New Issue

Ratings: S&P "AA" (Underlying)
S&P "A" (School Bond Reserve Act)
(See "RATINGS" herein)

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

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 3, 2015

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

THE BOARD OF EDUCATION OF THE TOWNSHIP OF FRANKLIN IN THE COUNTY OF SOMERSET, NEW JERSEY
$81,480,000 SCHOOL BONDS
(Book-Entry-Only) (Callable)

Dated: Date of Delivery — Due: February 1, as shown below

The $81,480,000 School Bonds (the "Bonds") of The Board of Education of the Township of Franklin in the County of Somerset, New Jersey (the "Board" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) will be issued in the form of one certificate for the aggregate principal amount of the Bonds maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

The Bonds are valid and legally binding obligations of the Board and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the School District for the payment of the Bonds and the interest thereon without limitation as to rate or amount. The Bonds are also entitled to the benefits of and are secured under the provisions of the New Jersey School Bond Reserve Act, N.J.S.A. 18A:56-1 et seq. See "DESCRIPTION OF THE BONDS- New Jersey School Bond Reserve Act (N.J.S.A. 18A:56-17 et seq.)" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPs

Year	Principal Amount	Interest Rate	Yield	CUSIPs	Year	Principal Amount	Interest Rate	Yield	CUSIPs
2017	$2,500,000	%	%		2027	$4,500,000	%	%	
2018	3,500,000				2028	4,640,000			
2019	3,595,000				2029	4,785,000			
2020	3,685,000				2030	4,940,000			
2021	3,775,000				2031	5,000,000			
2022	3,880,000				2032	5,000,000			
2023	3,985,000				2033	5,000,000			
2024	4,105,000				2034	5,000,000			
2025	4,230,000				2035	5,000,000			
2026	4,360,000								

The Bonds are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or to modification of the offer without notice and to the approval of legality by the law firm of McManimon, Scotland & Baumann, LLC, Roseland, New Jersey and certain other conditions described herein. Phoenix Advisors, LLC, Bordentown, New Jersey served as financial advisor to the Board in connection with the Bonds. Delivery is anticipated to be via DTC in New York, New York on or about February 26, 2015.

ALL BIDS MUST BE SUBMITTED IN THEIR ENTIRETY ON GRANT STREET GROUP'S MUNIAUCTION WEBSITE ("MUNIAUCTION") PRIOR TO 11:15 A.M. EASTERN TIME ON FEBRUARY 10, 2015 UNLESS EXTENDED BY THE TWO MINUTE RULE. THE AUCTION WILL BEGIN AT 11:00 A.M. EASTERN TIME ON FEBRUARY 10, 2015. ALL BIDS MUST BE IN CONFORMANCE WITH THE FULL NOTICE OF SALE WHICH CAN BE VIEWED IN ELECTRONIC FORMAT, ALONG WITH THIS PRELIMINARY OFFICIAL STATEMENT, ON THE MUNIAUCTION WEBSITE LOCATED AT WWW.GRANTSTREET.COM

**THE BOARD OF EDUCATION OF
THE TOWNSHIP OF FRANKLIN
IN THE COUNTY OF SOMERSET, NEW JERSEY**

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BOARD ATTORNEY

Parker McCay, P.A.
Lawrenceville, New Jersey

FINANCIAL ADVISOR

Phoenix Advisors, LLC
Bordentown, New Jersey

BOND COUNSEL

McManimon, Scotland & Baumann, LLC
Roseland, New Jersey

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

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

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

TABLE OF CONTENTS

OFFICIAL STATEMENT
OF
THE BOARD OF EDUCATION
OF THE TOWNSHIP OF FRANKLIN
IN THE COUNTY OF SOMERSET, NEW JERSEY

$81,480,000
SCHOOL BONDS
(BOOK-ENTRY-ONLY ISSUE)
(CALLABLE)

INTRODUCTION

This Official Statement, which includes the front cover page and the appendices attached hereto, has been prepared by The Board of Education of the Township of Franklin in the County of Somerset, New Jersey (the "Board" when referring to the governing body and legal entity and the "School District" when referring to the territorial boundaries governed by the Board) in connection with the sale and issuance of its $81,480,000 School Bonds (the "Bonds"). This Official Statement has been executed by and on behalf of the Board by the Interim Assistant Superintendent for Business/Board Secretary, and its distribution and use in connection with the sale of the Bonds have been authorized by the Board.

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

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

DESCRIPTION OF THE BONDS

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

Terms and Interest Payment Dates

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

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

Optional Redemption

The Bonds maturing prior to February 1, 2024 are not subject to redemption prior to maturity. The Bonds maturing on and after February 1, 2024 are subject to redemption prior to their stated maturity dates at the option of the Board, upon notice as set forth below, as a whole or in part (and, if in part, such maturities as the Board shall determine and within any such maturity by lot) on any date on or after February 1, 2023, at a redemption price equal to 100% of the principal amount of Bonds to be redeemed, plus accrued interest to the redemption date.

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

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

Security for the Bonds

The Bonds are valid and legally binding general obligations of the Board, and the Board has irrevocably pledged its full faith and credit for the payment of the principal of and interest on the Bonds. Unless paid from other sources, the principal of and interest on the Bonds are payable from *ad valorem* taxes levied upon all the taxable property within the School District without limitation as to rate or amount.

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

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

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

The Act further provides that the amount of any payment of interest or purchase price of school bonds paid pursuant to the Act shall be deducted from the appropriation or apportionment of State aid, other than certain State aid which may be otherwise restricted pursuant to law, payable to the school district, county or municipality and shall not obligate the State to make, nor entitle the school district, county or municipality to receive any additional appropriation or apportionment. Any amount so deducted shall be applied by the State Treasurer to satisfy the obligation of the school district, county or municipality arising as a result of the payment of interest or purchase price of bonds pursuant to the Act. On September 11, 2014 Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, downgraded the School Bond Reserve rating from "A+" (stable) to "A" (stable). Moody's Investors Service, Inc. has maintained the rating of "Aa3" (stable) in connection with the School Bond Reserve.

Authorization and Purpose

The Bonds have been authorized and are being issued pursuant to (i) Title 18A, Chapter 24 of the New Jersey Statutes (N.J.S.A. 18A:24-1 et seq.); (ii) a proposal adopted by the Board on September 18, 2014, and approved by a majority of the legal voters present and voting at the School District election held on December 9, 2014, and (iii) a resolution duly adopted by the Board on January 22, 2015 (the "Resolution").

The proceeds of the Bonds will be used to: (a) to provide for ROD Grant Funded Projects consisting of various renovations, alterations and improvements to the Conerly Road Elementary School, Elizabeth Avenue Elementary School, Franklin Middle School, Franklin Park Elementary School, MacAfee

Elementary School, Pine Grove Manor Elementary School and Sampson G. Smith School, and various renovations, alterations, improvements and a classroom addition to Hillcrest Elementary School, including acquisition and installation of furniture and equipment and site work; (b) to provide for Debt Service Aid Funded Projects consisting of additional renovations, alterations and improvements to Conerly Road Elementary School, Franklin Middle School, Franklin Park Elementary School, Hillcrest Elementary School and MacAfee Elementary School, and renovations, alterations, improvements and additions to Elizabeth Avenue Elementary School, Pine Grove Manor Elementary School and Sampson G. Smith School and construction of the new Claremont School, including acquisition and installation of furniture and equipment and site work (collectively, the "Project"). The total cost of the Project is $84,897,326 of which $3,417,069 will be funded with grants from the State of New Jersey, $81,480,000 from proceeds of the Bonds and $257 from other funds of the Board.

BOOK-ENTRY-ONLY SYSTEM[1]

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 year of 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 Standard & Poor's rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

[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.

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

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

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

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

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

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

Discontinuance of Book-Entry-Only System

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

THE SCHOOL DISTRICT AND THE BOARD

The School District is a Type II school district without a board of school estimate coterminous with the boundaries of the Township of Franklin (the "Township") located in the County of Somerset, New Jersey (the "State"). The school district serves students in grades pre-kindergarten (Pre-K) through grade twelve (12).

The Board consists of nine (9) elected members. Pursuant to State statute, the Board appoints a Superintendent and a Business Administrator/Board Secretary. *See* "APPENDIX A – General Information Relating to the School District and Economic and Demographic Information Relating to the Township of Franklin."

THE STATE'S ROLE IN PUBLIC EDUCATION

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

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

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

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

STRUCTURE OF SCHOOL DISTRICTS IN NEW JERSEY

Categories of School Districts

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

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

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

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

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

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

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

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

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

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

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

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

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

On January 17, 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.

Spending Growth Limitation

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

SUMMARY OF CERTAIN PROVISIONS FOR THE PROTECTION OF SCHOOL DEBT

Levy and Collection of Taxes

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

Budgets and Appropriations

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

Tax and Spending Limitations

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

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

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

P.L. 2007, c. 62, effective April 3, 2007 (Assembly Bill A1), provided additional limitations on school district spending by limiting the amount a school district could raise for school district purposes through the property tax levy by 4% over the prior budget year's tax levy. P.L. 2007, c. 62 provided for adjustments to the cap for increases in enrollment, reductions in State aid and increased health care costs and for certain other extraordinary cost increases that required approval by the Commissioner. The bill granted discretion to the Commissioner to grant other waivers from the cap for increases in special education costs, capital outlay, and tuition charges. The Commissioner also had the ability to grant extraordinary waivers to the tax levy cap for certain other cost increases beginning in fiscal year 2009 through 2012.

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

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

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

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

Issuance of Debt

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

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

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

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

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

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

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

Exceptions to Debt Limitation

A Type II school district (other than a regional district) may also utilize its constituent municipality's remaining statutory borrowing power (i.e., the excess of 3.5% of the average equalized valuation of taxable property within the constituent municipality over the constituent municipality's net debt). The School District has not utilized the 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 agreements cannot exceed five years except for certain energy-saving equipment, which may be leased for up to fifteen (15) years if paid from energy savings. Lease purchase agreements for a term of five (5) years or less must be approved by the Commissioner. The Educational Facilities Construction and Financing Act, P.L. 2000, c. 72 ("EFCFA") repealed the authorization to enter into facilities leases in excess of five years. The payment of rent on an equipment lease and on a five year and under facilities lease is treated as a current expense and within the school district's Spending Growth Limitation and tax levy cap. Lease purchase payments on leases in excess of five years entered into under prior law (CEIFA) are treated as debt service payments and, therefore, will receive debt service aid if the school district is entitled and are outside the school district's Spending Growth Limitation and tax levy cap.

Energy Saving Obligations

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

SUMMARY OF STATE AID TO SCHOOL DISTRICTS

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

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

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

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

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

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

SUMMARY OF FEDERAL AID TO SCHOOL DISTRICTS

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

MUNICIPAL FINANCE - FINANCIAL REGULATION OF COUNTIES AND MUNICIPALITIES

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

The Local Bond Law governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects bonded and that bonds be retired in serial installments. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes subject to a number of exceptions. All bonds and notes issued by the Township of Franklin, in the County of Somerset, New Jersey (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 (the "Director") prior to final adoption. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations, among others, for certification.

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

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

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

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

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

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

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

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

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

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

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

Neither the tax levy limitation nor the "Cap Law" limits, including the provisions of the recent legislation, would limit the obligation of the 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 local unit, the local school district and the county, the tax rate is struck by the Somerset County Board of Taxation based on the certified amounts in each of the taxing districts for collection to fund the budgets. The statutory provision for the assessment of property, the levying of taxes and the collection thereof are set forth in N.J.S.A. 54:4-1 et seq. Special taxing districts are permitted in New Jersey for various special services rendered to the properties located within the special districts.

Tax bills are mailed annually in June by the 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 penalties are the highest permitted under New Jersey statutes. If a delinquency is in excess of $10,000.00 and remains in arrears after December 31st, an additional penalty of 6% shall be charged. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with New Jersey Statutes.

Tax Appeals

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

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

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

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

FINANCIAL STATEMENTS

The audited financial statements of the Board as of and for the fiscal year ended June 30, 2014 together with the notes to the Basic Financial Statements 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 "Board Auditor"), as stated in its report appearing in Appendix B to this Official Statement. *See* "APPENDIX B - Financial Statements of the School District".

The Board Auditor has not participated in the preparation of this Official Statement, except to the extent as previously stated.

LITIGATION

To the knowledge of the Board Attorney, Parker McCay, P.A., Lawrenceville, 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 Underwriter (as hereinafter defined) at the closing.

TAX MATTERS

Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code), provides that interest on the Bonds is not included in gross income for federal income tax purposes if various requirements set forth in the Code are met. The Board has covenanted in its Arbitrate and Tax Certificate (the "Tax Certificate"), delivered in connection with the issuance of the Bonds, to comply with these continuing requirements and has made certain representations, certifications of fact, and statements of reasonable expectation in connection with the issuance of the Bonds to assure this exclusion. Pursuant to Section 103(a) of the Code, failure to comply with these requirements could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

In the opinion of McManimon, Scotland & Baumann, LLC ("Bond Counsel"), pursuant to Section 103(a) of Code, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. Bond Counsel is also of the opinion that interest on the Bonds held by corporate taxpayers is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. Bond Counsel's opinions described herein are given in reliance on the representations, certifications of fact, and statements of reasonable expectation made by the Board in its Tax Certificate, assume continuing compliance by the Board with certain covenants set forth in its Tax Certificate, and are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

Certain Federal Tax Consequences Relating to the Bonds

Although, pursuant to Section 103(a) of the Code, interest on the Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The nature and extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions and certain recipients of Social Security benefits, are advised to consult their own tax advisors as to the tax consequences of purchasing or holding the Bonds.

Bank Qualification

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

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

New Jersey Gross Income Tax

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

Future Events

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

ALL POTENTIAL PURCHASERS OF THE BONDS SHOULD CONSULT THEIR OWN ADVISORS REGARDING ANY CHANGES IN THE STATUTES, PROPOSED FEDERAL OR NEW JERSEY STATE TAX LEGISLATION, ANY CHANGES IN THE STATUS OF PENDING OR PROPOSED LEGISLATION, ADMINISTRATIVE ACTION TAKEN BY TAX AUTHORITIES, COURT DECISIONS OR PROPOSALS FOR CHANGE ON THE TAX AND MARKET IMPLICATIONS OF OWNERSHIP OF THE BONDS.

MUNICIPAL BANKRUPTCY

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

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

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

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

APPROVAL OF LEGAL PROCEEDINGS

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

PREPARATION OF OFFICIAL STATEMENT

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

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

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

RATINGS

Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (the “Rating Agency”), has assigned its rating of “AA” to the Bonds based upon the underlying credit of the School District. The Rating Agency has also assigned its rating of “A” to the Bonds based upon the additional security provided by the School Bond Reserve Act.

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

UNDERWRITING

The Bonds have been purchased from the Board at a public sale by ___________, __________, _________ (the “Underwriter”) at a purchase price of $___________ (the "Purchase Price"). The Underwriter has purchased the Bonds in accordance with the Notice of Sale. The Purchase Price of the Bonds reflects a par amount of the Bonds of $____________ [plus a bid premium of $___________]. The

Bonds are being offered for sale at the yields set forth on the front cover page of this Official Statement, which yields may be changed from time to time by the Underwriter without notice.

FINANCIAL ADVISOR

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

SECONDARY MARKET DISCLOSURE

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

(a) On or prior to February 1 of each year, beginning February 1, 2016, electronically to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system or such other repository designated by the SEC to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the Board consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the Board and certain financial information and operating data consisting of (1) Board indebtedness; (2) the Board's most current adopted budget; (3) property valuation information; and (4) tax rate, levy and collection data. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by New Jersey law;

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

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

definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

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

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

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

In the event that the Board fails to comply with the above-described undertaking and covenants, the Board shall not be liable for any monetary damages, remedy of the beneficial owners of the Bonds being specifically limited in the undertaking to specific performance of the covenants.

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 or change in law, which in the opinion of nationally recognized bond counsel complies with the Rule.

There can be no assurance that there will be a secondary market for the sale or purchase of the Bonds. Such factors as prevailing market conditions, financial condition or market position of firms who may make the secondary market and the financial condition of the Board may affect the future liquidity of the Bonds.

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

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

The Board previously failed to file, in accordance with the Rule, in a timely manner, under previous filing requirements: (i) annual adopted budget for fiscal years ended June 30, 2010 and 2009 and (ii) certain operating data and annual financial information for fiscal year ended June 30, 2009. Additionally, the Board acknowledges that it previously failed to file material event notices and late filing notices in connection with (i) its timely filings of annual financial information and (ii) certain rating changes. Such notices of material events and late filings have been filed with EMMA as of the date of this Official Statement. The Board has appointed Phoenix Advisors, LLC to serve as continuing disclosure agent.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including any information additional to that contained herein, may be directed to Arlene Biesiada, Interim Assistant Superintendent for Business/Board Secretary, Franklin Township School District, 1755 Amwell Road, Somerset, New Jersey 08873, (732) 873-2400 or to the Financial Advisor, Phoenix Advisors, LLC at 4 West Park Street, Bordentown, New Jersey 08505, (609) 291-0130.

CERTIFICATE WITH RESPECT TO THE OFFICIAL STATEMENT

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

MISCELLANEOUS

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

**THE BOARD OF EDUCATION OF THE
TOWNSHIP OF FRANKLIN IN THE
COUNTY OF SOMERSET, NEW JERSEY**

By: _____________________________________

Arlene Biesiada,
Interim Assistant Superintendent for Business /Board Secretary

Dated: February __, 2015

APPENDIX A

General Information Relating to the School District and Economic and Demographic Information Relating to the Township of Franklin

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE SCHOOL DISTRICT AND THE TOWNSHIP OF FRANKLIN, IN THE COUNTY OF SOMERSET, STATE OF NEW JERSEY

Summary

The public school system in the Township of Franklin, in the County of Somerset, State of New Jersey (the "Township") is operated by The Board of Education of the Township of Franklin in the County of Somerset, New Jersey (the "Board" when referring to the governing body and the "School District" when referring to the territorial boundaries governed thereby), as a Type II School District. It functions independently through a nine (9) member board, elected by the voters in staggered three (3) year terms. The Board appoints a Superintendent who is responsible for budgeting, planning and operational functions of the School District. The Board operates a Pre-Kindergarten (Pre-K) through grade twelve (12) district which houses its students in seven (7) elementary schools, one (1) middle school and one (1) high school. These schools include class rooms with rooms for music, art, sciences, computer studies, a library, multi-purpose rooms, a cafeteria and gymnasium.

SCHOOL DISTRICT ENROLLMENT

Fiscal Year	Total School District Enrollment
2013-2014	8,138
2012-2013	8,281
2011-2012	8,145
2010-2011	8,172
2009-2010	8,120
2008-2009	7,951
2007-2008	7,966

Staff[1]

The Superintendent is the chief administrative officer of the School District. The Assistant Superintendent for Business 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 (Including Aides)	913
Administrators and Principals	25
Professional and Office Staff	57
Custodial/Maintenance	171
Total	1,166

Labor Relations[2]

The Board has settled a three (3) year contract for the period July 1, 2012 through June 30, 2015 with the Franklin Township Education Association, Franklin Township School Administrators Association. The Board contract with the Franklin Township Support Staff Association expires June 30, 2016.

1 Source: Business Administrator/Board Secretary; Board records based on October 15th enrollment

2 Source: Business Administrator/Board Secretary; Board records

Comparison of General Fund Revenues and Appropriations – Budgetary Basis

	(Budget) Fiscal Year 2014-2015	(Actual) Fiscal Year 2013-2014	(Actual) Fiscal Year 2012-2013	(Actual) Fiscal Year 2011-2012
GENERAL FUND				
REVENUES				
Budgeted Fund Balance	$ 2,000,000			
Local Sources:				
Local Tax Levy	124,774,680	$ 122,328,118	$ 119,844,543	$ 116,566,508
Interest	-	21,599	17,410	20,304
Tuition	138,500	224,759	197,090	165,595
Miscellaneous	43,915	417,503	231,512	737,386
Federal Sources	111,871	83,071	72,474	71,977
State Sources	14,699,575	14,690,704	14,728,749	13,312,032
TOTAL REVENUES	$ 141,768,541	$ 137,765,754	$ 135,091,778	$ 130,873,802
APPROPRIATIONS				
Instruction:				
Regular Programs	$ 34,082,488	$ 32,679,100	$ 33,616,770	$ 33,095,178
Special Education	10,497,420	9,691,744	9,351,747	8,837,547
Basic Skills/Remedial	2,267,566	2,175,025	2,260,067	2,007,712
Bilingual Education	1,764,978	1,577,845	1,415,622	1,466,393
School-Sponsored Co-Curricular Activities	472,779	431,029	432,974	418,595
School-Sponsored Athletic Activities	949,268	897,798	864,442	849,381
Instructional Alternative Ed Program	544,399	352,976		
Before/After School Programs				58,443
Undistributed Expenditures:				
Instruction	12,590,662	11,847,303	13,083,700	11,847,789
Attendance and Social Work Services	78,921	69,748	65,903	33,587
Health Services	1,164,735	1,141,726	1,099,817	1,091,524
Speech, OT, PT, Related & Extraordinary Svcs.	4,143,662	3,306,428	3,784,507	3,683,271
Guidance	2,351,670	2,286,002	2,308,110	2,283,150
Child Study Teams	3,299,804	3,174,076	3,104,296	3,064,918
Improvement of Instructional Services	2,928,315	2,751,840	3,023,405	3,063,834
Educational Media Services - School Library	624,117	560,000	890,911	892,184
Instructional Staff Training Services	382,326	414,060	381,695	370,550
General Administration	2,032,836	2,059,321	2,161,145	1,832,460
School Administration	5,100,525	4,967,146	4,861,751	4,489,233
Central Services & Admin. Info. Technology	2,471,746	2,288,971	2,119,407	1,922,491
Operation and Maintenance of Plant Services	12,894,154	12,336,056	11,759,409	10,568,522
Student Transportation Services	13,291,931	13,097,501	12,931,548	12,093,820
Personnel Services - Employee Benefits	21,574,196	20,415,702	20,451,544	20,902,805
	135,508,498	128,521,397	129,968,770	124,873,387
Capital Outlay	348,977	425,812	354,166	1,026,771
Transfer to Charter Schools	5,911,066	5,143,661	4,313,885	1,979,906
TOTAL APPROPRIATIONS/EXPENDITURES	$ 141,768,541	$ 134,090,870	$ 134,636,821	$ 127,880,064

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

School District Debt Limit and Borrowing Margin[3]

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 June 30, 2014 are summarized below:

Year	Amount
2011	$ 9,480,633,337
2012	8,894,555,252
2013	8,803,488,366
	$27,178,676,955

Average for the Three (3) Year Period	$ 9,059,558,985
School District Borrowing Margin (4.0% of $9,059,558,985)	362,382,359
School Debt as of June 30, 2014	33,145,000
Available School District Borrowing Margin	$ 329,237,359

COMPUTATION OF SCHOOL AND OVERLAPPING DEBT AS OF JUNE 30, 2014[4]

Debt of School District as of June 30, 2014	$ 33,145,000
Overlapping Debt of School District (as of December 31, 2013):	
Township of Franklin (100%)	34,577,128
County of Somerset (15.66%)	20,826,560
Franklin Township Sewerage Authority (100%)	14,617,821
Total School and Overlapping Bonded Debt	$ 103,166,509

3 Source: The Township of Franklin 2013 Annual Debt Statement and Franklin Public Schools 2014 Comprehensive Annual Financial Report

4 Source: The Township of Franklin 2013 Annual Debt Statement, the County of Somerset 2013 Annual Audit

GENERAL INFORMATION OF THE TOWNSHIP OF FRANKLIN, IN THE COUNTY OF SOMERSET, STATE OF NEW JERSEY

Size and Geographical Location

The Township consists of over 47.59 square miles of farmland, rural, suburban and urban residential areas, as well as substantial industrial and commercial areas.

The Township spans approximately 20 miles between the City of New Brunswick and Princeton Township. Forming its entire north and west boundaries are the historic Delaware and Raritan Canal and the Raritan and Millstone Rivers. Somerset, Kingston, East Millstone, Franklin Park, Middlebush, Little Rocky Hill, Griggstown and Zarepath are the communities that make up the Township.

Form of Government

The Township of Franklin is chartered under the Optional Municipal Charter Act as Council-Manager, Plan D. The Township Council consists of nine (9) members – one Mayor elected from the Township at large, five members elected for each of the five wards and three (3) members elected from the Township at large. The Mayor is the Chief Legislative Officer of the Township and is elected by the voters to serve for a four-year term. The Township Manager is the Chief Executive Officer of the Township, charged with the administration of the Township's daily operations and is hired by and servers at the pleasure of the Township Council.

Transportation

Residents have access to major road networks such as the Garden State Parkway and the New Jersey Turnpike, U.S. Route 1 and New Jersey Route 287.

Police and Fire Protection

The Township provides public safety services through a full-time Police Department. Additionally, the Township is provided fire protection by volunteer fire companies and is also serviced by volunteer rescue squads. The fire companies are supported by four fire districts that levy taxes within their respective jurisdictions to provide funding for fire service protection.

Utilities

The Township operates its own Water Utility. The Franklin Township Sewerage Authority provides for the treatment and disposal of sanitary sewerage through its connections with the City of New Brunswick and the Middlesex County Municipal Utilities Authority.

Population Trends[5]

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

	1980	1990	2000	2013
Township	31,358	42,780	50,903	63,485
County	203,129	240,279	297,490	324,893
State	7,365,011	7,730,188	8,414,350	8,791,894

Money Income as of 2011[6]

	Median Household Income	Median Family Income	Per Capita Income
Township	$ 91,610	$ 106,137	$ 40,644
County	98,842	117,650	48,090
State	71,180	86,779	35,678

Employment and Unemployment Data[7]

For the years 2010 to 2013 the New Jersey Department of Labor reported the following annual average employment information for the Township, the County and the State:

	Total Labor Force	Employed Labor Force	Total Unemployed	Unemployment Rate
Township				
2013	36,511	33,856	2,655	7.3%
2012	36,400	33,459	2,941	8.1%
2011	35,699	32,832	2,867	8.0%
2010	34,154	31,254	2,900	8.5%
County				
2013	182,887	171,378	11,509	6.3%
2012	182,673	169,371	13,302	7.3%
2011	180,007	167,144	12,863	7.1%
2010	180,580	167,229	13,351	7.4%
State				
2013	4,537,800	4,166,000	371,800	8.2%
2012	4,561,800	4,136,900	424,900	9.3%
2011	4,502,400	4,076,700	425,700	9.5%
2010	4,536,700	4,118,400	418,300	9.2%

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

6 Source: U.S. Census Bureau, 2007 - 2011 American Community Survey

7 Source: State of New Jersey Data Center

STATEMENT OF STATUTORY NET DEBT
FOR THE TOWNSHIP OF FRANKLIN[8]
AS OF DECEMBER 31, 2013

GENERAL PURPOSES				
Bonds, Loans and Notes Issued and Outstanding				
Bonds	$	44,617,000		
Loans		570,041		
Bonds and Notes Authorized But Not Issued		4,320,406		
			$	49,507,447
WATER UTILITY				
Bonds		6,487,000		
Loans		1,810,934		
Bonds and Notes Authorized But Not Issued		4,904,383		
				13,202,317
LOCAL SCHOOL				
Debt Issued and Outstanding		39,730,000		
				39,730,000
TOTAL GROSS DEBT				102,439,764
STATUTORY DEDUCTIONS				
School Debt		39,730,000		
Water Utility		13,202,317		
Municipal		20,908,387		
				73,840,704
TOTAL NET DEBT			$	28,599,060
OVERLAPPING DEBT				
County of Somerset (Note 1)	$	27,889,856		
TOTAL OVERLAPPING DEBT			$	27,889,856
GROSS DEBT				
Per Capita (2011 - 62,577)			$	1,614
Percent of Net Valuation Taxable (2012 - $8,980,044,323)				1.14%
Percent of Estimated True Value of Real Property (2012 - $9,264,836,711)				1.11%
NET MUNICIPAL DEBT				
Per Capita (2011 - 62,577)			$	450
Percent of Net Valuation Taxable (2012 - $8,980,044,323)				0.32%
Percent of Estimated True Value of Real Property (2012 - $9,264,836,711)				0.31%
OVERALL DEBT (Gross and Overlapping Debt)				
Per Capita (2011 - 62,577)			$	2,053
Percent of Net Valuation Taxable (2012 - $8,980,044,323)				1.45%
Percent of Estimated True Value of Real Property (2012 - $9,264,836,711)				1.41%

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 2011 Abstract of Ratables published by the Somerset County Board of Taxation.

[8] Source: The Township of Franklin 2011 Annual Debt Statement

Largest Taxpayers[9]

The largest taxpayers in the Township and their 2014 assessed valuations are listed below:

Taxpayer	Assessment	% of Total Assessed Value
NJOP Holdings, LLC	$ 107,900,000	1.20%
Morgan Stanley MGT % Frank Torres	88,100,000	0.98%
SHI International Corp.	58,542,000	0.65%
Levin Properties, LP	58,232,000	0.65%
Corporate Real Est. Holding % C&W Inc.	55,940,000	0.62%
Segal Realty Corp.	50,900,000	0.57%
Green Hill Manor Developers LLC	46,600,000	0.52%
Philips Electronics	41,000,000	0.46%
La Fonge Associates	40,830,000	0.45%
Wood West Realty, LLC	39,500,000	0.44%
	$ 587,544,000	**6.54%**

Assessed Valuations/Land and Improvements by Class[10]

Year	Vacant Land	Residential	Farm	Commercial	Industrial	Apartment	Total
2014	$ 129,253,500	$ 5,983,129,300	$55,672,600	$ 1,465,301,800	$ 881,516,000	$ 423,310,000	$ 8,938,183,200
2013	127,484,650	5,921,770,300	54,692,900	1,480,199,000	865,740,400	403,781,000	8,853,668,250
2012	135,353,750	6,011,415,000	55,514,100	1,512,771,600	870,587,700	380,959,000	8,966,601,150
2011	145,990,550	6,140,490,060	56,080,600	1,575,946,400	930,753,500	373,499,000	9,222,760,110
2010	169,438,250	6,132,246,200	56,165,200	1,519,943,600	956,461,000	369,729,000	9,203,983,250

Assessed Valuations/Net Valuation Taxable[11]

Year	Real Property	Business Personal Property	Net Valuation Taxable	Ratio of Assessed Value to True Value of Real Property	Total True Value of Assessed Property
2014	$ 8,938,183,200	$ 12,878,452	$ 8,951,061,652	100.33%	$ 8,934,609,316
2013	8,853,668,250	15,113,394	8,868,781,644	99.36%	8,939,497,440
2012	8,966,601,150	13,443,173	8,980,044,323	97.07%	9,264,836,711
2011	9,222,760,110	13,553,369	9,236,313,479	97.86%	9,453,220,507
2010	9,203,983,250	17,107,016	9,221,090,266	95.52%	9,668,376,437

9 Township of Franklin Tax Assessor
10 Township of Franklin Tax Duplicates
11 Somerset County Abstract of Ratables

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

Year	Total	Municipal (1)	Local School	County
2014	$ 2.231	$ 0.455	$ 1.434	$ 0.342
2013	2.201	0.445	1.421	0.335
2012	2.131	0.426	1.373	0.332
2011	2.046	0.421	1.302	0.323
2010	1.947	0.378	1.259	0.310

(1) Includes Municipal Open Space Preservation tax.

Board Tax Collections[13]

Fiscal Year Ending June 30,	Total Levy	Collection During Year of Levy Amount	Collection During Year of Levy Percentage	Collections in Subsequent Years
2014	$127,153,050	$127,153,050	100%	
2013	124,842,894	124,842,894	100%	
2012	121,746,383	121,193,063	99.55%	$ 553,320.0
2011	118,778,423	118,778,423	100%	
2010	113,331,653	113,331,653	100%	

[12] Township of Franklin Tax Collector
[13] Franklin Board of Education Annual Audit Reports

APPENDIX B

Financial Statements of the School District

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
JULIUS B. CONSONI, CPA, PSA
ELIZABETH A. SHICK, CPA, RMA, PSA
ANDREW PARENTE, CPA, RMA, PSA
ROBERT W. HAAG, CPA, PSA
DEBORAH K. LERCH, CPA, PSA
RALPH M. PICONE, CPA, RMA, PSA
DEBRA GOLLE, CPA
CINDY JANACEK, CPA, RMA
LORI T. MANUKIAN, CPA, PSA
MARK SACO, CPA

INDEPENDENT AUDITOR'S REPORT

Honorable President and Members
of the Board of Trustees
Franklin Township Public Schools
Somerset, 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 Franklin Township Public Schools, as of and for the fiscal year ended June 30, 2014 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 of material misstatement.

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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 previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Franklin Township Public Schools as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated December 2, 2014 on our consideration of the Franklin Township Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Franklin Township Public Schools' internal control over financial reporting and compliance.

By/s/ LERCH, VINCI & HIGGINS, LLP
Certified Public Accountants
Public School Accountants

Fair Lawn, New Jersey
December 2, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
SOMERSET, NEW JERSEY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

This section of the Franklin Township Public Schools' comprehensive annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2014. Please read it in conjunction with the transmittal letter at the front of this report and the District's financial statements, which immediately follows this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Certain comparative information between the current year (2013-2014) and the prior year (2012-2013) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2013-2014 fiscal year include the following:

- The assets and deferred outflows of resources of the Franklin Township Public Schools exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $51,626,244 (net position).
- Overall revenues were $160,951,757. General revenues accounted for $133,254,105 or 83% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $27,697,652 or 17% of total revenues.
- The school district had $151,958,703 in expenses for governmental activities; only $23,527,278 of these expenses was offset by program specific charges, grants or contributions. General revenues (predominantly property taxes) of $133,252,120 were adequate to provide for these programs.
- As of the close of the current fiscal year, the District's governmental funds reported a combined ending fund balance of $7,886,055.
- The General Fund fund balance at June 30, 2014 was $7,291,570 an increase of $3,329,490 when compared with the beginning balance at July 1, 2013.

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
SOMERSET, NEW JERSEY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

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 basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district wide financial statements that provide both short-term and long-term information about the District's overall financial status.

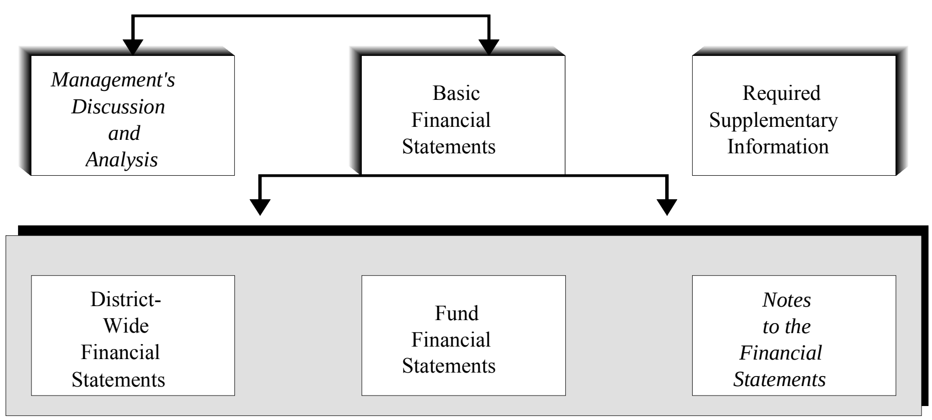
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

    - The Governmental funds statements tell how basic services were financed in the short term as well as what remains for future spending.

    - Proprietary funds statements offer short-term and long-term financial information about the activities the district operated like businesses.

    - 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.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The chart below shows how the various parts of this annual report are arranged and related to one another.



FRANKLIN TOWNSHIP PUBLIC SCHOOLS
SOMERSET, NEW JERSEY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

The table summarizes the major features of the District's financial statements, including the portion of the District's 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.

Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as regular and special education and building maintenance, food service and community education.	Activities the district operates similar to private businesses: Enterprise funds	Instances in which the district administers resources on behalf of someone else, such as Unemployment, Payroll Agency, and Student Activities
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 Revenue, Expenses, and Changes in Fund Net Position Statement of Cash Flows	Statements of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability/ Deferred inflows/outflows of resources information	All asset, liabilities, and deferred inflows/outflows, both financial and capital short-term and long-term	Generally assets expected to be utilized and liabilities that come due during the year or soon there after; no capital assets or long-term liabilities included	All asset, liabilities, and deferred inflows/outflows, both financial and capital short-term and long-term	All assets and liabilities, both short-term and long-term funds do not currently contain capital assets
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.	All additions and dedications during the year, regardless of when cash is received or paid.

District-Wide Financial Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows/inflows of resources and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources– is one way to measure the District's financial health or position.

District-Wide Financial Statements (continued)

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess 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 school buildings and other facilities.

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, administration and plant operations and maintenance. Property taxes and state aids finance most of these activities.
- *Business Type Activities* – These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The District's Food Service Fund and Cultural Arts Recreation Enrichment Fund (C.A.R.E.) Fund are included under this category.

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 bond covenants.
- The District establishes other funds in accordance with the State of New Jersey Uniform Chart of Accounts to control and manage money for particular purposes or to show that it is properly using certain revenues (federal and state grants).

The District has three kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds 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 additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

- *Proprietary Funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.

Fund Financial Statements (continued)

Enterprise Funds – This fund is established to account for operations that are financed and operated in a manner similar to private business enterprises. The stated intent is that costs of providing goods or services to the students on a continuing basis are financed or recovered primarily through user charges. The District currently has two enterprise funds:

- Food Service (Cafeteria)
- Cultural Arts Recreation Enrichment (C.A.R.E.)

- *Fiduciary funds* **–** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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. The notes to the financial statements can be found following the financial statements.

Other Information

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process. The District adopts an annual expenditure budget for the general, special revenue and debt service funds. A budgetary comparison statement has been provided for these funds as required supplementary information. The required supplementary information can be found following the notes to the financial statements.

Combining statements and schedules are presented immediately following the major budgetary comparisons.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $51,626,244 and $46,657,956 as of June 30, 2014 and June 30, 2013, respectively.

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
SOMERSET, NEW JERSEY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

By far the largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. 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.

Net Position
June 30, 2014 and 2013

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current Assets	$ 10,092,086	$ 7,816,093	$ 1,341,517	$ 1,184,320	$ 11,433,603	$ 9,000,413
Capital Assets, Net	81,283,568	81,948,764	406,306	369,629	81,689,874	82,318,393
Total Assets	91,375,654	89,764,857	1,747,823	1,553,949	93,123,477	91,318,806
Deferred Amount on Refunding of Debt	1,830,656	2,019,671	-	-	1,830,656	2,019,671
Total Deferred Outflows of Resources	1,830,656	2,019,671	-	-	1,830,656	2,019,671
Long-Term Liabilities	40,421,047	44,082,399			40,421,047	44,082,399
Other Liabilities	2,415,872	2,153,433	488,265	432,534	2,904,137	2,585,967
Total Liabilities	42,836,919	46,235,832	488,265	432,534	43,325,184	46,668,366
Deferred Commodities Revenue						
Total Deferred Inflows of Resources	-	-	2,705	12,155	2,705	12,155
Net Investment in Capital Assets	45,676,154	43,659,102	406,306	369,629	46,082,460	44,028,731
Restricted	4,816,020	2,378,881			4,816,020	2,378,881
Unrestricted	(122,783)	(489,287)	850,547	739,631	727,764	250,344
Total Net Position	$ 50,369,391	$ 45,548,696	$ 1,256,853	$ 1,109,260	$ 51,626,244	$ 46,657,956

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
SOMERSET, NEW JERSEY

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Changes in Net Position
For The Fiscal Years Ended June 30, 2014 and 2013

	Governmental Activities 2014	Governmental Activities 2013	Business-Type Activities 2014	Business-Type Activities 2013	Total 2014	Total 2013
Revenues						
Program Revenues						
Charges for Services	$ 238,439	$ 199,300	$ 2,011,171	$ 2,164,959	$ 2,249,610	$ 2,364,259
Operating Grants and Contributions	23,255,831	24,945,853	2,159,203	1,790,184	25,415,034	26,736,037
Capital Grants and Contributions	33,008				33,008	
General Revenues						
Property Taxes	127,153,050	124,842,894			127,153,050	124,842,894
State Aid	5,667,033	5,723,451			5,667,033	5,723,451
Other	432,037	246,970	1,985	2,071	434,022	249,041
Total Revenues	**156,779,398**	**155,958,468**	**4,172,359**	**3,957,214**	**160,951,757**	**159,915,682**
Expenses						
Instruction						
Regular	56,162,752	57,429,491			56,162,752	57,429,491
Special Education	26,765,570	27,728,427			26,765,570	27,728,427
Vocational Education-Tuition	200,630	194,464			200,630	194,464
School Sponsored Activities and Athletics	1,792,310	1,771,383			1,792,310	1,771,383
Other Instruction	5,728,808	5,412,521			5,728,808	5,412,521
Support Services						
Student and Instruction Related Services	18,398,799	19,802,557			18,398,799	19,802,557
School Administrative Services	7,080,686	6,913,611			7,080,686	6,913,611
General Administrative Services	2,547,296	2,735,360			2,547,296	2,735,360
Plant Operations and Maintenance	14,556,907	13,992,340			14,556,907	13,992,340
Pupil Transportation	14,071,942	13,875,038			14,071,942	13,875,038
Business and Other Support Services	3,203,842	3,008,990			3,203,842	3,008,990
Interest on Long-Term Debt	1,449,161	1,631,754			1,449,161	1,631,754
Food Service			3,197,377	3,235,950	3,197,377	3,235,950
Other-Business Activities	-	-	827,389	960,597	827,389	960,597
Total Expenses	**151,958,703**	**154,495,936**	**4,024,766**	**4,196,547**	**155,983,469**	**158,692,483**
Change in Net Position	**4,820,695**	**1,462,532**	**147,593**	**(239,333)**	**4,968,288**	**1,223,199**
Net Position, Beginning of Year	**45,548,696**	**45,029,559**	**1,109,260**	**1,348,593**	**46,657,956**	**46,378,152**
Prior Period Adjustment-Capital Assets, Net	**-**	**(943,395)**	**-**	**-**	**-**	**(943,395)**
Net Position, End of Year	**$ 50,369,391**	**$ 45,548,696**	**$ 1,256,853**	**$ 1,109,260**	**$ 51,626,244**	**$ 46,657,956**

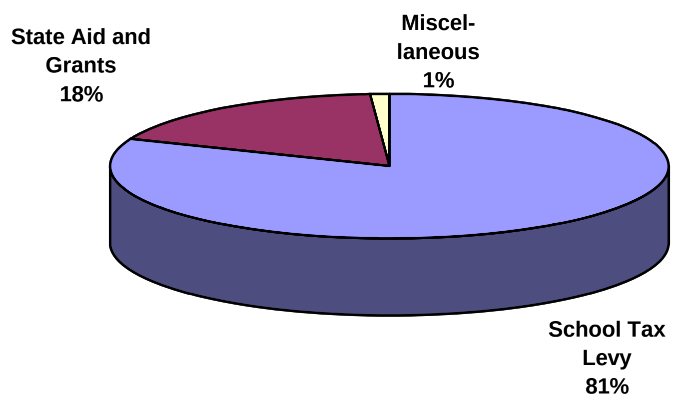
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

Governmental Activities. The District's total governmental activities' revenues, which includes State and Federal grants, were $156,779,398 and $155,958,468 for the fiscal year ended June 30, 2014 and June 30, 2013, respectively. Property taxes of $127,153,050 and $124,842,894 represented 81% and 80% of revenues. Another portion of revenues came from State and Federal aid; total State, Federal and formula aid was $28,922,864 and $30,669,304 which was represented 18% and 20% of the revenues for fiscal years ended June 30, 2014 and 2013, respectively. The District also had $33,008 of capital grants and contributions for the fiscal year ended June 30, 2014. The balance of revenues for fiscal year June 30, 2014 and 2013, respectively is charges for transportation services ($6,713 and $2,210), charges for tuition ($224,759 and $197,090) and miscellaneous income ($410,790 and $246,970) which includes items such as investment earnings, prior year refunds, etc.

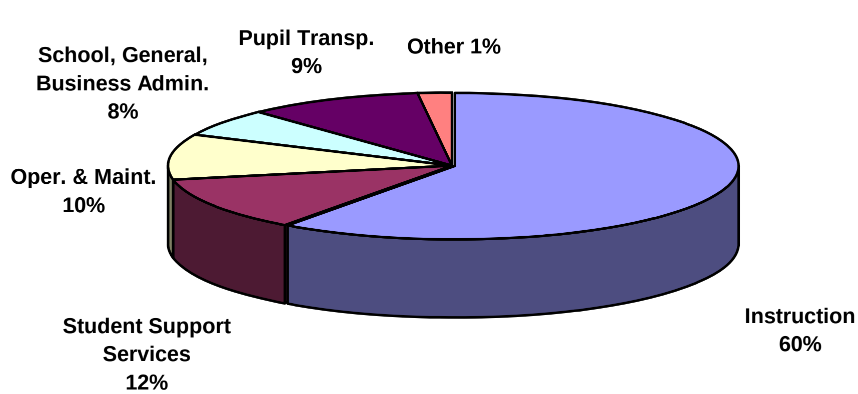
The total cost of all governmental activities programs and services was $151,958,703 and $154,495,936. The District's expenses are predominantly related to educating and caring for students. Instruction totaled $90,650,070 and $92,536,286 (60%) of total expenditures. Student and Instruction Related Services totaled $18,398,799 and $19,802,557 or (12% and 13%) of total expenditures.

Total governmental activities revenues exceed expenses resulting in net position increasing $4,820,695 from the previous year.

Revenues by Source- Governmental Activities
For Fiscal Year 2014



Expenditures by Type- Governmental Activities
For Fiscal Year 2014



Total and Net Cost of Governmental Activities. The District's total cost of services was $151,958,703 and $154,495,936 for the fiscal years ended June 30, 2014 and 2013. After applying program revenues, derived from charges for services of $238,439 and $199,300, and operating grants and contributions of $23,255,831 and $24,945,853, and capital grants and contributions of $33,008 and $0, the net cost of services of the District is $128,431,425 and $129,350,783, respectively

Total and Net Cost of Governmental Activities
For the Fiscal Years Ended June 30, 2014 and 2013

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction				
Regular	$ 56,162,752	$ 57,429,491	$ 47,065,897	$ 47,282,704
Special Education	26,765,570	27,728,427	16,832,672	17,568,626
Vocational Education-Tuition	200,630	194,464	200,630	194,464
School Sponsored Activities and Athletics	1,792,310	1,771,383	1,586,415	1,540,115
Other Instruction	5,728,808	5,412,521	5,114,341	4,564,090
Support Services				
Student and Instruction Related Services	18,398,799	19,802,557	17,800,151	18,995,739
School Administrative Services	7,080,686	6,913,611	6,593,913	6,375,963
General Administrative Services	2,547,296	2,735,360	2,547,296	2,735,360
Plant Operations and Maintenance	14,556,907	13,992,340	12,955,125	12,457,904
Pupil Transportation	14,071,942	13,875,038	13,081,982	12,995,074
Business and Other Support Services	3,203,842	3,008,990	3,203,842	3,008,990
Interest on Long-Term Debt	1,449,161	1,631,754	1,449,161	1,631,754
Total	**$ 151,958,703**	**$ 154,495,936**	**$ 128,431,425**	**$ 129,350,783**

Business-Type Activities – The District's total business-type activities revenues were $4,172,359 and $3,957,214 for the fiscal years ended June 30, 2014 and 2013, respectively. Charges for services accounted for 48% of total revenues. Operating grants and contributions of $2,159,203 and $1,790,184 accounted for 52% of total revenue for each of the fiscal years. The balance of the revenues, $1,985 and $2,071, represents investment earnings.

The total cost of all business-type activities programs and services was $4,024,766 and $4,196,547 for the fiscal years ended June 30, 2014 and 2013. The District's expenses are related to Food Service programs provided to all students, teachers and administrators and the operation of the C.A.R.E. program within the District.

Total business-type activities revenues exceeded expenses increasing net position by $147,593 over the last year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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, unrestricted fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year ended June 30, 2014, its governmental funds reported a combined fund balance of $7,886,055. At June 30, 2013, the fund balance was $6,235,348.

Revenues for the District's governmental funds were $156,779,398, while total expenditures were $155,128,691 for the fiscal year ended June 30, 2014.

General Fund - The General Fund is the chief operating fund of the District and includes the primary operations in providing educational services to students from pre-kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Amount of Increase (Decrease)	Percent Change
Local Sources				
Property Tax Levy	$ 122,328,118	$ 119,844,543	$ 2,483,575	2%
Interest	21,599	17,410	4,189	24%
State/Federal Sources	24,490,568	25,993,315	(1,502,747)	-6%
Miscellaneous	642,262	428,602	213,660	50%
Total General Fund Revenues	$ 147,482,547	$ 146,283,870	$ 1,198,677	1%

Total General Fund Revenues increased by $1,198,677 or less than 1% over the previous year.

Local property taxes increased 2% over the previous year. State and federal aid revenues decreased $1,502,747 or 6% predominantly attributable to a decrease in state On-Behalf TPAF pension costs contributed by the state.

Interest income revenues increased due to an increase in interest rates on bank balances and slightly higher available cash balances.

Miscellaneous revenues increased due to onetime revenues such as cancellation of prior year payables and refunds on prior year expenditures received in fiscal year end June 30, 2014.

The following schedule presents a summary of General Fund expenditures.

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Amount of Increase (Decrease)	Percent Change
Instruction	$ 84,400,702	$ 86,299,202	$ (1,898,500)	-2%
Support and Undistributed Services	59,084,469	59,542,202	(457,733)	-1%
Capital Outlay	258,845	185,249	73,596	40%
Total Expenditures	$ 143,744,016	$ 146,026,653	$ (2,282,637)	-2%

Total General Fund expenditures decreased $2,282,637 or 2% from the previous year.

In 2013-2014, General Fund revenues and other financing sources exceeded expenditures and other financing uses by $3,329,490. As a result, total fund balance increased to $7,291,570 at June 30, 2014. After deducting statutory transfers and reserves, the unrestricted, unassigned fund balance increased from $178,520 at June 30, 2013 to a balance of $201,785 at June 30, 2014.

Special Revenue Fund - The Special Revenue Fund includes all restricted Federal, State and Local sources utilized in the operations of the district in providing educational services to students with special needs.

Revenues of the Special Revenue Fund were $4,432,296 for the year ended June 30, 2014. Federal sources accounted for the majority of Special Revenue Fund's revenue which represented 73% of the total revenue for the year.

Total Special Revenue Fund revenues decreased $243,693 or 5% from the previous year. State sources decreased $26,970 or 2% and Federal sources decreased $139,166 or 4%. Local sources decreased $77,557.

Expenditures of the Special Revenue Fund were $4,473,182. Instructional expenditures were $4,348,646 or 97% and expenditures for the support services were $124,536 or 3% of total expended for the year ended June 30, 2014.

There was a deficit in fund balance at June 30, 2014 of $83,684 due to delayed state aid payments.

Capital Projects - The capital projects expenditures exceeded revenues and other financing sources by $1,659,803 decreasing fund balance to $641,263 at June 30, 2014. This decrease is primarily due to the further acquisition of temporary classroom units through the lease purchase agreement.

Proprietary Funds

The District maintains the Enterprise Funds to account for activities which are supported in part through user fees.

Enterprise Fund - The District uses Enterprise Funds to report activities related to the Food Services programs as well as the Cultural Arts Recreation Enrichment (CARE) Program. The District's Enterprise Funds provides the same type of information found in the district-wide financial statements, business-type activities, but in more detail. Factors concerning the finances of this Fund have already been addressed in the discussion of the District's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District's budget is prepared according to New Jersey Department of Education guidelines, 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. These budget amendments fall into two categories

- Implementing budgets for specially funded projects, which include both federal and state grants, reinstating prior year purchase orders being carried over, and appropriating additional unanticipated state aid.

- Increases in appropriations for the funding of capital projects approved in the Long-Range Facilities Plan.

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014

CAPITAL ASSETS

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounts to $81,689,874 (net of accumulated depreciation). The capital assets consist of land improvements, buildings and building improvements, computers, specialized machinery and various other types of equipment. Depreciation charges for fiscal year 2013-2014 amounted to $2,878,252 for governmental activities and $53,985 for business-type activities.

Capital Assets at June 30, 2014 and 2013
(Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 832,000	$ 832,000			$ 832,000	$ 832,000
Improvements Other Than Buildings	4,166,986	3,725,338			4,166,986	3,725,338
Building and Building Improvements	71,348,066	73,506,755			71,348,066	73,506,755
Machinery and Equipment	4,936,516	3,884,671	$ 406,306	$ 369,629	5,342,822	4,254,300
Total Capital Assets, Net	$ 81,283,568	$ 81,948,764	$ 406,306	$ 369,629	$ 81,689,874	$ 82,318,393

Additional information on the District's capital assets are presented in the "Notes to the Financial Statements" of this report.

LONG TERM LIABILITIES

At year end, the District's long-term liabilities consisted of compensated absences payable of $1,728,271, claims and judgments payable of $946,533; bonds payable of $33,145,000 and capital leases payable of $2,336,274.

Additional information on the District's long-term liabilities is presented in the "Notes to the Financial Statements" of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2014-2015 budget. The primary factors were the District's projected student population, anticipated state and federal aid as well as increasing special education costs, out of district tuition, tuition for charter schools, energy and employee related benefit costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information contact the Business Office, Franklin Township Public School, 1755 Amwell Road, Somerset, NJ 08873.

BASIC FINANCIAL STATEMENTS

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	$ 7,800,685	$ 1,529,359	$ 9,330,044
Receivables, net	1,816,017	241,539	2,057,556
Inventory		40,503	40,503
Internal Balances	469,884	(469,884)	
Prepaid Items	5,500		5,500
Capital Assets			
Not Being Depreciated	832,000	-	832,000
Being Depreciated, Net	80,451,568	406,306	80,857,874
Total Assets	91,375,654	1,747,823	93,123,477
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Amount on Refunding of Debt	1,830,656	-	1,830,656
Total Deferred Outflow of Resources	1,830,656	-	1,830,656
LIABILITIES			
Accounts Payable and Other Current Liabilities	1,588,247	408,587	1,996,834
Payable to Governments	71,295		71,295
Accrued Interest Payable	518,014		518,014
Unearned Revenue	238,316	79,678	317,994
Noncurrent Liabilities			
Due Within One Year	4,734,028		4,734,028
Due Beyond One Year	35,687,019	-	35,687,019
Total Liabilities	42,836,919	488,265	43,325,184
DEFERRED INFLOWS OF RESOURCES			
Deferred Commodities Revenue	-	2,705	2,705
Total Deferred Inflows of Resources	-	2,705	2,705
NET POSITION			
Net Investment in Capital Assets	45,676,154	406,306	46,082,460
Restricted for			
Capital Projects	4,778,773		4,778,773
Debt Service	37,247		37,247
Unrestricted	(122,783)	850,547	727,764
Total Net Position	$ 50,369,391	$ 1,256,853	$ 51,626,244

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Governmental Activities							
Instruction							
Regular	$ 56,162,752	$ 56,536	$ 9,040,319		$ (47,065,897)		$ (47,065,897)
Special Education	26,765,570	168,223	9,764,675		(16,832,672)		(16,832,672)
Vocational Education- Tuition	200,630				(200,630)		(200,630)
School Sponsored Activities and Athletics	1,792,310		205,895		(1,586,415)		(1,586,415)
Other Instruction	5,728,808		614,467		(5,114,341)		(5,114,341)
Support Services							
Student & Instruction Related Services	18,398,799		598,648		(17,800,151)		(17,800,151)
School Administrative Services	7,080,686		486,773		(6,593,913)		(6,593,913)
General Administrative Services	2,547,296				(2,547,296)		(2,547,296)
Plant Operations and Maintenance	14,556,907	6,967	1,561,807	$ 33,008	(12,955,125)		(12,955,125)
Pupil Transportation	14,071,942	6,713	983,247		(13,081,982)		(13,081,982)
Business/Central & Other Support Services	3,203,842				(3,203,842)		(3,203,842)
Interest on Long-Term Debt	1,449,161	-	-	-	(1,449,161)	-	(1,449,161)
Total Governmental Activities	151,958,703	238,439	23,255,831	33,008	(128,431,425)	-	(128,431,425)
Business-Type Activities							
Food Service	3,197,377	1,231,275	2,159,203			$ 193,101	193,101
C.A.R.E.	827,389	779,896	-	-	-	(47,493)	(47,493)
Total Business-Type Activities	4,024,766	2,011,171	2,159,203	-	-	145,608	145,608
Total Primary Government	$ 155,983,469	$ 2,249,610	$ 25,415,034	$ 33,008	(128,431,425)	145,608	(128,285,817)

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

Continued

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Total Primary Government (Carried forward)	$ (128,431,425)	$ 145,608	$ (128,285,817)
General Revenues			
Property Taxes			
Property Taxes, Levied for General Purposes	122,328,118		122,328,118
Taxes Levied for Debt Service	4,824,932		4,824,932
State Aid Unrestricted	5,667,033		5,667,033
Investment Earnings	21,682	1,985	23,667
Miscellaneous Income	410,355	-	410,355
Total General Revenues	133,252,120	1,985	133,254,105
Change in Net Position	4,820,695	147,593	4,968,288
Net Position, Beginning of Year	45,548,696	1,109,260	46,657,956
Net Position, End of Year	$ 50,369,391	$ 1,256,853	$ 51,626,244

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

FUND FINANCIAL STATEMENTS

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 7,138,686		$ 441,635	$ 36,906	$ 7,617,227
Due from Other Funds	1,264,672		-		1,264,672
Receivables from Other Governments	445,984	$ 970,442	271,324		1,687,750
Other Receivables	91,822	36,445			128,267
Prepaid Items	5,500	-	-	-	5,500
Restricted Cash with Fiscal Agents	-	-	183,458	-	183,458
Total Assets	$ 8,946,664	$ 1,006,887	$ 896,417	$ 36,906	$ 10,886,874
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	$ 1,045,112	$ 224,488	$ 16,838		$ 1,286,438
Accrued Salaries & Wages	253,734				253,734
Accrued Liability for Insurance Claims	221,301				221,301
Other Liabilities	134,947				134,947
Due to Other Funds	-	794,788	-		794,788
Payable to State Government		71,295			71,295
Unearned Revenue	-	-	238,316	-	238,316
Total Liabilities	1,655,094	1,090,571	255,154	-	3,000,819
Fund Balances					
Nonspendable					
Prepaid Item	5,500				5,500
Restricted					
Excess Surplus	909,720				909,720
Capital Reserve	4,137,851				4,137,851
Capital Projects			640,922		640,922
Debt Service			341	$ 36,906	37,247
Assigned					
Designated for Subsequent Year's Expenditures	2,000,000				2,000,000
Purchases on Order	36,714				36,714
Unassigned					
General Fund	201,785				201,785
Special Revenue Fund	-	(83,684)	-	-	(83,684)
Total Fund Balances	7,291,570	(83,684)	641,263	36,906	7,886,055
Total Liabilities and Fund Balances	$ 8,946,664	$ 1,006,887	$ 896,417	$ 36,906	

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 $123,346,214 and the accumulated depreciation is $42,062,646.	81,283,568
The District has financed capital assets through the issuance of serial bonds and capital lease obligations. The interest accrual at year end is:	(518,014)
Amounts resulting from the refunding of debt are reported as deferred outflows of resources on the statement of net position and amortized over the life of the debt.	1,830,656
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 (see Note 2)	(40,112,874)
Net Position of Governmental Activities (Exhibit A-1)	$ 50,369,391

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
REVENUES					
Local Sources					
Local Property Tax Levy	$ 122,328,118			$ 4,824,932	$ 127,153,050
Interest	21,599		$ 83		21,682
Tuition	224,759				224,759
Transportation Fees	6,713				6,713
Miscellaneous	410,790	$ 7,910	-	6,532	425,232
Total - Local Sources	122,991,979	7,910	83	4,831,464	127,831,436
State Sources	24,407,497	1,206,288	$ 33,008		25,646,793
Federal Sources	83,071	3,218,098	-	-	3,301,169
Total Revenues	147,482,547	4,432,296	33,091	4,831,464	156,779,398
EXPENDITURES					
Current					
Regular Instruction	51,571,056	3,161,515			54,732,571
Special Education Instruction	25,130,973	1,187,131			26,318,104
Vocational Education Instruction- Tuition	200,630				200,630
Other Instruction	5,710,428				5,710,428
School-Sponsored Activities and Athletics	1,787,615				1,787,615
Support Services					
Student and Instruction Related Services	18,193,872	124,536			18,318,408
School Administrative Services	7,000,686				7,000,686
General Administrative Services	2,486,621				2,486,621
Plant Operations and Maintenance	14,062,412		147,724		14,210,136
Pupil Transportation	13,463,141				13,463,141
Business Central Services	3,079,272				3,079,272
Debt Service					
Principal	759,459			3,315,000	4,074,459
Interest and Other Charges	39,006			1,494,558	1,533,564
Capital Outlay	258,845	-	1,954,211	-	2,213,056
Total Expenditures	143,744,016	4,473,182	2,101,935	4,809,558	155,128,691
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,738,531	(40,886)	(2,068,844)	21,906	1,650,707
OTHER FINANCING SOURCES (USES)					
Transfers In			409,041		409,041
Transfers Out	(409,041)	-	-	-	(409,041)
Total Other Financing Sources and Uses	(409,041)	-	409,041	-	-
Net Change in Fund Balances	3,329,490	(40,886)	(1,659,803)	21,906	1,650,707
Fund Balance (Deficit), Beginning of Year	3,962,080	(42,798)	2,301,066	15,000	6,235,348
Fund Balance (Deficit), End of Year	$ 7,291,570	$ (83,684)	$ 641,263	$ 36,906	$ 7,886,055

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

EXHIBIT B-3

FRANKLIN TOWNSHIP 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, 2014

Total Net Change in Fund Balances - Governmental Funds (Exhibit B-2)		$ 1,650,707
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 the current period.		
Capital Outlay	$ 2,213,056	
Depreciation Expense	(2,878,252)	
		(665,196)
In the statement of activities, certain operating expenses - compensated absences and claims and judgements for self insurance claims - are measured by the amounts earned or incurred during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (paid):		
Compensated Absences, Net	(227,865)	
Claims and Judgements for Self Insurance Claims, Net	(95,813)	
		(323,678)
The issuance of long term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net positin. Additionally, governmental funds report the effect of premiums, discounts and similar items when the debt is issued, wheras these amounts are deferred and amortized in the statement of activities. This amount represents the net effect of these activities: (See Note 2)		4,074,459
Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Amortization of Original Issue Premium		218,744
Amortization of Deferred Amount on Refunding of Debt		(189,015)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
Decrease in Accrued Interest		54,674
Change in Net Position of Governmental Activities (Exhibit A-2)		$ 4,820,695

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014

	Food Service	C.A.R.E.	Business-Type Activities Enterprise Fund Totals
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 1,141,405	$ 387,954	$ 1,529,359
Intergovernmental Receivable			
State	5,934		5,934
Federal	188,801		188,801
Other Receivables		46,804	46,804
Inventories	40,503	-	40,503
Total Current Assets	1,376,643	434,758	1,811,401
Capital Assets			
Equipment	1,090,144	50,780	1,140,924
Less: Accumulated Depreciation	(704,150)	(30,468)	(734,618)
Total Capital Assets, Net	385,994	20,312	406,306
Total Assets	1,762,637	455,070	2,217,707
LIABILITIES			
Current Liabilities			
Accounts Payable	223,835	47,602	271,437
Deposits Payable		137,150	137,150
Unearned Revenue	79,678		79,678
Due to Other Funds	190,482	279,402	469,884
Total Current Liabilities	493,995	464,154	958,149
DEFERRED INFLOWS OF RESOURCES			
Deferred Commodities Revenue	2,705	-	2,705
Total Deferred Inflows of Resources	2,705	-	2,705
NET POSITION			
Investment in Capital Assets	385,994	20,312	406,306
Unrestricted	879,943	(29,396)	850,547
Total Net Position	$ 1,265,937	$ (9,084)	$ 1,256,853

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Food Service	C.A.R.E.	Business-Type Activities Enterprise Fund Totals
OPERATING REVENUES			
Charges for Services			
Daily Sales	$ 1,133,930		$ 1,133,930
Special Functions	40,320		40,320
Program Fees		$ 779,896	779,896
Miscellaneous	57,025	-	57,025
Total Operating Revenues	1,231,275	779,896	2,011,171
OPERATING EXPENSES			
Cost of Sales	1,358,266		1,358,266
Salaries and Employee Benefits	1,455,049	707,807	2,162,856
Other Purchased Services	12,029	43,211	55,240
Utilities	71,171		71,171
Supplies and Materials	92,569	16,163	108,732
Depreciation	48,907	5,078	53,985
Miscellaneous	159,386	55,130	214,516
Total Operating Expenses	3,197,377	827,389	4,024,766
Operating Loss	(1,966,102)	(47,493)	(2,013,595)
NONOPERATING REVENUES			
State Sources			
School Lunch Program	41,237		41,237
Federal Sources			
National School Lunch Program	1,749,308		1,749,308
Breakfast Program	368,658		368,658
Interest and Investment Revenue	1,029	956	1,985
Total Nonoperating Revenues	2,160,232	956	2,161,188
Change in Net Position	194,130	(46,537)	147,593
Net Position, Beginning of Year	1,071,807	37,453	1,109,260
Net Position, End of Year	$ 1,265,937	$ (9,084)	$ 1,256,853

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Food Service	C.A.R.E.	Business-Type Activities Enterprise Fund Totals
Cash Flows from Operating Activities			
Cash Received from Customers	$ 1,233,602	$ 789,963	$ 2,023,565
Cash Received for Registration Deposits		7,450	7,450
Cash Payments for Refund of Registration Deposits		(1,550)	(1,550)
Cash Payments for Employees' Salaries and Benefits	(1,410,227)	(709,961)	(2,120,188)
Cash Payments to Suppliers for Goods and Services	(1,546,267)	(401,420)	(1,947,687)
Net Cash Used by Operating Activities	(1,722,892)	(315,518)	(2,038,410)
Cash Flows from Noncapital Financing Activities			
Cash Received from State and Federal Subsidy Reimburse.	1,889,539	-	1,889,539
Net Cash Provided by Noncapital Financing Act.	1,889,539	-	1,889,539
Cash Flows from Capital and Related Financing Activities			
Purchase of Capital Assets	(20,432)	-	(20,432)
Net Cash Used by Capital Financing Activities	(20,432)	-	(20,432)
Cash Flows from Investing Activities			
Interest on Investments	1,029	956	1,985
Net Cash Provided by Investing Activities	1,029	956	1,985
Net Increase/(Decrease) in Cash and Cash Equivalents	147,244	(314,562)	(167,318)
Cash and Cash Equivalents, Beginning of Year	994,161	702,516	1,696,677
Cash and Cash Equivalents, End of Year	$ 1,141,405	$ 387,954	$ 1,529,359
Reconciliation of Operating Loss to Net Cash Used by Operating Activities			
Operating Loss	$ (1,966,102)	$ (47,493)	$ (2,013,595)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities			
Depreciation	48,907	5,078	53,985
Food Distribution (USDA Commodities) Nat'l School Lunch	228,124		228,124
Change in Assets, Liabilities and Deferred Inflows of Resources			
Increase/(Decrease) in Accounts Payable	36,846	10,658	47,504
Increase/(Decrease) in Unearned Revenue	2,327		2,327
(Increase)/Decrease in Other Receivables		5,142	5,142
(Increase)/Decrease in Inventories	26,125		26,125
Increase/(Decrease) in Deposits Payable		5,900	5,900
Increase/(Decrease) in Accounts Payable Related to Equipment Purchases	(70,230)		(70,230)
Increase/(Decrease) in Due to Other Funds	(19,439)	(294,803)	(314,242)
Increase/(Decrease) in Deferred Inflows of Resources	(9,450)	-	(9,450)
Total Adjustments	243,210	(268,025)	(24,815)
Net Cash Used by Operating Activities	$ (1,722,892)	$ (315,518)	$ (2,038,410)
Non-Cash Capital and Related Financing Activities			
Fair Value of Food Distribution Program- National School Lunch Program	$ 218,674		

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Unemployment Compensation Trust	Scholarship Fund	Agency Fund
ASSETS			
Cash and Cash Equivalents	$ 1,391,862	$ 17,416	$ 3,432,915
Cash with Fiscal Agents	-	-	10,473
Total Assets	1,391,862	17,416	$ 3,443,388
LIABILITIES			
Due to Student Groups			$ 290,619
Flexible Spending (Sect. 125) Account			10,473
Payroll Deductions and Withholdings			23,696
Accrued Salaries & Wages			3,118,600
Intergovernmental Payable	20,443	-	-
Total Liabilities	20,443	-	$ 3,443,388
NET POSITION			
Restricted For Scholarships		$ 17,416	
Held in Trust for Unemployment Claims and Other Purposes	$ 1,371,419		

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

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Unemployment Compensation Trust	Scholarship Fund
ADDITIONS		
Board Contributions	$ 400,000	
Employee Contributions	121,287	
Other Contributions		$ 16,556
Investment Earnings		
Interest	1,055	14
Total Additions	522,342	16,570
DEDUCTIONS		
Athletic Disbursements		
Unemployment Claims and Contrib.	257,196	
Scholarship Awards & Disbursements	-	14,872
Total Deductions	257,196	14,872
Change in Net Position	265,146	1,698
Net Position, Beginning of Year	1,106,273	15,718
Net Position, End of Year	$ 1,371,419	$ 17,416

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the Franklin Township Public Schools this includes general operations, food service, before and after school child care 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 2014, the District adopted the following GASB statement:

- GASB 66, *Technical Corrections – 2012, an Amendment of GASB Statements 10 and 62.* The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

- GASB 68, *Accounting and Financial Reporting for Pensions*, will be effective beginning with the fiscal year ending June 30, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. New Accounting Standards (Continued)

- GASB 69, *Government Combinations and Disposals of Government Operations* will be effective beginning with the fiscal year ending June 30, 2015. The objective of this Statement is to establish accounting and financial reporting standards for mergers, acquisitions, and transfers of operations (i.e., government combinations). The Statement also provides guidance on how to determine the gain or loss on a disposal of government operations. This Statement applies to all state and local governmental entities. The District does not expect this statement to impact its financial statements.

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.

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. The District considers all of its governmental and enterprise funds to be major funds.

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 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.

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

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

The *cultural arts recreation enrichment (CARE) fund* accounts for the activities of the District's operations of the extended school day program activities.

Additionally, the government reports the following fund types:

The *fiduciary trust fund* is used to account for resources legally held in trust for private donations for scholarship awards and agency fund. All resources of the fund, including any earnings on invested resources, may be used to support the intended purpose. There is no requirement that any portion of these resources be preserved as capital. The agency funds account for assets held by the District as an agent for student activities, payroll deductions and withholding and state unemployment insurance claims. The funds for the student activities fund are solely for noninstructional student activities and the school administration does not have management involvement. The funds for the state unemployment insurance claims funds are held to reimburse the State for unemployment benefits for terminated employees. The payroll funds are held to remit 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".

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation - Financial Statements (Continued)

Reclassifications

Certain amounts presented in the prior year data 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.

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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Cash, Cash Equivalents and Investments

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

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

2. Receivables

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

3. Inventories

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

Food Service Fund inventories, exclusive of the federal commodities, are valued at cost, using the first-in first-out (FIFO) method and consist of food and expendable supplies. The cost of such inventories is recorded as expenses when consumed rather than when purchased. The United States Department of Agriculture (USDA) commodity portion of the Food Service Fund inventory consists of food donated by the USDA. It is valued at estimated market prices by the USDA. The amount of unused commodities at year-end is reported as deferred inflows of resources.

4. Restricted Assets

Certain assets are classified as restricted on the balance sheet because they are maintained in separate bank accounts for Lease-Purchase Agreements for capital projects.

5. 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 estimated fair market 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

5. Capital Assets (Continued)

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:

Assets	Years
Land Improvements	20
Buildings	20-50
Building Improvements	20
Heavy Equipment	10-20
Office Equipment and Furniture	7-10
Computer Equipment	5

6. 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 government only has one item that qualifies for reporting in this category. It is the deferred amounts on refunding of debt which results from the loss on a debt refunding reported in the district-wide statement of net position. A deferred charge on debt refunding results from the loss on the transaction when the debt's reacquisition price is greater than the carrying value of the refunded debt. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In additions 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 future periods and so will not be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under the accrual basis of accounting that qualifies for reporting in this category. It is the deferred commodities revenue, reported in both the district-wide and the proprietary funds statements of net position. The deferred commodities revenue represents the estimated market value of the donated and unused Federal commodities at year end. This amount is deferred and recognized as an inflow of resources in the period the commodities are consumed.

7. 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. Proprietary Funds accrue accumulated sick leave and salary related payments in the period that they are earned. 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

8. Long-Term Obligations

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

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.

Nonspendable Fund Balance – Amounts that are not in a spendable form or are required to be maintained intact.

Prepaid Item – Represents the portion of fund balance not available for future spending related to costs associated with and chargeable to future accounting periods.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Net Position/Fund Balance **(Continued)**

Governmental Fund Statements (Continued)

Restricted Fund Balance (Continued)

Excess Surplus- This restriction was created in accordance with NJSA 18A:7F-7 to represent the June 30, 2014 audited excess surplus that is required to be appropriated in the 2015/2016 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 3.)

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

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

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

Designated for Subsequent Year's Expenditures – This designation was created to dedicate the portion of fund balance appropriated in the adopted 2014/2015 District budget certified for taxes.

Purchases on Order – 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.

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).

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Fund Balance Policies (Continued)

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 assigned 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.

F. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as program revenues in the district-wide statement of activities include 1) charges to customers or applicants for goods or services, provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all property taxes, unrestricted state aid, investment earnings and miscellaneous revenues.

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 revenue is 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 2012-2013 and 2013-2014 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Revenues and Expenditures/Expenses (Continued)

4. Proprietary Funds, Operating and Non-Operating 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 of the C.A.R.E. 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. Federal and State subsidies for the food service operation are considered nonoperating revenues.

NOTE 2 RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net position– governmental activities as reported in the district-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $(40,112,874) difference are as follows:

Bonds Payable	$ (33,145,000)
Add: Issuance Premium (to be Amortized as Interest Expense)	(1,956,796)
Capital Leases Payable	(2,336,274)
Claims and Judgments	(946,533)
Compensated Absences	(1,728,271)
Net Adjustment to Reduce Fund Balance - Total Governmental Funds to Arrive at Net Position - Governmental Activities	$ (40,112,874)

NOTE 2 RECONCILIATION OF DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the district-wide statement of activities

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The details of this $4,074,459 difference are as follows:

Principal repayments:	
General obligation bonds	3,315,000
Down payment on capital lease	759,459
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	$ 4,074,459

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

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

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

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 2013/2014. Also, during 2013/2014 the Board increased the original general fund budget by $391,209 and the original special revenue fund budget by $1,973,961. The increase in the General Fund original budget was funded by the appropriation of prior year state aid and the reappropriation of prior year general fund encumbrances. The increase in the Special Revenue Fund budget was funded by additional grant awards. During the fiscal year, the Board authorized and approved additional fund balance appropriations for the prior year extraordinary aid and non-public transportation reimbursement in the amount of $190,914.

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.

B. Deficit Fund Equity

The District has an accumulated deficit in unrestricted net position of $29,396 in the C.A.R.E Enterprise Fund. The District expects to eliminate this deficit through normal operations in the 2014/2015 fiscal year.

The District has an unassigned fund deficit of $83,684 in the Special Revenue Fund as of June 30, 2014 as reported in the fund financial statements (modified accrual basis). NJSA 18A:22-44.2 provides that in the event a state school aid payment is not made until the following school budget year, districts must record these delayed state aid payments as revenue, for budget purposes only, in the current school budget year. The statute provides legal authority for school districts to recognize this revenue in the current budget year. GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions”, requires that intergovernmental transactions (revenue, expenditure, asset, liability) should be recognized in symmetry (i.e., if one government recognizes an asset, the other government recognizes a liability). Since the State of New Jersey is recording certain 2013/2014 budgeted state aid payments in the subsequent fiscal year, the school district cannot recognize such payments on the GAAP (fund) financial statements until the year the State records the payable. Due to the timing difference of recording these delayed state aid payments, the Special Revenue Fund deficit does not alone indicate that the District is facing financial difficulties; however, unless the State of New Jersey budgets the delayed payments in future years, the District may also report fund deficits in the future.

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

B. Deficit Fund Equity (Continued)

The District deficit in the GAAP (fund) financial statements of $83,684 in the Special Revenue Fund is equal to the delayed state aid payments.

C. Capital Reserve

A capital reserve account was established by the District on October, 2000. 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, 2014 is as follows:

Balance, July 1, 2013		$ 1,484,755
Increased by:		
Interest earnings	$ 1,137	
Deposits Approved by Board Resolution	3,061,000	
Total Increases		3,062,137
		4,546,892
Decreased by:		
Withdrawals by Board Resolution	$ 409,041	
Total Withdrawals		409,041
Balance, June 30, 2014		$ 4,137,851

The June 30, 2014 LRFP balance of local support costs of uncompleted capital projects is $27,332,086. The withdrawals from the capital reserve were for use in department approved facilities projects, consistent with the district's Long Range Facilities Plan.

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

D. Calculation of Excess Surplus

In accordance with N.J.S.A. 18A:7F-7, as amended, the restricted fund balance for Reserved Excess Surplus is a required calculation pursuant to the New Jersey Comprehensive Educational Improvement and Financing Act of 1996 (CEIFA). New Jersey school districts are required to reserve General Fund fund balance 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, 2014 is $909,720. This amount will be appropriated in the 2015/2016 original budget certified for taxes.

NOTE 4 DETAILED NOTES ON ALL FUNDS

A. Cash Deposits and Investments

Cash Deposits

The Board's deposits are insured through either the Federal Deposit Insurance Corporation (FDIC), 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.

Bank balances are insured up to $250,000 in the aggregate by the FDIC for each bank. SIPC replaces cash claims up to a maximum of $250,000 for each failed brokerage firm. At June 30, 2014, the book value of the Board's deposits were $14,182,710 and bank and brokerage firm balances of the Board's deposits amounted to $23,646,859. The Board's deposits which are displayed on the various fund balance sheets as "cash and cash equivalents" and "cash with fiscal agents" are categorized as:

Depository Account	Bank Balance
Insured	$ 23,636,386
Uninsured and Collateralized	10,473
	$ 23,646,859

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash Deposits and Investments (Continued)

Cash Deposits (Continued)

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, 2014 the Board's bank balance of $10,473 was exposed to custodial credit risk as follows:

Depository Account	
Uninsured and Collateralized:	
Collateral held by pledging financial institution's trust department not in the Board's name	$ 10,473

Investments

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

As of June 30, 2014, the Board had no outstanding investments.

Interest earnings from the unexpended lease purchase proceeds in the Capital Projects Fund are restricted to be used for the repayment of the lease.

B. Receivables

Receivables as of June 30, 2014 for the district's individual major funds, nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Special Revenue	Capital Projects	Food Service	C.A.R.E. Enterprise	Total
Receivables:						
Accounts	$ 91,822	$ 31,401			$ 46,804	$ 170,027
Intergovernmental					-	
Federal		962,702		$ 188,801	-	1,151,503
State	364,709	7,740	$ 271,324	5,934	-	649,707
State Tuition	81,275	-	-	-	-	81,275
Local	-	5,044	-	-	-	5,044
Gross Receivables	537,806	1,006,887	271,324	194,735	46,804	2,057,556
Less: Allowance for Uncollectibles	-	-	-	-	-	-
Net Receivables	$ 537,806	$ 1,006,887	$ 271,324	$ 194,735	$ 46,804	$ 2,057,556

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

C. Unearned Revenue

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

Capital Projects Fund	
Unrealized School Facilities Grants	$ 238,316
Total Unearned Revenue for Governmental Funds	$ 238,316

D. Capital Assets

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

	Balance, July 1, 2013	Increases	Decreases	Balance, June 30, 2014
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	$ 832,000	-	-	$ 832,000
Total Capital Assets, Not Being Depreciated	832,000	-	-	832,000
Capital Assets, Being Depreciated:				
Buildings and Building Improvements	103,150,601			103,150,601
Improvements Other Than Buildings	8,877,232	$ 815,821	-	9,693,053
Machinery and Equipment	8,313,102	1,397,235	$ (39,777)	9,670,560
Total Capital Assets Being Depreciated	120,340,935	2,213,056	(39,777)	122,514,214
Less Accumulated Depreciation for:				
Buildings and Building Improvements	(29,643,846)	(2,158,689)		(31,802,535)
Improvements Other Than Buildings	(5,151,894)	(374,173)		(5,526,067)
Machinery and Equipment	(4,428,431)	(345,390)	39,777	(4,734,044)
Total Accumulated Depreciation	(39,224,171)	(2,878,252)	39,777	(42,062,646)
Total Capital Assets, Being Depreciated, Net	81,116,764	(665,196)	-	80,451,568
Governmental Activities Capital Assets, Net	$ 81,948,764	$ (665,196)	$ -	$ 81,283,568

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

	Balance, July 1, 2013	Increases	Decreases	Balance, June 30, 2014
Business-Type Activities:				
Capital Assets, Being Depreciated:				
Machinery and Equipment	$ 1,050,262	$ 90,662	-	$ 1,140,924
Total Capital Assets Being Depreciated	1,050,262	90,662	-	1,140,924
Less Accumulated Depreciation for:				
Machinery and Equipment	(680,633)	(53,985)	-	(734,618)
Total Accumulated Depreciation	(680,633)	(53,985)	-	(734,618)
Total Capital Assets, Being Depreciated, Net	369,629	36,677	-	406,306
Business-Type Activities Capital Assets, Net	$ 369,629	$ 36,677	$ -	$ 406,306

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

Governmental Activities:	
Instruction	
Regular	$ 1,295,213
Special	402,955
Total Instruction	1,698,168
Support Services	
Student and Instruction Related Services	28,783
School Administration	57,565
General Administration	57,565
Operations and Maintenance of Plant	316,608
Student Transportation	604,433
Business Central Services	115,130
Total Support Services	1,180,084
Total depreciation Expense - Governmental Activities	$ 2,878,252
Business-Type Activities:	
Food Service Fund	$ 48,907
C.A.R.E. Enterprise Fund	5,078
Total Depreciation Expense-Business-Type Activities	$ 53,985

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

D. Capital Assets (Continued)

Construction and Other Significant Commitments

The District has the following active construction projects as of June 30, 2014:

Project	Spent to Date	Remaining Commitment
Capital Projects Fund		
MacAfee Roof Replacement	$ 33,008	$ 639,713
Total Construction Commitments	$ 33,008	$ 639,713

Encumbrances. As discussed in Note 3A, Budgetary information, Budgetary basis of accounting, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General Fund	$36,714
Capital Projects Fund	639,713
Total	$676,427

E. Interfund Receivables, Payables, and Transfers

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	C.A.R.E. Enterprise Fund	$ 279,402
General Fund	Food Service Enterprise Fund	190,482
General Fund	Special Revenue Fund	794,788
		$ 1,264,672

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

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

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

E. Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfer In: Capital Projects Fund
Transfer Out:	
General Fund	$ 409,041
Total Transfers Out	$ 409,041

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

F. Leases

Operating Leases

The District leases computers and computer equipment under noncancelable operating leases. Lease payments for the fiscal year ended June 30, 2014 were $1,886,371. The future minimum lease payments for these operating leases are as follows:

Fiscal Year Ending June 30	Amount
2015	$ 1,886,371
2016	1,802,025
2017	45,451
Total	$ 3,733,847

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

F. Leases (Continued)

Capital Leases

The District is leasing trailers totaling $3,850,000 under capital leases. The lease is for a term of 5 years.

The capital assets acquired through capital leases are as follows:

	Governmental Activities
Machinery and Equipment	$ 3,382,717

The unexpended proceeds from capital leases in the amount of $183,458 at June 30, 2014 are held with the Fiscal Agent.

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2014 were as follows:

Fiscal Year Ending June 30	Governmental Activities
2015	$ 798,465
2016	798,465
2017	798,465
Total minimum lease payments	2,395,395
Less: amount representing interest	(59,121)
Present value of minimum lease payments	$ 2,336,274

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Debt

General Obligation Bonds

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

Bonds payable at June 30, 2014 are comprised of the following issues:

$10,000,000, 2006 Refunding Bonds, due in annual installments of $20,000 to $2,410,000 through August 15, 2026, interest at 3.75-4.375%	$9,705,000
$24,970,000, 2009 Refunding Bonds, due in annual installments of $45,000 to $2,340,000 through August 15, 2023, interest at 4.00-5.00%	20,265,000
$3,220,000, 2013 Refunding Bonds, due in annual installments of $1,025,000 to $1,095,000 through August 1, 2016, interest at 2.00-3.00%	3,175,000
	$33,145,000

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

Governmental Activities:

Fiscal Year Ending June 30,	Serial Bonds Principal	Serial Bonds Interest	Total
2015	$ 3,265,000	$ 1,392,125	$ 4,657,125
2016	3,220,000	1,278,550	4,498,550
2017	3,185,000	1,155,415	4,340,415
2018	2,220,000	1,030,736	3,250,736
2019	2,265,000	927,199	3,192,199
2020-2024	9,445,000	2,942,967	12,387,967
2025-2028	9,545,000	469,656	10,014,656
	$ 33,145,000	$ 9,196,648	$ 42,341,648

NOTE 4 DETAILED NOTES ON ALL FUNDS (Continued)

G. Long-Term Debt (Continued)

Statutory Borrowing Power

The Board's remaining borrowing power under N.J.S. 18A:24-19, as amended, at June 30, 2014 was as follows:

4% of Equalized Valuation Basis (Municipal)	$ 362,382,359
Less: Net Debt	33,145,000
Remaining Borrowing Power	$ 329,237,359

H. Other Long-Term Liabilities

Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2014, was as follows:

	Balance, July 1, 2013	Additions	Reductions	Balance, June 30, 2014	Due Within One Year
Governmental Activities:					
Bonds Payable	$ 36,460,000	$ -	$ (3,315,000)	$ 33,145,000	$ 3,265,000
Add:					
Unamortized Premium	2,175,540	-	(218,744)	1,956,796	-
Bonds Payable, Net	38,635,540	-	(3,533,744)	35,101,796	3,265,000
Capital Leases Payable	3,095,733	-	(759,459)	2,336,274	769,028
Claims and Judgments	850,720	846,891	(751,078)	946,533	500,000
Compensated Absences	1,500,406	292,667	(64,802)	1,728,271	200,000
Governmental Activity Long-Term Liabilities	$ 44,082,399	$ 1,139,558	$ (5,109,083)	$ 40,112,874	$ 4,734,028

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

NOTE 5 OTHER INFORMATION

A. Risk Management

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

The District has established a worker's compensation plan for its employees. Transactions related to the plan are accounted for in the General Fund. The District funds the entire cost of the plan. Claims are paid directly by the plan up to a maximum of $500,000 for any one accident or occurrence, with any excess benefit being reimbursed through a Re-Insurance Agreement with Star Insurance Company. The reinsurance policy also contains an aggregate loss provision in the amount of $1,000,000 employers limit. A contingent liability exists with respect to reinsurance, which would become an actual liability in the event the reinsuring company may not be able to meet their obligations to the District under existing reinsurance agreements.

Estimates of claims payable and of claims incurred, but not reported (IBNR) at June 30, 2014, are reported as claims and judgments payable and accrued liability for insurance claims, respectively. These estimates were determined based on claim information supplied by the claims administrator and actuary. The unpaid claims liability of $1,254,706 reported at June 30, 2014 is based on the requirements of the Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the balances of claims liabilities for the workmen’s compensation plan for the fiscal years ended June 30, 2014 and 2013 are as follows:

Governmental Activities:	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013
Unpaid Claims, Beginning of Year	$ 850,720	$ 862,619
Incurred Claims	1,155,064	800,967
Claim Payments	(751,078)	(573,109)
Unpaid Claims, End of Year	$ 1,254,706	$ 1,090,477
General Fund		
Other Current Liabilities	$ 308,173	$ 239,757
Governmental Activities		
Noncurrent Liabilities	946,533	850,720
	$ 1,254,706	$ 1,090,477

NOTE 5 OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The District is a member of the New Jersey School Board's Association Insurance Group (NJSBAIG). The Group is a risk sharing public entity pool, established for the purpose of insuring against various types of claims.

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

NJSBAIG 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 fund 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:

Fiscal Year Ended June 30,	Board Contributions	Contributions/ Interest Earnings	Amount Reimbursed	Ending Balance
2014	$ 400,000	$ 122,342	$ 257,196	$ 1,371,419
2013	400,000	127,833	246,765	1,106,273
2012	500,000	116,468	451,254	825,205

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, 2014, 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.

NOTE 5 OTHER INFORMATION (Continued)

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, 2014, the District has not estimated its arbitrage earnings due to the IRS, if any.

D. Employee Retirement Systems and Pension Plans

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

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

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

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

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

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.

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Other Pension Funds (Continued)

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

Basis of Accounting

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

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011, made various changes to the manner in which TPAF and PERS operate and to the benefit provisions of those systems.

The legislation's provisions impacting employee pension and health benefits include:

- For new members of TPAF and PERS hired on or after June 28, 2011 (Tier 5 members), the years of creditable service needed for early retirement benefits increased from 25 to 30 years and the early retirement age increased from 55 to 65.
- The eligibility age to qualify for a service retirement in the TPAF and PERS increased from age 62 to 65 for Tier 5 members.
- It increased the TPAF and PERS active member rates from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years for members hired or reappointed on or after June 28, 2011. For Fiscal Year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for TPAF and PERS members takes place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries was suspended. COLA increases may be reactivated at a future date as permitted by this law.
- It changed the method for amortizing the pension system's unfunded accrued liability (from a level percent of pay method to a level dollar of pay method).

Investment Valuation

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

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Investment Valuation (Continued)

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

Funding Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the aggregate funded ratio for all the State administered retirement systems including TPAF and PERS, is 64.5 percent with an unfunded actuarial accrued liability of $47.2 billion. The aggregate funded ratio and unfunded accrued liability for the State-funded systems is 56.7 percent and $34.4 billion, and the aggregate funded ratio and unfunded accrued liability for local PERS and Police and Firemen's Retirement System ("PFRS") is 76.1 percent and $12.8 billion.

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, 2012 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 from 7.95 percent to 7.90 percent and (b) projected salary increases of 4.22 percent for the PERS and 3.51 % percent 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 6.6% for PERS, 6.6% for TPAF and 5.50% for DCRP of the employee's annual compensation.

NOTE 5 OTHER INFORMATION (Continued)

D. Employee Retirement Systems and Pension Plans (Continued)

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 *Accounting for Pensions by State and Local Government Employees,* for the fiscal year ended June 30, 2014 for TPAF, which is a cost sharing plan with special funding situations, the annual pension cost differs from the annual required contribution. For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. TPAF employer contributions are made annually by the State of New Jersey to the pension system on behalf of the Board. PERS employer contributions are made annually by the Board to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

During the fiscal years ended June 30, 2014, 2013 and 2012 the Board was required to contribute for PERS and DCRP and the State of New Jersey was required to contribute for TPAF for normal cost pension and accrued liability contributions (including non-contributory group life insurance (NCGI)) the following amounts:

Fiscal Year Ended June 30,	PERS	On-behalf TPAF	DCRP
2014	$ 1,675,625	$ 2,214,913	$ 28,715
2013	1,690,680	3,531,978	14,356
2012	1,740,694	1,699,570	10,331

During fiscal year 2013/2014 the State did not contribute to the TPAF for accrued liability but did contribute $1,675,625 for normal cost pension and NCGI premium. For fiscal years 2012/2013 and 2011/2012, the state contributed $3,531,978 and $1,699,570, respectively for normal cost pension, accrued liability and the NCGI premium.

Also, in accordance with N.J.S.A. 18A:66-66 the State of New Jersey reimbursed the Board $3,806,609 during the fiscal year ended June 30, 2014 for the employer's share of social security contributions for TPAF members as calculated on their base salaries. This amount, along with the on-behalf TPAF pension contribution, has been included in the district-wide financial statements and the fund financial statements as a revenue and expenditure in accordance with GASB No. 24.

E. Post-Retirement Medical Benefits

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

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS and TPAF are combined and reported as Pension and Other employee Benefit Trust Funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, and the PRM of the PERS are combined and reported as a Health Benefits Program Fund – State classified as a single employer plan. The SHBP-Local, PDP-Local, and the PRM of the TPAF-Local are combined and reported as Health Benefits Program Fund –Local Government classified as a cost-sharing multiple-employer plan in the State's CAFR. The post-retirement benefit programs had a total of 585 state and local participating employers and contributing entities for Fiscal Year 2013.

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

NOTE 5 OTHER INFORMATION (Continued)

E. Post-Retirement Medical Benefits (Continued)

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

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

Basis of Accounting

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

Significant Legislation

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

Investment Valuation

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

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the State had a $51.5 billion unfunded actuarial accrued liability for other post-employment benefits (OPEB) which is made up to $19.3 billion for state active and retired members and $32.2 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.

NOTE 5 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, 2012, OPEB actuarial valuation, the projected unit credit was used as the actuarial cost method. 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, 2013, there were 100,134, retirees receiving post-retirement medical benefits and the State contributed $1.07 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 paid health benefits to members of PERS and the Alternate Benefit Program who retired from a board of education or county college with 25 years of service. The State paid $173.8 million toward Chapter 126 benefits for 17,356 eligible retired members in Fiscal Year 2013.

The State sets the contribution rate based on a pay as you go basis and not on the annual required contribution of the employers (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years. The State's contributions to the State Health Benefits Program Fund for TPAF retirees' post-retirement benefits on behalf of the School District for the fiscal years ended June 30, 2014, 2013 and 2012 were $3,631,624, $3,993,775 and $3,416,580, respectively, which equaled the required contributions for each year. The State's contributions to the State Health Benefits Program Fund for PERS retirees' post-retirement benefits on behalf of the School District was not determined or made available by the State of New Jersey.

F. Subsequent Events

In July 2014, the Board authorized the execution of grant agreements with the NJ Schools Development Authority for various projects/locations totaling $3,906,641.

In September 2014, the Board approved a special school district election to be held on December 9, 2014 for consideration of a bond proposal which appropriates a total of $84,897,326 for school district improvements of which $3,417,069 will be funded through state grants. School district bonds would be authorized to finance the projects in the amount of $81,480,257, of which $75,130,721 would receive additional school facilities aid through debt service aid.

In July 2014, the District closed on the sale of District owned property located at 363 Elizabeth Ave. The District received proceeds of $726,724 as settlement of the sale.

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BUDGETARY COMPARISON SCHEDULES

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
REVENUES					
Local Sources					
Local Property Tax Levy	$ 122,328,118		$ 122,328,118	$ 122,328,118	
Interest				20,462	$ 20,462
Interest- Capital Reserve				1,137	1,137
Tuition-Intergovernmental - State				168,223	168,223
Tuition - Other Sources	23,500		23,500	56,536	33,036
Transportation Fees	3,536		3,536	6,713	3,177
Rentals				6,967	6,967
Miscellaneous	72,400	-	72,400	403,823	331,423
Total - Local Sources	122,427,554	-	122,427,554	122,991,979	564,425
State Sources					
Special Education Aid	4,979,869		4,979,869	4,979,869	
Equalization Aid	5,653,674		5,653,674	5,653,674	
Security Aid	1,560,604		1,560,604	1,560,604	
Transportation Aid	797,701		797,701	797,701	
Extraordinary Aid	1,545,987		1,545,987	1,518,704	(27,283)
Additional Nonpublic Transportation Aid				180,152	180,152
On-Behalf TPAF Pension System Contr. (Non-budgeted) Normal Cost				2,035,267	2,035,267
On-Behalf TPAF Pension System Contr. (Non-budgeted) Non-Contributory Insurance				179,646	179,646
On-Behalf TPAF Pension System Contr. (Non-budgeted) Post-Retirement Medical Contributions				3,631,624	3,631,624
Reimbursed TPAF Soc. Sec. Contr. (Non-budgeted)	-	-	-	3,806,609	3,806,609
Total - State Sources	14,537,835	-	14,537,835	24,343,850	9,806,015
Federal Sources					
Semi- Medicaid Reimbursement	118,491	-	118,491	83,071	(35,420)
Total-Federal Sources	118,491	-	118,491	83,071	(35,420)
Total Revenues	137,083,880	-	137,083,880	147,418,900	10,335,020
EXPENDITURES					
CURRENT EXPENDITURES					
Instruction - Regular Programs					
Salaries of Teachers					
Kindergarten	1,953,199	$ 26,022	1,979,221	1,979,220	1
Grades 1-5	11,831,023	15,652	11,846,675	11,846,674	1
Grades 6-8	7,407,034	(695,529)	6,711,505	6,271,241	440,264
Grades 9-12	9,188,045	(109,515)	9,078,530	9,022,077	56,453
Home Instruction					
Salaries of Teachers	86,000	-	86,000	67,485	18,515
Purchased Professional - Educational Services	30,000	55,000	85,000	84,421	579
Regular Programs - Undistributed Instruction					
Other Salaries for Instruction	20,000	-	20,000	10,571	9,429
Purchased Professional - Educational Services	55,550	(24,580)	30,970	14,535	16,435
Purchased Technical Services	117,183	(67,341)	49,842	49,842	-
Other Purchased Services	1,894,907	52,882	1,947,789	1,947,789	-
General Supplies	1,146,630	(21,823)	1,124,807	1,114,718	10,089
Textbooks	71,819	173,064	244,883	244,883	-
Other Objects	58,926	(27,177)	31,749	25,644	6,105
Total Regular Programs	33,860,316	(623,345)	33,236,971	32,679,100	557,871
Special Education					
Cognitive-Moderate					
Salaries of Teachers	184,420	(65,603)	118,817	-	118,817
Other Salaries of Instruction	45,550	-	45,550	31,845	13,705
Other Objects	-	585	585	585	-
Total Cognitive-Moderate	229,970	(65,018)	164,952	32,430	132,522

Continued

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
EXPENDITURES					
CURRENT EXPENDITURES (Continued)					
Learning and/or Language Disabilities					
Salaries of Teachers	$ 1,041,130	$ 279,466	$ 1,320,596	$ 1,320,596	
Other Salaries for Instruction	461,725	41,201	502,926	502,926	
Other Purchased Services	860	(17)	843	-	$ 843
General Supplies	13,750	1,781	15,531	15,287	244
Total Learning and/or Language Disabilities	1,517,465	322,431	1,839,896	1,838,809	1,087
Resource Room/Resource Center					
Salaries of Teachers	5,828,770	(121,672)	5,707,098	5,707,097	1
Other Salaries for Instruction	637,291	238,345	875,636	875,636	-
Purchased Professional - Educational Services	14,000	(14,000)	-	-	-
General Supplies	8,400	-	8,400	4,311	4,089
Textbooks	-	-	-	-	-
Total Resource Room/Resource Center	6,488,461	102,673	6,591,134	6,587,044	4,090
Autism					
Salaries of Teachers	245,650	3,513	249,163	249,162	1
Other Salaries for Instruction	132,100	(44,802)	87,298	87,298	-
Other Purchased Services		595	595	595	
General Supplies	5,000	13,721	18,721	18,721	-
Total Autism	382,750	(26,973)	355,777	355,776	1
Preschool Disabilities - Part-Time					
Salaries of Teachers	604,925	(99,062)	505,863	505,863	-
Other Salaries for Instruction	378,100	(69,436)	308,664	308,664	-
General Supplies	10,000	-	10,000	1,683	8,317
Total Preschool Disabilities - Part-Time	993,025	(168,498)	824,527	816,210	8,317
Home Instruction					
Salaries of Teachers	40,000	-	40,000	39,657	343
Purchased Professional-Educational Services	45,000	-	45,000	21,818	23,182
Total Home Instruction	85,000	-	85,000	61,475	23,525
Total Special Education	9,696,671	164,615	9,861,286	9,691,744	169,542
Basic Skills/Remedial - Instruction					
Salaries of Teachers	1,669,205	494,069	2,163,274	2,163,273	1
General Supplies	12,246	-	12,246	11,362	884
Other Objects	720	-	720	390	330
Total Basic Skills/Remedial - Instruction	1,682,171	494,069	2,176,240	2,175,025	1,215
Bilingual Education - Instruction					
Salaries of Teachers	1,410,441	135,783	1,546,224	1,546,224	-
Other Salaries for Instruction		21,773	21,773	16,824	4,949
General Supplies	52,145	(25,000)	27,145	14,697	12,448
Other Objects	500	-	500	100	400
Total Bilingual Education - Instruction	1,463,086	132,556	1,595,642	1,577,845	17,797
School Sponsored Co/Extra Curricular Activities					
Salaries	383,073	(5,918)	377,155	344,567	32,588
Purchased Services	13,450	1,514	14,964	5,703	9,261
Supplies and Materials	28,042	1,601	29,643	29,154	489
Other Objects	54,741	3,694	58,435	51,605	6,830
Total School Sponsored Co/Extra Curricular Activities	479,306	891	480,197	431,029	49,168

Continued

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
EXPENDITURES					
CURRENT EXPENDITURES (Continued)					
School Sponsored Athletics					
Salaries	$ 682,420	$ (9,484)	$ 672,936	$ 670,961	$ 1,975
Purchased Services	28,920	9,371	38,291	37,884	407
Supplies and Materials	74,581	14,131	88,712	81,402	7,310
Other Objects	113,851	(1,556)	112,295	107,551	4,744
Total School Sponsored Athletics	899,772	12,462	912,234	897,798	14,436
Alternative Education Programs- Instruction					
Salaries of Teachers		127,811	127,811	126,887	924
Other Salaries for Instruction		5,000	5,000	1,956	3,044
Purchased Professional and Technical Services		3,825	3,825	3,825	-
General Supplies		9,462	9,462	3,985	5,477
Textbooks		500	500		500
Other Objects	-	2,646	2,646	2,646	-
Total Alternative Education Programs- Instruction	-	149,244	149,244	139,299	9,945
Alternative Education Programs- Support Services					
Salaries		120,937	120,937	120,937	
Other Purchased Services	-	92,740	92,740	92,740	-
Total Alternative Education Programs- Support Services	-	213,677	213,677	213,677	-
Total - Instruction	48,081,322	544,169	48,625,491	47,805,517	819,974
Undistributed Expenditures					
Instruction					
Tuition to Other LEAs Within State-Regular	690,000	(132,231)	557,769	557,769	-
Tuition to Other LEAs Within State-Special	3,362,277	(352,303)	3,009,974	2,565,387	444,587
Tuition to County Vocational School Districts-Reg.	350,700	(162,433)	188,267	173,430	14,837
Tuition to County Vocational School Districts-Spec.	35,580	(5,300)	30,280	27,200	3,080
Tuition to County Spec. Svcs. Districts & Reg. Day	186,892	247,256	434,148	434,148	-
Tuition to Private Schools for the Disabled W/in State	7,987,131	(291,882)	7,695,249	7,141,115	554,134
Tuition to Private Schools Disabled					
and Other LEA's, Spl, O/S	50,000	(50,000)	-	-	-
Tuition - State Facilities	128,774	-	128,774	128,774	-
Tuition-Other	593,184	252,020	845,204	819,480	25,724
Total Undistributed Expenditures - Instruction	13,384,538	(494,873)	12,889,665	11,847,303	1,042,362
Attendance and Social Work Services					
Salaries	74,814	-	74,814	68,849	5,965
Other Purchased Services	200	-	200	-	200
Supplies and Materials	90	454	544	544	-
Other Objects	-	355	355	355	-
Total Attendance and Social Work Services	75,104	809	75,913	69,748	6,165
Health Services					
Salaries	1,161,923	(39,045)	1,122,878	1,122,878	-
Purchased Professional and Technical Svcs.	6,575	(256)	6,319	4,048	2,271
Other Purchased Services	6,000	-	6,000		6,000
Supplies and Materials	15,500	-	15,500	14,800	700
Total Health Services	1,189,998	(39,301)	1,150,697	1,141,726	8,971
Speech, OT, PT & Related Services					
Salaries	1,061,225	(8,342)	1,052,883	1,026,358	26,525
Purchased Professional- Educational Services	900,000	146,642	1,046,642	893,100	153,542
Supplies and Materials	7,000	(942)	6,058	6,058	-
Total Speech, OT, PT & Related Services	1,968,225	137,358	2,105,583	1,925,516	180,067
Other Support Services- Students Extra Service					
Salaries	1,028,025	-	1,028,025	676,690	351,335
Purchased Professional Ed. Services	1,050,400	(125,000)	925,400	704,222	221,178
Total Other Support Services- Students Extra Service	2,078,425	(125,000)	1,953,425	1,380,912	572,513
Guidance					
Salaries of Other Professional Staff	1,757,264	81,465	1,838,729	1,838,728	1
Salaries of Secretarial and Clerical Assistants	231,376	(33,132)	198,244	198,243	1
Purchased Professional and Ed. Svcs.	139,869	-	139,869	105,329	34,540
Other Purchased Services	3,657	-	3,657	2,370	1,287
Supplies and Materials	35,928	73,135	109,063	109,014	49
Other Objects	51,492	1,058	52,550	32,318	20,232
Total Guidance	2,219,586	122,526	2,342,112	2,286,002	56,110

Continued

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
EXPENDITURES					
CURRENT EXPENDITURES (Continued)					
Child Study Teams					
Salaries of Other Professional Staff	$ 2,773,749	$ (108,901)	$ 2,664,848	$ 2,660,118	$ 4,730
Salaries of Secretarial and Clerical Assistants	262,371	102,157	364,528	364,528	-
Other Salaries	10,000	(1,945)	8,055	158	7,897
Purchased Professional-Educational Services	40,000	5,445	45,445	45,445	-
Purchased Professional & Technical Svcs.	9,824	-	9,824	9,824	-
Residential Costs	70,000	(2,476)	67,524	67,524	-
Miscellaneous Purchased Services	18,430	-	18,430	7,145	11,285
Supplies and Materials	16,840	3,476	20,316	19,101	1,215
Other Objects	480	-	480	233	247
Total Child Study Teams	3,201,694	(2,244)	3,199,450	3,174,076	25,374
Impvt. of Instruction Services-Other Support Services					
Salaries of Supervisors of Instruction	1,390,701	-	1,390,701	1,185,510	205,191
Salaries of Other Professional Staff	140,272	-	140,272	116,059	24,213
Salaries of Sec. and Clerical Assist.	231,880	-	231,880	203,270	28,610
Other Salaries		46,000	46,000	38,267	7,733
Salaries of Facilitators, Math & Literacy Coaches	1,331,510	(180,000)	1,151,510	1,137,540	13,970
Purchased Professional-Educational Services	30,500	-	30,500	30,500	
Other Purchased Services	20,716	-	20,716	7,347	13,369
Supplies and Materials	10,436	(1,275)	9,161	8,371	790
Other Objects	30,571	99	30,670	24,976	5,694
Total Impvt. of Instruction Svcs./Other Support Svcs.- Instructional Staff	3,186,586	(135,176)	3,051,410	2,751,840	299,570
Educational Media Services/School Library					
Salaries	609,960	(878)	609,082	501,809	107,273
Supplies and Materials	49,287	9,815	59,102	58,191	911
Total Educational Media Services/School Library	659,247	8,937	668,184	560,000	108,184
Instructional Staff Training Services					
Salaries Other Professional Staff	42,964	-	42,964	25,119	17,845
Purchased Professional - Educational Services	367,900	(5,290)	362,610	342,791	19,819
Purchased Professional & Technical Svcs.	-	3,024	3,024	3,024	
Other Purchased Services	30,042	458	30,500	19,417	11,083
Supplies and Materials	38,011	(3,699)	34,312	23,709	10,603
Total Instructional Staff Training Services	478,917	(5,507)	473,410	414,060	59,350
Support Svcs. General Administration					
Salaries	688,933	-	688,933	672,793	16,140
Legal Services	299,600	55,983	355,583	255,663	99,920
Audit Fees	56,000	7,440	63,440	63,440	-
Architectural/Engineering Services		351,903	351,903	325,987	25,916
Other Purchased Professional Svcs.	54,770	4,900	59,670	36,786	22,884
Purchased Technical Services	67,550	22,672	90,222	90,222	-
Communications/Telephone	325,563	(22,620)	302,943	282,510	20,433
BOE Other Purchased Services	6,353	-	6,353	1,447	4,906
Misc. Purchased Services	306,097	10,510	316,607	287,772	28,835
General Supplies	19,535	(809)	18,726	9,585	9,141
BOE In House Training/ Meeting Supplies	5,922	-	5,922	-	5,922
Miscellaneous Expenditures	45,540	(19,591)	25,949	3,773	22,176
BOE Membership Dues and Fees	30,225	-	30,225	29,343	882
Total Support Services General Administration	1,906,088	410,388	2,316,476	2,059,321	257,155

Continued

EXHIBIT C-1

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
EXPENDITURES					
CURRENT EXPENDITURES (Continued)					
Support Services School Administration					
Salaries of Principals/Asst. Principals	$ 2,334,221	$ 238,403	$ 2,572,624	$ 2,400,875	$ 171,749
Salaries of Other Professional Staff	707,924	200,700	908,624	776,715	131,909
Salaries of Secretarial and Clerical Assistants	1,651,630	40,000	1,691,630	1,651,996	39,634
Other Salaries	14,967	8,597	23,564	23,563	1
Purchased Professional and Technical Services	8,213	(1,200)	7,013	4,500	2,513
Other Purchased Services	49,480	(805)	48,675	42,528	6,147
Supplies and Materials	47,838	(4,543)	43,295	36,895	6,400
Other Objects	36,705	256	36,961	30,074	6,887
Total Support Services School Adm.	4,850,978	481,408	5,332,386	4,967,146	365,240
Central Services					
Salaries	1,384,701	22,759	1,407,460	1,307,813	99,647
Purchased Professional Services	18,000	19,241	37,241	26,444	10,797
Purchased Technical Services	45,200	34,150	79,350	68,006	11,344
Miscellaneous Purchased Services	38,365	-	38,365	32,994	5,371
Supplies and Materials	29,579	-	29,579	19,125	10,454
Miscellaneous Expenditures	59,837	-	59,837	30,534	29,303
Total Central Services	1,575,682	76,150	1,651,832	1,484,916	166,916
Admin. Info. Technology					
Salaries	738,367	-	738,367	734,611	3,756
Purchased Technical Services		159,740	159,740	4,252	155,488
Other Purchased Services	61,252	(99)	61,153	55,912	5,241
Supplies and Materials	6,862	2,418	9,280	9,280	-
Other Objects	300	(256)	44	-	44
Total Admin. Info. Technology	806,781	161,803	968,584	804,055	164,529
Required Maintenance for School Facilities					
Cleaning, Repair and Maintenance Services	431,709	32,522	464,231	464,115	116
General Supplies	253,368	(32,822)	220,546	220,063	483
Other Objects	20,280	300	20,580	20,554	26
Total Required Maintenance for School Facilities	705,357	-	705,357	704,732	625
Custodial Services					
Salaries	4,014,183	(9,342)	4,004,841	4,004,841	-
Salaries of Non-Instructional Aides	440,125	(49,573)	390,552	390,552	-
Purchased Professional and Technical Services	76,280	-	76,280	69,780	6,500
Cleaning, Repair and Maintenance Services	723,781	(107,057)	616,724	512,653	104,071
Other Purchased Property Services	966,995	15,000	981,995	974,614	7,381
Insurance	266,570	-	266,570	262,700	3,870
General Supplies	205,224	-	205,224	204,017	1,207
Energy (Natural Gas)	722,995	(35,000)	687,995	613,775	74,220
Energy (Electricity)	1,709,639	(200,000)	1,509,639	1,366,424	143,215
Energy (Oil)	10,000	-	10,000	7,787	2,213
Energy (Gasoline)	53,294	-	53,294	22,969	30,325
Other Objects	7,590	-	7,590	1,378	6,212
Total Custodial Services	9,196,676	(385,972)	8,810,704	8,431,490	379,214
Care & Upkeep of Grounds					
Salaries	451,061	61,173	512,234	512,234	-
Cleaning, Repair and Maintenance Services	84,575	194,712	279,287	261,711	17,576
General Supplies	60,917	19,260	80,177	76,508	3,669
Other Objects	-	900	900	900	-
Total Care & Upkeep of Grounds	596,553	276,045	872,598	851,353	21,245

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
EXPENDITURES					
CURRENT EXPENDITURES (Continued)					
Security					
Salaries	$ 1,632,013	$ (2,258)	$ 1,629,755	$ 1,617,414	$ 12,341
Cleaning, Repair and Maintenance Services	64,664	332,788	397,452	397,452	-
General Supplies	36,475	(16,381)	20,094	11,709	8,385
Other Objects	356,328	(10,127)	346,201	321,906	24,295
Total Security	2,089,480	304,022	2,393,502	2,348,481	45,021
Student Transportation Services					
Salaries of Non-Instructional Aides	120,050	22,000	142,050	138,813	3,237
Salaries for Pupil Transportation (Between Home and School) - Regular	341,684	123,827	465,511	465,511	-
Salaries for Pupil Transportation (Between Home and School) - Special Educ.	342,898	710	343,608	340,620	2,988
Management Fee- ESC & CTSA Trans. Program	94,955	54,731	149,686	146,597	3,089
Other Purchased Prof. and Technical Serv.	469,466	56,456	525,922	525,922	-
Cleaning Repair and Maintenance Svcs.	375,025	(2,402)	372,623	275,174	97,449
Contracted Services (Between Home and School) - Vendors	7,482,589	(390,619)	7,091,970	6,852,459	239,511
Contracted Services (Other Than Between Home and School) - Vendors	482,402	(9,206)	473,196	375,647	97,549
Contracted (Between Home & School) Joint Agr.	31,824	-	31,824	20,332	11,492
Contracted Services (Special Ed. Students) Vendors	37,865	33,461	71,326	71,326	-
Contracted Services (Special Ed. Students) Joint Agr.	-	45,604	45,604	37,292	8,312
Contracted Services (Reg. Students)-ESCs & CTSAs	306,490	116,236	422,726	418,915	3,811
Contracted Services (Spl. Ed. Students)-ESCs & CTSAs	2,357,090	437,093	2,794,183	2,715,929	78,254
Contracted Service- Aid in Lieu Payments-Nonpub	539,240	-	539,240	509,093	30,147
Contracted Service- Aid in Lieu Payments-Charter	20,332	-	20,332	19,448	884
Misc. Purchased Svcs. - Transportation	94,267	-	94,267	93,835	432
General Supplies	1,637	81,720	83,357	83,357	-
Other Objects	5,572	1,669	7,241	7,231	10
Total Student Transportation Svcs.	13,103,386	571,280	13,674,666	13,097,501	577,165
Unallocated Benefits- Employee Benefits					
Group Insurance	1,200	-	1,200	829	371
Social Security Contribution	1,628,354	(176,093)	1,452,261	1,393,006	59,255
Other Retirement Contributions-Regular (DCRP)	24,000	10,000	34,000	28,715	5,285
Other Retirement Contributions- PERS	1,976,225	(378,461)	1,597,764	1,591,841	5,923
Unemployment Compensation	400,000	-	400,000	400,000	-
Workmen's Compensation	725,000	60,000	785,000	751,078	33,922
Health Benefits	17,137,854	(981,159)	16,156,695	16,155,866	829
Tuition Reimbursement	50,000	(35,556)	14,444	12,333	2,111
Other Employee Benefits	181,490	(90,000)	91,490	82,034	9,456
Total Unallocated Benefits- Employee Benefits	22,124,123	(1,591,269)	20,532,854	20,415,702	117,152
On-behalf TPAF Pension System Contri. (Non-Budgeted) Normal Cost				2,035,267	(2,035,267)
On-behalf TPAF Pension System Contri. (Non-Budgeted) Non-Contributory Insurance				179,646	(179,646)
On-behalf TPAF Pension System Contri. (Non-Budgeted) Post-Retirement Medical Contributions				3,631,624	(3,631,624)
On-behalf Reimbursed TPAF Social Security (Non-budgeted)	-	-	-	3,806,609	(3,806,609)
Total On-Behalf TPAF Contributions	-	-	-	9,653,146	(9,653,146)
Total Undistributed Expenditures	85,397,424	(228,616)	85,168,808	90,369,026	(5,200,218)
Total Current Expenditures	133,478,746	315,553	133,794,299	138,174,543	(4,380,244)

Continued

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance Final Budget To Actual
CAPITAL OUTLAY					
Equipment					
Grades 9-12	$ 6,975	$ 1,371	$ 8,346	$ 8,346	
Special Education - Instruction					
Learning and/or Language Disabilities	8,025	(750)	7,275	3,495	$ 3,780
Resource Room/Resource Center	5,600	-	5,600		5,600
Undistributed Expenditures					
Instruction	138,550	(6,449)	132,101	61,608	70,493
School Administration		6,122	6,122	6,121	1
Admin. Info. Technology		18,933	18,933	18,933	
Custodial Services		-	-	-	
Care and Upkeep of Grounds	8,677	70,825	79,502	79,502	
Non-Instructional Services					
School Buses- Special	-	80,840	80,840	80,840	-
Total Equipment	167,827	170,892	338,719	258,845	79,874
Facilities Acquisition and Construction Services					
Assessment for Debt Service on SDA Funding	262,203	(95,236)	166,967	166,967	-
Total Facilities Acquisition and Construction Services	262,203	(95,236)	166,967	166,967	-
Total Capital Outlay	430,030	75,656	505,686	425,812	79,874
TRANSFER OF FUNDS TO CHARTER SCHOOLS					
Transfer of Funds to Charter Schools	5,175,104	-	5,175,104	5,143,661	31,443
Total Transfer of Funds to Charter Schools	5,175,104	-	5,175,104	5,143,661	31,443
Total Expenditures	139,083,880	391,209	139,475,089	143,744,016	(4,268,927)
Excess (Deficiency) of Revenues Over/(Under) Expenditures	(2,000,000)	(391,209)	(2,391,209)	3,674,884	6,066,093
OTHER FINANCING SOURCES/(USES)					
Transfer Out	-	-	-	(409,041)	(409,041)
Total Other Financing Sources/(Uses)	-	-	-	(409,041)	(409,041)
Excess (Deficiency) of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses	(2,000,000)	(391,209)	(2,391,209)	3,265,843	5,657,052
Fund Balances, Beginning of Year	6,694,092	-	6,694,092	6,694,092	-
Fund Balances, End of Year	$ 4,694,092	$ (391,209)	$ 4,302,883	$ 9,959,935	$ 5,657,052

Recapitulation :	
Nonspendable Fund Balance	
Prepaid Item	$ 5,500
Restricted	
Capital Reserve	4,137,851
Excess Surplus	909,720
Assigned	
Designated for Subsequent Year's Expenditures	2,000,000
Purchases on Order	36,714
Unassigned	2,870,150
	9,959,935
Reconciliation to Governmental Funds Statements (GAAP):	(1,149,661)
Final 2013/2014 State Aid Payments Not Recognized on GAAP Basis	(1,518,704)
2013/2014 Extraordinary Aid Not Recognized on a GAAP Basis	
	$ 7,291,570
Fund Balance (GAAP Basis), End of Year	

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
BUDGET (NON-GAAP) AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Original Budget	Adjustments	Final Budget	Actual	Variance- Final Budget to Actual
REVENUES					
Intergovernmental					
State	$ 1,183,823	$ 116,406	$ 1,300,229	$ 1,247,174	$ (53,055)
Federal	2,436,753	1,849,645	4,286,398	3,212,498	(1,073,900)
Local Sources					
Miscellaneous	-	7,910	7,910	7,910	-
Total Revenues	3,620,576	1,973,961	5,594,537	4,467,582	(1,126,955)
EXPENDITURES					
Instruction					
Salaries of Teachers	394,760	805,437	1,200,197	1,170,290	29,907
Salaries of Other Professional Staff		265,335	265,335	200,944	64,391
Other Salaries for Instruction	143,616	612,458	756,074	648,189	107,885
Other Salaries		178,930	178,930	240,945	(62,015)
Purchased Professional/Educational Services	167,193	47,434	214,627	186,343	28,284
Other Purchased Services		39,475	39,475	39,472	3
General Supplies	-	324,812	324,812	238,525	86,287
Textbooks		85,842	85,842	70,332	15,510
Other Objects	1,844,519	(1,843,819)	700	587	113
Total Instruction	2,550,088	515,904	3,065,992	2,795,627	270,365
Support Services					
Salaries of Supervisors of Instruction/Program Directors	33,550	293,784	327,334	182,964	144,370
Salaries of Other Professional Staff		80,233	80,233	80,034	199
Salaries of Secretarial and Clerical Asst.	3,000	77,943	80,943	76,996	3,947
Other Salaries		33,252	33,252	11,295	21,957
Personal Services-Employee Benefits	83,833	420,996	504,829	420,561	84,268
Purchased Professional/Educational Services	83,553	957,801	1,041,354	702,433	338,921
Purchased Professional & Technical Services	-	198,055	198,055	9,711	188,344
Contracted Services-Transportation	264,071	(139,535)	124,536	124,536	-
Other Purchased Services		36,346	36,346	10,968	25,378
Supplies and Materials		90,156	90,156	52,363	37,793
Other Objects	602,481	(590,974)	11,507	94	11,413
Total Support Services	1,070,488	1,458,057	2,528,545	1,671,955	856,590
Facilities Acquisition and Construction					
Noninstructional Equipment	-	-	-	-	-
Total Facilities Acq. & Construction	-	-	-	-	-
Total Expenditures	3,620,576	1,973,961	5,594,537	4,467,582	1,126,955
Excess (Deficiency) of Revenues Over/(Under) Expenditures	-	-	-	-	-
Fund Balances, Beginning of Year	-	-	-	-	-
Fund Balances, End of Year	$ -	$ -	$ -	-	-

Reconciliation to Governmental Funds Statements (GAAP):

Fund Balance (Budgetary Basis), End of Year	$ -
Final 2013/2014 State Aid Payments Not Recognized on GAAP Basis	(83,684)
Fund Balance (GAAP Basis), End of Year	(83,684)

FRANKLIN TOWNSHIP PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Formal budgetary integration into the accounting system is employed as a management control device during the year. For governmental funds there are no substantial differences between the budgetary basis of accounting and accounting principles generally accepted in the United States of America, with the exception of the legally mandated revenue recognition of certain state aid payments for budgetary purposes only and the treatment of encumbrances in the special revenue fund as described below. Encumbrance accounting is also employed as an extension of formal budgetary integration of the governmental fund types. Unencumbered appropriations lapse at fiscal year end.

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

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

	General Fund	Special Revenue Fund
Sources/inflows of resources		
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule (Exhibit C-2)	$ 147,418,900	$ 4,467,582
Difference - Budget to GAAP:		
Grant accounting budgetary basis differs from GAAP in that encumbrances are recognized as expenditures, and the related revenue is recognized.		
Encumbrances, June 30, 2013		5,600
State Aid Payments recognized for GAAP purposes not recognized for Budgetary statements (2012/2013 State Aid)	2,732,012	42,798
State Aid Payments recognized for budgetary purposes not recognized for GAAP statements until the subsequent year (2013/2014 State Aid)	(2,668,365)	(83,684)
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds (Exhibit B-2)	$ 147,482,547	$ 4,432,296
Uses/outflows of resources		
Actual amounts (budgetary basis) "total outflows" from the budgetary comparison schedule	$ 143,744,016	$ 4,467,582
Differences - Budget to GAAP		
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for *budgetary* purposes, but in the year the supplies are received for financial reporting purposes.		
Encumbrances, June 30, 2013	-	5,600
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (Exhibit B-2)	$ 143,744,016	$ 4,473,182

APPENDIX C

Form of Approving Legal Opinion

______, 2015

The Board of Education of the
Township of Franklin in the
County of Somerset, New Jersey

Dear Board Members:

We have acted as bond counsel to The Board of Education of the Township of Franklin in the County of Somerset, New Jersey (the "Board of Education") in connection with the issuance by the Board of Education of $81,480,000 School Bonds, dated the date hereof (the "Bonds"). In order to render the opinions herein, we have examined laws, documents and records of proceedings, or copies thereof, certified or otherwise identified to us, as we have deemed necessary.

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

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

On the date hereof, the Board of Education has covenanted in its Arbitrage and Tax Certificate (the "Certificate") to comply with certain continuing requirements that must be satisfied subsequent to the issuance of the Bonds in order to preserve the tax-exempt status of the Bonds pursuant to Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Pursuant to Section 103(a) of the Code, failure to comply with these requirements could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. In the event that the Board of Education continuously complies with its covenants and in reliance on representations, certifications of fact and statements of reasonable expectations made by the Board of Education in the Certificate, it is our opinion that, pursuant to Section 103(a) of the Code, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It is also our opinion that interest on the Bonds held by a corporate taxpayer is included in "adjusted current earnings" in calculating alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations. We express no opinion regarding other federal tax consequences arising with respect to the Bonds. Further, in our opinion, interest on the Bonds and any gain on the sale thereof are not included in gross income under the New Jersey Gross Income Tax Act. These opinions are based on existing statutes, regulations, administrative pronouncements and judicial decisions.

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

Very truly yours,