
Supplies and Materials	55,125	4,923	60,048	59,684	364
Other Objects	7,110	(1,000)	6,110	5,707	403
Transfers to Cover Deficit	<u>64,041</u>	<u>(12,667)</u>	<u>51,374</u>	<u>50,000</u>	<u>1,374</u>
Total School Sponsored Athletics	<u>588,972</u>	<u>(8,991)</u>	<u>579,981</u>	<u>563,224</u>	<u>16,757</u>
Total Instruction	<u>11,436,527</u>	<u>136,051</u>	<u>11,572,578</u>	<u>11,297,484</u>	<u>275,094</u>

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
CURRENT EXPENDITURES (Continued)					
Undistributed Expenditures					
Instruction					
Tuition to Other LEAs - Within State - Special	\$ 260,042	\$ 10,726	\$ 270,768	\$ 270,768	-
Tuition to County Voc. School District-Regular	28,938	(11,602)	17,336	7,980	\$ 9,356
Tuition to County Voc. School District-Special	51,076	(2,365)	48,711	35,858	12,853
Tuition to Private Schools for the Disabled - Within State	2,355,309	(243,109)	2,112,200	2,095,087	17,113
Total Instruction	<u>2,695,365</u>	<u>(246,350)</u>	<u>2,449,015</u>	<u>2,409,693</u>	<u>39,322</u>
Attendance and Social Work					
Salaries	48,169	-	48,169	39,762	8,407
Purchased Professional/Technical Services	3,600	-	3,600	3,600	-
Total Attendance and Social Work	<u>51,769</u>	<u>-</u>	<u>51,769</u>	<u>43,362</u>	<u>8,407</u>
Health Services					
Salaries	346,921	-	346,921	340,391	6,530
Purchased Professional and Technical Services	24,150	(1,019)	23,131	19,015	4,116
Other Purchased Services	200	-	200		200
Supplies and Materials	8,000	764	8,764	8,518	246
Other Objects	1,250	255	1,505	1,340	165
Total Health Services	<u>380,521</u>	<u>-</u>	<u>380,521</u>	<u>369,264</u>	<u>11,257</u>
Speech/Occupational Therapy/Physical Therapy and Related Services					
Salaries	366,408	15,154	381,562	381,562	-
Purchased Professional/Educational Services	342,000	49,349	391,349	391,349	-
Supplies and Materials	7,500	(200)	7,300	7,300	-
Total Speech/Occupational Therapy/Physical Therapy and Related Services	<u>715,908</u>	<u>64,303</u>	<u>780,211</u>	<u>780,211</u>	<u>-</u>
Undistributed Expend.-Other Supp. Svcs.-Extraord. Serv.					
Salaries	263,067	(18,115)	244,952	237,162	7,790
Purchased Professional-Educational Services	184,960	27,331	212,291	207,948	4,343
Supplies and Materials	5,000	-	5,000	5,000	-
Total Other Support/Extraordinary Services	<u>453,027</u>	<u>9,216</u>	<u>462,243</u>	<u>450,110</u>	<u>12,133</u>
Guidance Services					
Salaries of Other Professional Staff	282,158	(22)	282,136	273,669	8,467
Salaries of Secretarial and Clerical Assistants	60,024	360	60,384	60,134	250
Other Purchased Professional/Technical Services	14,550	(339)	14,211	13,044	1,167
Supplies and Materials	10,468	(37)	10,431	9,159	1,272
Other Objects	3,900	(554)	3,346	3,020	326
Total Other Support Services/Regular	<u>371,100</u>	<u>(592)</u>	<u>370,508</u>	<u>359,026</u>	<u>11,482</u>

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
CURRENT EXPENDITURES (Continued)					
Child Study Team					
Salaries of Other Professional Staff	\$ 415,152	\$ 21,374	\$ 436,526	\$ 436,526	-
Salaries of Secretarial and Clerical Assistants	62,419	695	63,114	63,114	-
Purchased Professional Educational Services	13,000	8,648	21,648	21,648	-
Other Purchased Services	3,300	-	3,300	2,307	\$ 993
Supplies and Materials	3,695	1,211	4,906	4,346	560
Other Objects	4,000	(115)	3,885	2,903	982
	<u>501,566</u>	<u>31,813</u>	<u>533,379</u>	<u>530,844</u>	<u>2,535</u>
Improvement of Instruction					
Salaries of Other Professional Staff	10,500	-	10,500	10,150	350
Salaries of Secretarial and Clerical Assist.	15,120	-	15,120	15,047	73
Purchased Professional-Educational Services	3,500	(1,050)	2,450	60	2,390
Other Purchased Services	1,000	1,406	2,406	2,382	24
Supplies and Materials	24,775	1,376	26,151	23,322	2,829
Other Objects	5,750	(724)	5,026	4,750	276
	<u>60,645</u>	<u>1,008</u>	<u>61,653</u>	<u>55,711</u>	<u>5,942</u>
Educational Media Services/ School Library					
Salaries	260,034	3,167	263,201	263,131	70
Purchased Professional/Technical Services	275	(275)	-	-	-
Supplies and Materials	46,105	(23,092)	23,013	22,593	420
	<u>306,414</u>	<u>(20,200)</u>	<u>286,214</u>	<u>285,724</u>	<u>490</u>
Instructional Staff Training Services					
Salaries of Supervisors of Instruction	91,727	-	91,727	89,082	2,645
Salaries of Secretarial and Clerical Assist.	5,940	-	5,940	5,911	29
Purchased Professional Educational Services	49,500	-	49,500	42,216	7,284
Other Purchased Professional/Technical Services	2,750	-	2,750	2,200	550
Other Purchased Services	7,150	1,408	8,558	5,475	3,083
	<u>157,067</u>	<u>1,408</u>	<u>158,475</u>	<u>144,884</u>	<u>13,591</u>
Support Services General Administration					
Salaries of Other Professional Staff	186,559	2,025	188,584	188,584	-
Salaries of Secretarial & Clerical Assist.	100,099	1,100	101,199	100,699	500
Other Salaries	5,029	-	5,029	5,004	25
Legal Services	145,000	-	145,000	72,553	72,447
Audit Fees	44,000	35,270	79,270	37,505	41,765
Architectural/Engineering Services	12,500	-	12,500	5,300	7,200
Other Purchased Professional Services	21,850	731	22,581	21,631	950
Purchased Technical Services	2,000	-	2,000	375	1,625
Miscellaneous Purchased Services	35,950	(1,461)	34,489	25,542	8,947
BOE Other Purchased Services	1,750	-	1,750	250	1,500
Communications/Telephone	158,158	-	158,158	143,271	14,887
Supplies and Materials	3,100	2,102	5,202	2,956	2,246
Miscellaneous Expenditures	15,400	-	15,400	11,642	3,758
BOE Membership Dues and Fees	18,825	-	18,825	18,469	356
	<u>750,220</u>	<u>39,767</u>	<u>789,987</u>	<u>633,781</u>	<u>156,206</u>

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
CURRENT EXPENDITURES (Continued)					
Support Services School Administration					
Salaries of Principals and Assistant Principals	\$ 771,325	\$ (13,144)	\$ 758,181	\$ 756,262	\$ 1,919
Salaries of Other Professional Staff	316,356	(5,479)	310,877	310,677	200
Salaries of Secretarial Staff	233,716	18,622	252,338	248,124	4,214
Purchased Professional and Technical Services	10,217	(1,000)	9,217	4,972	4,245
Other Purchased Services	21,150	(8,255)	12,895	1,575	11,320
Supplies and Materials	26,678	76	26,754	18,980	7,774
Other Objects	18,049	(744)	17,305	14,339	2,966
	<u>1,397,491</u>	<u>(9,924)</u>	<u>1,387,567</u>	<u>1,354,929</u>	<u>32,638</u>
Total Support Services School Administration					
Undistributed Expenditures - Central Services					
Salaries of Other Professional Staff	154,500	-	154,500	153,750	750
Salaries of Secretarial & Clerical Assist.	145,132	1,091	146,223	146,223	-
Purchased Professional Services	19,146	(1,090)	18,056	17,906	150
Miscellaneous Purchased Services	2,000	-	2,000	1,004	996
Supplies and Materials	5,500	-	5,500	3,785	1,715
Miscellaneous Expenditures	4,485	-	4,485	2,090	2,395
	<u>330,763</u>	<u>1</u>	<u>330,764</u>	<u>324,758</u>	<u>6,006</u>
Total Undistributed Expenditures - Central Services					
Undistributed Expenditures - Admin. Info. Tech.					
Salaries	206,497	-	206,497	205,722	775
Purchased Technical Services	3,300	-	3,300	1,473	1,827
Other Purchased Services	15,350	-	15,350	13,428	1,922
Supplies and Materials	45,200	(31,980)	13,220	13,220	-
Other Objects	500	(20)	480	344	136
	<u>270,847</u>	<u>(32,000)</u>	<u>238,847</u>	<u>234,187</u>	<u>4,660</u>
Total Undistributed Expenditures - Admin. Info. Technology					
Required Maintenance for School Facilities					
Salaries	98,131	(3,341)	94,790	89,991	4,799
Cleaning, Repair and Maintenance Services	188,079	41,653	229,732	233,832	(4,100)
General Supplies	22,714	16,436	39,150	39,150	-
	<u>308,924</u>	<u>54,748</u>	<u>363,672</u>	<u>362,973</u>	<u>699</u>
Total Required Maint for School Facilities					
Custodial Services					
Salaries	1,124,810	1,807	1,126,617	1,050,329	76,288
Salaries Non-Instructional Aides	112,984	-	112,984	62,024	50,960
Other Purchased Professional and Technical Services	34,501	576	35,077	33,390	1,687
Cleaning, Repair and Maintenance Services	46,945	4,631	51,576	50,880	696
Other Purchased Property Services	34,000	(11,800)	22,200	20,192	2,008
Insurance	185,849	(5,000)	180,849	165,257	15,592
Miscellaneous Purchased Services	1,000	-	1,000	747	253
General Supplies	67,855	38,481	106,336	102,376	3,960
Energy (Natural Gas)	196,350	-	196,350	154,255	42,095
Energy (Electricity)	386,400	(27,472)	358,928	321,754	37,174
Energy (Gasoline)	3,000	(3,000)	-	-	-
Other Objects	1,150	-	1,150	470	680
	<u>2,194,844</u>	<u>(1,777)</u>	<u>2,193,067</u>	<u>1,961,674</u>	<u>231,393</u>
Total Other Operations and Maint. of Plant					

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
CURRENT EXPENDITURES (Continued)					
Care and Upkeep of Grounds					
Salaries	\$ 226,677	\$ 8,500	\$ 235,177	\$ 214,574	\$ 20,603
Cleaning, Repair and Maintenance Services	83,230	(9,200)	74,030	63,244	10,786
General Supplies	16,400	-	16,400	12,166	4,234
	<u>326,307</u>	<u>(700)</u>	<u>325,607</u>	<u>289,984</u>	<u>35,623</u>
Total Care and Upkeep of Grounds					
Security					
Purchased Professional/Technical Services	7,000	-	7,000	5,300	1,700
Cleaning, Repair and Maintenance Services	5,000	2,817	7,817	3,547	4,270
General Supplies	15,000	6,461	21,461	21,370	91
Other Objects	12,500	-	12,500	9,484	3,016
	<u>39,500</u>	<u>9,278</u>	<u>48,778</u>	<u>39,701</u>	<u>9,077</u>
Total Security					
Student Transportation Services					
Salaries for Pupil Trans (Bet Home & Sch) - Reg.	25,834	-	25,834	25,598	236
Management Fee-ESC & CTSA Trans. Prog.	42,000	(3,061)	38,939	29,316	9,623
Contr Serv-Aid in Lieu of Pymts-Non-Public Schools	134,100	5,238	139,338	139,338	-
Contr Serv(Bet Home &Sch)-Vend	153,800	77,407	231,207	221,103	10,104
Contr Serv(Oth. Than Bet Home &Sch)-Vend	164,029	(11,206)	152,823	150,694	2,129
Contr Serv(Special Education)-ESC & CTSA	656,500	106,871	763,371	763,371	-
	<u>1,176,263</u>	<u>175,249</u>	<u>1,351,512</u>	<u>1,329,420</u>	<u>22,092</u>
Total Student Transportation Services					
Unallocated Employee Benefits					
Social Security Contribution	313,845	13,961	327,806	327,806	-
Other Retirement Contributions - PERS	370,854	(15,988)	354,866	354,866	-
Other Retirement Contributions - Regular	7,000	-	7,000	4,317	2,683
Workmen's Compensation	153,336	-	153,336	145,914	7,422
Health Benefits	4,355,695	(160,802)	4,194,893	3,854,028	340,865
Tuition Reimbursements	96,500	-	96,500	57,102	39,398
Other Employee Benefits	74,143	-	74,143	66,461	7,682
	<u>5,371,373</u>	<u>(162,829)</u>	<u>5,208,544</u>	<u>4,810,494</u>	<u>398,050</u>
Total Unallocated Employee Benefits					
Interest Earned on Maintenance Reserve	500	-	500	-	500
Reimbursed TPAF Social Security Contributions- (Non-Budgeted)				873,192	(873,192)
On Behalf TPAF Pension System Contributions- (Non-Budgeted)- Pension Cost				1,627,246	(1,627,246)
(Non-Budgeted)- NCGI Premium				39,489	(39,489)
(Non-Budgeted)- LT Disability				3,259	(3,259)
(Non-Budgeted)- Pension Cost - Post Medical Cont.	-	-	-	1,076,509	(1,076,509)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,619,695</u>	<u>(3,619,695)</u>
Total TPAF Pension and Social Security Contributions					
Total Undistributed Expenditures	17,860,414	(87,581)	17,772,833	20,390,425	(2,617,592)
Total Current Expenditures	29,296,941	48,470	29,345,411	31,687,909	(2,342,498)

CEDAR GROVE PUBLIC SCHOOLS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Final Budget to Actual</u>
CAPITAL OUTLAY					
Equipment					
Undistributed Expenditures					
Support Service-Related and Extra Admin. Info Tech.	-	\$ 27,092 7,893	\$ 27,092 7,893	\$ 27,092 -	- \$ 7,893
Total Equipment	-	34,985	34,985	27,092	7,893
Facilities Acquisition and Construction Services					
Assessment for Debt Service on SDA Funding	\$ 31,019	-	31,019	31,019	-
Total Facilities Acquis. And Construction Services	31,019	-	31,019	31,019	-
Interest Deposit to Capital Reserve	9,500	-	9,500	-	9,500
Total Expenditures - Capital Outlay	40,519	34,985	75,504	58,111	17,393
Total Expenditures - General Fund	29,337,460	83,455	29,420,915	31,746,020	(2,325,105)
Excess (Deficiency) of Revenues Over/(Under) Expenditures	(989,535)	(83,455)	(1,072,990)	581,396	1,654,386
Other Financing Sources (Uses)					
Transfers In	-	-	-	11,395	11,395
Transfer Out- Food Service	-	-	-	(8,997)	(8,997)
Total Other Financing Sources (Uses)	-	-	-	2,398	2,398
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(989,535)	(83,455)	(1,072,990)	583,794	1,656,784
Fund Balance, Beginning of Year	3,076,635	-	3,076,635	3,076,635	-
Fund Balance, End of Year	<u>\$ 2,087,100</u>	<u>\$ (83,455)</u>	<u>\$ 2,003,645</u>	<u>\$ 3,660,429</u>	<u>\$ 1,656,784</u>
Recapitulation of Fund Balance					
Restricted Fund Balance:					
Excess Surplus - Designated for Subsequent Year's Expenditures				\$ 688,563	
Excess Surplus				804,389	
Maintenance Reserve				352,276	
Capital Reserve				940,658	
Assigned Fund Balance:					
Year-End Encumbrances				66,259	
Designated for Subsequent Year's Expenditures				185,619	
Unassigned Fund Balance:				<u>622,665</u>	
Budgetary Fund Balance				<u>3,660,429</u>	
Reconciliation to Governmental Fund Statements (GAAP)					
2017/2018 State Aid Payment Not Recognized on a GAAP Basis				81,911	
2017/2018 Extraordinary Aid Payments Not Recognized on a GAAP Basis				<u>318,958</u>	
Fund Balance per Governmental Funds (GAAP Basis)				<u>\$ 3,259,560</u>	

APPENDIX C

Proposed Form of Bond Counsel Opinion

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APPENDIX C

[Proposed Form of Bond Counsel Opinion]

August __, 2019

The Board of Education of the
Township of Cedar Grove, in the
County of Essex, New Jersey

Dear Board Members:

We have acted as bond counsel in connection with the issuance of \$2,964,000 aggregate principal amount of School Bonds (the "Bonds") by The Board of Education of the Township of Cedar Grove, in the County of Essex, a school district of the State of New Jersey (the "Board" or "School District"). The Bonds are dated August 1, 2019 and comprise an issue of registered bonds. The Bonds bear interest from their date payable on each February 15 and August 15, commencing February 15, 2020 (each, an "Interest Payment Date"), in each year until maturity.

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

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2020	\$274,000	%	2025	\$300,000	%
2021	265,000		2026	310,000	
2022	275,000		2027	315,000	
2023	285,000		2028	325,000	
2024	290,000		2029	325,000	

The Bonds are issued pursuant to Chapters 22 and 24 of Title 18A, Education, of the New Jersey Statutes, as amended, and pursuant to a resolution duly adopted by a majority of the legal voters of the School District voting thereon at a special school election held on October 2, 2018 (the "Election") and resolutions adopted by the Board of Education on June 18, 2019.

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

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

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

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

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

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

2. The Board has pledged its full faith and credit for the payment of the principal of and interest on the Bonds, and unless paid from other sources, the Bonds and the interest thereon are payable from ad valorem taxes levied on all taxable real property in the School District, without limitation as to rate or amount. The payment of the principal of and interest on the Bonds is also secured pursuant to the provisions of the New Jersey School Bond Reserve Act, P.L. 1980, c.72, as amended.

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

Very truly yours,

Rogut McCarthy LLC

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