

**BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY**

**REPORT OF AUDIT
SIX MONTH TRANSITION YEAR ENDED
DECEMBER 31, 2012**

BOROUGH OF HIGHLANDS

COUNTY OF MONMOUTH

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COUNTY OF MONMOUTH

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COUNTY OF MONMOUTH

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BOROUGH OF HIGHLANDS

COUNTY OF MONMOUTH

PART I

REPORT OF AUDIT OF FINANCIAL STATEMENTS

AND SUPPLEMENTARY DATA

FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

FALLON & LARSEN LLP

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the Borough Council
Borough of Highlands
County of Monmouth
Highlands, New Jersey

We have audited the accompanying balance sheets of the various funds and account groups of the Borough of Highlands (the "Borough"), as of December 31, 2012, the related statements of operations and changes in fund balance, the related statements of revenues and statements of expenditures for the six month transition year ended December 31, 2012 and the related notes to the 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 the financial reporting provisions of the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The financial statements of the Length of Service Award Program ("LOSAP") were not audited and we were not required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey to audit the LOSAP Fund financial statements in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards* and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial statements are prepared by the Borough on the basis of the financial reporting provisions of the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to in the first paragraph do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Borough as of December 31, 2012 or the changes in financial position, for the six month transition year ended December 31, 2012.

Basis for Qualified Opinion on Length of Service Award Program

The financial statements of the Length of Service Award Program Fund ("LOSAP") have not been audited and we were not required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey to audit the LOSAP Fund financial statements. The LOSAP Fund financial activities are included in the Borough's Trust Fund and represents 17.18% of the assets and liabilities as of December 31, 2012, of the Borough's Trust Funds.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Length of Service Award Program" paragraph, the financial statements referred to above present fairly in all material respects, the financial position of the Borough Trust Funds, and the changes in financial position thereof for the six month transition year ended December 31, 2012 on the basis of accounting described in Note 1 to the financial statements.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above other than the Length of Service Award Program Fund present fairly, in all material respects, the financial position of the various funds and account groups of the Borough as of December 31, 2012, and the results of its operations and changes in fund balance of the

individual funds for the six month transition year ended December 31, 2012, on the basis of the financial reporting provisions of the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1 to the financial statements.

Other Matters

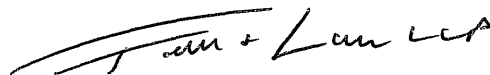
Our audit was conducted for the purpose of forming opinions on the financial statements of the Borough taken as a whole. The accompanying financial information listed as supplementary schedules and comments section in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by New Jersey Division of Local Government Services and New Jersey State Office of Management and Budget Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid and are also not a required part of the financial statements. The accompanying financial information listed as supplementary schedules and comments sections in the table of contents and the schedule of expenditures of state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Except for the LOSAP Fund supplementary schedules, such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Except for the effects of such adjustments, if any, as might have been determined to be necessary had the LOSAP Fund supplementary information been audited, in our opinion, the supplementary schedules, comments sections and schedule of expenditures of state financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the Borough's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 Borough's internal control over financial reporting and compliance.



Thomas P. Fallon
Certified Public Accountant
Registered Municipal Accountant #465



Fallon & Larsen LLP

November 13, 2013

FALLON & LARSEN LLP

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and Members
of the Borough Council
Borough of Highlands
County of Monmouth
Highlands, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Borough of Highlands, of the State of New Jersey (the "Borough"), as of and for the six month transition year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2013. The financial statements of the Length of Service Award Program ("LOSAP") were not audited and we were not required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey to audit the LOSAP Fund financial statements in accordance with auditing standards generally accepted in the United States, *Government Auditing Standards* and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. We expressed an adverse opinion on the conformity of the statements with accounting principles generally accepted in the United States of America. As described in Note 1, the financial statements are prepared by the Borough on the basis of the financial reporting provisions of the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion was also qualified because the Division of Local Government Services does not require the Length of Service Award Program to be audited, only reviewed.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Borough's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Borough's internal control. Accordingly, we do not express an opinion on the effectiveness of the Borough's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

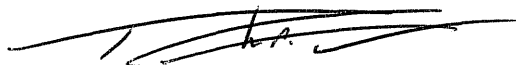
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Borough's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

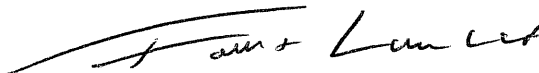
We noted certain matters that we have reported to management of the Borough in the Comments and Recommendations section of this report.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Thomas P. Fallon
Certified Public Accountant
Registered Municipal Accountant #465



Fallon & Larsen LLP

November 13, 2013

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

ASSETS	<u>Ref.</u>	
Cash	A-4	\$ 3,609,017.14
Cash - Change Fund	A	445.00
		<u>3,609,462.14</u>
Due from State of New Jersey-Ch.20, P.L. 1971	A-9	<u>500.00</u>
Receivables with Full Reserves:		
Delinquent Property Taxes Receivable	A-5	724,981.78
Tax Title Liens Receivable	A-6	37,662.10
Property Acquired for Taxes	A-7	212,600.00
Revenue Accounts Receivable	A-8	5,627.56
Interfund - Animal Control Trust Fund	A-10	84.00
Interfund - Federal and State Grant Fund	A-25	500.66
		<u>981,456.10</u>
		<u>4,591,418.24</u>
Deferred Charges:		
Emergency Authorizations	A-3	150,000.00
Special Emergency Authorizations (N.J.S. 40A:4-55)	A-11	2,402,000.00
		<u>2,552,000.00</u>
		<u>7,143,418.24</u>
Federal and State Grant Fund:		
Cash	A-4	61,969.41
Grants Receivable	A-27	13,481.56
		<u>75,450.97</u>
Total Assets		<u>\$ 7,218,869.21</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

	<u>Ref.</u>	
LIABILITIES, RESERVES AND FUND BALANCE		
Appropriation Reserves	A-3/A-12	\$ 535,301.54
Reserve for Encumbrances	A-13	1,206,465.78
Accounts Payable	A-14	132,546.95
Prepaid Taxes	A-16	44,103.78
Tax Overpayments	A-15	103,615.72
Regional High School Tax Payable	A-17	106,098.17
County Taxes Payable	A-18	677.52
Local School Taxes Payable	A-19	59,754.82
Business Improvement Tax Payable	A-20	555.00
Due to State of New Jersey - Marriage License	A-22	100.00
Due to State of New Jersey - DCA Training Fees	A-23	1,023.55
Emergency Note Payable	A-24	150,000.00
Special Emergency Note Payable	A-26	2,432,000.00
		<u>4,772,242.83</u>
Reserve for Receivables and Other Assets	A	981,456.10
Fund Balance	A-1	<u>1,389,719.31</u>
		<u>7,143,418.24</u>
Federal and State Grant Fund:		
Interfund - Current Fund	A-25	500.66
Appropriated Reserves	A-28	58,245.14
Unappropriated Reserves	A-29	11,883.29
Reserve for Encumbrances	A-30	3,700.00
Due to State of New Jersey	A-31	<u>1,121.88</u>
		<u>75,450.97</u>
Total Liabilities, Reserves and Fund Balance		<u>\$ 7,218,869.21</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCE
REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

Ref.

Revenue and Other Income Realized:

Fund Balance Utilized	A-2	\$ 317,500.00
Miscellaneous Revenue Anticipated	A-2	435,848.04
Receipts from Delinquent Taxes	A-2	258,051.52
Receipts from Current Taxes	A-2	7,099,520.92
Non-Budget Revenues	A-2	588,806.95
Other Credits to Income:		
Unexpended Balance of Appropriation Reserves	A-12	320,806.07
Reimbursement from Highlands Business Partners	A-4	5,150.00
Grants Appropriated Canceled	A-28	<u>1,300.66</u>

Total Revenue 9,026,984.16

Expenditures:

Budget Appropriations Within Caps:

Operations:

Salaries and Wages	A-3	1,398,306.51
Other Expenses	A-3	3,872,088.58
Deferred Charges and Statutory Expenditures	A-3	67,020.00

Budget Appropriations Excluded from Caps:

Operations:

Other Expenses	A-3	138,700.67
Capital Improvements	A-3	51,300.00
Municipal Debt Service	A-3	<u>364,880.10</u>

5,892,295.86

County Taxes	A-18	969,831.42
Local District School Tax	A-19	1,533,852.00
Regional High School Tax	A-17	2,056,921.18
Business Improvement District Tax	A-20	17,500.00
Local Municipal Open Space Tax	A-21	15,158.72
Grants Receivable Canceled	A-27	800.00
Due from State Canceled	A-9	16,044.09
Interfund Advanced	A-10	84.00
Interfund Advanced	A-25	<u>500.66</u>

Total Expenditures 10,502,987.93

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCE
REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

Ref.

Excess/(Deficit) in Revenue		\$ (1,476,003.77)
Add:		
Expenditures Included Above Which are by Statute		
Deferred Charges to Budgets of Succeeding Year:		
Emergency Authorization	A-3	150,000.00
Special Emergency Authorizations	A-3/A-11	<u>2,200,000.00</u>
Statutory Excess to Fund Balance		873,996.23
Fund Balance, July 1		<u>833,223.08</u>
		1,707,219.31
Decreased by:		
Utilized as Anticipated Revenue	A-1/A-2	<u>317,500.00</u>
Fund Balance December 31	A	<u><u>\$ 1,389,719.31</u></u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

		<u>Anticipated</u>	<u>Special</u>		<u>Excess or</u>
	<u>Ref.</u>	<u>Budget</u>	<u>N.J.S.A.</u>	<u>Realized</u>	<u>(Deficit)</u>
			<u>40A:4-87</u>		
Fund Balance Anticipated	A-1	\$ 317,500.00		\$ 317,500.00	
Miscellaneous Revenues:					
Fines and Costs:					
Municipal Court	A-8	50,785.00		67,645.37	\$ 16,860.37
Consolidated Municipal Property Tax Relief Aid	A-8	25,046.00		25,046.00	
Energy Receipts Tax (P.L. 1997, Ch. 162 &167)	A-8	316,356.00		316,356.00	
Alcohol Education and Rehabilitation Fund	A-27		\$ 2,482.30	2,482.30	
Clean Communities Grant	A-27	9,877.83		9,877.83	
Summer Food Program	A-27		12,747.64	12,747.64	
Body Armor Grant	A-27	1,692.90		1,692.90	
Total Miscellaneous Revenues	A-1	403,757.73	15,229.94	435,848.04	16,860.37
Receipts from Delinquent Taxes	A-1/A-2	217,500.00		258,051.52	40,551.52
		621,257.73	15,229.94	693,899.56	57,411.89
Amount to be Raised by Taxes for					
Support of Municipal Budget	A-2	3,026,889.71		2,796,900.56	(229,989.15)
		3,648,147.44	15,229.94	3,490,800.12	(172,577.26)
Non-Budget Revenues	A-1/A-2			588,806.95	588,806.95
Total		\$ 3,965,647.44	\$ 15,229.94	\$ 4,397,107.07	\$ 416,229.69
	<u>Ref.</u>	<u>A-3</u>	<u>A-3</u>		

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

Analysis of Realized Revenues

Allocation of Current Tax Collections:

Revenue from Collections	A-1/A-5	\$ 7,099,520.92
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Allocated to School, County, Business Improvement District and Municipal Open Space Taxes	A-5	<u>4,606,436.07</u>
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Balance for Support of Municipal Budget Appropriations		2,493,084.85
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Add:

Reserve for Uncollected Taxes	A-3	<u>303,815.71</u>
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Amount for Support of Municipal Budget Appropriations	A-2	\$ <u>2,796,900.56</u>
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Receipts from Delinquent Taxes:

Delinquent Tax Collections	A-5	\$ <u>258,051.52</u>
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	A-2	\$ <u>258,051.52</u>
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The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

Analysis of Non-Budget Revenues:

Sale of Scrap	\$ 6,324.82
Fire Safety LEA Rebate	4,893.85
6% Penalty	4,665.37
Prior Year Reimbursements	600.00
Motor Vehicle Inspection Fees	850.00
State of NJ - Senior Citizen Administration Fee	190.00
Copies	569.35
Pilot - 50 Miller Street	72.00
FEMA Reimbursement	422,284.88
Other Licenses	1,808.00
Fees & Permits	28,949.00
Interest on Delinquent Taxes	27,928.75
Interest on Deposits	16,839.47
Uniform Construction Code Fees	37,665.00
Lease of Borough Property	28,198.00
Police Off Duty Administrative Fees	5,885.00
Other Miscellaneous Revenue	<u>1,083.46</u>

A-2/A-4

\$ 588,806.95

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Budget</u>	<u>Appropriated</u> <u>Budget After</u> <u>Modification</u>	<u>Paid or</u> <u>Charged</u>	<u>Expended</u> <u>Reserved</u>	<u>Unexpended</u> <u>Balance</u> <u>Canceled</u>
<u>Operations Within CAPS</u>					
<u>General Government Functions</u>					
Borough Administrator					
Salaries and Wages	\$ 45,005.00	\$ 45,005.00	\$ 45,000.00		\$ 5.00
Other Expenses	2,660.00	2,660.00	527.00	\$ 2,133.00	
Central Services					
Salaries and Wages	14,855.00	14,855.00	12,478.50		2,376.50
Other Expenses	18,910.00	18,910.00	12,324.62	6,585.38	
Borough Council					
Salaries and Wages	5,001.00	5,001.00	5,000.00		1.00
Other Expenses	15,680.00	15,680.00	6,878.93	8,801.07	
Borough Clerk					
Salaries and Wages	33,900.00	33,900.00	32,150.00	1,750.00	
Other Expenses	14,775.00	14,775.00	7,527.01	7,247.99	
Financial Administration					
Salaries and Wages	60,370.00	60,370.00	57,319.07	3,050.93	
Other Expenses	8,680.00	8,680.00	1,536.32	2,643.68	4,500.00
Audit Services	27,580.00	27,580.00	27,580.00		
Collection of Taxes					
Salaries and Wages	26,700.00	26,700.00	25,189.57	1,510.43	
Other Expenses	5,425.00	7,425.00	5,102.76	2,322.24	
Assessment of Taxes					
Salaries and Wages	12,235.00	12,235.00	12,232.00		3.00
Other Expenses	7,445.00	7,445.00	167.85	7,277.15	

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Balance Canceled</u>
Legal Services and Costs					
Other Expenses	\$ 97,000.00	\$ 97,000.00	\$ 60,972.25	\$ 21,027.75	\$ 15,000.00
Engineering Services and Costs					
Other Expenses	55,000.00	55,000.00	54,300.00	700.00	
<u>Code Enforcement</u>					
Code Enforcement Officer					
Salaries and Wages	20,500.00	20,500.00	15,504.00		4,996.00
Other Expenses	7,150.00	7,150.00	112.50	3,037.50	4,000.00
Other Expenses - Substandard Housing	10,000.00	10,000.00		10,000.00	
<u>Municipal Land Use Law (N.J.S.A.:55D-1)</u>					
Planning Board					
Salaries and Wages	3,000.00	3,000.00	2,750.04		249.96
Other Expenses	12,750.00	12,750.00	8,020.80	3,229.20	1,500.00
Zoning Board of Adjustment					
Salaries and Wages	3,000.00	3,000.00	2,750.04		249.96
Other Expenses	12,530.00	12,530.00	9,263.52	3,266.48	
Affordable Housing					
Salaries and Wages	1.00	1.00			1.00
Other Expenses	1.00	1.00			1.00
<u>Insurance</u>					
Employee Group Insurance	484,000.00	484,000.00	444,311.00	39,689.00	
Unemployment Insurance	40,000.00	40,000.00	40,000.00		

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Balance Canceled</u>
<u>Public Safety Functions</u>					
Fire					
Other Expenses	\$ 41,575.00	\$ 41,575.00	\$ 18,198.50	\$ 23,376.50	
Police					
Salaries and Wages	878,015.00	878,015.00	825,337.84	22,677.16	\$ 30,000.00
Other Expenses	29,354.00	29,354.00	23,054.73	6,299.27	
Dispatch					
Salaries and Wages	88,700.00	94,700.00	79,969.31	6,730.69	8,000.00
Other Expenses	750.00	750.00		750.00	
Municipal Court					
Salaries and Wages	41,875.00	41,875.00	37,732.95	4,142.05	
Other Expenses	7,095.00	7,095.00	5,118.64	1,976.36	
First Aid Contribution	14,000.00	14,000.00	9,131.96	4,868.04	
Emergency Management Services					
Salaries and Wages	2,000.00	2,000.00	1,824.96		175.04
Other Expenses	13,980.00	13,980.00	5,523.44	8,456.56	
Public Defender					
Salaries and Wages	2,485.00	2,485.00	1,749.96		735.04
Fire Hydrant Fees	30,500.00	30,500.00	29,018.82	1,481.18	
Uniform Fire Safety Act					
Salaries and Wages	12,185.00	13,185.00	11,700.00	1,485.00	
Other Expenses	2,305.00	2,305.00	50.00	2,255.00	
Municipal Prosecutor					
Salaries and Wages	9,010.00	9,010.00	7,623.00		1,387.00
<u>Public Works Functions</u>					
Road Repair and Maintenance					
Salaries and Wages	84,395.00	86,395.00	80,873.87	5,521.13	
Other Expenses	24,660.00	24,660.00	16,687.84	7,972.16	

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Budget</u>	<u>Appropriated</u> Budget After <u>Modification</u>	<u>Paid or</u> <u>Charged</u>	<u>Expended</u> <u>Reserved</u>	<u>Unexpended</u> Balance <u>Canceled</u>
Snow Removal					
Salaries and Wages	\$ 12,500.00	\$ 12,500.00	\$ 229.05		\$ 12,270.95
Other Expenses	20,000.00	20,000.00			20,000.00
Sanitation					
Salaries and Wages	1,005.00	1,005.00	999.96		5.04
Other Expenses	11,670.00	11,670.00	6,325.22	\$ 5,344.78	
Other Expenses - Contractual Services	103,000.00	103,000.00	100,900.08		2,099.92
Mechanical Garage					
Salaries and Wages	1.00	1.00			1.00
Other Expenses	2,000.00	2,000.00	718.00	532.00	750.00
Public Buildings and Grounds					
Salaries and Wages	1.00	1.00			1.00
Other Expenses	58,170.00	58,170.00	52,079.84	6,090.16	
Shade Tree Commission					
Other Expenses	500.00	500.00		500.00	
Condominium Services					
Other Expenses	12,900.00	12,900.00	1,658.67	11,241.33	
<u>Health and Human Services</u>					
Services of Monmouth County Regional Health					
Commission Contract (R.S. 40:13)	29,000.00	29,000.00	28,329.50		670.50
Environmental Commission					
Other Expenses	500.00	500.00		500.00	
Dog Control					
Other Expenses	11,500.00	11,500.00	6,340.00	5,160.00	
N.J. Public Employees Occupational Safety and Health Act					
Other Expenses	2,500.00	2,500.00		2,500.00	

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Budget</u>	<u>Appropriated</u> <u>Budget After</u> <u>Modification</u>	<u>Paid or</u> <u>Charged</u>	<u>Expended</u> <u>Reserved</u>	<u>Unexpended</u> <u>Balance</u> <u>Canceled</u>
<u>Park and Recreation Functions</u>					
Beachfront Maintenance					
Salaries and Wages	\$ 13,200.00	\$ 10,516.50	\$ 10,516.50		
Other Expenses	10,150.00	10,150.00	6,165.00		\$ 3,985.00
Parks and Playgrounds					
Other Expenses	5,625.00	5,625.00	2,095.38	\$ 1,729.62	1,800.00
Celebration of Public Events, Anniversary or Holiday					
Other Expenses	3,000.00	3,000.00		3,000.00	
Community Center					
Salaries and Wages	80,900.00	72,583.50	53,486.68	5,096.82	14,000.00
Other Expenses	14,450.00	14,450.00	5,433.86	5,141.14	3,875.00
<u>Education Functions</u>					
Expenses of Participation in Free County Library					
Salaries and Wages	1.00	1.00			1.00
Other Expenses	1.00	1.00			1.00
<u>Uniform Construction Code - Appropriation Offset by</u> <u>Dedicated Revenues (N.J.A.C. 5:23-4.17)</u>					
Construction Code Official					
Salaries and Wages	23,925.00	23,925.00	22,865.08	1,059.92	
Other Expenses	1,525.00	1,525.00	92.73	1,432.27	

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Balance Canceled</u>
<u>Unclassified:</u>					
Accumulated Sick Leave	\$ 32,000.00	\$ 32,000.00	\$ 32,000.00		
Hurricane Sandy - Special Emergency		2,200,000.00	2,132,858.80	\$ 67,141.20	
Hurricane Sandy - Emergency		150,000.00	86,330.97	63,669.03	
<u>Utility Expenses and Bulk Purchases</u>					
Electricity	42,000.00	42,000.00	21,794.30	20,205.70	
Street Lighting	31,050.00	31,050.00	21,237.64	9,812.36	
Telephone	20,300.00	20,300.00	18,015.45	2,284.55	
Water	6,000.00	6,000.00	5,442.70	557.30	
Natural Gas	9,225.00	9,225.00	2,697.23	6,527.77	
Telecommunication Costs	11,400.00	11,400.00	11,317.11	82.89	
Gasoline and Diesel Fuel	49,000.00	49,000.00	47,590.12	1,409.88	
Landfill/Solid Waste Disposal Costs					
Monmouth County Reclamation Center					
Other Expenses	<u>107,000.00</u>	<u>107,000.00</u>	<u>96,504.18</u>	<u>10,495.82</u>	
Total Operations Within CAPS	3,053,036.00	5,403,036.00	4,816,617.65	453,777.44	\$ 132,640.91
<u>Detail:</u>					
Salaries and Wages	1,474,765.00	1,472,765.00	1,345,282.38	53,024.13	74,458.49
Other Expenses	<u>1,578,271.00</u>	<u>3,930,271.00</u>	<u>3,471,335.27</u>	<u>400,753.31</u>	<u>58,182.42</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Budget</u>	<u>Appropriated Budget After Modification</u>	<u>Paid or Charged</u>	<u>Expended Reserved</u>	<u>Unexpended Balance Canceled</u>
<u>Deferred Charges and Statutory Expenditures Within CAPS</u>					
Statutory Expenditures:					
Contributions to:					
Social Security System (O.A.S.I.)	\$ 63,520.00	\$ 63,520.00	\$ 55,579.25	\$ 7,940.75	
Defined Contribution Retirement Program	3,500.00	3,500.00	546.41	2,953.59	
Total Deferred Charges and Statutory Expenditures Within CAPS	67,020.00	67,020.00	56,125.66	10,894.34	
Total Appropriations Within CAPS	<u>3,120,056.00</u>	<u>5,470,056.00</u>	<u>4,872,743.31</u>	<u>464,671.78</u>	<u>\$ 132,640.91</u>
<u>Operations Excluded from CAPS</u>					
Length of Service Awards Program	45,000.00	45,000.00		45,000.00	
9-1-1					
Stormwater Management	14,000.00	14,000.00	12,715.30	1,284.70	
Recycling Tax (N.J.S.A. 13:1E-96.5):					
Other Expenses	4,900.00	4,900.00	3,584.01	1,315.99	
Atlantic Highlands - Maintenance of Motor Vehicles	48,000.00	48,000.00	25,049.68	22,950.32	

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Budget</u>	<u>Appropriated</u> Budget After <u>Modification</u>	<u>Paid or</u> <u>Charged</u>	<u>Expended</u> <u>Reserved</u>	<u>Unexpended</u> <u>Balance</u> <u>Canceled</u>
<u>Public and Private Programs Offset by Revenues</u>					
Summer Food Service for Children		\$ 12,747.64	\$ 12,747.64		
Matching Funds for Grants	\$ 2,000.00	2,000.00			\$ 2,000.00
Municipal Court Alcohol Education and Rehabilitation Fund		2,482.30	2,482.30		
Clean Communities Grant	9,877.83	9,877.83	9,877.83		
Body Armor Grant	1,692.90	1,692.90	1,692.90		
	<u>125,470.73</u>	<u>140,700.67</u>	<u>68,149.66</u>	<u>\$ 70,551.01</u>	<u>2,000.00</u>
Total Operations - Excluded from CAPS					
Detail:					
Other Expenses	<u>125,470.73</u>	<u>140,700.67</u>	<u>68,149.66</u>	<u>70,551.01</u>	<u>2,000.00</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Balance Canceled</u>
<u>Capital Improvements Excluded from CAPS</u>					
Capital Improvement Fund	\$ 37,500.00	\$ 37,500.00	\$ 37,500.00		
Acquisition of Mobile Vision Equipment	13,800.00	13,800.00	13,721.25	\$ 78.75	
Total Capital Improvements - Excluded from CAPS	51,300.00	51,300.00	51,221.25	78.75	
<u>Municipal Debt Service Excluded from CAPS</u>					
Payment of Bond Principal	219,000.00	219,000.00	219,000.00		
Interest on Bonds	92,180.00	92,180.00	92,067.67		\$ 112.33
Capital Lease Obligations Approved Prior to 7/1/2007					
Principal	52,500.00	52,500.00	52,500.00		
Interest	1,325.00	1,325.00	1,312.43		12.57
Total Municipal Debt Service Excluded from CAPS	365,005.00	365,005.00	364,880.10		124.90
Total General Appropriations Excluded from CAPS	541,775.73	557,005.67	484,251.01	70,629.76	2,124.90
Subtotal General Appropriations	3,661,831.73	6,027,061.67	5,356,994.32	535,301.54	134,765.81
Reserve for Uncollected Taxes	303,815.71	303,815.71	303,815.71		
Total General Appropriations	\$ 3,965,647.44	\$ 6,330,877.38	\$ 5,660,810.03	\$ 535,301.54	\$ 134,765.81
<u>Ref.</u>	A-2	A-3	A-1/A-3	A/A-1	

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Ref.</u>	<u>Budget After Modification</u>
Budget	A-2	\$ 3,965,647.44
Added by N.J.S. 40A:4-87	A-2	15,229.94
Special Emergency Authorization	A-1/A-11	2,200,000.00
Emergency Authorization	A/A-1	<u>150,000.00</u>
	A-3	<u>\$ 6,330,877.38</u>
		<u>Paid or Charged</u>
Disbursements	A-4	\$ 4,123,727.87
Reserve for Encumbrances	A-13	1,206,465.78
Appropriated Reserves for		
Federal and State Grants	A-28	26,800.67
Reserve for Uncollected Taxes	A-2	<u>303,815.71</u>
	A-3	<u>\$ 5,660,810.03</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

TRUST FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

ASSETS	<u>Ref.</u>	
Animal Control Trust Fund:		
Cash	B-1	\$ 9,298.79
Change Fund		40.00
		<u>9,338.79</u>
Trust Other Fund:		
Cash	B-1	809,144.33
		<u>809,144.33</u>
Open Space Trust Fund:		
Cash	B-1	116,387.11
		<u>116,387.11</u>
Length of Service Award Program Fund ("LOSAP") - Unaudited:		
Investments	B-7	193,969.46
		<u>\$ 1,128,839.69</u>
 LIABILITIES AND RESERVES		
Animal Control Trust Fund:		
Reserve for Animal Control Expenditures	B-2	\$ 9,254.79
Interfund - Current Fund	B-4	84.00
		<u>9,338.79</u>
Trust Other Fund:		
Various Reserves	B-5	809,144.33
		<u>809,144.33</u>
Open Space Trust Fund:		
Reserve for Open Space	B-6	116,387.11
		<u>116,387.11</u>
Length of Service Award Program Fund ("LOSAP") - Unaudited:		
Reserve for Length of Service Award Program	B-8	193,969.46
		<u>\$ 1,128,839.69</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

ASSETS	<u>Ref.</u>	
Cash	C-2	\$ 1,092,686.28
N.J. Department of Transportation Grants Receivable	C-6	411,156.25
Federal Emergency Management Agency Receivable	C-10	665,000.00
Exxon Mobile Receivable	C-10	137,000.00
Deferred Charges to Future Taxation:		
Funded	C-4	4,342,000.00
Unfunded	C-5	<u>3,209,188.40</u>
		<u>\$ 9,857,030.93</u>
 LIABILITIES, RESERVES AND FUND BALANCE		
General Serial Bonds	C-8	\$ 4,342,000.00
Bond Anticipation Notes	C-9	1,083,375.00
Improvement Authorizations:		
Funded	C-10	642,061.98
Unfunded	C-10	2,087,463.01
Reserve for Encumbrances	C-11	1,461,602.54
Accounts Payable	C-14	10,097.75
Capital Improvement Fund	C-12	64,410.05
Miscellaneous Reserves	C-13	58,710.03
Fund Balance	C-1	<u>107,310.57</u>
		<u>\$ 9,857,030.93</u>

There were bonds and notes authorized but not issued on December 31, 2012 of \$2,785,488.40
 (Exhibit C-15)

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
STATEMENT OF FUND BALANCE - REGULATORY BASIS

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 68,379.07
Increased by:		
Premium on Sale of Bonds	C-2	<u>38,931.50</u>
Balance, December 31, 2012	C	\$ <u><u>107,310.57</u></u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

	<u>Ref.</u>	
ASSETS		
<u>Operating Fund</u>		
Cash	D-5	\$ 408,087.92
Change Fund	D	<u>100.00</u>
		<u>408,187.92</u>
Receivables and Other Assets with Full Reserves:		
Consumer Accounts Receivable	D-7	<u>343,702.65</u>
Total Operating Fund		<u>751,890.57</u>
<u>Capital Fund</u>		
Cash	D-5	16,234.44
Fixed Capital	D-13	<u>1,349,459.48</u>
Total Capital Fund		<u>1,365,693.92</u>
Total Assets		<u>\$ 2,117,584.49</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

Ref.

LIABILITIES, RESERVES AND FUND BALANCE

Operating Fund

Appropriation Reserves	D-4/D-8	\$	42,459.08
Reserve for Encumbrances	D-9		44,555.00
Customer Overpayments	D-10		12,192.45
Accrued Interest on Bonds	D-11		2,977.50
Contingent Liabilities	D-12		52,048.80
			<u>154,232.83</u>
Reserve for Receivables and Other Assets	D		343,702.65
Fund Balance	D-1		<u>253,955.09</u>
Total Operating Fund			<u>751,890.57</u>

Capital Fund

Capital Improvement Fund	D-14		6,750.00
Reserve for Down Payments on Capital Improvements	D-15		100.00
Reserve for Amortization	D-16		1,062,459.48
Serial Bonds Payable	D-17		287,000.00
Fund Balance	D-2		<u>9,384.44</u>
Total Capital Fund			<u>1,365,693.92</u>
Total Liabilities, Reserves and Fund Balance		\$	<u><u>2,117,584.49</u></u>

There were no bonds and notes authorized but not issued on December 31, 2012

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
STATEMENT OF OPERATIONS AND CHANGE IN FUND BALANCE
REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Ref.</u>	
Revenue and Other Income Realized:		
Fund Balance Utilized	D-3	\$ 200,000.00
Sewer Rents	D-3	774,981.52
Other Credits to Income:		
Non-Budget Revenues	D-3	14,966.82
Unexpended Balance of Appropriation Reserves	D-8	<u>63,231.59</u>
Total Revenue		<u>1,053,179.93</u>
Expenditures:		
Operating	D-4	819,584.19
Debt Service	D-4	13,732.71
Deferred Charges and Statutory Expenditures	D-4	<u>6,545.00</u>
Total Expenditures		<u>839,861.90</u>
Statutory Excess to Fund Balance		213,318.03
Fund Balance July 1		<u>240,637.06</u>
		453,955.09
Decreased by:		
Utilization as Anticipated Revenue	D-1/D-3	<u>200,000.00</u>
Fund Balance December 31	D	<u><u>\$ 253,955.09</u></u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY CAPITAL FUND
STATEMENT OF FUND BALANCE - REGULATORY BASIS

Ref.

Balance, June 30, 2012 and December 31, 2012

D

\$ 9,384.44

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Ref.</u>	<u>Anticipated Budget</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Fund Balance Anticipated	D-1	\$ 200,000.00	\$ 200,000.00	
Sewer Rents	D-1/D-7	<u>666,275.00</u>	<u>774,981.52</u>	\$ <u>108,706.52</u>
		866,275.00	974,981.52	108,706.52
Non-Budget Revenues	D-1/D-3/D-5	<u> </u>	<u>14,966.82</u>	<u>14,966.82</u>
		\$ <u>866,275.00</u>	\$ <u>989,948.34</u>	\$ <u>123,673.34</u>

Ref. D-4

Analysis of Non-Budget Revenues

Interest Earned on Delinquent Accounts	\$ 13,364.31
Street Opening Permits	500.00
Interest on Investments and Deposits	<u>1,102.51</u>
D-1/D-3	\$ <u>14,966.82</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS

For the Six Month Transition Year Ended December 31, 2012

	<u>Appropriated</u>		<u>Expended</u>		<u>Unexpended</u>
	<u>Budget</u>	<u>Budget After Modification</u>	<u>Paid or Charged</u>	<u>Reserved</u>	<u>Balance Canceled</u>
Operating:					
Salaries and Wages	\$ 77,650.00	\$ 77,650.00	\$ 66,821.77	\$ 5,828.23	\$ 5,000.00
Other Expenses	744,080.00	744,080.00	688,257.04	35,822.96	20,000.00
Group Insurance	24,000.00	24,000.00	22,854.19		1,145.81
Debt Service:					
Payment of Bond Principal	7,000.00	7,000.00	7,000.00		
Interest on Bonds	7,000.00	7,000.00	6,732.71		267.29
Statutory Expenditures:					
Contribution to:					
Social Security System (O.A.S.I.)	5,945.00	5,945.00	5,137.11	807.89	
Unemployment Compensation Insurance	600.00	600.00	600.00		
	<u>\$ 866,275.00</u>	<u>\$ 866,275.00</u>	<u>\$ 797,402.82</u>	<u>\$ 42,459.08</u>	<u>\$ 26,413.10</u>
<u>Ref.</u>	D-3	D-3	D-1	D/D-1	
Analysis of Paid or Charged:					
Cash Disbursements	D-5		\$ 746,115.11		
Accrued Interest on Bonds	D-11		6,732.71		
Reserve for Encumbrances	D-9		<u>44,555.00</u>		
			<u>\$ 797,402.82</u>		

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL FIXED ASSET ACCOUNT GROUP
STATEMENT OF GENERAL FIXED ASSETS
REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

	<u>Ref.</u>	
General Fixed Assets:		
Land	E-1	\$ 1,097,800.00
Buildings and Improvements	E-1	5,772,197.90
Machinery and Equipment	E-1	<u>2,783,785.40</u>
		<u>\$ 9,653,783.30</u>
Investments in General Fixed Assets		<u>\$ 9,653,783.30</u>

The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

PAYROLL FUND
BALANCE SHEET - REGULATORY BASIS

As of the Six Month Transition Year Ended December 31, 2012

ASSETS

Cash	\$ <u>11,935.84</u>
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LIABILITIES

Payroll Liabilities	\$ <u>11,935.84</u>
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The accompanying notes are an integral part of this statement.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

During fiscal year 2012 (July 1, 2011 to June 30, 2012) the Borough made application to the Local Finance Board to revert to a calendar year. The application was approved. A six month transition year budget was adopted to cover the period July 1, 2012 to December 31, 2012 and commencing January 1, 2013 the Borough will operate on a calendar year. This audit report covers the six month transition year period of July 1, 2012 to December 31, 2012.

The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB has adopted accounting statements to be used by governmental units when reporting financial position and results of operations in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The municipalities in the State of New Jersey do not prepare financial statements in accordance with GAAP and thus do not comply with all of the GASB pronouncements.

The financial statements of the Borough of Highlands, County of Monmouth, New Jersey ("Borough") include every board, body, officer or commission maintained wholly or in part by funds appropriated by the Borough, as required by the provision of N.J.S. 40A:5-5. The financial statements, however, do not include the operation of School Boards, Highlands Housing Authority, Volunteer Fire Departments and First Aid Squads which are subject to separate audit. Included within the financial statements are taxes levied, collected and turned over to School Boards and appropriations for contributions to Volunteer Fire Departments and First Aid Squads. Complete financial statements of the above entities can be obtained by contacting the Treasurer of the respective entity.

B. Description of Funds

GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Codification establishes three fund types to be used by general purpose governmental units when reporting financial position and results of operations in accordance with GAAP.

The accounting policies of the Borough conform to the accounting principles and practices applicable to municipalities prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. The accompanying financial statements are presented in the format prescribed by the State of New Jersey. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and are a means of reporting on the stewardship of

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Description of Funds (continued)

public officials with respect to public funds. Under this method of accounting, the Borough accounts for its financial transactions through the following separate funds:

Current Fund - resources and expenditures for governmental operations of a general nature.

Grant Fund - accounts for receipts and disbursements of Federal and State Grants.

Trust Funds - receipts, custodianship, and disbursements of monies in accordance with the purpose for which each reserve was created.

General Capital Fund - receipt and disbursement of funds for the acquisition of general capital facilities, other than those acquired in the Current Fund. General bonds and notes payable are recorded in this fund and are offset by deferred charges to future taxation.

Water-Sewer Utility Operating and Capital Funds - are used to account for Water/Sewer operations that are financed through user fees. The funds are operated on a basis similar to private business enterprises where the intent is that the costs of providing the Water/Sewer Utility to the general public be financed through user fees. Operations related to the acquisition of Water/Sewer capital facilities are recorded within the Water/Sewer Utility Capital Fund. Bonds and notes payable of the utility are recorded in the Utility Capital Fund.

Payroll Fund - receipts and disbursements to account for the payroll and payroll tax liabilities of the Borough.

General Fixed Assets Account Group - reflects estimated valuations of land, buildings and certain moveable fixed assets of the Borough as discussed under the caption of "Basis of Accounting".

C. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the Division differ in certain respects from GAAP applicable to local governmental units. The more significant differences are as follows:

A modified accrual basis of accounting is followed with minor exceptions.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

Property Taxes and Other Revenues - property taxes and other revenues are recognized on a cash basis. Receivables for property taxes and other items that are susceptible to accrual are recorded with offsetting reserves on the balance sheet of the Borough's Current Fund. GAAP requires such revenues to be recognized in the accounting period when they become susceptible to accrual, reduced by an allowance for doubtful accounts. Property taxes are payable quarterly on the first day of February, May, August, and November.

Grant Revenues and Expenditures - Federal and State grants, entitlement or shared revenues received for purposes normally financed through the Current Fund are recognized when anticipated in the Borough's budget. GAAP requires such revenues to be recognized in the accounting period when they are earned and the expenditures to be recognized when the liability is incurred.

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

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

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

Deferred Charges - the regulatory basis of accounting utilized by the Borough requires that certain expenditures be deferred, and raised as items of appropriation in budgets of succeeding years. These deferred charges include the two general categories, overexpenditures and emergency appropriations. Overexpenditures occur when expenditures recorded as "paid or charged" exceed available appropriation balances. Emergency appropriations occur when, subsequent to the adoption of a balanced budget, the governing body authorizes the establishment of additional appropriations based on unforeseen circumstances or for other special purposes as defined by statute. Overexpenditures and emergency appropriations are deducted from total expenditures in the calculation of operating results and are established as assets for Deferred Charges on the respective balance sheet. GAAP does not permit the deferral of overexpenditures to

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

Deferred Charges (continued) - succeeding budgets. In addition, GAAP does not recognize expenditures based on the authorization of an appropriation. Instead, the authorization of special purpose expenditures, such as the preparation of tax maps or revaluation of assessable real property, would represent the designation of fund balance. The status of deferred charges at December 31, 2012 is set forth in Note 7.

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

Property Acquired for Taxes - is recorded in the Current Fund at the assessed valuation when such property was acquired and fully reserved. GAAP requires such property to be recorded in the General Fixed Asset Group at its market value.

Interfunds - interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset as reserves. GAAP does not require the establishment of an offsetting reserve.

Inventories of Supplies - the costs of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The inventories have offsetting reserve amounts.

Fixed Assets - Utility - property and equipment purchased by the Utility Fund is recorded in the Utility Capital Fund at cost and is adjusted for dispositions and abandonments. The amount reported for reserve for amortization of fixed capital acquired on the balance sheet of the Utility Capital Fund represents the aggregate charges (capital outlay and debt service) to the operating budget for the costs of acquisitions of property and equipment and proceeds from grants-in-aid. The utilities do not record depreciation of property and equipment. GAAP does not require the establishment of a reserve for amortization of fixed capital, whereas it does require the recognition of depreciation of property and equipment by enterprise funds.

Reserve for Sale of Municipal Assets - the proceeds of the sale of municipal assets can be held until made available through a future budget appropriation. GAAP requires such proceeds to be recorded as revenue in the year of sale.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

General Fixed Assets - property and equipment purchased by the Current and the General Capital Funds are recorded as expenditures at the time of purchase and are not capitalized.

Accounting for Governmental Fixed Assets, as promulgated by Technical Accounting Directive No. 2 as issued by the Division of Local Government Services, differs in certain respects from accounting principles generally accepted in the United States of America. The following is a brief description of the Directive.

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

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

No depreciation on general fixed assets is recorded in the financial statements.

Fixed assets acquired through grants-in-aid or contributed capital are not accounted for separately.

D. Basic Financial Statements

The GASB Codification also defines the financial statements of a governmental unit to be presented in general purpose financial statements in accordance with GAAP. The Borough presents the financial statements listed in the table of contents which are required by the Division and which differ from the financial statements required by GAAP.

In addition, the Division requires the financial statements listed in the table of contents to be referenced to the supplementary schedules. This practice differs from GAAP.

E. Budgets and Budgetary Accounting

The Borough of Highlands must adopt an annual budget in accordance with N.J.S.A. 40A:4-4 et al. N.J.S.A. 40A:4-5 which requires the governing body to introduce and approve the annual municipal budget no later than February 10 of each year. At introduction, the governing body shall fix the time and place for a public hearing on the budget and must advertise the time and place at least ten days prior to the hearing in a newspaper published and circulated in the municipality. The public hearing must not be held less than twenty-

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgets and Budgetary Accounting (continued)

eight days after the date the budget was introduced. After the hearing has been held, the governing body may, by majority vote, adopt the budget or may amend the budget in accordance with N.J.S.A. 40A:4-9.

An extension of the statutory dates for introduction, approval and adoption of the municipal budget may be granted by the Director of the Division of Local Government Services, with the permission of the Local Finance Board.

Budgets are adopted on the same basis of accounting utilized for the preparation of the Borough's financial statements.

F. Cash, Cash Equivalents and Investments

New Jersey municipal units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey municipal units.

The Borough of Highlands is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the governmental units.

The Borough considers highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 2 CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

All bank deposits as of the balance sheet date are either insured or covered by a collateral pool maintained by public depositories as required by the Governmental Unit Deposit Protection Act (see Note 1 - Cash, Cash Equivalents and Investments).

At December 31, 2012, the Borough's deposits had a carrying amount of \$6,135,346.26 and a bank balance of \$7,010,524.49. Of the bank balance \$326,702.07 was covered by federal depository insurance, and the remainder was covered by the Governmental Unit Deposit Protection Act.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of bank failure, the government's deposits may not be returned to it. The Borough does not have a formal policy for custodial credit risk. As of December 31, 2012, the Borough's bank balance was not exposed to custodial credit risk.

Investments

As of December 31, 2012, the Borough had the following investments:

	<u>Book Value</u>	<u>Fair Value</u>
LOSAP	\$193,969.46	\$193,969.46

The fair value of investments was based on quoted market prices.

During the year, the Borough had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of the year, no such investments were held by the Borough.

Interest Rate Risk - Investments

LOSAP investment options are at the discretion of each individual participant and not the Borough.

Credit Risk - Investments

All investments are in financial institutions in accordance with New Jersey state statutes. The Borough does not have an investment policy that would further limit its investment choices and it places no limit on the amount that can be invested with any one issuer.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 3 BONDS AND NOTES AUTHORIZED BUT NOT ISSUED

At December 31, 2012, the Borough of Highlands had authorized but not issued bonds and notes as follows:

General Capital Fund:	
Bonds and Notes	\$ 2,785,488.40

Water-Sewer Utility Capital Fund:	
Bonds and Notes	-

NOTE 4 LONG-TERM DEBT

The Local Bond Law governs the issuance of bonds and notes to finance general municipal capital expenditures. Bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the Borough are general obligation bonds, backed by the full faith and credit of the Borough. Bond anticipation notes are issued to temporarily finance capital projects, prior to the issuance of serial bonds. The terms of the notes cannot exceed one year but the notes may be renewed from time to time for a period not exceeding one year. All such notes must be paid no later than the tenth anniversary of the date of the original note. The State of New Jersey also prescribes that on or before the third anniversary date of the original note a payment of at least equal to the first legally payable installment of the bonds in anticipation of which such notes were issued be paid. A second legal installment must be paid if the notes are to be renewed beyond the fourth anniversary date of the original issuance and so on. Tax anticipation notes are issued if the cash on hand is not sufficient to carry on normal operations of the municipality at any time during the year. Such notes are authorized by a resolution adopted by the governing body.

As of December 31, 2012 the Borough's long-term debt is summarized as follows:

General Obligation Bonds

\$498,000.00 2003 Bonds due in one annual installment of \$57,000.00 in December, 2013, interest rate of 4.00%.	\$ 57,000.00
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\$474,000.00 2006 Bonds due in annual installments ranging from \$50,000.00 to \$57,000.00 through December, 2016, interest rates ranging from 4.00% to 5.00%.	213,000.00
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BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 4 LONG-TERM DEBT (continued)

General Obligation Bonds (continued)

\$3,178,000.00 2008 Bonds due in annual installments
ranging from \$119,000.00 to \$220,000.00
through December, 2028, interest rates ranging from
4.00% to 5.25%. \$ 2,732,000.00

\$760,000.00 2011 Bonds due in annual installments
ranging from \$65,000.00 to \$90,000.00
through January, 2021, interest rates ranging from
2.50% to 5.00%. 695,000.00

\$645,000.00 2012 Bonds due in annual installments
ranging from \$35,000.00 to \$55,000.00 through
December 2027, interest rates ranging from
2.00% to 4.00% 645,000.00

Total \$ 4,342,000.00

Water-Sewer Utility Capital Bonds

\$195,000.00 2008 Bonds due in annual installments
ranging from \$7,000.00 to \$14,000.00
through December, 2028, interest rates ranging from
4.00% to 5.25%. \$ 167,000.00

\$130,000.00 2011 Bonds due in annual installments
ranging from \$10,000.00 to \$15,000.00
through January, 2021, interest rates ranging from
2.50% to 5.00%. 120,000.00

Total \$ 287,000.00

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 4 LONG-TERM DEBT (continued)

Schedule of Annual Debt Service for principal and interest over the next five years and five-year increments thereafter for bonded debt issued and outstanding are as follows:

<u>Fiscal Year</u>	<u>General Capital Fund</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2013	\$ 326,000.00	\$ 191,078.76	\$ 517,078.76
2014	282,000.00	179,038.76	461,038.76
2015	288,000.00	167,563.76	455,563.76
2016	305,000.00	155,876.26	460,876.26
2017	258,000.00	143,668.76	401,668.76
2018-2022	1,375,000.00	534,143.80	1,909,143.80
2023-2027	1,288,000.00	233,832.52	1,521,832.52
2028-2032	<u>220,000.00</u>	<u>11,000.00</u>	<u>231,000.00</u>
Total	\$ <u>4,342,000.00</u>	\$ <u>1,616,202.62</u>	\$ <u>5,958,202.62</u>

<u>Fiscal Year</u>	<u>Water-Sewer Utility Capital Fund</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2013	\$ 17,000.00	\$ 13,023.76	\$ 30,023.76
2014	18,000.00	12,373.76	30,373.76
2015	18,000.00	11,698.76	29,698.76
2016	23,000.00	10,967.51	33,967.51
2017	24,000.00	10,066.26	34,066.26
2018-2022	110,000.00	33,016.30	143,016.30
2023-2027	63,000.00	13,378.78	76,378.78
2028-2032	<u>14,000.00</u>	<u>700.00</u>	<u>14,700.00</u>
Total	\$ <u>287,000.00</u>	\$ <u>105,225.13</u>	\$ <u>392,225.13</u>

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 4 LONG-TERM DEBT (continued)

Changes in Long-Term Outstanding Debt

Transactions for the six month transition year ended December 31, 2012 are summarized as follows:

	Balance June 30, 2012	<u>Additions</u>	<u>Deductions</u>	Balance December 31, 2012
Serial Bonds	\$ 3,916,000.00	\$ 645,000.00	\$ 219,000.00	\$ 4,342,000.00
<u>Water-Sewer Utility Capital Fund</u>				
Serial Bonds	<u>294,000.00</u>	<u>-</u>	<u>7,000.00</u>	<u>287,000.00</u>
Total	\$ <u>4,210,000.00</u>	\$ <u>645,000.00</u>	\$ <u>226,000.00</u>	\$ <u>4,629,000.00</u>

Borrowing Power

New Jersey statutes limit the debt of a municipality to 3.50% of the average of the last three preceding years equalized valuations of the taxable real estate and improvements. The Borough's statutory net debt at December 31, 2012 was 1.098%. The Borough's remaining borrowing power is 2.402%.

The summary of municipal debt for the last three years and the calculation of statutory net debt is presented in the Supplementary Data section of this report.

NOTE 5 SHORT-TERM DEBT

Bond Anticipation Notes

The Borough issues bond anticipation notes to temporarily fund various capital projects prior to the issuing of serial bonds. The term of the notes cannot exceed one year but the notes may be renewed from time to time for a period not exceeding one year. All such notes must be paid no later than the tenth anniversary of the date of the original note.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 5 SHORT-TERM DEBT

Bond Anticipation Notes

On December 31, 2012, the Borough's outstanding bond anticipation notes were as follows:

	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
<u>General Capital Fund</u>				
Reconstruction of Highland Avenue	01-17-12	01-16-13	\$ 285,000.00	1.40%
Reconstruction of Bay Avenue	01-17-12	01-16-13	310,075.00	1.40%
Design & Permitting Various Drainage Projects	01-17-12	01-16-13	423,700.00	1.40%
Acquisition of Computer and Software	01-17-12	01-16-13	<u>64,600.00</u>	1.40%
Total			<u>\$ 1,083,375.00</u>	

Special Emergency Notes (40A:4-55)

The Borough issues special emergency notes to fund special emergency appropriations prior to the funds being raised in the budget. The term of the notes cannot exceed one year but the notes may be renewed from time to time, but at least 1/5 of all such notes, and the renewals thereof, shall mature and be paid in each year, so that all notes and renewals shall have matured and have been paid not later than the last day of the fifth year following the date of the emergency resolution.

On December 31, 2012, the Borough's outstanding special emergency notes were as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
Revaluation	01-17-12	01-16-13	\$ 114,000.00	1.40%
Accumulated Leave	01-17-12	01-16-13	88,000.00	1.40%
Hurricane Sandy	12-19-12	12-18-13	<u>2,200,000.00</u>	1.14%
			<u>\$ 2,402,000.00</u>	

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 5 SHORT-TERM DEBT

Emergency Notes

The Borough issues emergency notes to fund emergency appropriations prior to the funds being raised in the budget. The term of the notes cannot exceed one year.

On December 31, 2012, the Borough's outstanding emergency notes were as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>
Hurricane Sandy	12-19-12	12-18-13	\$ 150,000.00	1.14%

Changes in Short-Term Debt

Transactions for the six month transition year ended December 31, 2012 are summarized as follows:

	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2012</u>
<u>Current Fund</u>				
Special Emergency Notes	\$ 232,000.00	\$ 2,200,000.00	\$ -	\$ 2,432,000.00
Emergency Notes	-	150,000.00	-	150,000.00
<u>General Capital Fund</u>				
Bond Anticipation Notes	<u>1,083,375.00</u>	<u>-</u>	<u>-</u>	<u>1,083,375.00</u>
Total	\$ <u>1,315,375.00</u>	\$ <u>2,350,000.00</u>	\$ <u>-</u>	\$ <u>3,665,375.00</u>

NOTE 6 DEFERRED CHARGES TO FUTURE TAXATION FUNDED AND UNFUNDED

Upon the authorization of capital projects, the Borough establishes deferred charges for the cost of the capital projects to be raised by future taxation. Funded deferred charges relate to permanent debt issued, whereas unfunded deferred charges relate to temporary or non-funding of the authorized cost of capital projects. According to the New Jersey Statutes Annotated 40A:2-4, the Borough may levy taxes on all taxable property within the local unit to repay the debt. Annually, the Borough raises the debt requirements for the particular year in the current budget. As funds are raised, the deferred charges are reduced.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 7 DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS

As noted in Note 1, certain expenditures are required to be deferred to budgets of succeeding years. At December 31, 2012, the following deferred charges are shown on the balance sheets of the various funds:

	Balance December 31, <u>2012</u>	2013 Budget <u>Appropriation</u>	Balance to Succeeding Budget
<u>Current Fund:</u>			
Special Emergency Authorization:			
Revaluation	\$ 114,000.00	\$ 36,000.00	\$ 78,000.00
Accumulated Sick Leave	88,000.00	22,000.00	66,000.00
Hurricane Sandy	2,200,000.00	440,000.00	1,760,000.00
Emergency Authorization:			
Hurricane Sandy	<u>150,000.00</u>	<u>150,000.00</u>	<u>-</u>
	<u>\$ 2,552,000.00</u>	<u>\$ 648,000.00</u>	<u>\$ 1,904,000.00</u>

The Borough has adopted resolution 12-116 on May 16, 2012 to apply to the Local Finance Board to revert to operating on a calendar year. The Borough received approval and will commence operations starting in calendar year 2013. Accordingly, a transition year 2012 six month budget was adopted. A budget appropriation for deferred charges was not required. Budget appropriation for deferred charges will commence with the calendar year 2013 budget.

NOTE 8 TAXES COLLECTED IN ADVANCE

Taxes collected in advance set forth as cash liabilities in the financial statements, are as follows:

	Balance <u>December 31, 2012</u>
Prepaid Taxes	\$ 44,103.78

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 9 FIXED ASSETS AND FIXED CAPITAL

Changes in fixed assets and fixed capital for the six month transition year ended December 31, 2012 were as follows:

	<u>Balance</u> <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2012</u>
Land	\$ 1,097,800.00	\$ -	\$ -	\$ 1,097,800.00
Buildings and Improvements	5,772,197.90	-	-	5,772,197.90
Machine and Equipment	<u>2,674,354.99</u>	<u>149,438.00</u>	<u>40,007.59</u>	<u>2,783,785.40</u>
	<u>\$ 9,544,352.89</u>	<u>\$ 149,438.00</u>	<u>\$ 40,007.59</u>	<u>\$ 9,653,783.30</u>
<u>Fixed Capital -</u>				
<u>Water/Sewer Utility</u>				
Water/Sewer System	<u>\$ 1,349,459.48</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,349,459.48</u>

NOTE 10 ASSESSMENT AND COLLECTION OF PROPERTY TAXES

New Jersey statutes require that taxable valuation of real property be prepared by the Borough Tax Assessor as of October 1st in each year and filed with the County Board of Taxation ("Board") by January 10th of the following year. Upon the filing of certified adopted budgets by the Borough, Local School District, Regional School District and County, the tax rate is struck by the Board based on the certified amounts in each of the taxing districts for collection to fund the budgets. Pursuant to statute, this process is to be completed on or before May 20th with a completed duplicate of the tax rolls to be delivered to the Borough Tax Collector ("Collector") on or before June 3rd. In accordance with N.J.S.A. 54:4-66 tax bills are prepared and mailed by the Collector twice a year and are due quarterly on February 1st, May 1st, August 1st and November 1st. The N.J. Statutes allow a grace period of 10 days for each payment period and the Borough granted this option to taxpayers. Taxes become delinquent if not paid on the installment dates and become subject to interest penalties of 8% or 18% of the amount delinquent. Any taxes not paid as of December 31 are subject to tax sale and lien in the subsequent year, with the exception of bankruptcies. The date of tax sale is at the discretion of the tax collector.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 11 LOCAL DISTRICT SCHOOL AND REGIONAL HIGH SCHOOL TAXES

Local District School and Regional High School Taxes have been raised and liabilities deferred. Section 13 of P.L. 1991, C. 63 provides that any municipality that levies school taxes on a school year basis may defer from the municipal purposes tax levy 50% (fifty percent) of the levy. The amounts so deferred shall be regarded as fund balance and shall be used to offset the local property tax levy for local purposes. At year end taxes due consisted of the following:

	Local District School Tax Balance <u>December 31, 2012</u>	Regional High School Tax Balance <u>December 31, 2012</u>
Balance of Tax	\$ 1,593,606.82	\$ 2,163,019.34
Deferred	<u>1,533,852.00</u>	<u>2,056,921.17</u>
Taxes Payable	\$ <u><u>59,754.82</u></u>	\$ <u><u>106,098.17</u></u>

NOTE 12 FUND BALANCES APPROPRIATED

Fund balances at December 31, 2012 which are appropriated and included as anticipated revenue in the 2013 municipal budget for the year ending December 31, 2013 were as follows:

Current Fund:	
Fund Balance	\$ 422,285.00
Water-Sewer Utility Fund:	
Fund Balance	250,000.00

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 13 PENSION PLANS

Plan Description

Substantially, all Borough employees participate in the Public Employees' Retirement System ("PERS") and the Police and Firemen's Retirement System ("PFRS"). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the funds and charges municipalities annually for their respective contributions. The plans provide retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The plans are cost-sharing multiple-employer defined benefit plans and, as such, do not maintain separate records for each municipality in the state and, therefore, the actuarial data for the Borough is not available. The Division of Pensions issues publicly available financial reports for each of the plans that include financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions.

Funding Policy

Employee contributions are currently 6.64% and 10% of their base wages for PERS and PFRS, respectively. Employer's contributions are actuarially determined annually by the Division of Pensions. Borough contributions to the plan for the past three (3) state fiscal years are as follows:

<u>Year</u>	<u>PERS</u>	<u>PFRS</u>
2010	\$ 135,631.00	\$ 264,249.00
2011	162,678.00	335,817.00
2012	157,121.00	317,828.00

All contributions were equal to the required contributions.

A contribution was not required for the six month transition year ended December 31, 2012.

Under the provisions of Chapter 78, P.L. 2011, employee pension contribution rates for PERS members increased effective July 1, 2012 from 6.50% to 6.64%. The contribution rate will increase by 0.14% each year on July 1 until July 1, 2017 and increase 0.16% on July 1, 2018 when the rate will be 7.50%.

NOTE 14 POST EMPLOYMENT RETIREMENT BENEFITS

Effective for fiscal year 2010, the Borough implemented GASB Statement 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)" prospectively. Prior to February 2011, the Borough administered a single-employer defined benefit healthcare plan. The plan provided postemployment healthcare benefits through the Borough's group health insurance plan. Effective February 2011, the Borough joined the New Jersey State Health Benefits Program.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 14 POST EMPLOYMENT RETIREMENT BENEFITS (continued)

Plan Description

In addition to the pension benefits described in Note 13, the Borough contributes to the New Jersey State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 2011, the Borough authorized participation in the SHBP's post-employment benefit program through resolution number 10-212. To receive lifetime health benefits paid for by the Borough, an employee must meet the following criteria (unless otherwise expressly provided by Collective Bargaining Agreements, personal service contract, or by law):

1. The employee has twenty-five (25) years or more of service credit in a state or locally administered retirement system and a period of service of at least twenty-five (25) years with the Borough of Highlands at the time of retirement; or
2. The employee is sixty-five (65) years or older with twenty-five (25) years or more of service credit in a state or locally administered retirement system and a period of service of at least fifteen (15) years with the Borough at the time of retirement; or
3. The employee is sixty-five (65) years or older with at least twenty (20) years of service with the Borough; and
4. The employee was eligible for employee medical coverage during the last five years of their employment with the Borough; and
5. The employee retires from an employment position with the Borough of Highlands under a Service Retirement as defined by the Public Employee's Retirement System ("PERS"), the Police and Firemen's Retirement System ("PFRS") or under the express terms of any Collective Bargaining Agreement or personal services agreement.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 14 POST EMPLOYMENT RETIREMENT BENEFITS (continued)

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post employment health benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for health premiums of participating retirees in the SHBP are billed to the Borough on a monthly basis. The Borough currently contributes on a pay-as-you-go basis based upon monthly invoices from the State of New Jersey Division of Pensions. Employees are not required to contribute. Contributions to the plan and the number of former employees eligible for and participating in the post employment health care benefits program with the SHBP for the period February 2011 to June 30, 2011, for the state fiscal year ended June 30, 2012 and for the six month transition year ended December 31, 2012 was as follows:

<u>Year</u>	<u>Contribution</u>	<u>Number of Employees</u>
2011	\$ 128,527.65	16
SFY 2012	375,541.16	21
TY 2012	209,404.56	22

All contributions were equal to the required contributions.

Prior to February 2011, the Borough administered a single employer defined benefit healthcare plan. Contributions to the prior plan for the period July 2010 to February 2011 was \$251,975.79 for 18 retired employees.

NOTE 15 DEFERRED COMPENSATION PLAN

The Borough offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. The plan permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not ordinarily available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with the amounts, and all income attributable to these amounts are for the exclusive benefit of the Plan participants and their beneficiaries and the assets cannot be diverted to any other purpose. The Borough serves as Trustee under the Plan.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 17 LENGTH OF SERVICE AWARD PROGRAM ("LOSAP") - UNAUDITED

The Borough has established a Volunteer Length of Service Award Plan ("LOSAP") ("Plan") to ensure retention of the Borough's volunteer Fire Companies and First Aid Squad. The Plan shall be construed under the laws of the State of New Jersey and is established with the intent that it meets the requirements of a "length of service award plan under Section 457(e)11 of the Internal Revenue Code".

Annual Contributions - The minimum and maximum annual contributions to be made by the Borough for each active volunteer member shall be in accordance with N.J.S.A. 40A:14-183 (from \$100.00 to \$1,150.00 per year of active emergency service), commencing with the fiscal year 2005-2006. There shall be no contributions made for prior years service.

Appropriations - Appropriations for the purpose of funding the Borough's LOSAP plan shall be included as a separate line item in the Borough's budget, commencing with the year 2005-2006.

Periodic Increases - Notwithstanding the provisions above, the annual contribution to be made by the Borough for each active volunteer member shall be subject to periodic increases based upon the "consumer price index factor" pursuant to subsection f. of section 3 of P.L. 1997, c. 388 (N.J.S.A. 40A:14-185).

Criteria for Eligibility; Contributions; Points - Any active volunteer member shall be eligible to participate in the LOSAP Plan immediately upon commencement of the member's performance of active voluntary services in the emergency service organization. Annual contributions shall only be made by the Borough, however, for those active volunteer members who have earned the minimum number of points for performing certain volunteer services on a yearly basis.

Determination as to Eligibility - Each emergency service organization shall provide to the Plan Administrator of LOSAP Plan, a certified list as to the active volunteer members who are initially eligible to participate in the Plan and those who are eligible to participate as of each January 1 thereafter. The Plan Administrator shall forward said certified list to the Borough Council for approval, in accordance with the provisions of N.J.A.C. 5:30-14.10. The decision of the Borough Council as to such active member's eligibility shall be binding upon the Plan Administrator, participant, beneficiaries and any and all other persons having an interest hereunder, subject to appropriate judicial review.

Terms of Participation - The Plan Administrator shall have the right to require any active volunteer member at the time of his or her becoming a participant to agree, in writing, to be bound by the terms, covenants and conditions of the LOSAP and accompanying trust. Each participant shall furnish to the Plan Administrator all pertinent information required for the administration of the LOSAP. The Plan Administrator shall rely upon all such information furnished.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 16 LENGTH OF SERVICE AWARD PROGRAM ("LOSAP") - UNAUDITED (continued)

Vesting - The active volunteer member shall not be permitted to receive a distribution of the fund in his or her LOSAP account until the completion of a five-year vesting period.

Termination of Service - Any participant who terminates service as an active volunteer member shall cease to participate hereunder. A former participant may resume participation immediately upon returning to the service of the emergency service organization as an active volunteer member. Any active volunteer member who terminates service with the emergency service organization, subsequently returns to service and again becomes a participant shall be treated as a new participant for purposes of eligibility unless said participant was fully vested prior to his or her termination from service.

Reporting Requirements - N.J.A.C. 5:30-14.49 requires that the Borough perform a separate review report of the Plan in accordance with the American Institute of Certified Public Accountants Statements for Accounting and Auditing Review Services.

NOTE 17 INTERFUND BALANCES

The composition of interfund balances as of December 31, 2012 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Current Fund	Animal Control Trust Fund	\$ 84.00
Current Fund	Federal and State Grant Fund	<u>500.66</u>
		<u>\$ 584.66</u>

All balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) revenues/receipts are collected, and (3) payments between funds are made.

NOTE 18 INTERFUND TRANSFERS

<u>Transfers In:</u>	<u>Transfers Out:</u>	<u>Total</u>
Animal Control Trust Fund	Current Fund	\$ 84.00
Federal and State Grant Fund	Current Fund	<u>500.66</u>

The transfers were made to move funds as follows:

- a) The Animal Control Trust Fund transfer is the amount of expenditures paid utilizing current fund cash. The Current Fund was not reimbursed as of year end.
- b) The transfer between the Federal and State Grant Fund and the Current Fund was the result of grant balances being cancelled. Cash was not transferred by year end.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 19 RISK MANAGEMENT

The Borough is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omission, injuries to employees; and natural disaster. The Borough is a member of the Monmouth County Municipal Joint Insurance Fund. The public entity risk pool is both an insured and self-administered group of municipalities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The Joint Insurance Fund will be self-sustaining through member premiums. The Joint Insurance Fund contracts for excess liability insurance for property, general liability, auto liability, public official liability, law enforcement liability, and workmen's compensation. There were no settlements in excess of insurance coverage in the six month transition year ended December 31, 2012, state fiscal year 2011, and state fiscal year 2010.

NOTE 20 CONTINGENT LIABILITIES

A. Accrued Sick and Vacation - Unaudited

The Borough has a potential contingent liability for accrued unused sick and vacation days under the adopted policies and procedures of the Borough. The Borough has a potential liability of approximately \$ 876,079 at December 31, 2012. In accordance with New Jersey principles, these amounts are not reported as an expenditure or liability in the accompanying statements. The reserve for accumulated leave at December 31, 2012 and June 30, 2012 was \$44,678.04 and \$28,531.04 respectively.

B. Unemployment Compensation Insurance

Effective January 1, 1978, most municipal employees were eligible for unemployment compensation insurance (N.J.S.A. 43:21-3 et. seq). The Borough has elected to provide a self-insured plan whereby the municipal cost and employee contributions are deposited in a trust fund from which claims, if any, will be paid. The Reserve for Unemployment Compensation Insurance at December 31, 2012 and June 30, 2012 totaled \$216,663.98 and \$179,518.17, respectively.

C. Litigation

The Borough is involved in legal and administrative proceedings and claims of various types. While any litigation contains an element of uncertainty, Borough Officials, based upon the opinion of the Borough's Counsel, presently believe that the outcome of each such proceeding or claim which is pending or known to be threatened, or all of them combined, will not have a material adverse effect on the Borough's financial position or adversely affect the Borough's ability to levy, collect, and enforce the collection of taxes or other revenue for the payment of its bonds or other obligations.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 20 CONTINGENT LIABILITIES (continued)

D. Federal and State Grants

The Borough receives financial assistance from the U.S. government and the State of New Jersey in the form of grants. Entitlement to the funds is generally conditional upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditure of the funds for eligible purposes. Substantially all grants, entitlements and cost reimbursements are subject to financial and compliance audits by grantors. As a result of these audits, cost previously reimbursed could be disallowed and require payments to the grantor agency. As of December 31, 2012, the Borough estimates that no material liabilities will result from such audits.

NOTE 21 SUBSEQUENT EVENTS

On March 20, 2013 the Borough adopted a resolution increasing the special emergency appropriation and the authority to borrow for Hurricane Sandy from \$2,200,000.00 to \$4,200,000.00.

On July 17, 2013 the Borough adopted an ordinance authorizing the leasing of public works equipment from the Monmouth County Improvement Authority in the amount of \$383,000.00.

On July 17, 2013 the Borough adopted an ordinance authorizing the leasing of police cars from the Monmouth County Improvement Authority in the amount of \$87,000.00.

On September 18, 2013 the Borough adopted a bond ordinance appropriating \$500,000.00 for the wall reconstruction along 8 Bay Street. The ordinance is funded by a \$25,000.00 downpayment and debt authorized in the amount of \$475,000.00.

On September 18, 2013 the Borough adopted a bond ordinance appropriating \$1,144,000.00 for a Hazard Mitigation Program. The ordinance is funded by debt authorized in the amount of \$1,144,000.00. The Borough anticipates receiving a \$784,000.00 Federal Emergency Agency Hazard Mitigation Grant which will be utilized to reduce the debt.

On September 18, 2013 the Borough adopted a bond ordinance appropriating \$2,300,000.00 for the removal of disaster related debris from private and commercial property and the demolition of various private and commercial structures which were damaged as a direct result of Hurricane Sandy. The ordinance is funded by debt authorized in the amount of \$2,300,000.00. The Borough anticipates receiving a \$2,070,000.00 Federal Emergency Management Grant which will be utilized to reduce the debt.

On October 24, 2013 the Borough adopted a bond ordinance appropriating \$1,800,000.00 for the reconstruction of the North Street Pump Station. The ordinance is funded by a \$177,077.00 Community Development Block Grant and debt authorized in the amount of \$1,621,923.00.

BOROUGH OF HIGHLANDS
NOTES TO FINANCIAL STATEMENTS
SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

NOTE 21 SUBSEQUENT EVENTS (continued)

On October 24, 2013 the Borough introduced an ordinance dissolving the Atlantic Highlands - Highlands Regional Sewerage Authority. In connection with the dissolution, the Borough also introduced a bond ordinance authorizing \$5,646,653.00 in debt to make improvements to the sewer system and/or refund the debt of the Authority. A public hearing for both of these ordinances is scheduled for December 4, 2013.

On November 6, 2013 the Borough adopted a bond ordinance appropriating \$450,000.00 for improvements to the community center. The ordinance is funded by a downpayment of \$70,680.00 and debt authorized in the amount of \$378,720.00.

On November 6, 2012 the Borough introduced a bond ordinance appropriating \$240,000.00 for the acquisition of ambulances. The ordinance is funded by a downpayment of \$12,000.00 and debt authorized in the amount of \$228,000.00.

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF CASH

	<u>Ref.</u>	<u>Regular</u>	<u>Grant Fund</u>
Balance, June 30, 2012		\$ 1,632,319.20	\$ 58,910.49
Increased by Receipts:			
State of New Jersey (Ch. 20, P.L. 1971)	A-9	\$ 9,500.00	
Taxes Receivable	A-5	7,302,684.58	
Revenue Accounts Receivable	A-8	409,047.37	
Federal and State Grants Receivable	A-27		\$ 21,767.41
Unappropriated Grant Reserves	A-29		11,883.29
Reimbursement from Highlands Business Partnership	A-1	5,150.00	
NJ DCA Training Fees	A-23	1,944.00	
Marriage License Fees	A-22	375.00	
Non-Budget Revenues	A-2	588,806.95	
Tax Overpayments	A-15	22,536.52	
Prepaid Taxes	A-16	44,103.78	
Emergency Note Payable	A-24	150,000.00	
Special Emergency Notes Payable	A-26	2,200,000.00	
		<u>10,734,148.20</u>	<u>33,650.70</u>
		12,366,467.40	92,561.19
Decreased by Disbursements:			
TY 2012 Budget Appropriations	A-3	4,123,727.87	
SFY 2012 Appropriation Reserves	A-12	195,529.38	
County Taxes Payable	A-18	969,153.90	
Regional High School Tax	A-17	1,950,823.01	
Local District School Tax	A-19	1,474,097.18	
Business Improvement District Tax	A-20	17,500.00	
Federal/State Grant Appropriations	A-28		30,591.78
Accounts Payable	A-14	1,150.00	
Tax Overpayments Refunded	A-15	9,030.75	
Marriage License Fees	A-22	275.00	
NJ DCA Training Fees	A-23	920.45	
Municipal Open Space Tax Payable	A-21	15,158.72	
Interfund - Animal Control Trust Fund	A-10	84.00	
		<u>8,757,450.26</u>	<u>30,591.78</u>
Balance, December 31, 2012	A	\$ <u>3,609,017.14</u>	\$ <u>61,969.41</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF TAXES RECEIVABLE AND ANALYSIS OF PROPERTY TAX LEVY

Year	Balance June 30, 2012	TY 2012 Levy	Collections SFY 2012TY 2012		Chapter 20, P.L. 1971 Senior Citizens and Veterans	Tax Overpayments Applied	Transfer to Tax Title Liens	Canceled, Remitted or Abated	Balance Dec. 31, 2012
FY 2012	\$ 511,858.96			\$ 258,051.52					\$ 253,807.44
	511,858.96			258,051.52					253,807.44
TY 2012	\$ 511,858.96	\$ 7,646,046.60	\$ 28,696.96	7,044,633.06	\$ 25,750.00	\$ 440.90	\$ 1,609.55	\$ 73,741.79	471,174.34
	<u>\$ 511,858.96</u>	<u>\$ 7,646,046.60</u>	<u>\$ 28,696.96</u>	<u>\$ 7,302,684.58</u>	<u>\$ 25,750.00</u>	<u>\$ 440.90</u>	<u>\$ 1,609.55</u>	<u>\$ 73,741.79</u>	<u>\$ 724,981.78</u>
Ref.		A-5	A-2/A-16	A-2/A-4	A-2/A-9	A-2/A-15	A-6		A
<u>Analysis of TY 2012 Property Tax Levy</u>			<u>Ref.</u>						
Tax Yield:									
General Purpose Tax					\$ 7,619,429.46				
Special District Tax					17,500.00				
Added Taxes					5,240.99				
6% Penalty					<u>3,876.15</u>				
			A-5			<u>\$ 7,646,046.60</u>			
Tax Levy:									
Regional High School Tax					\$ 2,053,882.93				
Local District School Tax					1,550,063.00				
County Taxes:									
County Tax					A-18	\$ 869,066.00			
County Open Space Tax					A-18	48,479.18			
County Library Tax					A-18	51,608.72			
Due County for Added and Omitted Taxes					A-18	<u>677.52</u>			
Total County Taxes						969,831.42			
Business Improvement District Tax					A-20	17,500.00			
Local Municipal Open Space Tax					A-21	15,158.72			
Local Tax for Municipal Purposes					A-2	3,026,889.71			
Add: Additional Tax Levied						<u>12,720.82</u>			
						<u>3,039,610.53</u>			
			A-5			<u>\$ 7,646,046.60</u>			

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF TAX TITLE LIENS RECEIVABLE

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 36,052.55
Increased by:		
Transfer from Taxes Receivable	A-5	<u>1,609.55</u>
Balance, December 31, 2012	A	\$ <u>37,662.10</u>

SCHEDULE OF PROPERTY ACQUIRED FOR TAXES
(AT ASSESSED VALUATION)

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 215,100.00
Decreased by:		
Adjustment to Assessed Value		<u>2,500.00</u>
Balance, December 31, 2012	A	\$ <u>212,600.00</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF REVENUE ACCOUNTS RECEIVABLE

	<u>Ref.</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Accrued</u> <u>in 2012</u>	<u>Collected</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
Municipal Court:					
Fines and Costs	A-2	\$ 13,112.60	\$ 60,160.33	\$ 67,645.37	\$ 5,627.56
Consolidated Municipal Property Tax Relief Aid	A-2		25,046.00	25,046.00	
Energy Receipts Tax (P.L. 1997, Ch 162 & 167)	A-2		316,356.00	316,356.00	
		<u>\$ 13,112.60</u>	<u>\$ 401,562.33</u>	<u>\$ 409,047.37</u>	<u>\$ 5,627.56</u>
	<u>Ref.</u>			A-4	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF DUE FROM STATE - Ch.20, P.L. 1971

	<u>Ref.</u>		
Balance, June 30, 2012		\$	294.09
Increased by:			
Deductions per Tax Duplicate:			
Senior Citizens		\$	7,875.00
Veterans			17,375.00
Deductions Allowed by Tax Collector			500.00
	A-5		25,750.00
			26,044.09
Decreased by:			
Received from State of New Jersey	A-4		9,500.00
Canceled	A-1		16,044.09
			25,544.09
Balance, December 31, 2012	A	\$	<u>500.00</u>

Exhibit A-10

SCHEDULE INTERFUND - ANIMAL CONTROL TRUST FUND

	<u>Ref.</u>		
Increased by:			
Cash Disbursements	A-1/A-4	\$	84.00
Balance, December 31, 2012	A	\$	<u>84.00</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF DEFERRED CHARGES
SPECIAL EMERGENCY AUTHORIZATIONS

<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u> <u>Authorized</u>	1/5 of <u>Net Amount</u> <u>Authorized</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Added in</u> <u>2012</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
10-06-10	Revaluation	\$ 180,000.00	\$ 36,000.00	\$ 114,000.00		\$ 114,000.00
02-02-11	Accumulated Sick Leave	110,000.00	22,000.00	88,000.00		88,000.00
11-21-12	Hurricane Sandy	2,200,000.00	440,000.00		\$ 2,200,000.00	2,200,000.00
				\$ 202,000.00	\$ 2,200,000.00	\$ 2,402,000.00
			<u>Ref.</u>		A-1/A-3	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF APPROPRIATION RESERVES

	Balance June 30, 2012	Reserve for Encumbrances	Balance After Transfers	Paid or Charged	Balance Lapsed
<u>Operations Within CAPS</u>					
General Government:					
Borough Administrator					
Salaries and Wages	\$ 5,945.03		\$ 5,945.03		\$ 5,945.03
Other Expenses	2,002.64	\$ 156.86	2,159.50	\$ 156.86	2,002.64
Central Services					
Salaries and Wages	1,109.84		1,109.84	292.24	817.60
Other Expenses	3,584.89	1,567.96	5,152.85	1,600.33	3,552.52
Borough Council					
Other Expenses	8,770.06	52.50	8,822.56	142.50	8,680.06
Borough Clerk					
Salaries and Wages	4,378.73		4,378.73		4,378.73
Other Expenses	3,266.29	4,780.00	8,046.29	4,860.41	3,185.88
Financial Administration					
Salaries and Wages	2,591.23		2,591.23	392.62	2,198.61
Other Expenses	4,620.97		2,620.97		2,620.97
Audit Services	100.00	33,900.00	34,000.00	33,900.00	100.00
Collection of Taxes					
Salaries and Wages	3,784.81		3,784.81	448.77	3,336.04
Other Expenses	2,904.70		2,904.70		2,904.70
Assessment of Taxes					
Salaries and Wages	1,371.92		1,371.92	233.04	1,138.88
Other Expenses	6,453.98		6,453.98		6,453.98
Legal Services and Costs					
Other Expenses	14,192.16	13,517.63	27,709.79	7,625.31	20,084.48
Engineering Services and Costs					
Other Expenses	7,090.06	7,185.75	22,275.81	15,548.53	6,727.28
Code Enforcement Officer					
Salaries and Wages	3,960.16		3,960.16	304.08	3,656.08
Other Expenses	3,648.30	444.00	4,092.30	44.00	4,048.30
Other Expenses - Substandard Housing	5,920.00		5,920.00		5,920.00

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF APPROPRIATION RESERVES

	<u>Balance</u> <u>June 30, 2012</u>	<u>Reserve for</u> <u>Encumbrances</u>	<u>Balance</u> <u>After</u> <u>Transfers</u>	<u>Paid or</u> <u>Charged</u>	<u>Balance</u> <u>Lapsed</u>
Municipal Land Use Law (N.J.S.A. 40A:55D-1):					
Planning Board					
Other Expenses	\$ 6,619.67	\$ 2,162.25	\$ 8,781.92	\$ 700.00	\$ 8,081.92
Zoning Board of Adjustment					
Other Expenses	2,704.19	6,205.00	8,909.19	1,000.00	7,909.19
Insurance:					
General Liability	2,576.08		2,576.08		2,576.08
Employee Group Insurance	4,447.54		4,447.54		4,447.54
Public Safety:					
Fire					
Other Expenses	1,011.26	23,642.09	24,653.35	23,542.80	1,110.55
Police					
Salaries and Wages	11,906.86		11,906.86	405.77	11,501.09
Other Expenses	728.57	67,938.61	68,667.18	68,202.45	464.73
Dispatch					
Salaries and Wages	5,040.22		5,040.22	1,845.14	3,195.08
Municipal Court					
Salaries and Wages	5,367.52		5,367.52	517.32	4,850.20
Other Expenses	4,758.64	400.00	5,158.64	400.00	4,758.64
First Aid Organization Contribution	15,758.29	800.00	16,558.29	800.00	15,758.29
Emergency Management Services					
Salaries and Wages	325.08		325.08		325.08
Other Expenses	293.13	1,868.65	2,161.78	1,890.11	271.67
Fire Hydrant Fees	2,986.54		2,986.54		2,986.54
Uniform Fire Safety Act					
Salaries and Wages	1,670.00		1,670.00		1,670.00
Other Expenses	260.42	3,379.32	3,639.74	3,552.36	87.38

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF APPROPRIATION RESERVES

	<u>Balance</u> <u>June 30, 2012</u>	<u>Reserve for</u> <u>Encumbrances</u>	<u>Balance</u> <u>After</u> <u>Transfers</u>	<u>Paid or</u> <u>Charged</u>	<u>Balance</u> <u>Lapsed</u>
Streets and Roads:					
Road Repairs and Maintenance					
Salaries and Wages	\$ 3,096.34		\$ 3,096.34	\$ 1,228.46	\$ 1,867.88
Other Expenses	2,525.76	\$ 3,007.29	5,533.05	2,490.72	3,042.33
Snow Removal					
Salaries and Wages	2,910.08		2,910.08		2,910.08
Other Expenses	2,921.99		2,921.99		2,921.99
Sanitation					
Salaries and Wages	100.08		100.08		100.08
Other Expenses	1,544.00		1,544.00	600.00	944.00
Mechanical Garage					
Salaries and Wages	1.00		1.00		1.00
Other Expenses	2,993.04	198.02	3,191.06	60.39	3,130.67
Public Buildings and Grounds					
Other Expenses	24,321.43	7,397.95	22,719.38	5,440.21	17,279.17
Shade Tree Commission					
Other Expenses	1,000.00		1,000.00		1,000.00
Condominium Services					
Other Expenses	17,938.37		17,938.37	17,938.37	
Environmental Commission					
Other Expenses	1,000.00		1,000.00		1,000.00
Dog Control					
Other Expenses	1,934.00	451.00	2,385.00	906.00	1,479.00
Community - School Substance Abuse Program	7,000.00		7,000.00	5,245.00	1,755.00
N.J. Public Employees Occupational Safety and Health Act:					
Other Expenses	3,978.00		3,978.00		3,978.00
Beachfront Maintenance					
Salaries and Wages	3,974.50		3,974.50	573.25	3,401.25
Other Expenses		1,559.34	2,559.34	1,652.34	907.00
Parks and Playgrounds					
Other Expenses	3,214.36	4,594.72	7,809.08	4,594.72	3,214.36

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF APPROPRIATION RESERVES

	<u>Balance</u> <u>June 30, 2012</u>	<u>Reserve for</u> <u>Encumbrances</u>	<u>Balance</u> <u>After</u> <u>Transfers</u>	<u>Paid or</u> <u>Charged</u>	<u>Balance</u> <u>Lapsed</u>
Celebration of Public Events. Anniversary and Holiday					
Other Expenses	\$ 1,142.10		\$ 1,142.10		\$ 1,142.10
Community Center					
Salaries and Wages	15,927.50		15,927.50	\$ 3,564.80	12,362.70
Other Expenses	4,110.66	\$ 1,965.66	6,076.32	3,830.58	2,245.74
Uniform Construction Code - Appropriations Offset by Dedicated Revenues (N.J.A.C. 5:23-4.17)					
Salaries and Wages	5,211.48		5,211.48	446.22	4,765.26
Other Expenses	3,026.85	44.00	3,070.85	44.00	3,026.85
Utility Expense and Bulk Purchases					
Electricity	21,853.97		21,853.97	1,068.70	20,785.27
Street Lighting	10,373.27		10,373.27	4,281.12	6,092.15
Telephone	2,685.24		2,685.24		2,685.24
Water	840.26		840.26	311.80	528.46
Natural Gas	3,808.81		3,808.81	347.82	3,460.99
Telecommunication Costs	7,366.04	2,161.44	9,527.48	1,615.36	7,912.12
Gasoline and Diesel Fuel	9,561.07		9,561.07		9,561.07
Monmouth County Reclamation Center					
Other Expenses	4,709.88		4,709.88		4,709.88
Deferred Charges and Statutory Expenditures:					
Public Employees' Retirement System			2,000.00	1,769.99	230.01
Social Security System (O.A.S.I.)	4,490.03		4,490.03	550.11	3,939.92
Defined Contribution Retirement Program	2,699.60		2,699.60	16.71	2,682.89

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF APPROPRIATION RESERVES

	<u>Balance</u> <u>June 30, 2012</u>	<u>Reserve for</u> <u>Encumbrances</u>	<u>Balance</u> <u>After</u> <u>Transfers</u>	<u>Paid or</u> <u>Charged</u>	<u>Balance</u> <u>Lapsed</u>
<u>Operations - Excluded from CAPS</u>					
Length of Service Awards Program	\$ 22,000.00		\$ 22,000.00	\$ 19,550.00	\$ 2,450.00
9-1-1					
Stormwater Management	12,485.00		12,485.00		12,485.00
Recycling Tax (N.J.S.A. 13:1E-96.5):					
Other Expenses	1,884.49		1,884.49		1,884.49
Hurricane Irene EO #73: NJSA 40A:4-45 and 40A: 4-45.3(bb):					
Salaries and Wages	789.31		789.31		789.31
Other Expenses	319.16		319.16		319.16
Atlantic Highlands - Maintenance of Motor Vehicles	<u>10,112.87</u>	<u>\$ 1,729.56</u>	<u>11,842.43</u>	<u>1,772.54</u>	<u>10,069.89</u>
	<u>\$ 378,000.32</u>	<u>\$ 191,109.60</u>	<u>\$ 569,109.92</u>	<u>\$ 248,303.85</u>	<u>\$ 320,806.07</u>

A-13

A-1

Ref,

Detail:

Cash Disbursements
Accounts Payable

A-4
A-14

\$ 195,529.38
52,774.47
\$ 248,303.85

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF RESERVE FOR ENCUMBRANCES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 191,109.60
Increased by:		
Current Appropriations Charged	A-3	1,206,465.78
		<u>1,397,575.38</u>
Decreased by:		
Applied to Appropriation Reserves	A-12	191,109.60
		<u>191,109.60</u>
Balance, December 31, 2012	A	\$ <u>1,206,465.78</u>

SCHEDULE OF ACCOUNTS PAYABLE

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 80,922.48
Increased by:		
Transfer from Appropriation Reserves	A-12	52,774.47
		<u>133,696.95</u>
Decreased by:		
Cash Disbursed	A-4	1,150.00
		<u>1,150.00</u>
Balance, December 31, 2012	A	\$ <u>132,546.95</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF TAX OVERPAYMENTS

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 90,550.85
Increased by:		
Cash Receipts	A-4	<u>22,536.52</u>
		113,087.37
Decreased by:		
Applied to Taxes Receivable	A-5	\$ 440.90
Refunded	A-4	<u>9,030.75</u>
		<u>9,471.65</u>
Balance, December 31, 2012	A	\$ <u><u>103,615.72</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF PREPAID TAXES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 28,696.96
Increased by:		
Collections, 2013 Taxes	A-4	44,103.78
		<u>72,800.74</u>
Decreased by:		
Applied to Taxes Receivable	A-5	28,696.96
		<u>28,696.96</u>
Balance, December 31, 2012	A	\$ <u>44,103.78</u>

Exhibit A-17

SCHEDULE OF REGIONAL HIGH SCHOOL TAX PAYABLE

	<u>Ref.</u>	
Balance, June 30, 2012:		
School Tax Deferred		\$ <u>2,059,959.42</u>
		\$ 2,059,959.42
Increased by:		
Levy - Transition Year July 1, 2012 to Dec. 31, 2012	A-5	2,053,882.93
		<u>4,113,842.35</u>
Decreased by:		
Payments	A-4	1,950,823.01
		<u>1,950,823.01</u>
Balance, December 31, 2012:		
School Tax Payable	A	106,098.17
School Tax Deferred		<u>2,056,921.17</u>
		\$ <u>2,163,019.34</u>
<u>2012 Liability for Regional High School Tax</u>		
Tax Paid	A-4	\$ 1,950,823.01
School Tax Payable, December 31, 2012	A	106,098.17
		<u>2,056,921.18</u>
School Tax Payable, June 30, 2012	A	
		<u> </u>
Amount Charged to Transition Year 2012 Operations	A-1	\$ <u>2,056,921.18</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF COUNTY TAXES PAYABLE

	<u>Ref.</u>		
Increased by:			
County Tax	A-5	\$ 869,066.00	
County Library Tax	A-5	51,608.72	
County Open Space Tax	A-5	48,479.18	
Due County for Added and Omitted Taxes	A-5	<u>677.52</u>	
	A-1		\$ 969,831.42
Decreased by:			
Payments	A-4		<u>969,153.90</u>
Balance, December 31, 2012	A		<u>\$ 677.52</u>

Exhibit A-19

SCHEDULE OF LOCAL DISTRICT SCHOOL TAX PAYABLE

	<u>Ref.</u>		
Balance, June 30, 2012:			
School Tax Deferred		\$ <u>1,517,641.00</u>	
			\$ 1,517,641.00
Increased by:			
Levy - Transition Year July 1, 2012 to Dec. 31, 2012	A-5	<u>1,550,063.00</u>	
			3,067,704.00
Decreased by:			
Payments	A-4		<u>1,474,097.18</u>
Balance, December 31, 2012:			
School Tax Payable	A	\$ 59,754.82	
School Tax Deferred		<u>1,533,852.00</u>	
			<u>\$ 1,593,606.82</u>
<u>2012 Liability for Local District School Tax</u>			
Tax Paid	A-4		\$ 1,474,097.18
School Tax Payable, December 31, 2012	A		<u>59,754.82</u>
			1,533,852.00
School Tax Payable, June 30, 2012	A		<u></u>
Amount Charged to Transition Year 2012 Operations	A-1		<u>\$ 1,533,852.00</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF BUSINESS IMPROVEMENT TAX PAYABLE

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 555.00
Increased by:		
Business Improvement Tax	A-1/A-5	<u>17,500.00</u> 18,055.00
Decreased by:		
Cash Disbursed	A-4	<u>17,500.00</u>
Balance, December 31, 2012	A	\$ <u><u>555.00</u></u>

SCHEDULE OF MUNICIPAL OPEN SPACE TAX PAYABLE

	<u>Ref.</u>	
Increased by:		
Municipal Open Space Tax Levy	A-1/A-5	\$ <u>15,158.72</u> 15,158.72
Decreased by:		
Cash Disbursed	A-4	\$ <u><u>15,158.72</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
 SCHEDULE OF DUE TO STATE OF NEW JERSEY
 MARRIAGE LICENSE FEES

	<u>Ref.</u>	
Increased by:		
Receipts	A-4	\$ <u>375.00</u>
		375.00
Decreased by:		
Disbursements	A-4	<u>275.00</u>
Balance, December 31, 2012	A	\$ <u><u>100.00</u></u>

SCHEDULE OF DUE TO STATE OF NEW JERSEY - DCA TRAINING FEES

	<u>Ref.</u>	
Increased by:		
Receipts	A-4	\$ <u>1,944.00</u>
		1,944.00
Decreased by:		
Disbursements	A-4	<u>920.45</u>
Balance, December 31, 2012	A	\$ <u><u>1,023.55</u></u>

<u>Date</u> <u>Authorized</u>	<u>Purpose</u>	<u>Amount</u> <u>Authorized</u>	<u>Date of</u> <u>Issue</u>	<u>Date of</u> <u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>Cash</u> <u>Receipts</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
11-21-12	Hurricane Sandy	\$ 150,000.00	12-19-12	12-18-13	1.14%	\$ 150,000.00	\$ 150,000.00
						\$ 150,000.00	\$ 150,000.00
					Ref.	A-4	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
 SCHEDULE OF INTERFUND - FEDERAL AND STATE GRANT FUND

Ref.

Increased by:

2012 Budget Appropriations	A-28	\$ 26,800.67	
Grants Receivable Canceled	A-27	<u>800.00</u>	
			\$ 27,600.67

Decreased by:

Grants Appropriated Canceled	A-28	1,300.66	
2012 Anticipated Revenue	A-2/A-27	<u>26,800.67</u>	
			<u>28,101.33</u>

Balance, December 31, 2012 (Due To)	A/A-1	\$ <u><u>(500.66)</u></u>
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BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

CURRENT FUND
SCHEDULE OF SPECIAL EMERGENCY NOTES PAYABLE

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance June 30, 2012</u>	<u>Cash Receipts</u>	<u>Balance Dec. 31, 2012</u>
10-06-10	Revaluation	\$ 180,000.00	01-17-12	01-16-13	1.40%	\$ 144,000.00		\$ 144,000.00
02-02-11	Accumulated Sick Leave	110,000.00	01-17-12	01-16-13	1.40%	88,000.00		88,000.00
11-21-12	Hurricane Sandy	2,200,000.00	12-19-12	12-18-13	1.14%		\$ 2,200,000.00	2,200,000.00
						<u>\$ 232,000.00</u>	<u>\$ 2,200,000.00</u>	<u>\$ 2,432,000.00</u>
					<u>Ref.</u>	A	A-4	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

FEDERAL AND STATE GRANT FUND
SCHEDULE OF GRANTS RECEIVABLE

<u>Grant</u>	<u>Balance June 30, 2012</u>	<u>2012 Anticipated Revenue</u>	<u>Cash Received</u>	<u>Transferred From Unappropriated Reserves</u>	<u>Canceled</u>	<u>Balance Dec. 31, 2012</u>
Municipal Alliance on Alcoholism and Drug Abuse	\$ 20,902.28		\$ 7,420.72			\$ 13,481.56
Summer Food Program		\$ 12,747.64	11,146.69	\$ 1,600.95		
Alcohol Education and Rehabilitation Fund		2,482.30		2,482.30		
Click It or Ticket	4,000.00		3,200.00		\$ 800.00	
Body Armor Grant		1,692.90		1,692.90		
Clean Communities Program		9,877.83		9,877.83		
	<u>\$ 24,902.28</u>	<u>\$ 26,800.67</u>	<u>\$ 21,767.41</u>	<u>\$ 15,653.98</u>	<u>\$ 800.00</u>	<u>\$ 13,481.56</u>
<u>Ref.</u>		A-2/A-25	A-4	A-29	A-1/A-25	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

FEDERAL AND STATE GRANT FUND
SCHEDULE OF APPROPRIATED RESERVES

<u>Grant</u>	<u>Balance June 30, 2012</u>	<u>Transfer from 2012 Budget Appropriation</u>	<u>Prior Year Reserve for Encumbrances</u>	<u>Paid</u>	<u>Reserve for Encumbrances</u>	<u>Canceled</u>	<u>Balance Dec. 31, 2012</u>
Drunk Driving Enforcement Fund	\$ 7,183.70			\$ 2,597.73			\$ 4,585.97
Alcohol Education Rehabilitation Fund	670.58	\$ 2,482.30					3,152.88
Recycling Tonnage Grant	24.78			24.78			
Municipal Alliance on Alcoholism and Drug Abuse - 2012	20,902.28			13,799.44			7,102.84
Summer Food Program		12,747.64		11,961.32			786.32
Body Armor Grant	1,489.25	1,692.90					3,182.15
Clean Communities Program	6,004.39	9,877.83					15,882.22
Comcast Cable Technology Grant	20,500.00						20,500.00
Stormwater Management	4,246.27		\$ 2,015.00	2,208.51	\$ 2,000.00		2,052.76
Click It or Ticket	800.00					\$ 800.00	
Sustainable Jersey Small Grants Program	1,000.00						1,000.00
Smart Growth Planning Grant - ANJEC	500.66					500.66	
Assistance to Firefighters			1,700.00		1,700.00		
	<u>\$ 63,321.91</u>	<u>\$ 26,800.67</u>	<u>\$ 3,715.00</u>	<u>\$ 30,591.78</u>	<u>\$ 3,700.00</u>	<u>\$ 1,300.66</u>	<u>\$ 58,245.14</u>
<u>Ref.</u>		A-3/A-25	A-30	A-4	A-30	A-1/A-25	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

FEDERAL AND STATE GRANT FUND
SCHEDULE OF UNAPPROPRIATED RESERVES

<u>Grant</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Funding</u> <u>Received</u>	<u>Realized</u> <u>as Revenue</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
Alcohol Education Rehabilitation Fund	\$ 2,482.30		\$ 2,482.30	
Summer Food Program	1,600.95	\$ 1,111.48	1,600.95	\$ 1,111.48
Clean Communities	9,877.83		9,877.83	
Body Armor	1,692.90	1,550.79	1,692.90	1,550.79
Recycling Tonnage Grant		4,720.97		4,720.97
Drunk Driving Enforcement Fund		4,500.05		4,500.05
	<u>\$ 15,653.98</u>	<u>\$ 11,883.29</u>	<u>\$ 15,653.98</u>	<u>\$ 11,883.29</u>
		A-4	A-27	A

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

FEDERAL AND STATE GRANT FUND
SCHEDULE OF RESERVE FOR ENCUMBRANCES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 3,715.00
Increased by:		
Appropriated Reserves Charged	A-28	<u>3,700.00</u> 7,415.00
Decreased by:		
Applied to Appropriated Reserves	A-28	<u>3,715.00</u>
Balance, December 31, 2012	A	\$ <u><u>3,700.00</u></u>

SCHEDULE OF DUE TO STATE OF NEW JERSEY

	<u>Ref.</u>	
Balance, June 30, 2012 and Dec. 31, 2012	A	\$ <u><u>1,121.88</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

TRUST FUND
SCHEDULE OF CASH

	<u>Ref.</u>	<u>Animal Control Trust Fund</u>	<u>Trust Other Fund</u>	<u>Open Space Trust Fund</u>
Balance, June 30, 2012		\$ 8,499.29	\$ 765,556.34	\$ 100,746.89
Increased by Receipts:				
Reserve for Animal Control				
Trust Fund Expenditures	B-2	\$ 715.50		
Due to State of New Jersey	B-3	84.00		
Various Reserves	B-5		\$ 347,430.65	
Open Space Tax Levy	B-6			\$ 15,158.72
Interest Earned	B-6			481.50
		<u>799.50</u>	<u>347,430.65</u>	<u>15,640.22</u>
		9,298.79	1,112,986.99	116,387.11
Decreased by Disbursements:				
Various Reserves	B-5		303,842.66	
			<u>303,842.66</u>	
Balance, December 31, 2012	B	\$ <u>9,298.79</u>	\$ <u>809,144.33</u>	\$ <u>116,387.11</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

ANIMAL CONTROL TRUST FUND
 SCHEDULE OF RESERVE FOR ANIMAL CONTROL FUND EXPENDITURES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 8,539.29
Increased by:		
Dog License Fees Collected		\$ 672.00
Other Receipts		2.00
Interest Earned		41.50
	B-1	<u>715.50</u>
Balance, December 31, 2012	B	\$ <u>9,254.79</u>

License and Penalty Fees Collected:

<u>Year</u>	<u>Amount</u>
FY2011	\$ 6,331.67
FY2012	<u>5,115.71</u>
	<u>\$ 11,447.38</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

ANIMAL CONTROL TRUST FUND
SCHEDULE OF DUE TO STATE OF NEW JERSEY

	<u>Ref.</u>	
Increased by:		
Receipts	B-1	\$ <u>84.00</u>
		84.00
Decreased by:		
Due to Current Fund	B-4	\$ <u><u>84.00</u></u>

SCHEDULE OF DUE TO CURRENT FUND

	<u>Ref.</u>	
Increased by:		
Due to State of New Jersey	B-3	\$ <u>84.00</u>
Balance, December 31, 2012	B	\$ <u><u>84.00</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

TRUST OTHER FUND
SCHEDULE OF VARIOUS RESERVES

	Balance June 30, 2012	Increased	Decreased	Balance Dec. 31, 2012
Street Opening Permits	\$ 8,500.00		\$ 500.00	\$ 8,000.00
Escrows	27,603.93	\$ 21,365.58	15,458.71	33,510.80
Third Party Lien Redemptions	2,311.97	190,113.88	189,118.80	3,307.05
Tax Sale Premiums	230,700.00		51,000.00	179,700.00
Parking Offense Adjudication Act (Per N.J.S.A 40A:4-39)	207.00	48.00		255.00
Public Defender	2,727.67	1,190.50	1,000.00	2,918.17
Recycling	3,509.96	2,328.05	2,440.57	3,397.44
Deposits - Baymens Association	5,000.00			5,000.00
Pelekanous Engineer Fees	1,817.72			1,817.72
Legal Escrow	1,000.00		500.00	500.00
Police Off Duty	9,756.00	25,165.00	29,995.00	4,926.00
Uniform Fire Penalties	3,602.06			3,602.06
Fire Penalties (Fire Department)	688.64			688.64
Recreation	94.00	686.00	685.00	95.00
Library	7,003.32			7,003.32
Unemployment	179,518.17	44,507.36	7,361.55	216,663.98
Engineering Inspection Fees	79,096.06	547.62	2,552.61	77,091.07
Performance Bonds	132,638.30	33,543.14	9.93	166,171.51
Maintenance Bonds	1,785.20			1,785.20
Accumulated Leave	28,531.04	16,147.00		44,678.04
Police Explorers	7,408.52	9,370.00	2,796.02	13,982.50
Sale of Property	22,350.00			22,350.00
Damage to Recreation Facilities	250.00	100.00	350.00	
Borough Employee Impact Fund		2,200.00		2,200.00
Law Enforcement	9,456.78	118.52	74.47	9,500.83
	<u>\$ 765,556.34</u>	<u>\$ 347,430.65</u>	<u>\$ 303,842.66</u>	<u>\$ 809,144.33</u>

Ref.

B-1

B-1

B

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

OPEN SPACE TRUST FUND
SCHEDULE OF RESERVE FOR OPEN SPACE

	Ref.		
Balance, June 30, 2012		\$	100,746.89
Increased by:			
Tax Levy	B-1	\$	15,158.72
Interest Earned	B-1		<u>481.50</u>
			<u>15,640.22</u>
Balance, December 31, 2012	B	\$	<u><u>116,387.11</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

LENGTH OF SERVICE AWARD PROGRAM FUND ("LOSAP")
SCHEDULE OF INVESTMENTS

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 179,553.73
Increased by:		
Borough Contributions	B-8	\$ 11,500.00
Interest Earned	B-8	1,791.68
Increase in Value of Investments	B-8	<u>1,124.05</u>
		<u>14,415.73</u>
Balance, December 31, 2012	B	\$ <u>193,969.46</u>

LENGTH OF SERVICE AWARD PROGRAM FUND ("LOSAP")
SCHEDULE OF RESERVE FOR LENGTH OF SERVICE AWARD PROGRAM

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 179,553.73
Increased by:		
Borough Contributions	B-7	\$ 11,500.00
Interest Earned	B-7	1,791.68
Increase in Value of Investments	B-7	<u>1,124.05</u>
		<u>14,415.73</u>
Balance, December 31, 2012	B	\$ <u>193,969.46</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF CASH

	<u>Ref.</u>		
Balance, June 30, 2012			\$ 1,418,658.71
Increased by Receipts:			
Premium on Sale of Notes	C-1	\$ 38,931.50	
Serial Bonds	C-8	645,000.00	
Deferred Charges to Future Taxation Unfunded	C-5	14,675.00	
Community Development Block Grant	C-7	134,742.94	
Budget Appropriations:			
Capital Improvement Fund	C-12	37,500.00	
Miscellaneous Reserves	C-13	424.19	
Accounts Payable	C-14	<u>6,500.00</u>	
			<u>877,773.63</u>
			2,296,432.34
Decreased by Disbursements:			
Improvement Authorizations	C-10	<u>1,203,746.06</u>	
			<u>1,203,746.06</u>
Balance, December 31, 2012	C		<u>\$ 1,092,686.28</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
ANALYSIS OF GENERAL CAPITAL CASH

	Balance Dec. 31, 2012
Capital Improvement Fund	\$ 64,410.05
Capital Fund Balance	107,310.57
N.J. Department of Transportation Grants Receivable	(411,156.25)
Federal Emergency Management Agency Receivable	(665,000.00)
Exxon Mobile Receivable	(137,000.00)
Accounts Payable	10,097.75
Reserve for Encumbrances	1,461,602.54
Miscellaneous Reserves	58,710.03
Excess Bond Anticipation Note Proceeds	659,675.00

Improvement Authorizations:

Ordinance Number	Improvement Description	
94-18	Rehabilitation of Low - Mod Income Housing - RCA Middletown	47,136.00
98-11/02-22/04-11	Construction of Firehouse - Emergency Management Facility	3,592.00
03-13	2003 Road Program	311.97
09-28	Design and Permitting of Various Projects	7,050.24
10-14/11-06	Reconstruction of Highland Avenue	110,744.75
11-07	Reconstruction of Bay Avenue	323,208.02
11-12	Various Road Improvements	(247,677.23)
11-22	Acquisition of Computers and Software	20,069.24
12-12	Improvements to Washington Avenue	(51,403.40)
12-17	Acquisition of Fire Truck	(405,995.00)
12-22	Reconstruction of Bayside Drive	137,000.00
		<u>\$ 1,092,686.28</u>

Ref.

C

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF DEFERRED CHARGES TO FUTURE TAXATION - FUNDED

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 3,916,000.00
Increased by:		
Serial Bonds Issued	C-8	<u>645,000.00</u>
		4,561,000.00
Decreased by:		
Budget Appropriation to Pay Bonds	C-8	<u>219,000.00</u>
Balance, December 31, 2012	C	<u>\$ 4,342,000.00</u>

[illegible]

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF N.J. DEPARTMENT OF TRANSPORTATION GRANTS RECEIVABLE

	<u>Ref.</u>	
Balance, June 30, 2012, December 31, 2012	C	\$ <u>411,156.25</u>

Detail:

Ordinance

Number

Description

11-06	Improvements to Highland Avenue	\$ 308,656.25
11-07	Bay Avenue Reconstruction	62,500.00
11-12	Improvements to Woodland Street	<u>40,000.00</u>
		\$ <u>411,156.25</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF COMMUNITY DEVELOPMENT BLOCK GRANT RECEIVABLE

Ref.

Balance, June 30, 2012		\$ 134,742.94
Decreased by:		
Cash Receipts	C-2	\$ <u>134,742.94</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF GENERAL SERIAL BONDS

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Maturities of Bonds Outstanding Dec. 31, 2012</u>		<u>Interest Rate</u>	<u>Balance June 30, 2012</u>	<u>Serial Bonds Issued</u>	<u>Paid by Budget Appropriation</u>	<u>Balance Dec. 31, 2012</u>
General Improvements	12-18-03	\$ 498,000.00	12/01/13	\$ 57,000.00	4.00%	\$ 112,000.00		\$ 55,000.00	\$ 57,000.00
General Improvements	12-05-06	474,000.00	12/01/13	50,000.00	4.00%	261,000.00		48,000.00	213,000.00
			12/01/14	52,000.00	5.00%				
			12/01/15	54,000.00	5.00%				
			12/01/16	57,000.00	5.00%				
General Improvements	12-04-08	3,178,000.00	12/01/13	119,000.00	5.00%	2,848,000.00		116,000.00	2,732,000.00
			12/01/14	125,000.00	5.00%				
			12/01/15	129,000.00	5.00%				
			12/01/16	138,000.00	4.00%				
			12/01/17	143,000.00	4.00%				
			12/01/18	150,000.00	5.25%				
			12/01/19	156,000.00	4.50%				
			12/01/20	166,000.00	4.50%				
			12/01/21	169,000.00	5.00%				
			12/01/22	179,000.00	5.25%				
			12/01/23	189,000.00	5.00%				
			12/01/24	201,000.00	5.125%				
			12/01/25	208,000.00	5.125%				
			12/01/26-28	220,000.00	5.00%				

Purpose	Date of Issue	Original Issue	Maturities of Bonds		Interest Rate	Balance June 30, 2012	Serial Bonds Issued	Paid by Budget Appropriation	Balance Dec. 31, 2012		
				Outstanding Dec. 31, 2012							
General Improvements	01-24-11	\$ 760,000.00	01/15/13	\$ 65,000.00	3.00%						
			01/15/14	70,000.00	3.00%						
			01/15/15	70,000.00	2.50%						
			01/15/16	70,000.00	2.75%						
			01/15/17	75,000.00	5.00%						
			01/15/18	80,000.00	5.00%						
			01/15/19	85,000.00	5.00%						
			01/15/20	90,000.00	5.00%						
			01/15/21	90,000.00	5.00%	\$ 695,000.00		\$ 695,000.00			
General Improvements	12-19-12	\$ 645,000.00	12/01/13	35,000.00	2.00%						
			12/01/14	35,000.00	2.00%						
			12/01/15	35,000.00	2.00%						
			12/01/16	40,000.00	2.50%						
			12/01/17	40,000.00	3.00%						
			12/01/18	40,000.00	3.00%						
			12/01/19	40,000.00	3.00%						
			12/01/20	40,000.00	4.00%						
			12/01/21	45,000.00	4.00%						
			12/01/22	45,000.00	4.00%						
			12/01/23	45,000.00	4.00%						
			12/01/24	50,000.00	2.00%						
			12/01/25	50,000.00	3.00%						
			12/01/26	50,000.00	2.00%						
			12/01/27	55,000.00	2.00%						
									\$ 645,000.00		\$ 645,000.00
								\$ 3,916,000.00	\$ 645,000.00	\$ 219,000.00	\$ 4,342,000.00
				Ref.		C-2/C-4/C-5	C-4	C			

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF BOND ANTICIPATION NOTES

<u>Ordinance Number</u>	<u>Improvement Description</u>	<u>Date of Issue of Original Note</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Balance June 30, 2012 and Dec. 31, 2012</u>
09-28	Design and Permitting for Various Projects	01-21-10	01-17-12	01-16-13	1.40%	\$ 423,700.00
10-14/11-16	Reconstruction of Highland Avenue	05-10-11	01-17-12	01-16-13	1.40%	285,000.00
11-07	Reconstruction of Bay Avenue	05-10-11	01-17-12	01-16-13	1.40%	310,075.00
11-22	Acquisition of Computers and Software	01-17-12	01-17-12	01-16-13	1.40%	<u>64,600.00</u>
						\$ <u><u>1,083,375.00</u></u>
					<u>Ref.</u>	C

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF IMPROVEMENT AUTHORIZATIONS

Ordinance Number	Improvement Description	Date	Amount	Balance June 30, 2012		Increased by		Decreased by		Balance December 31, 2012	
				Funded	Unfunded	2012 Authorizations	Prior Year Encumbrances	Paid or Charged	Reserve for Encumbrances	Funded	Unfunded
94-18	Rehabilitation of Low - Mod Income Housing RCA - Middletown	09-14-94	\$ 925,000.00	\$ 47,136.00						\$ 47,136.00	
98-11/ 02-22/ 04-10	Construction of Firehouse - Emergency Management Facility	12-16-98/ 11-06-02 08-18-04	1,375,000.00	3,592.00			\$ 5,000.00		\$ 5,000.00	3,592.00	
03-13	2003 Road Program	10-01-03	225,000.00	311.97	\$ 65,250.00		5,492.57		5,492.57	311.97	\$ 65,250.00
09-28	Design and Permitting for Various Projects	12-02-09	446,000.00		7,050.24						7,050.24
10-14/11-06	Reconstruction of Highland Avenue	08-18-10	1,484,000.00	94,898.04	32,300.00		617,079.05	\$ 586,309.38	47,222.96	110,744.75	
11-07	Reconstruction of Bay Avenue	03-16-11	760,000.00		283,782.60		379,478.00	340,023.86	28.72	323,208.02	
11-12	Various Road Improvements	05-04-11	575,000.00		109,799.52		423,703.60	222,337.16	201,358.19		109,807.77
11-22	Acquisition of Computers and Software	11-20-11	68,000.00		23,815.00		44,185.00	47,930.76		20,069.24	
12-12	Improvements to Washington Avenue	04-18-12	700,000.00		635,000.00		65,000.00	7,144.90	104,005.10		588,850.00
12-17	Acquisition of Firetruck	09-05-12	1,215,000.00			\$ 1,215,000.00			1,098,495.00		116,505.00
12-20	Construction of Stormwater Pump Station & Drainage Improvements	10-17-12	1,200,000.00			1,200,000.00					1,200,000.00
12-22	Reconstruction of Bayside Drive	12-05-12	137,000.00			137,000.00				137,000.00	
				<u>\$ 145,938.01</u>	<u>\$ 1,156,997.36</u>	<u>\$ 2,552,000.00</u>	<u>\$ 1,539,938.22</u>	<u>\$ 1,203,746.06</u>	<u>\$ 1,461,602.54</u>	<u>\$ 642,061.98</u>	<u>\$ 2,087,463.01</u>
Ref.							C-11	C-2	C-11	C	C
Deferred Charges to Future Taxation Unfunded				C-5		\$ 1,722,500.00					
Capital Improvement Fund				C-12		27,500.00					
Federal Emergency Management Agency Receivable				C		665,000.00					
Exxon Mobile Receivable				C		137,000.00					
						<u>\$ 2,552,000.00</u>					

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
 SCHEDULE OF RESERVE FOR ENCUMBRANCES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 1,539,938.22
Increased by:		
Charged to Improvement Authorizations	C-10	<u>1,461,602.54</u> 3,001,540.76
Decreased by:		
Transfer to Improvement Authorizations	C-10	<u>1,539,938.22</u>
Balance, December 31, 2012	C	<u>\$ 1,461,602.54</u>

Exhibit C-12

SCHEDULE OF CAPITAL IMPROVEMENT FUND

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 54,410.05
Increased by:		
TY 2012 Budget Appropriation	C-2	<u>37,500.00</u> 91,910.05
Decreased by:		
Appropriated to Finance Improvement Authorizations	C-10	<u>27,500.00</u>
Balance, December 31, 2012	C	<u>\$ 64,410.05</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF MISCELLANEOUS RESERVES

<u>Description</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Increased</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
Reserve for RCA Interest - Middletown	\$ 43,924.84	\$ 424.19	\$ 44,349.03
Reserve for Parking Improvements	450.00		450.00
Reserve for Sidewalk Fund	<u>13,911.00</u>		<u>13,911.00</u>
	<u>\$ 58,285.84</u>	<u>\$ 424.19</u>	<u>\$ 58,710.03</u>
<u>Ref.</u>		C-2	C

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF ACCOUNTS PAYABLE

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 3,597.75
Increased by:		
Cash Receipts	C-2	<u>6,500.00</u>
Balance, December 31, 2012	C	\$ <u><u>10,097.75</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL CAPITAL FUND
SCHEDULE OF BONDS AND NOTES AUTHORIZED
BUT NOT ISSUED

<u>Ordinance Number</u>	<u>Improvement Description</u>	<u>Balance June 30, 2012</u>	<u>2012 Authorizations</u>	<u>Balance Dec. 31, 2012</u>
03-13	2003 Road Program	\$ 65,250.00		\$ 65,250.00
11-12	Various Road Improvements	357,485.00		357,485.00
12-12	Improvements to Washington Avenue	640,253.40		640,253.40
12-17	Acquisition of Firetruck		\$ 522,500.00	522,500.00
12-20	Construction of Stormwater Pump Station & Drainage Improvements		1,200,000.00	1,200,000.00
		<u>\$ 1,062,988.40</u>	<u>\$ 1,722,500.00</u>	<u>\$ 2,785,488.40</u>
<u>Ref.</u>			C-10	(Footnote C)

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY FUND
SCHEDULE OF CASH

	<u>Ref.</u>		<u>Operating</u>	<u>Capital</u>
Balance, June 30, 2012			\$ 397,015.18	\$ 16,234.44
Increased by Receipts:				
Consumer Accounts Receivable	D-7	\$ 766,972.79		
Non-Budget Revenues	D-3	14,966.82		
Customer Overpayments	D-10	12,192.45		
Contingent Liabilities	D-12	<u>127.34</u>		
			<u>794,259.40</u>	
			1,191,274.58	<u>16,234.44</u>
Decreased by Disbursements:				
TY 2012 Appropriations	D-4	746,115.11		
SFY 2012 Appropriation Reserves	D-8	30,309.67		
Accrued Interest on Bonds and Notes	D-11	<u>6,761.88</u>		
			<u>783,186.66</u>	
Balance, December 31, 2012	D		\$ <u><u>408,087.92</u></u>	\$ <u><u>16,234.44</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY CAPITAL FUND
ANALYSIS OF WATER - SEWER UTILITY CAPITAL CASH

	Balance
	<u>December 31, 2012</u>
Capital Improvement Fund	\$ 6,750.00
Down Payments on Capital Improvements	100.00
Fund Balance	<u>9,384.44</u>
	<u>\$ 16,234.44</u>
<u>Ref.</u>	D

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
SCHEDULE OF CONSUMER ACCOUNTS RECEIVABLE

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 244,071.49
Increased by:		
Sewer Rents Levied		<u>874,612.68</u>
		1,118,684.17
Decreased by:		
Collections	D-5	\$ 766,972.79
Overpayments Applied	D-10	<u>8,008.73</u>
	D-3	<u>774,981.52</u>
Balance, December 31, 2012	D	\$ <u><u>343,702.65</u></u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
SCHEDULE OF APPROPRIATION RESERVES

	Balance <u>June 30, 2012</u>	Reserve for <u>Encumbrances</u>	Balance After <u>Transfers</u>	Paid or <u>Charged</u>	Balance <u>Lapsed</u>
Operating:					
Salaries and Wages	\$ 11,640.47		\$ 11,640.47	\$ 1,420.84	\$ 10,219.63
Other Expenses	23,983.58	\$ 56,070.85	80,054.43	28,805.38	51,249.05
Statutory Expenditures:					
Social Security	<u>1,846.36</u>		<u>1,846.36</u>	<u>83.45</u>	<u>1,762.91</u>
	<u>\$ 37,470.41</u>	<u>\$ 56,070.85</u>	<u>\$ 93,541.26</u>	<u>\$ 30,309.67</u>	<u>\$ 63,231.59</u>
<u>Ref.</u>		D-9		D-5	D-1

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
SCHEDULE OF RESERVE FOR ENCUMBRANCES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 56,070.85
Increased by:		
Transferred from Budget Appropriations	D-4	44,555.00
		<u>100,625.85</u>
Decreased by:		
Transferred to Appropriation Reserves	D-8	56,070.85
		<u>56,070.85</u>
Balance, December 31, 2012	D	\$ <u>44,555.00</u>

Exhibit D-10

SCHEDULE OF CUSTOMER OVERPAYMENTS

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 8,008.73
Increased by:		
Cash Receipts	D-5	12,192.45
		<u>20,201.18</u>
Decreased by:		
Applied to Consumer Accounts Receivable	D-7	8,008.73
		<u>8,008.73</u>
Balance, December 31, 2012	D	\$ <u>12,192.45</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER UTILITY OPERATING FUND
SCHEDULE OF ACCRUED INTEREST ON BONDS

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 3,006.67
Increased by:		
Budget Appropriations	D-4	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">6,732.71</div> <div style="border-top: 1px solid black; width: 50px;"></div> </div>
		9,739.38
Decreased by:		
Interest Paid	D-5	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">6,761.88</div> <div style="border-top: 1px solid black; width: 50px;"></div> </div>
Balance, December 31, 2012	D	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">\$ 2,977.50</div> <div style="border-top: 1px solid black; border-bottom: 3px double black; width: 50px;"></div> </div>

Analysis of Accrued Interest December 31, 2012

Principal Outstanding <u>December 31, 2012</u>	<u>Interest Rate</u>	<u>From</u>	<u>To</u>	<u>Period</u>	<u>Amount</u>
Serial Bonds:					
\$ 167,000.00	Various	12-01-12	12-31-12	30 Days	\$ 680.10
120,000.00	Various	01-16-12	06-30-12	165 Days	<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">2,297.40</div> <div style="border-top: 1px solid black; width: 50px;"></div> </div>
					<div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 10px;">\$ 2,977.50</div> <div style="border-top: 1px solid black; border-bottom: 3px double black; width: 50px;"></div> </div>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY OPERATING FUND
SCHEDULE OF CONTINGENT LIABILITIES

	<u>Ref.</u>	
Balance, June 30, 2012		\$ 51,921.46
Increased by:		
Cash Receipts	D-5	<u>127.34</u>
Balance, December 31, 2012	D	\$ <u>52,048.80</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY CAPITAL FUND
SCHEDULE OF FIXED CAPITAL

	<u>Ref.</u>	
Balance, June 30, 2012 and December 31, 2012	D	\$ <u>1,349,459.48</u>
Springs and Wells		\$ 40,716.85
Distribution Mains and Accessories		153,471.61
General Equipment		62,579.40
Sewerage Treatment Plant and Lines		278,088.19
Reconstruction of Sewer Lift Station		75,000.00
Construction of Back Wash		116,666.26
Repair to Pumping Station		15,000.00
Ordinance 07-15 Rehabilitation of Sanitary Sewer System		<u>607,937.17</u>
		\$ <u>1,349,459.48</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY CAPITAL FUND
SCHEDULE OF CAPITAL IMPROVEMENT FUND

	<u>Ref.</u>	
Balance, June 30, 2012 and December 31, 2012	D	\$ <u>6,750.00</u>

Exhibit D-15

SCHEDULE OF RESERVE FOR DOWN PAYMENTS ON CAPITAL IMPROVEMENTS

	<u>Ref.</u>	
Balance, June 30, 2012 and December 31, 2012	D	\$ <u>100.00</u>

Exhibit D-16

SCHEDULE OF RESERVE FOR AMORTIZATION

	<u>Ref.</u>	
Balance, June 30 2012		\$ 1,055,459.48
Increased by:		
Serial Bonds Payable	D-17	<u>7,000.00</u>
Balance, December 31, 2012	D	\$ <u>1,062,459.48</u>

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY CAPITAL FUND
SCHEDULE OF WATER - SEWER UTILITY SERIAL BONDS

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Maturities of Bonds</u>		<u>Interest Rate</u>	<u>Balance June 30, 2012</u>	<u>Paid by Budget Appropriation</u>	<u>Balance December 31, 2012</u>
Rehabilitation of Sanitary Sewer System	12-01-08	\$ 195,000.00	12-01-13	\$ 7,000.00	5.000%			
			12-01-14	8,000.00	5.000%			
			12-01-15	8,000.00	5.000%			
			12-01-16	8,000.00	4.000%			
			12-01-17	9,000.00	4.000%			
			12-01-18	9,000.00	5.250%			
			12-01-19	10,000.00	4.500%			
			12-01-20	10,000.00	4.500%			
			12-01-21	10,000.00	5.000%			
			12-01-22	11,000.00	5.250%			
			12-01-23	11,000.00	5.000%			
			12-01-24	12,000.00	5.125%			
			12-01-25	13,000.00	5.125%			
			12-01-26	13,000.00	5.000%			
			12-01-27	14,000.00	5.000%			
			12-01-28	14,000.00	5.000%	\$ 174,000.00	\$ 7,000.00	\$ 167,000.00

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

WATER - SEWER UTILITY CAPITAL FUND
SCHEDULE OF WATER - SEWER UTILITY SERIAL BONDS

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Maturities of Bonds Outstanding December 31, 2012</u>		<u>Interest Rate</u>	<u>Balance June 30, 2012</u>	<u>Paid by Budget Appropriation</u>	<u>Balance December 31, 2012</u>
Rehabilitation of Sanitary Sewer System	01-24-11	\$ 130,000.00	01-15-13	\$ 10,000.00	3.00%			
			01-15-14	10,000.00	3.00%			
			01-15-15	10,000.00	2.50%			
			01-15-16	15,000.00	2.75%			
			01-15-17	15,000.00	5.00%			
			01-15-18	15,000.00	5.00%			
			01-15-19	15,000.00	5.00%			
			01-15-20	15,000.00	5.00%			
			01-15-21	15,000.00	5.00%	\$ 120,000.00		\$ 120,000.00
						<u>\$ 294,000.00</u>	<u>\$ 7,000.00</u>	<u>\$ 287,000.00</u>
					<u>Ref.</u>		D-16	D

BOROUGH OF HIGHLANDS
COUNTY OF MONMOUTH, NEW JERSEY

GENERAL FIXED ASSET ACCOUNT GROUP
SCHEDULE OF INVESTMENTS IN GENERAL FIXED ASSETS

	Balance <u>June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2012</u>
General Fixed Assets:				
Land	\$ 1,097,800.00			\$ 1,097,800.00
Buildings and Improvements	5,772,197.90			5,772,197.90
Machinery and Equipment	<u>2,674,354.99</u>	\$ <u>149,438.00</u>	\$ <u>40,007.59</u>	<u>2,783,785.40</u>
	<u>\$ 9,544,352.89</u>	\$ <u>149,438.00</u>	\$ <u>40,007.59</u>	<u>\$ 9,653,783.30</u>
<u>Ref.</u>				E

BOROUGH OF HIGHLANDS

COUNTY OF MONMOUTH

SUPPLEMENTARY DATA

FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

COMPARATIVE SCHEDULE OF TAX RATE INFORMATION (Excludes Business Improvement District)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Tax Rate	\$ <u>2.545</u>	\$ <u>2.436</u> *	\$ <u>2.823</u>
Apportionment of Tax Rate			
Municipal	1.026	.916	1.068
County	.329	.337	.403
Local School	.506	.500	.562
Regional High School	.679	.678	.785
Municipal Open Space	.005	.005	.005
Assessed Valuation			
2012	\$606,348,709.00		
2011		\$607,765,927.00 *	
2010			\$542,463,736.00

* Revaluation

COMPARISON OF TAX LEVIES AND COLLECTION CURRENTLY

A study of this tabulation could indicate a possible trend in future tax levies. A decrease in the percentage of current collection could be an indication of a probable increase in future levies. The SFY years are for twelve months while the TY year is for a six month period.

<u>Year</u>	<u>Tax Levy</u>	<u>Currently</u>	
		<u>Cash Collection</u>	<u>Percentage of Collection</u>
TY 2012	\$ 7,646,046.60	\$ 7,099,520.92	92.85%
SFY 2012	15,156,624.36	14,599,559.72	96.32%
SFY 2011	15,222,965.87	14,606,946.80	95.95%

DELINQUENT TAXES AND TAX TITLE LIENS

This tabulation includes a comparison, expressed in percentage, of the total of delinquent taxes and tax title liens in relation to the tax levies of the last three years. The SFY years are for twelve months while the TY year is for a six month period.

<u>Year Ended</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Taxes</u>	<u>Total Delinquent</u>	<u>Percentage of Tax Levy</u>
<u>June 30</u>				
TY 2012	\$ 37,662.10	\$ 724,981.78	\$ 762,643.88	9.97%
SFY 2012	36,052.55	511,858.96	547,911.51	3.61%
SFY 2011	32,141.73	457,070.49	489,212.22	3.21%

PROPERTY ACQUIRED BY TAX TITLE LIEN LIQUIDATION

The value of property acquired by liquidation of tax title liens on at year end, on the basis of the last assessed valuation of such properties in the year of acquisition, is summarized as follows:

<u>Year</u>	<u>Amount</u>
TY 2012	\$ 212,600.00
SFY 2012	215,100.00
SFY 2011	215,100.00

COMPARISON OF WATER-SEWER UTILITY RENTS LEVIED

The following SFY years are for twelve months while the TY year is for a six month period.

<u>Year</u>	<u>Levy</u>	<u>Prior Year Delinquent</u>	<u>Cash Collection</u>
TY 2012	\$ 874,612.68	\$ 244,071.49	\$ 774,981.52
SFY 2012	1,666,705.84	238,776.68	1,661,411.03
SFY 2011	1,562,243.39	173,081.08	1,496,547.79

COMPARATIVE SCHEDULE OF FUND BALANCES

<u>Year</u>	<u>Balance</u>	<u>Utilized In Budget of Succeeding Year</u>
<u>Current Fund</u>		
December 31, 2012	\$ 1,389,719.31	\$ 422,285.00
*June 30, 2012	833,223.08	317,500.00
June 30, 2011	700,103.46	651,000.00
June 30, 2010	998,190.32	953,000.00
June 30, 2009	1,285,317.97	1,240,000.00

<u>Water-Sewer Utility Fund</u>		
December 31, 2012	\$ 253,955.09	\$ 250,000.00
*June 30, 2012	240,637.06	200,000.00
June 30, 2011	214,483.64	214,000.00
June 30, 2010	200,063.66	200,060.00
June 30, 2009	464,855.08	465,770.00

*The Borough was granted permission from the State of New Jersey Local Finance Board to revert to a calender year. The amounts utilized in the budget of the succeeding year are for a six month transition year budget.

**SUMMARY OF MUNICIPAL DEBT (Excluding
Current and Operating Debt and Type 1 School Debt)**

	<u>TY 2012</u>	<u>SFY 2012</u>	<u>SFY 2011</u>
Issued			
General:			
Bonds and Notes	\$ 5,425,375.00	\$ 5,051,875.00	\$ 5,208,775.00
Water-Sewer Utility:			
Bonds and Notes	<u>287,000.00</u>	<u>294,000.00</u>	<u>311,000.00</u>
Total Issued	<u>5,712,375.00</u>	<u>5,345,875.00</u>	<u>5,519,775.00</u>
<u>Authorized but not Issued</u>			
General:			
Bonds and Notes	2,785,488.40	1,062,988.40	457,535.00
Water-Sewer Utility			
Bonds and Notes	<u>-</u>	<u>-</u>	<u>-</u>
Total Authorized but Not Issued	<u>2,785,488.40</u>	<u>1,062,988.40</u>	<u>457,535.00</u>
Net Bonds and Notes Issued and Authorized but not Issued	\$ <u>8,497,863.40</u>	\$ <u>6,408,863.40</u>	\$ <u>5,977,310.00</u>

SUMMARY OF STATUTORY DEBT CONDITION - ANNUAL DEBT STATEMENT

The summarization statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a Statutory Net Debt of 1.098%.

	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Regional High School	\$ 3,606,209.94	\$ 3,606,209.94	\$ -
Local School District	10,750.87	10,750.87	-
General Debt	8,210,863.40	659,675.00	7,551,188.40
Water-Sewer Utility	<u>287,000.00</u>	<u>287,000.00</u>	<u>-</u>
	<u>\$ 12,114,824.21</u>	<u>\$ 4,563,635.81</u>	<u>\$ 7,551,188.40</u>

Net Debt \$7,551,188.40 divided by Equalized Valuation basis per N.J.S.A. 40A:2-6 as amended \$687,757.719.33 equals 1.098%.

BORROWING POWER UNDER N.J.S.A. 40A:2-6

3 1/2% of Equalized Valuation Basis	\$ 24,071,520.18
Net Debt	<u>7,551,188.40</u>

Remaining Borrowing Power	\$ <u>16,520,331.78</u>
---------------------------	-------------------------

CALCULATION OF "SELF-LIQUIDATING PURPOSE" WATER-SEWER UTILITY PER N.J.S. 40A:2-45

Cash Receipts from Fees, Rents or Other		
Charges for the Year		\$ 989,948.34
Deductions:		
Operating and Maintenance Cost	\$ 826,129.19	
Debt Service	<u>13,732.71</u>	
		<u>839,861.90</u>
Excess in Revenues		\$ <u>150,086.44</u>

The annual debt statement as filed by the Chief Financial Officer is correct.

**BOROUGH OF HIGHLANDS
OFFICIALS IN OFFICE AND SURETY BONDS**

The following officials were in office during the period under review:

<u>Name</u>	<u>Position</u>
Frank Nolan	Mayor
Rebecca Kane	Council President
Chris Francy	Council Member
Richard O'Neil	Council Member
Kevin Redmond	Council Member
Carolyn Cummins	Municipal Clerk
Patrick J. DeBlasio	Tax Collector
Stephen Pfeffer	Chief Financial Officer
Peter Locascio	Judge
Blanche Reed	Court Administrator

All employees are covered by a public employee dishonesty bond in the amount of \$50,000.00 by the Monmouth Joint Insurance Fund.

There is a blanket bond for secondary coverage with the Municipal Excess Liability Joint Insurance Fund in the amount of \$950,000.00 for public employees. This bond is subject to deductibles based upon other required coverage.

BOROUGH OF HIGHLANDS

COUNTY OF MONMOUTH

PART II

SINGLE AUDIT SECTION

FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

Certified Public Accountants
Registered Municipal Accountants

1390 Route 36, Suite 102
Hazlet, New Jersey 07730-1716
Telephone: (732) 888-2070
FAX: (732) 888-6245

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY STATE TREASURY
CIRCULAR LETTER 04-04 OMB**

To the Honorable Mayor
and Members of the Borough Council
Borough of Highlands
County of Monmouth
Highlands, New Jersey

Report on Compliance for Each Major State Program

We have audited the Borough of Highlands, State of New Jersey's (the "Borough") compliance with the types of compliance requirements described in the New Jersey State Office of Management and Budget's *State Grant Compliance Supplement* that could have a direct and material effect on each of the Borough's major state programs for the six month transition year ended December 31, 2012. The Borough's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Borough's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provision of the State Treasury Circular Letter 04-04 OMB, *Single Audit policy for Recipients of Federal Grants, State Grants, and State Aid*. Those standards and Circular Letter 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Borough's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Borough's compliance.

Opinion on Each Major State Program

In our opinion, the Borough, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the six month transition year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Borough is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Borough's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with State Circular Letter 04-04 but not for the purpose of expressing an opinion on the effectiveness of the Borough's internal control over compliance.

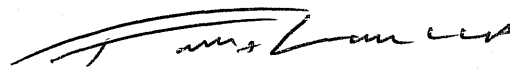
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of State Circular Letter 04-04. Accordingly, this report is not suitable for any other purpose.



Thomas P. Fallon
Certified Public Accountant
Registered Municipal Accountant #465



Fallon & Larsen LLP

November 13, 2013

BOROUGH OF HIGHLANDS

COUNTY OF MONMOUTH

STATE OF NEW JERSEY

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE

For the Six Month Transition Year Ended December 31, 2012

State Grantor / Pass - Through Grantor / Program	State Account Number or Grant Number	Grant Period	Grant/Loan Award	Cash Received	Program Expenditures	Cumulative Expenditures
<u>N.J. Department of Law and Public Safety:</u>						
Drunk Driving Enforcement Fund	6400-100-078-6400	Open	\$ 22,468.92		\$ 2,597.73	\$ 17,882.95
Body Armor Replacement Grant	1020-718-066-001	Open	<u>7,143.45</u>	<u>\$ 1,692.90</u>		<u>3,961.30</u>
Total N.J. Department of Law and Public Safety			<u>29,612.37</u>	<u>1,692.90</u>	<u>2,597.73</u>	<u>21,844.25</u>
<u>N.J. Department of Health and Senior Services:</u>						
Alcohol Education and Rehabilitation - 2012	760-046-4240-001	Open	2,482.30	2,482.30		
Alcohol Education and Rehabilitation - 2011 and Prior	760-046-4240-001	Open	<u>670.58</u>			
Total N.J. Department of Health and Senior Services			<u>3,152.88</u>	<u>2,482.30</u>		
<u>N.J. Department of Human Services:</u>						
Pass through County of Ocean Municipal Alliance Grant	2000-475-995120-60	01/01/12 - 12/31/12	<u>27,281.00</u>	<u>7,420.72</u>	<u>13,799.44</u>	<u>20,178.16</u>
Total N.J. Department of Human Services			<u>27,281.00</u>	<u>7,420.72</u>	<u>13,799.44</u>	<u>20,178.16</u>
<u>N.J. Department of Environmental Protection:</u>						
Clean Communities Program - 2011 and Prior	4900-765-042-4900-004	Open	14,917.39			8,913.00
Clean Communities Program - 2012	4900-765-042-4900-004	Open	9,877.83	9,877.83		
Recycling Tonnage Grant	4900-752-042-001	Open	21,833.44		24.78	21,833.44
Municipal Stormwater Regulation	100-0424840-091	Open	<u>7,996.93</u>		<u>2,208.51</u>	<u>3,944.17</u>
Total N.J. Department of Environmental Protection			<u>54,625.59</u>	<u>9,877.83</u>	<u>2,233.29</u>	<u>34,690.61</u>
<u>N.J. Department of Transportation:</u>						
State Aid - 1984 New Jersey Transportation Trust Fund Authority Act:						
Bay Avenue	480-078-6320	Open	250,000.00		146,834.65	146,834.65
Woodland Avenue	480-078-6320	Open	160,000.00		38,904.00	38,904.00
Highlands Avenue	480-078-6320	Open	<u>1,184,000.00</u>		<u>569,783.99</u>	<u>1,139,104.14</u>
Total N.J. Department of Transportation			<u>1,594,000.00</u>		<u>755,522.64</u>	<u>1,324,842.79</u>
Total State Financial Assistance			<u>\$ 1,708,671.84</u>	<u>\$ 21,473.75</u>	<u>\$ 774,153.10</u>	<u>\$ 1,401,555.81</u>

See accompanying notes to the schedules of expenditures of state financial assistance.

**BOROUGH OF HIGHLANDS
NOTES TO THE SCHEDULES OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012**

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

A. Organization

The Borough of Highlands is the prime sponsor and recipient of various federal and state grant funds. The Borough has delegated the administration of grant programs and the reporting function to various departments within the Borough. Substantially all grant and program cash funds are commingled with the Borough's other funds, although each grant is accounted for separately within the Borough's financial records. The Borough's Department of Finance performs the accounting functions for all grants.

B. Basis of Presentation

The accompanying schedules of expenditures of state financial assistance includes the state grant activity of the Borough of Highlands and is presented on the cash basis of accounting. Differences between budget and actual cash disbursements, as well as differences between budget revenues and actual cash receipts, for grants accounted for in the Federal and State Grant Fund are transferred to the Current Fund balance when the grant is closed out. The information in this schedule is presented in accordance with the requirements of State Treasury Circular Letter 04-04-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid.

NOTE 2 CONTINGENCIES

Each of the grantor agencies reserves the right to conduct additional audits of the Borough's grant programs for economy, efficiency and program results. However, Borough management does not believe such audits would result in material amounts of disallowed costs.

**BOROUGH OF HIGHLANDS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012**

Section I - Summary of Auditors' Results

Financial Statements Section

Type of auditors' report issued:

Generally Accepted Accounting Principles	<u>Adverse</u>
Regulatory Basis	<u>Qualified</u>

Internal control over financial reporting:

Material weakness identified?	_____	Yes	<u> X </u>	No
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Significant deficiency identified not considered to be material weaknesses?	_____	Yes	<u> X </u>	No
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Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No
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BOROUGH OF HIGHLANDS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditors' Results (continued)

Financial Statements Section (continued)

a) State Financial Assistance

Internal Control over major programs:

Material weakness identified? ☐ Yes ☒ No

Significant deficiency identified not considered
to be material weakness? ☐ Yes NONE REPORTED

Type of auditors' report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with 04-04 OMB? ☐ Yes ☒ No

Identification of major state programs:

<u>Account Number(s) or Grant Number(s)</u>	<u>Name of State Program or Cluster</u>
480-078-6320	State Aid - 1984 New Jersey Transportation Trust Fund Authority Act

Dollar threshold used to distinguish between
Type A and Type B Programs: \$300,000.00

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

**BOROUGH OF HIGHLANDS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012**

Section II - Financial Statement Findings

None reported.

**BOROUGH OF HIGHLANDS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012**

Section III

a) State Award Findings and Questioned Costs

There were no findings or questioned costs related to state programs.

**BOROUGH OF HIGHLANDS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012**

Schedule of State Prior Year Audit Findings

None Reported

BOROUGH OF HIGHLANDS

COUNTY OF MONMOUTH

PART III

COMMENTS AND RECOMMENDATIONS

FOR THE SIX MONTH TRANSITION YEAR ENDED DECEMBER 31, 2012

GENERAL COMMENTS

Contracts and Agreements Required To Be Advertised for N.J.S. 40A:11-4

N.J.S. 40A:11-4 states "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this act or specifically by any other law".

The Governing Body of the Municipality has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where questions arise as to whether any contract or agreement might result in violation of the statute, the Borough Counsel's opinion should be sought before a commitment is made.

The minutes indicate that bids were requested by public advertising for the following items:

Custom Chassis Mid-Mount Quint Platform Fire Apparatus
Washington Avenue Repairs

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

The minutes indicate that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S. 40A:11-5.

Our examination of expenditures did not reveal any individual payments in excess of the bid threshold "for the provision or performance of any goods or services" other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of N.J.S. 40A:11-6.

Purchases, Contracts or Agreements Not Required to be Advertised by N.J.S. 40A:11-6.1

N.J.S. 40A:11-6.1 states, "For all contracts that in the aggregate are less than the bid threshold but exceed 15 percent or more of that amount, and for those contracts that are for subject matter enumerated in subsection (1) of section 5 of P.L. 1971, c. 198 (C.40A:11-5), except for paragraph (a) of that subsection concerning professional services and paragraph (b) of that subsection concerning work by employees of the contracting unit, the contracting agent shall award the contract after soliciting at least two competitive quotations, if practicable. The award shall be made to a vendor whose response is most advantageous, price and other factors considered."

GENERAL COMMENTS (continued)

Collection of Interest on Delinquent Tax, Assessments and Sewer Charges

The statute provides the method for authorizing interest and the maximum rates to be charged for the nonpayment of taxes and assessments on or before the date when they would become delinquent.

The Governing Body adopted the following resolution authorizing interest to be charged on delinquent taxes, water-sewer rents, and assessments:

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the Borough of Highlands, Monmouth County, New Jersey as follows:

- a) The Tax Collector is hereby authorized and directed to charge 8% per annum on the first \$1,500.00 of taxes becoming delinquent after due date; and 18% per annum on any amount in excess of \$1,500.00 becoming delinquent after due date; and if a delinquency is in excess of \$10,000.00 and remains in arrears beyond June 30th, an additional penalty of 6% shall be charged against the delinquency.
2. There will be a ten (10) day grace period of quarterly tax payments made by cash, check or money order.
3. Any payments not made in accordance with paragraph 2 of this resolution shall be charged interest from the due date as set forth in paragraph 1 of this resolution; and

It appears, from an examination of the Tax Collector records, that interest was generally collected in accordance with the foregoing resolution and statutes.

Delinquent Taxes, Tax Title Liens and Delinquent Sewer Rents

The detail of all unpaid taxes for 2012 and prior years tax title liens and sewer rents is being properly carried in the Tax Collector's records. An abstract taken from these records as of December 31, 2012, covering all unpaid charges on that date, was verified with the accounting control figures shown in this report.

The last tax sale was held on June 5, 2012 and it was complete.

Inspection of tax sale certificates on file revealed that all tax sale certificates were available for audit.

The following comparison is made of the number of tax title liens receivable at year end of the last three (3) years.

<u>Year</u>	<u>Number of Liens</u>
TY 2012	5
SFY 2011	5
SFY 2010	5

GENERAL COMMENTS (continued)

Delinquent Taxes, Tax Title Liens and Delinquent Sewer Rents (continued)

It is essential to good management that all means provided by statute be utilized to liquidate tax title liens in order to get such properties back on a taxpaying basis. Certain liens have been in existence for greater than two years.

Verification of Delinquent Taxes and Other Charges

Verification of delinquent charges and current payments was done for the period under audit in accordance with the regulations of the Division of Local Government Services, as of December 31, 2012 and consisted of verification notices as follows:

<u>Type</u>	<u>Number Mailed</u>	<u>Number Returned</u>
Dates of Payments of Taxes	25	6
Delinquent Taxes	41	5
Dates of Payment of Sewer		
Utility Charges	25	0
Delinquent Sewer Utility Charges	66	18

Through examination of those notices that were returned, and by alternative procedures for notices unreturned, no irregularities were noted.

OTHER COMMENTS

Cash Balances

The cash balances in all funds were verified by independent certifications obtained from the depositories as of December 31, 2012.

Cash counts were made at various dates in all departments of the Borough and bank balances were independently reconciled to the book records or to such schedules of receipts and disbursements provided for audit.

The change funds and petty cash funds were counted.

Revenues

Receipts from licenses, fees, fines and costs, etc., for all departments, including the Municipal Court, were checked to the records maintained to the extent deemed necessary.

OTHER COMMENTS (continued)

Expenditures

The vouchers for all funds were examined to the extent deemed necessary to determine that they carry the properly executed certifications as required by statute.

Payroll

An examination was made of the employees' compensation records for the six month transition year 2012 to determine that salaries were paid in conformity with the amounts of salaries and wages authorized by ordinance. Vouchers for overtime and part-time wages were checked.

Deposits

Comment: Receipts are not being deposited within 48 hours on a consistent basis.

Recommendation: That receipts be deposited within 48 hours on a consistent basis.

Tax Collection

Comment: The added/omitted tax levy was not recorded or billed.

Recommendation: That controls be implemented to determine the added/omitted tax levy is recorded and billed.

Miscellaneous Comments

The confirmations, sent to the Local School Board of Education and Regional High School, verified the correct school taxes payable at December 31, 2012.

Appreciation

I desire to express my appreciation for the cooperation received from the Borough Officials and Employees and the courtesies extended during the course of the audit.

RECOMMENDATIONS

It is recommended:

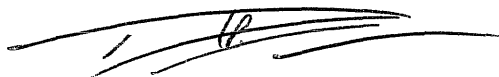
12-1. That receipts be deposited within 48 hours on a consistent basis.

12-2. That controls be implemented to determine the added/omitted tax levy is recorded and billed.

The above recommendations are not similar to any reported in the June 30, 2012 audit.

Should any questions arise as to my comments or recommendations, or should you desire assistance in implementing my recommendations, please do not hesitate to call me.

Very truly yours,

A handwritten signature in black ink, appearing to read 'T. Fallon', is written over a series of horizontal lines.

Thomas P. Fallon
Registered Municipal Accountant # 465
For the Firm
FALLON & LARSEN LLP