

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 30, 2025

NEW ISSUE - BOOK-ENTRY-ONLY

Rating: NOT RATED

In the opinion of Gibbons P.C., Bond Counsel to the Borough (as defined herein), assuming continuing compliance by the Borough with certain tax covenants described herein, under existing law, interest on the Notes (as defined herein) is excluded from the gross income of the owners of the Notes for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Notes is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax, however, interest on the Notes is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under the Code. Under existing law, interest on the Notes and net gains from the sale of the Notes are exempt from the tax imposed by the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.

**\$6,321,000
BOROUGH OF SOMERVILLE
County of Somerset, New Jersey
BOND ANTICIPATION NOTES, SERIES 2026A
(BANK-QUALIFIED) (NON-CALLABLE)**

**Dated Date: January 23, 2026
Maturity Date: January 22, 2027**

Interest Rate: _____%

Yield: _____%

CUSIP*: _____

The \$6,321,000 Bond Anticipation Notes, Series 2026A (the "Notes") of the Borough of Somerville, New Jersey (the "Borough") will be issued in registered form, and, when issued, will be registered in the name of Cede & Co. ("Cede"), as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearing house transactions, which will act as securities depository for the Notes. Individual purchases will be made in book-entry form (without certificates) through DTC Participants, as hereinafter defined, in the principal amount of \$5,000 each or any integral multiple thereof (except for one odd piece). See "THE NOTES – Book-Entry Only System" herein.

The principal of and interest on the Notes shall be paid on the maturity date to DTC by the Borough, as paying agent (the "Paying Agent"), in accordance with the Notice of Sale. Interest on the Notes shall be calculated on the basis of a 360-day year of twelve 30-day calendar months. Interest on the Notes will be credited to the participants of DTC as listed on its records as of the close of business on January 15, 2027 (the "Record Date" for the payment of interest on the Notes). See "THE NOTES – Book-Entry Only System" herein.

The Notes are not subject to redemption prior to their stated maturity.

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

The Notes are offered when, as and if issued and delivered to the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice and to approval of legality by the law firm of Gibbons P.C., Newark, New Jersey, Bond Counsel to the Borough, and certain other conditions described herein. Phoenix Advisors, a division of First Security Municipal Advisors, Inc., Hamilton, New Jersey, has served as Municipal Advisor to the Borough in connection with the issuance of the Notes. It is anticipated that the Notes will be available for delivery through the facilities of DTC on or about January 23, 2026, in New York, New York, or at such other place and time as may be agreed to by the Borough.

**BIDS FOR THE NOTES WILL BE RECEIVED IN ACCORDANCE WITH THE NOTICE OF SALE
UNTIL 11:00 A.M. ON JANUARY 8, 2026. FOR MORE DETAILS ON HOW TO BID,
VIEW THE NOTICE OF SALE POSTED AT WWW.MUNIHUB.COM.**

Dated: January ___, 2026

* Registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. The CUSIP number listed above is being provided solely for the convenience of Noteholders only at the time of issuance of the Notes and the Borough does not make any representation with respect to such number or undertake any responsibility for its accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Notes as a result of procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Notes.

**BOROUGH OF SOMERVILLE,
IN THE COUNTY OF SOMERSET, NEW JERSEY**

MAYOR

Brian G. Gallagher

BOROUGH COUNCIL

Roger Vroom, President
Glen Denys
Andrew Conte
Gina Stravic
RanD Pitts
Theresa Bonner

BOROUGH CLERK/ADMINISTRATOR

Kevin Sluka

CHIEF FINANCIAL OFFICER

Paige Elster

BOROUGH ATTORNEY

Jeremy Solomon, Esq.
Piscataway, New Jersey

INDEPENDENT AUDITOR

PKF O'Connor Davies, LLP
Cranford, New Jersey

BOND COUNSEL

Gibbons P.C.
Newark, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors,
a division of First Security Municipal Advisors, Inc.
Hamilton, New Jersey

No broker, dealer, salesperson or other person has been authorized by the Borough to give any information or to make any representations with respect to the Notes other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. The information contained herein has been provided by the Borough and other sources deemed reliable; however, no representation or warranty is made as to its accuracy or completeness and such information is not to be construed as a representation of accuracy or completeness by the Underwriter or, as to information from sources other than itself, by the Borough. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

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

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

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**OFFICIAL STATEMENT
OF
THE BOROUGH OF SOMERVILLE,
IN THE COUNTY OF SOMERSET, NEW JERSEY
RELATING TO
\$6,321,000 BOND ANTICIPATION NOTES, SERIES 2026A
(BANK-QUALIFIED) (NON-CALLABLE)**

INTRODUCTION

This Official Statement, which includes the cover page and the appendices attached hereto, has been prepared by the Borough of Somerville (the “Borough”), in the County of Somerset (the “County”), State of New Jersey (the “State”), and provides certain information relating to the Borough in connection with the sale and issuance of \$6,321,000 Bond Anticipation Notes, Series 2026A (the “Notes”). This Official Statement has been executed by and on behalf of the Borough by the Chief Financial Officer and may be distributed in connection with the sale of the Notes described herein.

THE NOTES

Description of the Notes

The Notes shall be dated their date of delivery and will mature on the date in the amount and will bear interest payable at the rate as set forth on the front cover page hereof. The Notes may be purchased in book-entry only form in the amount of \$5,000 each or any integral multiple thereof (except for one odd piece) through book-entries made on the books of The Depository Trust Company, New York, New York (“DTC”), acting as securities depository, and its participants.

The principal of and interest due on the Notes will be paid to DTC by the Borough or its designated paying agent (the “Paying Agent”). Interest on the Notes shall be calculated on the basis of a 360-day year of twelve 30-day calendar months. Interest on the Notes will be credited to the Participants of DTC as listed on the records of DTC as of January 15, 2027 (the “Record Date” for the payment of interest on the Notes).

Redemption

The Notes are not subject to redemption prior to their stated maturity.

Book-Entry Only System

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Notes, payment of principal and interest, and other payments on the Notes to DTC Participants or Beneficial Owners (as each such terms is hereinafter defined), confirmation and transfer of beneficial ownership interests in the Notes and other related transactions by and between DTC, DTC Participants and Beneficial Owners, is based on certain information furnished by DTC to the Borough. Accordingly, the Borough does not make any representations as to the completeness or accuracy of such information.

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

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

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

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

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

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

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

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

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

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

AUTHORIZATION AND PURPOSE OF THE NOTES

The Notes have been authorized and are to be issued pursuant to the laws of the State, including the Local Bond Law constituting Chapter 2 of Title 40A of the State Statutes, as amended (N.J.S.A. 40A:2-1 et seq.) (the "Local Bond Law") and the bond ordinance adopted by the Borough Council as set forth below. The proceeds of the Notes, together with \$113,000 of budgeted Borough funds, will be used to currently refund the Borough's \$6,434,000 Bond Anticipation Notes, Series 2025A, dated January 27, 2025 and maturing on January 26, 2026.

<u>Ordinance No.</u>	<u>Purpose</u>	<u>Amount</u>
2617	Construction of a Parking Garage	\$6,321,000
Total:		<u>\$6,321,000</u>

PAYMENT OF AND SECURITY FOR THE NOTES

The Notes are general obligations of the Borough and unless paid from other sources, the Borough is authorized and required by law to levy *ad valorem* taxes on all property taxable by the Borough for the payment of the principal of and interest on the Notes without limitation as to rate or amount.

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

MARKET PROTECTION

During the remainder of 2026, the Borough does not anticipate issuing any bonds or tax anticipation notes. The Borough may issue additional bond anticipation notes during the remainder of 2026, as may be necessary.

PROVISIONS WITH REGARD TO BOROUGH GENERAL OBLIGATION DEBT

This summary does not purport to be a full and complete statement of all of the provisions referred to herein, and the cited statutes should be read in full for a complete understanding of all of said provisions.

Local Bond Law

The Local Bond Law (N.J.S.A. 40A:2-1 et. seq.). The Local Bond Law generally governs the issuance of bonds and notes by local units to finance certain capital improvements and appropriations. The Local Bond Law requires that bonds must mature within the statutory period of usefulness of the projects bonded and that bonds be retired in serial installments. A 5% cash down payment is generally required toward the financing of capital expenditures. All bonds and notes issued by the Borough are general ("full faith and credit") obligations.

Debt Limits

Debt Limits. The net authorized debt of all local units which are municipalities in the State of New Jersey is generally limited by statute to an amount equal to 3.5% of its equalized valuation basis. The equalized valuation basis of the local unit is set by statute as the average for the last three years of the sum of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries, as annually determined by the State Department of the Treasury, Division of Taxation. Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit.

Exceptions To Debt Limits - Extensions Of Credit. The debt limit of a local unit may be exceeded with the approval of the Local Finance Board, and as permitted by other statutory exceptions. If all or any part of a proposed debt authorization would exceed its debt limit, the local unit must apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a

proposed debt authorization would not materially impair the ability of a local unit to meet its obligations or to provide essential services, and the Local Finance Board makes other statutory determinations, approval is granted.

School Debt. In the State, in a Type II school district without a Board of School Estimate, school debt authorized by the board of education must be approved by the registered voters of that school district. When the amount authorized exceeds the school district's limit, the district may use the municipality's share of available borrowing capacity upon approval of the proposed debt by the State Commissioner of Education and the Local Finance Board, and subsequently by the registered voters of the district. School debt of a Type I school district is authorized by a Board of School Estimate and the governing body of a local unit.

Local Budget Law

The Local Budget Law (N.J.S.A. 40A:4-1, et seq.). The foundation of the State local finance system is the annual budget. Every local unit must adopt an operating budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Items of revenue and appropriation are regulated by law and must be certified by the Director of the Division (the "Director") prior to final adoption of the budget. The Local Budget Law requires each local unit to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the review focusing on anticipated revenues serves to protect the solvency of all local units. The budgets of local units must be in balance; i.e., total anticipated revenues must equal total appropriations.

If in any year a Local Unit's expenditures exceed (or are less than) its realized revenues for that year, then such deficit (excess) must be raised (accounted for) in the succeeding year's budget.

Real Estate Taxes. The same general principal that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. The Local Budget Law (N.J.S.A. 40A:4-29) provides that the maximum which may be anticipated is the sum produced by the multiplication of the amount of delinquent taxes unpaid and owing to the Local Unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year.

The Local Budget Law (N.J.S.A. 40A:4-41) also provides with regard to current taxes that receipts from the collection of taxes levied or to be levied in the municipality, or in the case of a county for general county purposes and payable in the fiscal year, shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of such preceding fiscal year.

This provision requires that an additional amount (the "Reserve For Uncollected Taxes") be added to the tax levy required to balance the budget so that when the percentage collected of the prior year's tax levy is applied to the combined total, the product will at least be equal to the tax levy required to balance the budget. The Reserve For Uncollected Taxes is calculated to be the levy required to balance a local unit's budget multiplied by the prior year's percentage of uncollected taxes (or a lesser percentage).

Miscellaneous Revenues. The Local Budget Law (N.J.S.A. 40A:4-26) provides that no miscellaneous revenue from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding

fiscal year, unless the Director shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination in writing to the local unit.

No budget or amendment thereof shall be adopted unless the Director shall have previously certified his approval thereof with the exception of the inclusion of categorical grants-in-aid contracts for their face amount with an offsetting appropriation.

Appropriation and Tax Levy CAP Limitations. Chapter 68 of the Pamphlet Laws of 1976 (N.J.S.A. 40A:4-45.1 et seq.), as amended and supplemented by P.L. 1983, c. 49, P.L. 1990, c.89, and by P.L. 2004, c.74 (the "CAP Law"), imposes restrictions which limit the allowable increase in municipal appropriations over the previous year's appropriations to the lesser of 102.5% or the increase in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services as published by the United States Department of Commerce (the "Cost-of-Living Adjustment"). If the Cost-of-Living Adjustment is less than or equal to 2.5% an increase equal to 3.5% will be permitted by adoption of an ordinance. If the Cost-of Living Adjustment is greater than 2.5%, an increase in any amount above 2.5% will be permitted upon passage of a referendum. This limitation is subject to the following exceptions among others: (i) all debt service payments; (ii) the amount of revenue generated by the increase in valuations within the municipality based solely on applying the preceding year's municipal tax rate to the apportionment valuation of new construction or improvements within the municipality and such increase shall be levied in direct proportion to said valuation; (iii) capital expenditures funded by any source; (iv) an increase involving certain defined categories of emergency appropriations as approved by the Director in certain cases; (v) amounts required to be paid pursuant to any contract between the municipality and any political subdivision or public body in connection with the provision and/or financing of projects for certain public purposes such as water, sewer, parking, senior citizens' housing or any similar purpose; or (vi) that portion of the municipal tax levy which represents funding to participate in any Federal or State aid program and amounts received or to be received from Federal, State or other funds in reimbursement for local expenditures.

Additionally, the Legislature of the State of New Jersey previously enacted P.L. 2007, c. 62 (the "Property Tax Act") effective April 3, 2007, which imposed a 4% cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments. The Property Tax Act has been amended by the provisions of P.L. 2010, c. 44 effective July 13, 2010 (the "Amendment") and applicable to the next budget year following enactment. The Amendment reduces the tax levy cap to 2% from 4%, limits exclusions only to capital expenditures, including debt service, certain increases in pension contributions and accrued liability for pension contributions in excess of 2%, certain healthcare cost increases in excess of 2% and extraordinary costs directly related to a declared emergency. Waivers from the Division of Local Government Services or the Local Finance Board are no longer available under the Amendment.

For municipalities, the levy cap is in addition to the existing appropriation cap; both cap laws must be met.

Deferral of Current Expenses. A local unit may make emergency appropriations after the adoption of a budget and the determination of the tax rate, but only to meet unforeseen pressing needs to protect or promote public health, safety, morals or welfare, or to provide temporary housing or public assistance. With limited exceptions set forth below, such appropriations must be included in full in the following year's budget. If such emergency appropriations exceed 3% of the adopted operating budget, consent of the Director is required (N.J.S.A. 40A:4-46, -47, -49). The exceptions are certain enumerated quasi-capital projects such as ice, snow, and flood damage to streets, roads and bridges, which may be amortized over three years, and tax map preparation, revision of ordinances, and master plan preparations, which may be amortized over five years (N.J.S.A. 40A:4-55, -55.3).

Under the CAP Law, emergency resolutions aggregating less than 3% of the previous year's final current operating appropriations may be raised in that portion of the budget outside its limitations if approved by at least two-thirds of the members of the governing body and the Director. Emergency resolutions that aggregate more than 3% of the previous year's final current operating appropriations must be raised within its limitations. Emergency resolutions for debt service, capital improvements, the Borough's share of Federal or State grants and other statutorily permitted items are outside its limitation.

Budget Transfers. Budget transfers provide a degree of flexibility and afford a control mechanism. Transfers between major appropriation accounts are prohibited until the last two months of the year. Subaccounts (line items) within an appropriation are not subject to the same year-end transfer restriction; however, they are subject to internal review and approval.

Capital Budget. In accordance with the Local Budget Law, each local unit must adopt and annually revise a capital program budget. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over a period of up to six years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body of a local unit setting forth the items and the method of financing or from the annual operating budget if the items were detailed.

Operation of Utilities. Municipal public utilities are supported, in addition to the general taxing power upon real property, by the revenues generated by the respective operations of the utilities.

For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to fully provide for debt service. The regulations regarding anticipation of revenue and deferral of charges apply equally to the budgets of the utilities.

Deficits or anticipated deficits in utility operations which cannot be provided for from utility surplus, if any, are required to be raised in the current or operating budget.

Local Fiscal Affairs Law

Local Fiscal Affairs Law (N.J.S.A. 40A:5-1, et seq.). This law regulates the nonbudgetary financial activities of local governments. The chief financial officer of a local unit must file annually with the Director a verified statement of the financial condition of the local unit. The statements of the Borough are on file with its Clerk.

An independent examination of a local unit's financial statements must be performed annually by a licensed registered municipal accountant. The audit, conforming to the Division's "Requirements of Audit," includes recommendations for improvement of a local unit's financial procedures and must be filed with the Clerk within six months after the close of its fiscal year and, within five days thereafter, a certified duplicate copy must be filed in the office of the Director (N.J.S.A. 40A:5-6). The filing date of an audit may be extended by the Director upon a showing of good cause. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its completion (N.J.S.A. 40A:5-7). The entire annual audit report is on file with the Borough's Chief Financial Officer and is available for review during business hours.

Municipal Bankruptcy

Any county, municipality, school district or other political subdivision of the State has the power to file a petition with any United States court or courts in bankruptcy under the Federal bankruptcy act for the purpose of effecting a plan of readjustment of its debts or for the composition of its debts, provided that the approval of the Municipal Finance Commission of New Jersey has been obtained (N.J.S.A.

52:27-40). The powers of the Municipal Finance Commission of New Jersey have been vested in the Local Finance Board.

LITIGATION

In the opinion of Jeremy Solomon, Esq., the Borough Attorney, there is no litigation pending or threatened, restraining or enjoining the issuance or delivery of the Notes offered for sale or the levy or collection of any taxes to pay interest on or principal of the Notes, or in any manner questioning the authority of proceedings for the issuance of the Notes or for the levy or collection of said taxes. Moreover, to the knowledge of the Borough Attorney no litigation is presently pending or threatened that, in the opinion of the Borough Attorney, would have a material adverse impact on the financial condition of the Borough if adversely decided.

LEGAL MATTERS

The legality of the Notes will be subject to the final approving opinion of Gibbons P.C., Bond Counsel to the Borough, whose approving legal opinion will be delivered with the Notes substantially in the form set forth as Appendix D. Certain legal matters will be passed on for the Borough by the Borough Attorney.

TAX MATTERS

Exclusion of Interest on the Notes from Gross Income for Federal Income Tax Purposes

The Internal Revenue Code of 1986, as amended (the “Code”), imposes certain requirements which must be met on the date of issuance and on a continuing basis subsequent to the issuance of the Notes in order to assure that interest on the Notes will be excluded from gross income for purposes of Federal income taxation under Section 103 of the Code. Failure of the Borough to comply with such requirements may cause interest on the Notes to lose the exclusion from gross income for Federal income tax purposes, retroactive to the date of the issuance of the Notes. The Borough will make certain representations in its tax certificate, which will be executed on the date of issuance of the Notes, as to various tax requirements. The Borough has covenanted to comply with the provisions of the Code applicable to the Notes and has covenanted not to take any action or fail to take any action that would cause the interest on the Notes to lose the exclusion from gross income under Section 103 of the Code or cause interest on the Notes to be treated as an item of tax preference under Section 57 of the Code. Gibbons P.C., Bond Counsel to the Borough, has relied upon the representations of the Borough made in the tax certificate and has assumed continuing compliance by the Borough with the above covenants in rendering its Federal income tax opinions with respect to the exclusion of interest on the Notes from gross income for Federal income tax purposes and with respect to the treatment of interest on the Notes for the purposes of alternative minimum tax.

Assuming the Borough observes its covenants with respect to continuing compliance with the Code, Gibbons P.C., Bond Counsel to the Borough, is of the opinion that, under existing law, interest on the Notes is excluded from the gross income of the owners of the Notes for Federal income tax purposes pursuant to Section 103 of the Code and interest on the Notes is not an item of tax preference under Section 57 of the Code for purposes of computing the alternative minimum tax, however, interest on the Notes is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under the Code.

Tax Treatment of Original Issue Premium

The initial public offering price of the Notes is greater than the principal amount of the Notes payable at maturity. An amount equal to the excess of the purchase price of the Notes over their stated redemption price at maturity constitutes premium on the Notes. A purchaser of the Notes must amortize any premium over the Notes' term using constant yield principles, based on the Notes' yield to maturity. As premium is amortized, the purchaser's basis of the Notes and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to such purchaser. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on the sale or disposition of the Notes prior to its maturity. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed.

Purchasers of the Notes, whether at the time of initial issuance or subsequent thereto, should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes, and with respect to state and local tax consequences of owning the Notes.

Additional Federal Income Tax Consequences

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

The Notes have been designated by the Borough as "Qualified Tax-Exempt Obligations" for purposes of Section 265(b)(3) of the Code. The Borough intends that, by such designation of the Notes, the Notes will not be subject to Section 265(b)(1) of the Code, which relates to the complete disallowance of deduction for interest expense of certain financial institutions that is allocable to interest on certain tax-exempt obligations acquired by a financial institution after August 7, 1986. The interest expense of certain financial institutions allocable to Qualified Tax-Exempt Obligations is subject to Sections 291(a)(3) and 291(e)(1)(B) of the Code, relation to the non-deductibility of twenty (20) percent of the interest expense allocable to such tax-exempt obligations.

Bond Counsel expresses no opinion regarding any Federal tax consequences other than its opinions with regard to the exclusion of interest on the Notes from gross income pursuant to Section 103 of the Code, interest on the Notes not constituting an item of tax preference under Section 57 of the Code, and interest on the Notes being included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under the Code. Prospective purchasers of the Notes should consult their tax advisors with respect to all other tax consequences (including, but not limited to, those listed above) of holding the Notes.

State Taxation

Bond Counsel is of the opinion that, under existing law, interest on the Notes and net gains from the sale of the Notes are exempt from the tax imposed by the New Jersey Gross Income Tax Act.

Miscellaneous

Amendments to federal and state tax laws are proposed from time to time and could be enacted, and court decisions and administrative interpretations may be rendered, in the future. There can be no

assurance that any such future amendments or actions will not adversely affect the value of the Notes, the exclusion of interest on the Notes from gross income, alternative minimum taxable income, state taxable income, or any combination from the date of issuance of the Notes or any other date, or that such changes will not result in other adverse federal or state tax consequences.

THE ABOVE SUMMARY OF POSSIBLE TAX CONSEQUENCES IS NOT EXHAUSTIVE OR COMPLETE. ALL PURCHASERS OF THE NOTES SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE POSSIBLE FEDERAL, STATE AND LOCAL INCOME TAX CONSEQUENCES OF OWNERSHIP OF THE NOTES.

SECONDARY MARKET DISCLOSURE

The Securities and Exchange Commission (the “SEC”) pursuant to the Securities Exchange Act of 1934, as amended and supplemented (the “Securities Exchange Act”) has adopted amendments to its Rule 15c2-12 (“Rule 15c2-12”) effective July 3, 1995 which generally prohibits a broker, dealer or municipal securities dealer (“Participating Underwriter”) from purchasing or selling municipal securities, such as the Notes, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and event notices to the Municipal Securities Rulemaking Board (“MSRB”) (the “Continuing Disclosure Requirements”).

On the date of delivery of the Notes, the Borough will enter into a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) containing the Continuing Disclosure Requirements for the benefit of the beneficial holders of the Notes pursuant to which the Borough will agree to comply on a continuing basis with the Continuing Disclosure Requirements of Rule 15c2-12. Specifically, the Borough will covenant for the benefit of the holders and beneficial owners of the Notes to provide notices of the occurrence of certain enumerated events. The notices of enumerated events will be filed by the Borough with the MSRB. The specific nature of the enumerated events is set forth in Appendix C. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12.

In accordance with Rule 15c2-12 and prior secondary market disclosure undertakings, within the five years immediately preceding the date of this Official Statement, the Borough failed to timely file its annual operating data for the year ended December 31, 2020. While the Borough filed its operating data for this year, as required by SEC Rule 15c2-12, certain information was omitted, specifically, building permits. Additionally, the Borough failed to timely file the required late filing notice in connection with the item referenced above. Such information has since been filed with EMMA. The Borough appointed Phoenix Advisors, Hamilton, New Jersey to serve as continuing disclosure agent to assist in the filing of certain information on EMMA as required under its prior secondary market disclosure undertakings.

LEGALITY FOR INVESTMENT

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

UNDERWRITING

The Notes have been purchased at a public sale from the Borough for reoffering by _____ (the "Underwriter") at an aggregate purchase price of \$ _____ (representing the par amount of the Notes plus bid premium in the amount of \$ ____). The Underwriter has purchased the Notes in accordance with the Notice of Sale.

The Underwriter has agreed, subject to certain conditions, to purchase all but not less than all of the Notes. The public offering yield of the Notes may be changed from time to time by the Underwriter.

MUNICIPAL ADVISOR

Phoenix Advisors, a division of First Security Municipal Advisors, Inc., Hamilton, New Jersey, has served as Municipal Advisor to the Borough in connection with the issuance of the Notes (the "Municipal Advisor") and has assisted in matters related to the planning, structuring and terms of the Notes. The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of, or to assume responsibility for the accuracy, completeness, or fairness of the information contained in the Official Statement and the Appendices hereto. The Municipal Advisor is an Independent Registered Municipal Advisor pursuant to the Dodd-Frank Act and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

INFECTIOUS DISEASE OUTBREAK - COVID-19

On January 31, 2020, then United States Secretary of Health and Human Services declared a national public health emergency in response to the outbreak of COVID-19, a respiratory disease caused by a newly discovered strain of coronavirus. On March 11, 2020, the World Health Organization declared a pandemic following the global outbreak of COVID-19. On March 13, 2020, then President Trump declared a national emergency to unlock federal funds and assistance to help states and local governments fight the pandemic. Governor Phil Murphy (the "Governor") of the State declared a state of emergency and a public health emergency on March 9, 2020. In response to the COVID-19 pandemic, federal and State legislation and executive orders were implemented to, among other things, provide relief to state and local governments. The pandemic and certain mitigation measures, which altered the behaviors of businesses and people, have had and may continue to have negative impacts on regional, state and local economies. The national public health emergency, the national emergency and the State public health emergency have since ended, while the state of emergency declared by the State and several executive orders signed by the Governor remain in effect.

The American Rescue Plan Act of 2021, H.R. 1319 (the "Plan"), signed into law by President Biden on March 12, 2021, comprises \$1.9 trillion in relief designed to provide funding to address the COVID-19 pandemic and alleviate the economic and health effects of the COVID-19 pandemic.

Generally, according to the Plan, the allowable use of the funds provided to the Borough include the following categories: (a) to respond to the public health emergency with respect to COVID-19 or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality; (b) to respond to workers performing essential work during the COVID-19 public health emergency by providing premium pay to eligible workers of the Borough that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work; (c) for the provision of government services to the extent of the reduction in revenue due to the public health emergency relative to revenues collected in the most recent full fiscal year of the Borough, prior to the emergency; (d) to make necessary investments in water, sewer or broadband infrastructure.

Based on available information as of the date hereof, the Borough has received \$1,262,616.77 from the Plan. The Borough received its first installment under the Plan in the amount of \$631,308.38 on

June 25, 2021, and its second installment under the Plan in the amount of \$631,308.39 on July 8, 2022. It utilized some of the funding to continue with COVID-19 testing, vaccinations, food distributions and assisting small businesses. The deadline to commit the funds was December 31, 2024 which was satisfied and to spend the funds is December 31, 2026.

To date, the overall finances and operations of the Borough have not been materially adversely affected due to the COVID-19 outbreak. Nonetheless, there can be no assurance regarding the extent to which the COVID-19 pandemic, or any other national health crisis or pandemic, may impact the national, State or local economies in the future, nor how any such event may materially adversely impact governmental entities, including the Borough. The Borough cannot quantify any such potential impacts at this time.

CYBER SECURITY

The Borough relies on a complex technology environment to conduct its various operations. As a result, the Borough faces certain cybersecurity threats at various times including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and digital networks and systems. To mitigate the risks of business operations impact and/or damage from cybersecurity incidents or cyberattacks, the Borough has invested in multiple forms of cybersecurity and operational safeguards. There can be no assurance that any existing safety or security measures will provide adequate protection in safeguarding against cybersecurity threats and attacks. Cybersecurity breaches of the Borough could cause material disruption of the Borough's finances and operations.

FINANCIAL STATEMENTS

The audited financial statements of the Borough for the year ended December 31, 2024 and 2023 are included in Appendix B to this Official Statement. The financial statements have been audited by PKF O'Connor Davies, LLP, Cranford, New Jersey, independent auditor to the Borough, as stated in its report appearing in Appendix B hereto.

PREPARATION OF OFFICIAL STATEMENT

The Borough hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects and it will confirm to the purchasers of the Notes, by certificates signed by the Chief Financial Officer, that to its knowledge such descriptions and statements, as of the date of this Official Statement and date of issuance of the Notes, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

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

PKF O'Connor Davies, LLP, has not participated in the review or preparation of this Official Statement and has not verified the accuracy or completeness thereof and accordingly, expresses no opinion or other assurance or assumes any responsibility with respect thereto.

Gibbons P.C. has not verified the accuracy, completeness or fairness of the information contained herein, except under the heading "TAX MATTERS" and, accordingly, assumes no responsibility therefor and will express no opinion with respect thereto.

The Municipal Advisor has participated in the preparation and review of the information contained in this Official Statement, including the collection of financial, statistical and demographic information; however, it has not verified the accuracy, completeness or fairness thereof, and, accordingly, expresses no opinion or other assurance with respect thereto. Certain information set forth herein has been obtained from the Borough and other sources, which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein. There is no assurance that any of the assumptions or estimates contained herein will be realized.

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement may be directed to Paige Elster, Chief Financial Officer, Borough Hall, 25 West End Avenue, Somerville, New Jersey 08876, (908) 725-2300, ext. 1974 or to its Municipal Advisor, Phoenix Advisors, a division of First Security Municipal Advisors, 2000 Waterview Drive, Suite 101, Hamilton, New Jersey 08691, telephone (609) 291-0130.

MISCELLANEOUS

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of the Notes. This Official Statement has been duly executed and delivered by the Chief Financial Officer for and on behalf of the Borough.

BOROUGH OF SOMERVILLE

By: _____

Paige Elster,
Chief Financial Officer

Dated: January __, 2026

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APPENDIX A

GENERAL INFORMATION OF THE BOROUGH OF SOMERVILLE

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INFORMATION REGARDING THE BOROUGH¹

The following material presents certain economic and demographic information of the Borough of Somerville (the “Borough”), in the County of Somerset (the “County”), State of New Jersey (the “State”).

Location and Area

The Borough is located in the central portion of the State. The Borough, which was chartered in 1908, is the county seat of the County. It is adjacent to the terminus of Interstates 78 and 287 and State Highways Route 202, Route 206 and Route 22. Approximately 8% of the town is comprised of dedicated recreational park land and approximately 95% of the remaining land area is fully built. The Borough is also the home of the United States Bicycling Hall of Fame. The Borough’s population is approximately 14,000.

Form of Government

The Borough is governed by a Mayor and a Borough Council comprised of six (6) members. The Mayor is elected for a four-year term and each member of the Borough Council is elected for a three-year term on a staggered basis. Each member of the Borough Council is elected at large.

The Mayor is the presiding officer of the Borough Council and is Chief Executive of the community. The Borough Council serves as the governing body of the Borough and has the power to organize and regulate the internal affairs of the Borough. The governing body adopts the Borough’s budget, authorizes the issuance of bonds and other obligations, levies taxes, and appropriates and authorizes expenditure of Borough moneys. The Mayor and Borough Council appoint the Borough Administrator and other Borough employees, as well as appointees to Boards, Commissions and committees. The Mayor and Borough Council, in addition to establishing the policies under which the Borough is managed, are a local legislature and have the power to adopt, amend and repeal such ordinances and resolutions as may be required for the good government of the Borough. A full time Clerk/Administrator is responsible for the day to day operations of the Borough government under guidelines and policy supervision of the Mayor and the Borough Council.

Recreation

The Borough’s Recreation Commission, established in 1936, provides year-round athletic and cultural events. Programs address the needs of both youth and adults. The Recreation Commission is responsible for the management of 112 acres of parkland. This includes two (2) pools, four (4) playgrounds, three (3) tennis courts, four (4) soccer fields, seven (7) baseball fields and five (5) basketball courts. Year-round indoor programming is provided through use of facilities from the Board of Education and various churches and local YMCAs.

¹ Source: The Borough, unless otherwise indicated.

The Library is located next to the Municipal Building in facilities owned by the Borough. A Library Board is appointed by the governing body to represent the residents' interest.

Sewer Utility

The Borough sold its wastewater collection system to its water service provider, New Jersey American Water, on October 3, 2023, for a purchase price of \$7,000,000 of which \$4,890,246.59 sale proceeds were used by the Borough to effectuate the defeasance and redemption of the outstanding Series 2016 Bonds, Series 2020 Bonds, and the payment of the 2023B Note. The sale followed a voter referendum that took place in November 2022, which passed with 75 percent of the voters approving the sale of the system.

On such date, the Borough provided funds (cash), for deposit with the Escrow Agent which would be sufficient to pay the principal and interest on the Defeased Bonds, through and including February 15, 2026 with respect to the Series 2016 Bonds and through and including November 1, 2027 with respect to the Series 2020 Bonds and the principal of the 2023B Note at maturity on January 30, 2024.

In addition, the Borough established a liability to the United States Department of Housing and Urban Development in the amount of \$407,000.00 for the repayment of Community Development Block Grant funding.

As a result of the transaction, the Sewer Utility Operating Fund will no longer be operational or presented in the financial statements. Comparative prior-year balances are shown for informational purposes only.

Pension and Retirement Systems

Substantially all eligible employees participate in the Public Employees' Retirement System, the Police and Firemen's Retirement System or the Defined Contribution Retirement Program, which have been established by State statute and are administered by the New Jersey Division of Pensions and Benefits (the "Division"). Benefits, contributions, means of funding and the manner of administration are established pursuant to State statute. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations and the employees contribute a portion of the cost. Each Plan has a Board of Trustees that is primarily responsible for its administration. The Division issues a publicly available financial report that includes the financial statements and required supplementary information. This report may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625 or is available online at www.nj.gov/treasury/pensions/financial-reports.shtml.

The Public Employees' Retirement System ("PERS") is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A, to provide retirement, death, disability and medical benefits to certain qualified members. Membership is mandatory for substantially all full-time employees of the State or any county, municipality, school district or public agency, provided the employee is not required to be

a member of another State-administered retirement system or other State pension fund or local jurisdiction's pension fund.

The Police and Firemen's Retirement System ("PFRS") is a cost-sharing multiple-employer defined benefit pension plan which was established as of July 1, 1944, under the provisions of N.J.S.A. 43:16A, to provide retirement, death, disability and medical benefits to certain qualified members. Membership is mandatory for substantially all full-time county and municipal police and firemen or officer employees with police powers appointed after June 30, 1944.

The Defined Contribution Retirement Program ("DCRP") is a multiple-employer defined contribution pension fund which was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and was expanded under the provisions of Chapter 89, P.L. 2009. The DCRP provides eligible employees and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance coverage and disability coverage.

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Employment and Unemployment Comparisons

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

	Total Labor Force	Employed Labor Force	Total Unemployed	Unemployment Rate
<i>Borough</i>				
2024	8,626	8,314	312	3.6%
2023	8,594	8,312	282	3.3
2022	8,034	7,794	240	3.0
2021	7,396	7,016	380	5.1
2020	7,235	6,679	556	7.7
<i>County</i>				
2024	193,133	185,726	7,407	3.8%
2023	192,408	185,662	6,746	3.5
2022	188,697	182,855	5,842	3.1
2021	183,890	174,359	9,531	5.2
2020	181,257	168,195	13,062	7.2
<i>State</i>				
2024	4,898,008	4,676,064	221,944	4.5%
2023	4,867,113	4,659,779	207,334	4.3
2022	4,756,002	4,572,879	183,123	3.9
2021	4,654,243	4,342,075	312,168	6.7
2020	4,643,700	4,204,301	439,399	9.5

Source: New Jersey Department of Labor, Office of Research and Planning, Division of Labor Market and Demographic Research, Bureau of Labor Force Statistics, Local Area Unemployment Statistics

Income (as of 2023)

	Borough	County	State
Median Household Income	\$103,869	\$135,960	\$101,050
Median Family Income	118,325	167,353	123,892
Per Capita Income	54,478	70,321	53,118

Source: US Bureau of the Census, 2023 American Community Survey 5-Year Estimates

Population

The following tables summarize population increases and the decreases for the Borough, the County, and the State.

Year	Borough		County		State	
	Population	% Change	Population	% Change	Population	% Change
2024 est.	14,428	16.86%	357,467	3.48%	9,500,851	2.28%
2020	12,346	2.05	345,444	6.80	9,288,994	5.65
2010	12,098	-2.62	323,444	8.72	8,791,894	4.49
2000	12,423	6.80	297,490	23.81	8,414,350	8.85
1990	11,632	-2.85	240,279	18.29	7,730,188	4.96

Source: United States Department of Commerce, Bureau of the Census

Largest Taxpayers

The ten largest taxpayers in the Borough and their assessed valuations are listed below:

Taxpayers	2025		% of Total
	Assessed Valuation	Assessed Valuation	
Brookside at Somerville, LLC	\$36,634,800		3.14%
Somerville Urban Renewal	14,695,400		1.26
NJ Bell Telephone	9,886,614		0.85
De Sapiro Properties #10, LLC	9,000,000		0.77
Somerville 50 Division Street LLC	8,500,000		0.73
Avalon Somerville Station	7,620,000		0.65
Warren Street Partners, LLC	7,605,700		0.65
75 Veterans Memorial Associates	6,000,000		0.52
De Sapiro Properties #7, LLC	5,940,000		0.51
Main Associates	5,837,400		0.50
Total	<u>\$111,719,914</u>		<u>9.59%</u>

Source: Annual Comprehensive Financial Report of the School District and Municipal Tax Assessor

Comparison of Tax Levies and Collections

<u>Year</u>	<u>Tax Levy</u>	<u>Current Year Collection</u>	<u>Current Year % of Collection</u>
2024	\$46,907,348	\$46,496,231	99.12%
2023	45,778,031	45,275,596	98.90
2022	44,765,657	43,962,507	98.21
2021	44,239,751	43,688,614	98.75
2020	43,677,095	43,029,941	98.52

Source: Annual Audit Reports of the Borough

Delinquent Taxes and Tax Title Liens

<u>Year</u>	<u>Amount of Tax Title Liens</u>	<u>Amount of Delinquent Tax</u>	<u>Total Delinquent</u>	<u>% of Tax Levy</u>
2024	\$470,602	\$432,837	\$903,439	1.93%
2023	430,228	457,260	887,488	1.94
2022	387,122	464,344	851,467	1.90
2021	376,793	499,592	876,385	1.98
2020	403,786	577,301	981,087	2.25

Source: Annual Audit Reports of the Borough

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Amount</u>
2024	\$28,500
2023	28,500
2022	28,500
2021	28,500
2020	28,500

Source: Annual Audit Reports of the Borough

Tax Rates per \$100 of Net Valuations Taxable and Allocations

The table below lists the tax rates for Borough residents for the past five (5) years.

<u>Year</u>	<u>Local</u>			<u>Total</u>
	<u>Municipal</u>	<u>School</u>	<u>County</u>	
2025	\$1.138	\$2.388	\$0.553	\$4.079
2024	1.128	2.309	0.516	3.953
2023	1.123	2.243	0.496	3.862
2022	1.116	2.181	0.464	3.761
2021	1.104	2.157	0.476	3.737

Source: Abstract of Ratables and State of New Jersey – Property Taxes

Valuation of Property

<u>Year</u>	<u>Aggregate Assessed Valuation of Real Property</u>	<u>Aggregate True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Personal Property</u>	<u>Equalized Valuation</u>
2025	\$1,157,744,400	\$1,968,953,061	58.80%	\$7,133,200	\$1,976,086,261
2024	1,155,855,300	1,821,391,900	63.46	7,655,400	1,829,047,300
2023	1,154,354,400	1,657,602,527	69.64	8,319,300	1,665,921,827
2022	1,153,098,900	1,531,746,679	75.28	8,548,314	1,540,294,993
2021	1,156,348,450	1,392,519,810	83.04	8,771,220	1,401,291,030

Source: Abstract of Ratables and State of New Jersey – Table of Equalized Valuations

Classification of Ratables

The table below lists the comparative assessed valuation for each classification of real property within the Borough for the past five (5) years.

<u>Year</u>	<u>Vacant Land</u>	<u>Residential</u>	<u>Farm</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Apartments</u>	<u>Total</u>
2025	\$49,732,100	\$737,736,500	\$0	\$279,990,900	\$11,509,800	\$78,775,100	\$1,157,744,400
2024	45,445,100	735,381,700	0	281,711,800	15,509,800	77,806,900	1,155,855,300
2023	45,575,600	733,138,500	0	282,972,000	15,685,600	76,982,700	1,154,354,400
2022	45,625,200	728,934,900	0	285,495,800	15,685,600	77,357,400	1,153,098,900
2021	47,986,400	729,174,450	0	286,112,000	15,718,200	77,357,400	1,156,348,450

Source: Abstract of Ratables and State of New Jersey – Property Value Classification

Financial Operations

The following table summarizes the Borough's Current Fund budget for the past five (5) fiscal years ending December 31. The following summary should be used in conjunction with the tables in the sourced documents from which it is derived.

Summary of Current Fund Budget

<u>Anticipated Revenues</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Fund Balance Utilized	\$2,700,000	\$3,950,000	\$2,750,000	\$5,800,000	\$5,000,000
Miscellaneous Revenues	4,954,998	8,731,126	7,867,283	10,691,629	9,601,132
Receipts from Delinquent Taxes	515,000	400,000	400,000	400,000	400,000
Amount to be Raised by Taxation	<u>12,872,833</u>	<u>12,967,331</u>	<u>13,055,961</u>	<u>13,125,606</u>	<u>13,254,000</u>
Total Revenue:	<u>\$21,042,831</u>	<u>\$26,048,457</u>	<u>\$24,073,244</u>	<u>\$30,017,234</u>	<u>\$28,255,132</u>

Appropriations

General Appropriations	\$15,416,914	\$16,101,439	\$17,093,528	\$18,254,265	\$20,055,750
Operations (Excluded from CAPS)	213,762	3,390,750	1,627,535	2,461,557	542,811
Deferred Charges and Statutory Expenditures	280,000	1,494,922	0	524,220	0
Capital Improvement Fund	425,000	500,000	500,000	4,000,000	2,000,000
Municipal Debt Service	2,557,155	2,411,345	2,702,181	2,877,192	3,756,571
Reserve for Uncollected Taxes	<u>2,150,000</u>	<u>2,150,000</u>	<u>2,150,000</u>	<u>1,900,000</u>	<u>1,900,000</u>
Total Appropriations:	<u>\$21,042,831</u>	<u>\$26,048,457</u>	<u>\$24,073,244</u>	<u>\$30,017,234</u>	<u>\$28,255,132</u>

Source: Annual Adopted Budgets of the Borough

Fund Balance

Current Fund

The following table lists the Borough's fund balance and the amount utilized in the succeeding year's budget for the Current Fund for the past five (5) fiscal years ending December 31.

Fund Balance - Current Fund

<u>Year</u>	<u>Balance</u>	<u>Utilized in Budget</u>
	<u>12/31</u>	<u>of Succeeding Year</u>
2024	\$16,089,588	\$5,000,000
2023	17,139,946	5,800,000
2022	13,445,458	2,750,000
2021	11,445,711	3,950,000
2020	9,427,162	2,700,000

Source: Annual Audit Reports of the Borough

Sewer Utility Operating Fund

The following table lists the Borough's fund balance and the amount utilized in the succeeding year's budget for the Sewer Utility Operating Fund for the past five (5) fiscal years ending December 31.

Fund Balance		
Sewer Utility Operating Fund		
Year	Balance	Utilized in Budget
	12/31	of Succeeding Year
2024*	\$0	\$0
2023	3,859,912	0
2022	2,943,468	125,000
2021	2,503,133	300,000
2020	2,352,881	150,000

*Sewer Utility is no longer operational

Source: Annual Audit Reports of the Borough

Parking Utility Operating Fund

The following table lists the Borough's fund balance and the amount utilized in the succeeding year's budget for the Parking Utility Operating Fund for the past five (5) fiscal years ending December 31. The Parking Utility was established in 2017.

Fund Balance		
Parking Utility Operating Fund		
Year	Balance	Utilized in Budget
	12/31	of Succeeding
2024	\$1,099,481	\$150,000
2023	796,040	170,000
2022	948,833	190,000
2021	807,424	220,000
2020	740,848	227,500

Source: Annual Audit Reports of the Borough

Borough Indebtedness as of December 31, 2024

General Purpose Debt

Serial Bonds	\$10,580,000
Bond Anticipation Notes	6,547,000
Bonds and Notes Authorized but Not Issued	3,341,919
Other Bonds, Notes and Loans	2,354,679
Total:	\$22,823,598

Local School District Debt

Serial Bonds	\$5,125,000
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	0
Total:	\$5,125,000

Self-Liquidating Debt

Serial Bonds	\$0
Bond Anticipation Notes	0
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	0
Total:	\$0

TOTAL GROSS DEBT

\$27,948,598

Less: Statutory Deductions	
General Purpose Debt	\$747,159
Local School District Debt	5,125,000
Self-Liquidating Debt	0
Total:	\$5,872,159

TOTAL NET DEBT

\$22,076,439

Source: Annual Audit Reports of the Borough

Overlapping Debt (as of December 31, 2024)²

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share</u>
Local School District	\$5,125,000	100.00%	\$5,125,000
County	515,582,955	2.19%	<u>11,314,078</u>
Net Indirect Debt			\$16,439,078
Net Direct Debt			<u>22,076,439</u>
Total Net Direct and Indirect Debt			<u>\$38,515,517</u>

Debt Limit

Average Equalized Valuation Basis (2022, 2023, 2024)	\$1,670,247,035
Permitted Debt Limitation (3 1/2%)	58,458,646
Less: Net Debt	<u>22,076,439</u>
Remaining Borrowing Power	<u>\$36,382,208</u>
Percentage of Net Debt to Average Equalized Valuation	1.322%
Gross Debt Per Capita based on 2020 population of 12,346	\$2,264
Net Debt Per Capita based on 2020 population of 12,346	\$1,788

Source: Annual Audit Report of the Borough

Litigation

The status of pending litigation is included in the Notes to Financial Statements of the Borough's annual audit report.

² Borough percentage of County debt is based on the Borough's share of total equalized valuation in the County.

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APPENDIX B

FINANCIAL STATEMENTS OF THE BOROUGH OF SOMERVILLE

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**BOROUGH OF SOMERVILLE
COUNTY OF SOMERSET, NEW JERSEY**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY DATA
AND INFORMATION**

**FOR THE YEARS ENDED
DECEMBER 31, 2024 AND 2023
WITH
INDEPENDENT AUDITORS' REPORT**

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Independent Auditors' Report

**Honorable Mayor and Members
of the Borough Council
Borough of Somerville
County of Somerset, New Jersey**

Report on the Audit of the Regulatory Basis Financial Statements

Opinions on Regulatory Basis Financial Statements

We have audited the regulatory basis financial statements of the various funds and the governmental fixed assets of the Borough of Somerville, County of Somerset, New Jersey, ("Borough"), which comprise the balance sheets as of December 31, 2024 and 2023, and the related statements of operations and changes in fund balance for the years then ended, the statements of changes in fund balance, the statements of revenues and statements of expenditures for the year ended December 31, 2024 and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying regulatory basis financial statements present fairly, in all material respects, the regulatory basis balance sheets of the Borough as of December 31, 2024 and 2023, and the regulatory basis statements of operations and changes in fund balances for the years then ended, the regulatory basis statement of changes in fund balance, the regulatory basis statements of revenues and the regulatory basis statements of expenditures for the year ended December 31, 2024 and the related notes to the financial statements, in accordance with the financial reporting provisions of the Department of Community Affairs, Division of Local Government Services, State of New Jersey ("Division") described in Note 2.

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 section of our report, the financial statements 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, 2024 and 2023, or its revenues, expenditures and changes in fund balances thereof for the years then ended.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS") and requirements prescribed by the Division. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Borough, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Honorable Mayor and Members
of the Borough Council
Borough of Somerville
County of Somerset, New Jersey**

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

As described in Note 2 of the financial statements, the financial statements are prepared by the Borough on the basis of the financial reporting provisions of the Division (regulatory basis), which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Division. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of the Division. 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 fraud or error.

In preparing the financial statements management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about the Borough's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and requirements prescribed by the Division, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and requirements prescribed by the Division, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

**Honorable Mayor and Members
of the Borough Council
Borough of Somerville
County of Somerset, New Jersey**

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- Obtain an understanding of internal control relevant to the audit 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 Borough's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Borough's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PKF O'Connor Davies, LLP

Cranford, New Jersey

June 27, 2025

Anthony Branco

Anthony Branco, CPA
Registered Municipal Accountant, No. 595

BOROUGH OF SOMERVILLE
CURRENT FUND AND GRANT FUND

COMPARATIVE BALANCE SHEETS
 REGULATORY BASIS
DECEMBER 31, 2024 AND 2023

<u>ASSETS</u>	<u>BALANCE DEC. 31, 2024</u>	<u>BALANCE DEC. 31, 2023</u>	<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>BALANCE DEC. 31, 2024</u>	<u>BALANCE DEC. 31, 2023</u>
Operating Fund:			Operating Fund:		
Cash and Investments - Treasurer	\$ 22,466,655.61	\$ 20,881,538.24	Liabilities		
Investment in BAN's	2,366,000.00	949,000.00	Appropriation Reserves	\$ 1,386,368.74	\$ 2,354,671.29
Change Fund	350.00	350.00	Reserve for Encumbrances	771,217.76	861,426.34
Due from State of NJ SC/Vet Deductions	<u>44,348.51</u>	<u>43,348.51</u>	Prepaid Property Taxes	359,776.30	231,000.40
	<u>24,877,354.12</u>	<u>21,874,236.75</u>	Interfunds Payable	325,723.79	337,302.83
Receivables and Other Assets With Full Reserves:			Tax Overpayments	22,114.68	83,400.90
Delinquent Prop. Taxes Receivable	451,318.94	457,259.70	Various Payables	627,285.80	85,718.33
Tax Title Liens Receivable	470,601.68	430,228.24	Various Reserves	<u>5,295,278.82</u>	<u>780,770.80</u>
Maintenance Liens Receivable	1,512.00	1,512.00			
Property Acquired for Taxes	28,500.00	28,500.00	Reserve for Receivables	8,787,765.89	4,734,290.89
Revenue Accounts Receivable	21,029.61	14,872.23	Fund Balance	997,015.43	963,386.56
Interfunds Receivable	<u>24,053.20</u>	<u>31,014.39</u>		<u>16,089,588.23</u>	<u>17,139,945.86</u>
	<u>997,015.43</u>	<u>963,386.56</u>			
Total Current Fund	<u>25,874,369.55</u>	<u>22,837,623.31</u>	Total Current Fund	<u>25,874,369.55</u>	<u>22,837,623.31</u>
Grant Fund:			Grant Fund:		
Cash and Investments - Treasurer	1,569,409.81	1,621,385.43	Interfunds Payable	1,949.99	4,665.01
State and Federal Grants Receivable	<u>14,355,491.62</u>	<u>12,090,555.75</u>	Reserve for Encumbrances	835,394.31	880,851.04
			Reserve for State and Federal Grants	15,082,607.10	12,819,639.21
			Appropriated	4,950.03	6,785.92
Total Grant Fund	<u>15,924,901.43</u>	<u>13,711,941.18</u>	Unappropriated		
	<u>\$ 41,799,270.98</u>	<u>\$ 36,549,564.49</u>			
			Total Grant Fund	<u>15,924,901.43</u>	<u>13,711,941.18</u>
				<u>\$ 41,799,270.98</u>	<u>\$ 36,549,564.49</u>

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

BOROUGH OF SOMERVILLE
CURRENT FUND

STATEMENTS OF OPERATIONS AND CHANGES IN FUND BALANCE
REGULATORY BASIS
YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>YEAR 2024</u>	<u>YEAR 2023</u>
<u>REVENUE AND OTHER INCOME REALIZED</u>		
Fund Balance Utilized	\$ 5,800,000.00	\$ 2,750,000.00
Miscellaneous Revenue Anticipated	12,237,759.24	11,121,062.94
Receipts From Delinquent Taxes	417,422.73	459,107.82
Receipts From Current Taxes	46,496,231.21	45,275,595.88
Non-Budget Revenue	310,844.89	414,531.82
Other Credits to Income:		
Grants Receivable/Appropriated Canceled (net)		9,034.73
Due from Animal Control - Statutory Excess		3,919.20
Interfunds Returned	6,961.19	
Sewer Operating Fund Interfund Payable Canceled	11,579.04	
Unexpended Balance of Appropriation Reserves	<u>2,367,741.49</u>	<u>1,816,547.15</u>
 Total Revenues	 <u>67,648,539.79</u>	 <u>61,849,799.54</u>

EXPENDITURES AND OTHER CHARGES

Budget Appropriations:		
Operations Within CAPS:		
Operating	16,042,488.00	15,047,150.00
Def. Charges and Statutory Expend.	2,211,777.00	2,041,378.00
Operations Excluded from CAPS:		
Operating	3,513,976.98	2,426,976.73
Capital Improvement Fund	4,000,000.00	500,000.00
Municipal Debt Service	2,875,960.62	2,701,195.92
Deferred Charges and Statutory Expenditures	524,219.90	
Local District School Tax	26,863,089.00	26,075,437.00
County Taxes	6,001,793.41	5,765,839.07
County Added Tax	9,748.88	8,707.88
Downtown Somerville Alliance Tax	839,010.84	805,870.98
Refund of Sewer Revenue	16,832.79	24,172.18
Interfunds Advanced		<u>8,584.21</u>
 Total Expenditures	 <u>62,898,897.42</u>	 <u>55,405,311.97</u>
Excess in Revenue/Statutory Excess to Fund Balance	4,749,642.37	6,444,487.57
Fund Balance, January 1	<u>17,139,945.86</u>	<u>13,445,458.29</u>
Decreased by:		
Utilized as Anticipated Revenue	<u>5,800,000.00</u>	<u>2,750,000.00</u>
Fund Balance, December 31	<u>\$ 16,089,588.23</u>	<u>\$ 17,139,945.86</u>

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

BOROUGH OF SOMERVILLE
TRUST FUND

COMPARATIVE BALANCE SHEETS
REGULATORY BASIS
DECEMBER 31, 2024 AND 2023

<u>ASSETS</u>	<u>BALANCE</u> <u>DEC. 31, 2024</u>	<u>BALANCE</u> <u>DEC. 31, 2023</u>	<u>LIABILITIES, RESERVES</u> <u>AND FUND BALANCE</u>	<u>BALANCE</u> <u>DEC. 31, 2024</u>	<u>BALANCE</u> <u>DEC. 31, 2023</u>
Assessment Trust Fund:			Assessment Trust Fund:		
Cash	\$ 10,467.52	\$ 10,467.52	Due to General Capital Fund	\$ 22,875.06	\$ 22,875.06
Due from Current Fund	<u>12,439.62</u>	<u>12,439.62</u>	Fund Balance	<u>32.08</u>	<u>32.08</u>
Total Assessment Trust Fund	<u>22,907.14</u>	<u>22,907.14</u>	Total Assessment Trust Fund	<u>22,907.14</u>	<u>22,907.14</u>
Animal Control Trust Fund:			Animal Control Trust Fund:		
Cash	<u>25,304.24</u>	<u>28,944.24</u>	Due to Current Fund	22,103.21	26,349.38
			Due to State of NJ	3.00	3.00
			Reserve for Animal Control Fund Expenditures	<u>3,198.03</u>	<u>2,591.86</u>
Total Animal Control Trust Fund	<u>25,304.24</u>	<u>28,944.24</u>	Total Animal Control Trust Fund	<u>25,304.24</u>	<u>28,944.24</u>
Trust-Other Fund:			Trust-Other Fund:		
Cash	5,170,709.75	5,295,633.36	Interfund Payable	25,533.60	25,533.60
Interfund Receivable	<u>215,510.42</u>	<u>215,510.42</u>	Reserve for Encumbrances	<u>361,252.58</u>	<u>121,622.32</u>
Accounts Receivable		8,261.00	Reserve for:		
CDBG Receivable		44,385.89	Miscellaneous Deposits	3,138,298.58	3,434,536.45
			CDBG Expenditures		44,385.89
			Unemployment Insurance Fund	125,764.00	123,495.28
			Planning/Zoning Escrow	275,640.09	257,807.45
			Builders Escrow	212,491.66	170,143.04
			Tax Redemption Trust	585,900.00	810,600.00
			Recreation Commission	174,783.77	185,720.40
			Housing Assistance Program	101,299.59	115,071.93
			Law Enforcement Trust Fund	32,388.56	41,616.07
			Payroll Agency	345,729.74	223,556.74
			Credit Card Fee Accounts	<u>7,138.00</u>	<u>9,701.50</u>
Total Trust-Other Fund	<u>5,386,220.17</u>	<u>5,563,790.67</u>	Total Trust-Other Fund	<u>5,386,220.17</u>	<u>5,563,790.67</u>
	\$ <u>5,434,431.55</u>	\$ <u>5,615,642.05</u>		\$ <u>5,434,431.55</u>	\$ <u>5,615,642.05</u>

o the Financial Statements are an integral part of this statement.

BOROUGH OF SOMERVILLE
GENERAL CAPITAL FUND

COMPARATIVE BALANCE SHEETS
REGULATORY BASIS
DECEMBER 31, 2024 AND 2023

	BALANCE DEC. 31, 2024	BALANCE DEC. 31, 2023
<u>ASSETS</u>		
Cash	\$ 9,759,443.58	\$ 7,435,192.13
Due from Various Grantor Agencies	4,433,036.78	4,575,256.68
Due from Somerset County Improvement Authority	3,303.34	3,303.34
Due from Current Fund	97,773.75	97,773.75
Due from Trust Assessment Fund	22,875.06	22,875.06
Deferred Charges to Future Taxation:		
Funded	12,934,679.18	14,050,997.07
Unfunded	<u>9,888,918.78</u>	<u>10,113,407.53</u>
	<u>\$ 37,140,030.47</u>	<u>\$ 36,298,805.56</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
General Serial Bonds Payable	\$ 10,580,000.00	\$ 11,395,000.00
NJEIT Loans Payable	2,156,747.26	2,381,941.39
SCIA Leases Payable	197,931.92	274,055.68
Bond Anticipation Notes	6,547,000.00	6,693,715.00
Improvement Authorizations:		
Funded	8,321,144.14	8,288,033.77
Unfunded	1,820,993.18	1,963,851.05
Reserve for Encumbrances Payable	3,270,148.70	3,104,423.71
Reserve for Payment of Future Debt Service	747,159.35	543,709.35
Reserve for Grant Receivable	1,742,026.25	1,437,800.00
Capital Improvement Fund	1,562,711.83	54,711.83
Fund Balance	<u>194,167.84</u>	<u>161,563.78</u>
	<u>\$ 37,140,030.47</u>	<u>\$ 36,298,805.56</u>
Bonds and Notes Authorized but not Issued	<u>\$ 3,341,918.78</u>	<u>\$ 3,419,692.53</u>

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

BOROUGH OF SOMERVILLE
GENERAL CAPITAL FUND

STATEMENT OF FUND BALANCE
REGULATORY BASIS
YEAR ENDED DECEMBER 31, 2024

Balance, December 31, 2023	\$ 161,563.78
Increased by:	
Premium on BAN sale	<u>32,604.06</u>
Balance, December 31, 2024	<u>\$ 194,167.84</u>

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

BOROUGH OF SOMERVILLE
SEWER UTILITY FUND

**COMPARATIVE BALANCE SHEETS
REGULATORY BASIS
DECEMBER 31, 2024 AND 2023**

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

BOROUGH OF SOMERVILLE
SEWER UTILITY FUND

COMPARATIVE STATEMENTS OF OPERATIONS AND CHANGES
 IN FUND BALANCE
 REGULATORY BASIS
YEARS ENDED DECEMBER 31, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
<u>REVENUE AND OTHER INCOME REALIZED</u>		
Fund Balance	\$ 125,000.00	
Sewer Use Charges	89,277.26	2,281,661.99
Connection Fees	76,500.00	
Interest on Deposits	167,807.46	131,100.73
Interest and Penalties	7,404.55	19,092.45
Miscellaneous	79.71	1,297.09
Miscellaneous Revenues Not Anticipated	274,667.42	
Other Credits to Income:		
Overpayments Canceled	12,006.99	
Unexpended Balance of Appropriation Reserves	550,818.02	829,466.26
Accounts Payable Canceled	42,444.68	
Accrued Interest Payable Canceled	4,050.00	
<u>TOTAL INCOME</u>	<u>873,888.67</u>	<u>3,738,785.94</u>
<u>EXPENDITURES</u>		
Budget Appropriations:		
Operating		
Salaries and Wages	142,500.00	
Other Expenses	2,322,500.00	
Debt Service	86,300.00	
Statutory Expenditures and Deferred Charges	138,528.00	
Refund of Prior Year Revenue	65.00	7,514.35
Interfund Receivable Canceled	11,579.04	
Transfer of Sewer Utility Fund Balance to Current Fund	4,722,156.32	
<u>TOTAL EXPENDITURES</u>	<u>4,733,800.36</u>	<u>2,697,342.35</u>
(Deficit)/Excess in Revenue	(3,859,911.69)	1,041,443.59
<u>Fund Balance</u>		
Balance, January 1	<u>3,859,911.69</u>	<u>2,943,468.10</u>
		3,984,911.69
Decreased by:		
Utilization by Sewer Utility Operating Budget	125,000.00	
Balance, December 31	<u>\$ -</u>	<u>\$ 3,859,911.69</u>

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

BOROUGH OF SOMERVILLE
PARKING UTILITY FUND

COMPARATIVE BALANCE SHEETS
REGULATORY BASIS
DECEMBER 31, 2024 AND 2023

<u>ASSETS</u>	BALANCE <u>DEC. 31, 2024</u>	BALANCE <u>DEC. 31, 2023</u>	<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	BALANCE <u>DEC. 31, 2024</u>	BALANCE <u>DEC. 31, 2023</u>
Operating Fund:			Operating Fund:		
Cash and Investments - Treasurer	\$ 1,356,461.99	\$ 1,242,507.96	Liabilities		
			Appropriation Reserves	\$ 233,499.84	\$ 375,021.09
			Reserve for Encumbrances	22,279.42	56,551.79
			Accounts Payable	1,201.74	14,895.00
				256,981.00	446,467.88
			Fund Balance	1,099,480.99	796,040.08
Total Operating Fund	<u>1,356,461.99</u>	<u>1,242,507.96</u>	Total Operating Fund	<u>1,356,461.99</u>	<u>1,242,507.96</u>
Capital Fund:			Capital Fund:		
Cash and Investments - Treasurer	82,479.85	32,479.85	Improvement Authorizations		
Fixed Capital	146,367.81	146,367.81	Funded	3,847.66	3,847.66
Fixed Capital Authorized and Uncompleted	<u>175,000.00</u>	<u>175,000.00</u>	Reserve for Amortization	146,367.81	146,367.81
			Deferred Reserve for Amortization	175,000.00	175,000.00
			Capital Improvement Fund	78,632.19	28,632.19
Total Capital Fund	<u>403,847.66</u>	<u>353,847.66</u>	Total Capital Fund	<u>403,847.66</u>	<u>353,847.66</u>
	<u>\$ 1,760,309.65</u>	<u>\$ 1,596,355.62</u>		<u>\$ 1,760,309.65</u>	<u>\$ 1,596,355.62</u>

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

BOROUGH OF SOMERVILLE
PARKING UTILITY FUND

COMPARATIVE STATEMENTS OF OPERATIONS AND
 CHANGES IN FUND BALANCE - OPERATING FUND
 REGULATORY BASIS
YEARS ENDED DECEMBER 31, 2024 AND 2023

<u>REVENUE AND OTHER INCOME REALIZED</u>	<u>YEAR 2024</u>	<u>YEAR 2023</u>
Fund Balance	\$ 170,000.00	\$ 190,000.00
Parking Meters	560,855.69	521,493.37
Parking Permits	10,335.00	24,230.00
Desapio Deck Contributions	76,000.00	76,000.00
Parking Impact Fees	53,244.00	52,164.00
Miscellaneous	52,008.26	43,870.49
Other Credits to Income:		
Unexpended Balance of Appropriation Reserves	390,102.96	122,328.85
Accounts Payable Canceled	14,895.00	_____
 <u>TOTAL INCOME</u>	 1,327,440.91	 1,030,086.71
 <u>EXPENDITURES</u>		
Budget Appropriations:		
Operating		
Salaries and Wages	284,500.00	230,000.00
Other Expenses	449,000.00	501,000.00
Capital Improvements	50,000.00	125,000.00
Statutory Expenditures and Deferred Charges	70,000.00	35,000.00
Refund of Prior Year Revenue	500.00	101,879.52
 <u>TOTAL EXPENDITURES</u>	 854,000.00	 992,879.52
 Excess in Revenue	 473,440.91	 37,207.19
 <u>Fund Balance</u>		
Balance, January 1	796,040.08	948,832.89
	1,269,480.99	986,040.08
Decreased by:		
Utilization by Parking Utility Operating Budget	170,000.00	190,000.00
Balance, December 31	<u>\$ 1,099,480.99</u>	<u>\$ 796,040.08</u>

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

BOROUGH OF SOMERVILLE
PARKING UTILITY FUND

STATEMENT OF REVENUES - OPERATING
REGULATORY BASIS
YEAR ENDED DECEMBER 31, 2024

	<u>ANTICIPATED</u>	<u>REALIZED</u>	<u>EXCESS OR (DEFICIT)</u>
Fund Balance	\$ 170,000.00	\$ 170,000.00	\$
Parking Meters	500,000.00	560,855.69	60,855.69
Parking Permits	20,000.00	10,335.00	(9,665.00)
Desapio Deck Contributions	76,000.00	76,000.00	0.00
Parking Impact Fees	50,000.00	53,244.00	3,244.00
Miscellaneous	<u>37,500.00</u>	<u>52,008.26</u>	<u>14,508.26</u>
	<u>\$ 853,500.00</u>	<u>\$ 922,442.95</u>	<u>\$ 68,942.95</u>

Analysis of Realized Revenues:

Analysis of Parking Meters:
Parking Meters - Parking Utility

\$ 560,855.69

Analysis of Miscellaneous Revenue:

Interest on Investments	\$ 47,042.53
Electric Car Charging Station	3,644.48
Parking Lot 6 Paving Fees	<u>1,321.25</u>
	<u>\$ 52,008.26</u>

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

BOROUGH OF SOMERVILLE
PARKING UTILITY FUND

STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

	APPROPRIATIONS		EXPENDED				<u>CANCELED</u>
	<u>BUDGET</u>	<u>BUDGET AFTER MODIFICATION</u>	<u>PAID OR CHARGED</u>	<u>ENCUMBERED</u>	<u>RESERVED</u>		
Operating:							
Salaries and Wages	\$ 284,500.00	\$ 284,500.00	\$ 192,063.08		\$ 92,436.92		
Other Expenses	449,000.00	449,000.00	285,657.66	22,279.42		141,062.92	
Capital Improvements:							
Capital Improvement Fund	50,000.00	50,000.00	50,000.00				
Statutory Expenditures:							
Contributions to:							
Public Employees' Retirement System	40,000.00	40,000.00	40,000.00				
Social Security System (O.A.S.I.)	30,000.00	30,000.00	30,000.00				
	<u>\$ 853,500.00</u>	<u>\$ 853,500.00</u>	<u>\$ 597,720.74</u>	<u>\$ 22,279.42</u>	<u>\$ 233,499.84</u>		

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

BOROUGH OF SOMERVILLE
PUBLIC ASSISTANCE TRUST FUND

COMPARATIVE BALANCE SHEETS
 REGULATORY BASIS
DECEMBER 31, 2024 AND 2023

	BALANCE <u>DEC. 31, 2024</u>	BALANCE <u>DEC. 31, 2023</u>
<u>ASSETS</u>		
Due from Trust Other Fund - PATF I	\$ 25,533.60	\$ 25,533.60
Total Assets	<u>\$ 25,533.60</u>	<u>\$ 25,533.60</u>
<u>LIABILITIES AND RESERVES</u>		
Reserve for Public Assistance Public Assistance Trust Fund I	<u>\$ 25,533.60</u>	<u>\$ 25,533.60</u>

See Accompanying Notes to Financial Statements

BOROUGH OF SOMERVILLE
GOVERNMENTAL FIXED ASSETS

COMPARATIVE BALANCE SHEETS
 REGULATORY BASIS
DECEMBER 31, 2024 AND 2023

	BALANCE DEC. 31, 2024	BALANCE DEC. 31, 2023
ASSETS		
Governmental Fixed Assets:		
Land	\$ 11,488,600.00	\$ 10,571,500.00
Buildings/Improvements	31,036,200.00	10,498,600.00
Equipment	<u>8,106,893.00</u>	<u>7,845,577.00</u>
Total Governmental Fixed Assets	<u>\$ 50,631,693.00</u>	<u>\$ 28,915,677.00</u>
 RESERVE		
Investment in Governmental Fixed Assets	<u>\$ 50,631,693.00</u>	<u>\$ 28,915,677.00</u>

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

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 1: FORM OF GOVERNMENT

The Borough of Somerville ("Borough") operates under the provisions of N.J.S.A. 40A:60-1 et seq., which provides for the election of a mayor to serve a term of four years and a council of six members serving three-year terms. At its annual meeting, the council elects a president of the council who shall preside at all its meetings when the mayor is not present. The mayor is the head of the municipal government and the council is the legislative body. The Borough has adopted an administrative code, which provides for the delegation of a portion of executive responsibilities to an administrator and the organization of the council into standing committees to oversee various Borough activities.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Except as noted below, the financial statements of the Borough include every board, body, officer or commission supported and maintained wholly or in part by funds appropriated by the Borough, as required by N.J.S.A. 40A:5-5. Accordingly, the financial statements of the Borough do not include the operations of the municipal library.

B. Description of Funds

The accounting policies of the Borough conform to the accounting principles applicable to municipalities that have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with respect to public funds. Under this regulatory-basis 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, including Federal and State grant funds, except as otherwise noted.

Trust Fund - receipts, custodianship and disbursement of funds in accordance with the purposes for which each reserve was created. Pursuant to the provisions of N.J.S.A. 40A:4-39, the financial transactions of the following funds and accounts are also reported within the Trust Fund:

Trust Assessment Fund
Animal Control Trust Fund
Unemployment Compensation Insurance Trust Fund
Dedicated Law Enforcement Trust Fund
Developer's Escrow Fund
Payroll Fund
Community Development Block Grant Fund

General Capital Fund - resources, including Federal and State Grants in aid of construction, and expenditures for the acquisition of general capital facilities, other than those acquired through the Current Fund, including the status of bonds and notes authorized for said purposes.

Sewer Utility Operating and Capital Funds – account for the operations and acquisition of capital facilities of the municipally-owned Sewer Utility. The Borough sold its wastewater collection system on October 3, 2023. Refer to Note 17 for further information.

Parking Utility Operating and Capital Funds – account for the operations and capital facilities of the municipally-owned Parking Utility.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D):

B. Description of Funds (Cont'd.)

Governmental Fixed Assets - the Governmental Fixed Asset System is used to account for fixed assets used in governmental fund type operations for control purposes. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available or any other reasonable basis, provided such basis is adequately disclosed in the financial statements. Donated fixed assets are valued at their estimated fair value on the date of donation. No depreciation is recorded on general fixed assets.

The Governmental Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles (GAAP) for state and local governments. GAAP provides for the issuance of entity-wide financial statements along with the presentation of separate fund financial statements that differ from the organization of funds prescribed under the regulatory basis of accounting utilized by the Borough. The resultant presentation of financial position and results of operations in the form of financial statements is not intended to present the basic financial statement presentation required by GAAP.

C. Basis of Accounting

Basis of Accounting and Measurement Focus - The basis of accounting as prescribed by the Division of Local Government Services for its operating funds is generally a modified cash basis for revenue recognition and a modified accrual basis for expenditures. The operating funds utilize a "current financial resources" measurement focus. The accounting principles and practices prescribed for municipalities by the Division differ in certain respects from generally accepted accounting principles (GAAP) applicable to local government units. The most significant is the reporting of entity-wide financial statements, which are not presented in the accounting principles prescribed by the Division. The other more significant differences are as follows:

Revenues - Revenues are recorded as received in cash except for statutory reimbursements and grant funds which are due from other governmental units. State and Federal grants, entitlements and shared revenues received for operating purposes are realized as revenues when anticipated in the Borough's budget. Receivables for property taxes and water and sewer consumer charges are recorded with offsetting reserves within the Current Fund. Other amounts that are due to the Borough which are susceptible to accrual are recorded as receivables with offsetting reserves. These reserves are liquidated and revenues are recorded as realized upon receipt of cash. GAAP requires the recognition of revenues for general operations in the accounting period in which they become available and measurable.

Expenditures - For purposes of financial reporting, expenditures are recorded as "paid or charged" or "appropriation reserves". Paid or charged refers to the Borough's "budgetary" basis of accounting. Generally, these expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with the encumbrance accounting system. Reserves for unliquidated encumbrances at the close of the year are reported as a cash liability. Encumbrances do not constitute expenditures under GAAP. Appropriation reserves refers to unexpended appropriation balances at the close of the year. Appropriation reserves are automatically created and recorded as a cash liability, except for amounts, which may be cancelled by the governing body. Appropriation reserves are available until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred and not recorded in the preceding fiscal year.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

C. Basis of Accounting (Cont'd.)

Expenditures (Cont'd.) - Lapsed appropriation reserves are recorded as income. Generally, unexpended balances of budget appropriations are not recorded as expenditures under GAAP. For the purpose of calculating the results of Current Fund operations, 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 of 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 Current Fund balance sheet. GAAP does not permit the deferral of overexpenditures to 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.

Compensated Absences - The Borough has adopted written policies via employee contracts and municipal ordinances which set forth the terms under which an employee may accumulated earned, but unused, vacation and sick leave, establishes the limits on such accumulations and specifies the conditions under which the right to receive payment for such accumulations vests with the employee. The Borough records expenditures for payments of earned and unused vacation and sick leave in the accounting period in which the payments are made. GAAP requires that liabilities for compensated absences be recorded for leave that has not been used when the leave is attributable to services already rendered and the leave is more likely than not to be used for time off or otherwise paid in cash. Compensated absences liabilities are not recorded on the balance sheet.

Property Acquired for Taxes - Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved. GAAP requires such property to be recorded in the general fixed asset account group at the lower of cost or fair market value.

Sale of Municipal Assets - Cash proceeds from the sale of Borough owned property are reserved until utilized as an item of anticipated revenue in a subsequent year budget. Year-end balances of such proceeds are reported as a cash liability in the Current Fund. GAAP requires that revenue be recognized in the accounting period that the terms of sales contracts become legally enforceable.

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

Inventories of Supplies - The cost of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The cost of inventories are not included on the various balance sheets. Although the expenditure method of accounting for purchases of supplies is in accordance with GAAP, the cost of inventory on hand at the close of the year should be reported on the balance sheet with an offsetting reserve for conformity with GAAP.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

C. Basis of Accounting (Cont'd.)

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. Contributions in aid of construction are not capitalized.

Governmental Fixed Assets – New Jersey Administrative Code 5:30-5.6 established a mandate for fixed asset accounting by municipalities, effective December 31, 1985, which differs in certain respects from generally accepted accounting principles, requires the inclusion of a statement of Governmental Fixed Assets of the Borough as part of the basic financial statements. 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.

No depreciation has been provided for in the financial statements.

Accounting for utility fund “fixed capital” remains unchanged under the requirements of regulation 5:30-5.6.

Property and equipment purchased by the Sewer and Parking Utility Funds are recorded in the capital account at cost and are adjusted for disposition and abandonment. The amounts shown do not purport to represent reproduction costs or current value. Contributions in aid of construction are not capitalized. The balance in the Reserve for Amortization and Deferred Reserve for Amortization accounts in the utility capital funds represent charges to operations for the cost of acquisitions of property, equipment and improvements. The utilities do not record depreciation on fixed assets.

Grants Received – Federal and state grants, entitlements 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 become susceptible to accrual, reduced by an allowance for doubtful accounts.

Length of Service Awards Program (LOSAP)

Financial reporting standards established by the DLGS exclude the financial information relating to a LOSAP program from the scope of the statutory audit. Accordingly, financial information relating to the Borough’s LOSAP program, a deferred income program created pursuant to Section 457 of the Internal Revenue Code for the benefit of the members of the volunteer fire company and volunteer first aid and rescue squad, is not reported as part of the Borough’s basic financial statements. As the LOSAP Plan’s assets remain the property of the Borough until withdrawn by participants, GAAP requires that the Plan’s financial information be included in the Borough’s basic financial statements. See Note 11 regarding the availability of LOSAP Plan financial information.

Net Pension Liability and Pension Related Deferred Outflows of Resources and Deferred Inflows of Resources and Pension Expense

The requirements of GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions*” and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*” require governmental entities to record their distributive shares of net pension liability, deferred outflows of resources, deferred inflows of resources and total pension related expense. Accounting principles applicable to municipalities, which have been prescribed by the Division, do not require the recording of these liabilities, deferrals and expenses, but do require the disclosure of these amounts. The audited financial information related to pensions is released annually by the State’s Division of Pensions and Benefits and is required to be included as note disclosures in the financial statements. Pursuant to N.J.A.C. 5:30-6.1(c)2, municipalities may use the most recent available audited GASB 68 financial information published by the New Jersey Department of the Treasury, Division of Pensions and Benefits. As of the date of the audit, the 2023 Public Employees’ Retirement System Report and the 2023 Police and Firemen’s Retirement System Report were the most recent reports available and therefore information for that year was disclosed accordingly. Refer to Note 7 to the financial statements for these disclosures.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

C. Basis of Accounting (Cont'd.)

Other Post-Employment Benefits Other Than Pensions

The requirements of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)* that is provided by other entities require governmental entities to record in their financial statements a share of the other governments net OPEB liability, deferred outflow of resources, deferred inflow of resources and total OPEB expense. Accounting principles applicable to municipalities, which have been prescribed by the Division, do not require the recording of these liabilities, deferrals and expenses, but do require the disclosure of the amounts. Since the Borough does not follow GAAP, the GASB did not result in a change in the Borough's assets, liabilities and contribution requirements. However, it did result in additional note disclosures as required by the GASB Statement.

The Borough participates in a special funding situation with the State of New Jersey multi-employer plan. As it relates to the State of New Jersey multi-employer plan, the audited financial information related to OPEBs is released annually by the State's Division of Pensions and Benefits and is required to be included as note disclosures in the financial statements. Pursuant to N.J.A.C. 5:30-6.1(c)2, municipalities may use the most recent available audited GASB 75 financial information published by the New Jersey Department of the Treasury, Division of Pensions and Benefits. As of the date of audit, the 2023 Report was the most recent report available and therefore information for that year was disclosed accordingly. As a result, the latest available audited information is presented in Note 8 to the financial statements.

Disclosures About Fair Value of Financial Instruments - The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents and short-term investments - The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term debt - The Borough's long-term debt is stated at face value. The debt is not traded and it is not practicable to determine its fair value without incurring excessive cost. Additional information pertinent to the Borough's long-term debt is provided in Note 3 to the financial statements.

Regulatory Basis Financial Statements – The GASB Codification also defines the financial statements of a governmental unit to be presented in the basic financial statements to be 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.

Recent Accounting Standards - The City does not prepare its financial statements in accordance with accounting principles generally accepted in the United States of America. The adoption of these new standards will not adversely affect the reporting on the Borough's financial condition.

The GASB issued Statement No. 102 "Certain Risk Disclosures" December 2023. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Concentrations and constraints may limit a government's ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management has not yet determined the impact of this Statement on the financial statements.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

C. Basis of Accounting (Cont'd.)

The GASB issued Statement No. 103, *"Financial Reporting Model Improvements"* in April 2024. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for periods beginning after June 15, 2025, and all reporting periods thereafter. Management has not determined the impact of the Statement on the financial statements.

The GASB issued Statement No. 104, *"Disclosure of Certain Capital Assets"* in September 2024. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets including lease assets, intangible right-to-use assets, subscription assets, other intangible assets and assets held for sale. The requirements of this Statement are effective for periods beginning after June 15, 2025, and all reporting periods thereafter. Management has not determined the impact of the Statement on the financial statements.

Comparative Data - Comparative data for the prior year has been presented in order to provide an understanding of changes on the Borough's financial position and operations. However, comparative data has not been presented in each of the statements since their inclusion would make the statements unduly complex and difficult to read.

Note 3: DEBT, DEBT SERVICE AND STATUTORY DEBT CONDITION

The Local Bond Law governs the issuance of bonds and notes to finance general capital expenditures. All bonds are retired in serial installments within the statutory period of usefulness. Bonds issued by the City are general obligation bonds, backed by the full faith and credit of the Borough. Bond anticipation notes, which are issued to temporarily finance capital projects, must be paid off within 10 years and 5 months or retired by the issuance of bonds.

The Borough's debt as of December 31st is summarized as follows:

Summary of Municipal Debt (Excluding Current and Operating Debt)

Summary of Municipal Debt for Capital Projects

	2024	2023
<u>Issued:</u>		
General:		
Bonds and Notes	\$ 17,127,000.00	\$ 18,088,715.00
S.C.I.A. Capital Leases	197,931.92	274,055.68
NJEIT Loans	<u>2,156,747.26</u>	<u>2,381,941.39</u>
Net Debt Issued	<u>19,481,679.18</u>	<u>20,744,712.07</u>
<u>Authorized But Not Issued:</u>		
General:		
Bonds and Notes	3,341,918.78	3,419,692.53
Total Authorized But Not Issued	<u>3,341,918.78</u>	<u>3,419,692.53</u>
Bonds and Notes Issued and Authorized but not Issued	<u>\$ 22,823,597.96</u>	<u>\$ 24,164,404.60</u>

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3: DEBT, DEBT SERVICE AND STATUTORY DEBT CONDITION (CONT'D.)

The summarized statement of debt condition which follows indicates a statutory net debt of 1.32% at December 31, 2024:

<u>2024</u>	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School District Debt	\$ 5,125,000.00	\$ 5,125,000.00	\$ -
General Debt	<u>22,823,597.96</u>	<u>747,159.35</u>	<u>22,076,438.61</u>
	<u><u>\$ 27,948,597.96</u></u>	<u><u>\$ 5,872,159.35</u></u>	<u><u>\$ 22,076,438.61</u></u>

Net Debt \$22,076,438.61 Divided by Equalized Valuation Basis per N.J.S.A. 40A:2-2 as amended \$1,670,247,035.33 = 1.32%

<u>2023</u>	<u>Gross Debt</u>	<u>Deductions</u>	<u>Net Debt</u>
Local School District Debt	\$ 6,905,000.00	\$ 6,905,000.00	\$ -
General Debt	<u>24,164,404.60</u>	<u>543,709.35</u>	<u>23,620,695.25</u>
	<u><u>\$ 31,069,404.60</u></u>	<u><u>\$ 7,448,709.35</u></u>	<u><u>\$ 23,620,695.25</u></u>

Net Debt \$23,620,695.25 Divided by Equalized Valuation Basis per N.J.S.A. 40A:2-2 as amended \$1,527,289,672.00 = 1.55%

Summary of Statutory Debt Condition - Annual Debt Statement Borrowing Power Under N.J.S.A40A:2-6 as Amended

	<u>2024</u>	<u>2023</u>
3 1/2% of Equalized Valuation Basis Municipal Net Debt	\$58,458,646.24 <u>22,076,438.61</u>	\$53,455,138.52 <u>23,620,695.25</u>
Remaining Borrowing Power	<u><u>\$36,382,207.63</u></u>	<u><u>\$29,834,443.27</u></u>

School Debt Deductions

School debt is deductible up to the extent of 4.0% of the Average Equalized Assessed Valuations of real property for the Local District

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3: DEBT, DEBT SERVICE AND STATUTORY DEBT CONDITION (CONT'D.)

The foregoing debt information is in agreement with the Annual Debt Statement, as amended, as filed by the Chief Financial Officer.

General Capital Improvement Bonds

As of December 31, 2024 and 2023, the Borough's long-term debt is as follows:

	2024	2023
<u>General Obligation Bonds and Notes</u>		
\$6,770,000, General Obligation Bonds of 2016, due in annual installments of \$450,000 to \$570,000 through Feb. 15, 2029, interest at 2.000% to 2.750%	\$ 2,595,000.00	\$ 3,020,000.00
\$4,575,000, General Obligation Bonds of 2020, due in annual installments of \$265,000 to \$340,000 through Nov. 1, 2036, interest at 2.000% to 4.000%	3,625,000.00	3,890,000.00
\$4,570,000, General Obligation Bonds of 2022, due in annual installments of \$245,000 to \$445,000 through Sep. 1, 2037, interest at 5.000%.	4,360,000.00	4,485,000.00
Bond Anticipation Notes - Mature 1/28/25 at 4.00%	6,547,000.00	6,693,715.00
	<u>\$ 17,127,000.00</u>	<u>\$ 18,088,715.00</u>

Changes in Long-Term Municipal Debt

The Borough's Long-term debt activity for December 31, 2024 and 2023 is as follows:

	Balance, December 31, 2023	Additions	Reductions	Balance, December 31, 2024
Bonds Payable General Capital Fund	\$ 11,395,000.00		\$ 815,000.00	\$ 10,580,000.00
Total Bonds Payable	<u>\$ 11,395,000.00</u>	<u>\$ -</u>	<u>\$ 815,000.00</u>	<u>\$ 10,580,000.00</u>
SCIA Lease Payable General Capital Fund	\$ 274,055.68		\$ 76,123.76	\$ 197,931.92
Environmental Infrastructure Loans Payable General Capital Fund	\$ 2,381,941.39		\$ 225,194.13	\$ 2,156,747.26
Total Long-Term Debt	<u>\$ 14,050,997.07</u>	<u>\$ -</u>	<u>\$ 1,116,317.89</u>	<u>\$ 12,934,679.18</u>

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3: DEBT, DEBT SERVICE AND STATUTORY DEBT CONDITION (CONT'D.)

	Balance, December 31, 2022	Additions	Reductions	Balance, December 31, 2023
Bonds Payable				
General Capital Fund	\$ 16,075,000.00		\$ 4,680,000.00	\$ 11,395,000.00
Sewer Utility Capital Fund	960,000.00		960,000.00	-
Total Bonds Payable	<u>\$ 17,035,000.00</u>	<u>\$ -</u>	<u>\$ 5,640,000.00</u>	<u>\$ 11,395,000.00</u>
SCIA Lease Payable				
General Capital Fund	\$ 1,008,494.82		\$ 734,439.14	\$ 274,055.68
Environmental Infrastructure Loans Payable				
General Capital Fund	\$ 2,607,135.52		\$ 225,194.13	\$ 2,381,941.39

A schedule of annual debt service for future principal and interest for serial bonded debt is as follows:

Year	Cash Basis			Total
	General			
	Principal	Interest		
2025	\$ 960,000.00	\$ 400,275.00		\$ 1,360,275.00
2026	1,035,000.00	367,925.00		1,402,925.00
2027	1,075,000.00	333,675.00		1,408,675.00
2028	1,120,000.00	298,225.00		1,418,225.00
2029	1,165,000.00	259,237.50		1,424,237.50
2030-2034	3,290,000.00	644,100.00		3,934,100.00
2035-2037	<u>1,935,000.00</u>	<u>251,100.00</u>		<u>2,186,100.00</u>
	<u><u>\$ 10,580,000.00</u></u>	<u><u>\$ 2,554,537.50</u></u>		<u><u>\$ 13,134,537.50</u></u>

A schedule of annual debt service for future principal and interest for other debt is as follows:

Year	Cash Basis						Total
	General NJEIT Loan		General SCIA Lease				
	Principal	Interest	Principal	Interest			
2025	\$ 230,194.13	\$ 19,412.50	\$ 77,846.50	\$ 4,018.78			\$ 331,471.91
2026	235,194.13	16,662.50	79,608.23		2,257.05		333,721.91
2027	235,194.13	13,662.50	40,477.19		455.45		289,789.27
2028	240,194.13	10,662.50					250,856.63
2029	240,194.13	7,412.50					247,606.63
2030-2033	<u>975,776.61</u>	<u>16,000.00</u>					<u>991,776.61</u>
	<u><u>\$ 2,156,747.26</u></u>	<u><u>\$ 83,812.50</u></u>	<u><u>\$ 197,931.92</u></u>	<u><u>\$ 6,731.28</u></u>			<u><u>\$ 2,445,222.96</u></u>

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 3: DEBT, DEBT SERVICE AND STATUTORY DEBT CONDITION (CONT'D.)

Loan Agreements

Capital Equipment and Improvement Revenue Bonds, Series 2016

The Borough entered into a capital equipment lease agreement with the Somerset County Improvement Authority – Capital Equipment and Improvement Revenue Bonds, Series 2016 in the amount of \$808,000.00 for the Purchase of a Fire Truck. The loan obligation was due in twenty bi-annual installments and remaining principal payments spread over an eight year period with amounts ranging from \$38,705.49 through \$40,477.19 with an interest rate 2.25%.

The SCIA Loans above have been included in the calculation of the Borough's statutory debt condition.

Bond Anticipation Notes

Outstanding Bond Anticipation Notes, issued January 30, 2024 with a maturity of one year at a rate of 4.00%, are summarized as follows:

	Balance, December 31, 2023	Additions	Reductions	Balance December 31, 2024
Bond Anticipation Notes				
General Capital Fund	\$ 6,693,715.00	<u>\$ 6,547,000.00</u>	<u>\$ 6,693,715.00</u>	<u>\$ 6,547,000.00</u>
Total	<u>\$ 6,693,715.00</u>	<u>\$ 6,547,000.00</u>	<u>\$ 6,693,715.00</u>	<u>\$ 6,547,000.00</u>

Bond and Notes Authorized but Not Issued

There were Bonds and Notes Authorized but Not Issued in the following amounts:

	Balance Dec. 31, 2024	Balance Dec. 31, 2023
General Capital Fund:		
General Improvements	<u>\$ 3,341,918.78</u>	<u>\$ 3,419,692.53</u>

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 4: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2024 and 2023 were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2025 and 2024 as follows:

	Fund Balance December 31, 2024	Utilized in Succeeding Budget
Current Fund	\$ 16,089,588.23	\$ 5,000,000.00
Parking Operating Utility Fund	1,099,480.99	150,000.00
	Fund Balance December 31, 2023	Utilized in Succeeding Budget
Current Fund	\$ 17,139,945.86	\$ 5,800,000.00
Sewer Operating Utility Fund	3,859,911.69	
Parking Operating Utility Fund	796,040.08	170,000.00

Note 5: DEPOSITS AND INVESTMENTS

The Borough considers change funds, cash in banks and certificates of deposit as cash and cash equivalents.

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund. New Jersey statutes require public depositories to maintain collateral for deposit of public funds that exceed insurance limits to protect deposits 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. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five (5) percent of the average daily balance of collected public funds; or if the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent, to secure the deposits of governmental units.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

At December 31, 2024 and 2023, the book value of the Borough's deposits were \$40,450,485.41 and \$41,759,263.92 and the bank balances of the Borough's cash and deposits amounted to \$40,495,674.91 and \$41,872,875.70, respectively. Of the bank balance, \$432,985.07 and \$422,288.41 were FDIC insured and \$39,629,084.06 and \$40,881,187.84 were GUDPA insured. \$433,605.78 and \$569,399.45 held in agency and payroll accounts for the years ended December 31, 2024 and 2023 are not covered by GUDPA.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 5: DEPOSITS AND INVESTMENTS (CONT'D.)

<u>Cash and Cash Equivalents:</u>	<u>2024</u> <u>Amount</u>	<u>2023</u> <u>Amount</u>
Change Funds	\$ 350.00	\$ 350.00
Demand Accounts	40,450,485.41	41,759,263.92
Investments	<u>2,366,000.00</u>	<u>949,000.00</u>
 Total Cash and Cash Equivalents	 <u>\$ 42,816,835.41</u>	 <u>\$ 42,708,613.92</u>

At December 31, 2024, the Borough has implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 *Deposits and Investment Risk Disclosures* (GASB 40) and accordingly the Borough has assessed the Custodial Risk, the Concentration of Credit Risk and Interest Rate Risk of its cash and investments.

- (a) Custodial Credit Risk – The Borough's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-governments name. The deposit risk is that, in the event of the failure of a depository financial institution, the Borough will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Borough's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Borough and are held by either: the counterparty or the counterparty's trust department or agent but not in the Borough's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Borough will not be able to recover the value of the investment or collateral securities that in possession of an outside party.
- (b) Concentration of Credit Risk – This is the risk associated with the amount of investments that Borough has with any one issuer that exceeds 5 percent or more of its total investments. Investment issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.
- (c) Credit Risk – GASB Statement No. 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Borough does not have an investment policy regarding Credit Risk except to the extent outlined under the Borough's investment policy. The New Jersey Cash Management Fund is not rated.
- (d) Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Borough does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

As of December 31, 2024, based upon the insured balances provided by the FDIC and NJGUDPA coverage, no amounts of the Borough's bank balances were considered exposed to custodial credit risk. In addition, based upon the existing deposit and investment practices, the Borough is generally not exposed to credit risks, concentration of credit risks and interest rate risks for its investments nor is it exposed to foreign currency risks for its deposits and investments.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 5: DEPOSITS AND INVESTMENTS (CONT'D.)

Investments

New Jersey statutes permit the Borough to purchase the following types of securities:

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States;
2. Government money market mutual funds;
3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided such obligation bear a fixed rate of interest not dependent on any index or other external factor;
4. Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
5. Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of the Treasury for investment by local units;
6. Local government investment pools;
7. Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1997, c. 281 (C.52:18A-90.4); or
8. Agreements for the repurchase of fully collateralized securities, if:
 - a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3);
 - b. the custody of collateral is transferred to a third party;
 - c. the maturity of the agreement is not more than 30 days;
 - d. the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c. 236 (C.19:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

Investments generally are shown by type, carrying amount, market value and level of risk assumed in the holding of the various securities, where applicable. At year-end, the Borough maintained its invested funds in various money market and sweep accounts included in the above categorization of the Borough's deposits. In addition, the Borough invested in bond anticipation notes of another governmental entity in the amount of \$2,366,000.00 at interest rates ranging from 4.30% to 4.75% maturing January 24, 2025.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 6: 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 1 in each year and filed with the County Board of Taxation by January 10 of the following year. Upon the filing of certified adopted budgets by the Borough, Local 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 3, with a completed duplicate of the tax rolls to be delivered to the Borough Tax Collector on or before May 13th.

Tax bills are prepared and mailed by the Collector of Taxes of the Borough annually and set forth the final tax for the tax year. The bill contains a credit for preliminary amounts billed previously with the balance payable in equal installments on August 1st and November 1st of the tax year. In addition, the property owner receives a preliminary bill for the succeeding year based on one half of the prior year's tax. The preliminary payments are due and payable on February 1st and May 1st. The New Jersey 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% to 18% of the amount delinquent, and if a delinquency (including interest) is in excess of \$10,000.00 and remains in arrears after December 31, an additional flat penalty of 6% may be charged against the delinquency. If taxes are delinquent on or after April 1st of the succeeding year, the delinquent amount is subject to "Tax Sale" which places a tax lien on the property allowing the holder to enforce the tax lien by collection or foreclosure. New Jersey property tax laws establish a tax lien on real estate as of January 1st of the current tax year even though the amount due is not known.

Note 7. PENSION PLANS

Description of Plans - The State of New Jersey, Division of Pension and Benefits (the Division) was created and exists pursuant to N.J.S.A. 52:18A to oversee and administer the pension trust and other postemployment benefit plans sponsored by the State of New Jersey (the State). According to the State of New Jersey Administrative Code, all obligations of the Systems will be assumed by the State of New Jersey should the plans terminate. Each defined benefit pension plan's designated purpose is to provide retirement, death and disability benefits to its members. The authority to amend the provision of plan rests with new legislation passed by the State of New Jersey. Pension reforms enacted pursuant to Chapter 78, P.L. 2011 included provisions creating special Pension Plan Design Committees for the Public Employees Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS), once a Target Funded Ratio (TFR) is met, that will have the discretionary authority to modify certain plan design features, including member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. The committee will also have the authority to reactivate the cost of living adjustment (COLA) on pensions. However, modifications can only be made to the extent that the resulting impact does not cause the funded ratio to drop below the TFR in any one year of a projection period. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for each of the plans. This report may be accessed via the Division of Pensions and Benefits website, at www.state.nj.us/treasury/pensions, or may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

A. Public Employees' Retirement System (PERS) - The Public Employee Retirement System is a cost-sharing, multiple employer defined benefit pension plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the PERS Plan are as follows:

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Plan Membership and Contributing Employers- Substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency are enrolled in PERS, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund. Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2023:

	<u>2023</u>
Inactive plan members or beneficiaries currently receiving benefits	191,119
Inactive plan members entitled to but not yet receiving benefits	580
Active plan members	<u>241,151</u>
 Total	 <u>432,850</u>
 Contributing Employers – 1,691	

Significant Legislation – For State of New Jersey contributions to PERS, Chapter 1, P.L. 2010, effective May 21, 2010, required the State to resume making actuarially recommended contributions to the pension plan on a phased-in basis over a seven-year period beginning in the fiscal year ended June 30, 2012.

Chapter 19, P.L. 2009, effective March 17, 2009, provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such an employer will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of PERS, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability is paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Pursuant to the provision of, P.L. 2011, Chapter 78, COLA increases were suspended for all current and future retirees of PERS.

For the year ended December 31, 2024, the Borough's total payroll for all employees was \$7,630,551.04. For the year ended December 31, 2024, total PERS covered payroll was \$2,479,082.20. Due to payroll system limitations, covered payroll refers to pensionable compensation, rather than total compensation, paid by the Borough to active employees covered by the Plan.

Specific Contribution Requirements and benefit provisions – The contribution policy is set by N.J.S.A. 43:15 and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contributions are based on an amortization of the unfunded accrued liability. Funding or noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2023, the State's pension contribution was less than the actuarial determined amount.

Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. Borough contributions are due and payable on April 1st in the second fiscal period subsequent to plan year for which the contributions requirements were calculated.

It is assumed that the local employers will contribute 100% of their actuarially determined contribution and 100% of the Non-Contributory Group Insurance Premium Fund (NCGIPF) contribution while the State will contribute 70% of its actuarially determined contribution and 100% of its NCGIPF contribution. The 70% contribution rate is the actual total State contribution rate paid in fiscal year ending June 30, 2023 with respect to the actuarially determined contribution for the fiscal year ending June 30, 2023 for all State administered retirement systems.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

In accordance with Chapter 98, P.L. 2017, PERS receives 21.02% of the proceeds of the Lottery Enterprise for a period of 30 years. Revenues received from lottery proceeds are assumed to be contributed to the System on a monthly basis.

The Borough's liability to PERS for the year ending December 31, 2023 consisted of the following:

	<u>2023</u>
Normal Cost	\$ 57,174
Amortization of Accrued Liability	<u>301,952</u>
Total Pension	359,126
NCGI Premiums	<u>16,254</u>
Total Regular Billing	375,380
LTD Expense	-
Additional Billings:	
Ch. 19, P.L. 2009	<u>21,829</u>
Total PERS Payment	<u><u>\$ 397,209</u></u>

The Borough recognizes liabilities to PERS and records expenditures for same in the fiscal period that bills become due.

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

The following represents the membership tiers for PERS:

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

A service retirement benefit of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 or more years of service credit before age 62, and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier.

Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Special Funding Situation – Under N.J.S.A. 43:15A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed that legally obligated the State if certain circumstances occurred. The legislation, which legally obligates the State, are Chapter 366, P.L. 2001 and Chapter 133, P.L. 2001. The amounts contributed on behalf of the local participating employers under the legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under the legislation directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers related to the legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the local participating employer. In addition, each local participating employer must recognize pension expense associated with the employers as well as revenue in an amount equal to the nonemployer contributing entities' total proportionate share of the collective pension expense associated with the local participating employer.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – The regulatory basis of accounting which is basis for the preparation of the Borough's basic financial statements does not require or permit the inclusion of entity-wide, full accrual basis financial statements. Accordingly, the Borough does not recognize pension liabilities for any current or prior period until the fiscal period in which such payments will become due and payable.

At June 30, 2023, the PERS reported a net pension liability of \$14,606,489,066 for its Non-State, Non-Special Funding Situation Employer Member Group. The Borough's proportionate share of the net pension liability for the Non-State Employer Group that is attributable to the Borough was \$4,124,251 or .0284737926%, which was a decrease of 0.0012935115% from its proportion measured as of June 30, 2022. At December 31, 2023, the Borough's deferred outflows of resources and deferred inflows of resources related to PERS were from the following sources, if GASB No. 68 was recognized:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience	\$ 39,433	\$ 16,859
Change in assumptions	9,060	249,947
Net difference between projected and actual earnings		
On pension plan investments	18,993	
Changes in proportion and differences between Borough		
Contributions and proportionate share of contributions	254,263	238,547
Borough contributions subsequent to the		
measurement date	<u>402,662</u>	<u>-</u>
 Total	 <u>\$724,411</u>	 <u>\$ 505,353</u>

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

The \$402,662 is reflected above as deferred outflows of resources related to pensions resulting from Borough contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense on the GAAP basis as follows:

	<u>Year ending</u>	<u>Amount</u>
	2024	\$(142,514)
	2025	(105,998)
	2026	140,280
	2027	(72,701)
	2028	<u>(2,671)</u>
	Total	<u>\$ (183,604)</u>

Actuarial Assumptions- The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	2.75-6.55%
	Based on years of service
Investment rate of return	7.00%

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and a 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on Pub-2010 General Below-Median Income Employee mortality table with a 91.4% adjustment for males and a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and a 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2023) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2023 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	28.00%	8.98%
Non-U.S. Developed Market Equity	12.75%	9.22%
International Small Cap Equity	1.25%	9.22%
Emerging Market Equity	5.50%	11.13%
Private Equity	13.00%	12.50%
Real Estate	8.00%	8.58%
Real Assets	3.00%	8.40%
High Yield	4.50%	6.97%
Private Credit	8.00%	9.20%
Investment Grade Credit	7.00%	5.19%
Cash Equivalents	2.00%	3.31%
U.S. Treasuries	4.00%	3.31%
Risk Mitigation Strategies	<u>3.00%</u>	<u>6.21%</u>
	<u>100.00%</u>	

Discount Rate – The discount rate used to measure the total pension liabilities of PERS was 7.00% as of June 30, 2023. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of PERS calculated using the discount rates as disclosed above as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate.

<u>2023</u>	At 1% decrease (6.00%)	At current discount rate (7.00%)	At 1% increase (8.00%)
PERS	\$5,368,897	\$4,124,251	\$3,064,892

Plan Fiduciary Net Position – The plan fiduciary net position for PERS including the State of New Jersey at June 30, 2023 was \$34,831,652,936. The portion of the Plan Fiduciary Net Position that was allocable to the Local (Non-State) Group at June 30, 2023 was \$27,400,438,440.

Additional Information

Collective Local Group balances at June 30, 2023 are as follows:

Collective deferred outflows of resources	\$1,080,204,730
Collective deferred inflows of resources	1,780,216,457
Collective net pension liability – Local group	14,606,489,066
Borough's Proportion	0.0284737926%

Collective pension expense (benefit) for the Local Group for the measurement period ended June 30, 2023 was (\$79,181,803). The average of the expected remaining service lives of all plan members is 5.08, 5.04, 5.13, 5.16, 5.21, and 5.63 years for 2023, 2022, 2021, 2020, 2019, and 2018, respectively.

State Contribution Payable Dates

Chapter 83, P.L. 2016 requires the State to make pension contributions on a quarterly basis: at least 25% by September 30, at least 50% by December 31, at least 75% by March 31, and at least 100% by June 30. As such, contributions are assumed to be made on a quarterly basis with the first contribution 15 months after the associated valuation date.

Local employer's contributions are expected to be paid on April 1st, 21 months after the associated valuation date.

Receivable Contributions

The Fiduciary Net Position (FNP), includes Local employers' contributions receivable as reported in the financial statements provided by the Division of Pensions and Benefits. In determining the discount rate, the FNP at the beginning of each year does not reflect receivable contributions as those amounts are not available at the beginning of the year to pay benefits. The receivable contributions for the years ended June 30, 2023 was \$1,354,892,653.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

A. Public Employees' Retirement System (PERS) (Cont'd.)

Special Funding Situation

The Borough is responsible for the actuarially determined annual contributions to the PERS, except where legislation was passed that legally obligates the State if certain circumstances occur. A special funding situation exists for the Local employers of the PERS. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers based upon the provisions of several legislative actions. The provisions of GASB Statement No. 68 define this relationship as a "special funding situation", and the State of New Jersey is defined as a non-employer contributing entity.

Unaudited data provided by the PERS indicates that the total Non-employer contributions made to the PERS by the State for the year ended June 30, 2023 was \$61,366,036. The portion of that contribution allocated to the Borough in 2023 was \$12,862 or 0.0285818991%. The June 30, 2023 State special funding situation pension expense of \$55,672,745 was actuarially determined and represents the required contribution due from the State for the year. The special funding situation net pension liability under the special funding situation was reported at \$122,115,019 at June 30, 2023 and represents the accumulated difference between the actuarially determined annual contributions required and the actual State contributions through the valuation date. The Borough's allocated shares of the special funding situation pension expense for the year ended June 30, 2023 and its share of the special funding situation Net Pension Liability at that date were \$12,862 and \$0, respectively.

B. Police and Firemen's Retirement System (PFRS)

The Police and Firemen's Retirement System is a cost-sharing, multiple employer defined benefit pension plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the PFRS Plan are as follows:

Plan Membership and Contributing Employers- Substantially all full-time county and municipal police or firemen and state firemen or officer employees with police powers appointed after June 30, 1944 are enrolled in PFRS. Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2023:

	<u>2023</u>
Inactive plan members or beneficiaries currently receiving benefits	48,753
Inactive plan members entitled to but not yet receiving benefits	60
Active plan members	<u>41,816</u>
Total	<u>90,629</u>
Contributing Employers	582
Contributing Nonemployers	1

Significant Legislation – For State of New Jersey contributions to PFRS, Chapter 1, P.L. 2010, effective May 21, 2010, required the State to resume making actuarially recommended contributions to the pension plan on a phased-in basis over a seven-year period beginning in the fiscal year ended June 30, 2012.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

For the year ended June 30, 2023, it is assumed that the Local employers will contribute 100% of their actuarially determined contribution and 100% of their Non-Contributory Group Insurance Premium Fund (NCGIPF) contribution while the State will contribute 78% of its actuarially determined contribution and 100% of its NCGIPF contribution. The 78% contribution rate is the actual total State contribution rate paid in the fiscal year ending June 30, 2023 with respect to the actuarially determined contribution for the fiscal year ending June 30, 2023 for all State administered retirement systems.

In accordance with Chapter 98, P.L. 2017, PFRS receives 1.2% of the proceeds of the Lottery Enterprise for a period of 30 years. Revenues received from the lottery proceeds are assumed to be contributed to the System on a monthly basis.

Consistent with Chapter 83, P.L. 2016, it is assumed that the State will make pension contributions in equal amounts at the end of each quarter. It is assumed the Local employers' contributions are expected to be received on April 1st, 21 months after the associated valuation date.

Pursuant to the provision of Chapter 78, P.L. 2011, COLA increases were suspended for all current and future retirees of PFRS.

For the year ended December 31, 2024, the Borough's total payroll for all employees was \$7,630,551.04. For the year ended December 31, 2024, total PFRS covered payroll was \$3,222,892.04. Due to payroll system limitations, covered payroll refers to pensionable compensation, rather than total compensation, paid by the Borough to active employees covered by the Plan.

Specific Contribution Requirements and benefit provisions – The contribution policy is set by N.J.S.A. 43:16A and requires contributions by active members and contributing employers. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate was 10% in State fiscal year 2023. Employer contribution amounts are based on an actuarially determined amount. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits.

Borough payments to PFRS for the year ending December 31, 2023 consisted of the following:

	<u>2023</u>
Normal Cost	\$ 439,360
Amortization of Accrued Liability	<u>907,517</u>
Total Pension	1,346,877
NCGI Premiums	<u>41,422</u>
Total Regular Billing	1,388,299
Additional Billings:	
Ch. 19, P.L. 2009	<u>42,870</u>
Total PFRS Payment	<u>\$ 1,431,169</u>

The Borough recognizes liabilities to PFRS and records expenditures for same in the fiscal period that bills become due.

The vesting and benefit provisions are set by N.J.S.A. 43:16A. PFRS provides retirement as well as death and disability benefits. All benefits vest after ten years of service, except disability benefits, which vest after four years of service.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

The following represents the membership tiers for PFRS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to May 22, 2010
2	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
3	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits are available at age 55 and are generally determined to be 2% of final compensation for each year of creditable service, as defined, up to 30 years plus 1% for each year of service in excess of 30 years. Members may seek special retirement after achieving 25 years of creditable service, in which benefits would equal 65% (tiers 1 and 2 members) and 60% (tier 3 members) of final compensation plus 1% for each year of creditable service over 25 years, but not to exceed 30 years. Members may elect deferred retirement benefits after achieving ten years of service, in which case benefits would begin at age 55 equal to 2% of final compensation for each year of service.

Special Funding Situation – Under N.J.S.A. 43:15A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed that legally obligated the State if certain circumstances occurred. The legislation, which legally obligates the State, are Chapter 8, P.L. 2000, Chapter 318, P.L. 2001, Chapter 86, P.L. 2001, Chapter 511, P.L. 1991, Chapter 109, P.L. 1979, Chapter 247, P.L. 1993, and Chapter 201, P.L. 2001. The amounts contributed on behalf of the local participating employers under the legislation is considered to be a special funding situation as defined by GASB Statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under the legislation directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statements of the local participating employers related to the legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the local participating employer.

In addition, each local participating employer must recognize pension expense associated with the employers as well as revenue in an amount equal to the nonemployer contributing entities' total proportionate share of the collective pension expense associated with the local participating employer.

At June 30, 2023, the PFRS reported a net pension liability of \$11,048,782,843 for its Non-State, Non-Special Funding Situation Employer Member Group. The Borough's proportionate share of the net pension liability for the Non-State Non-Special Funding Situation Employer Member Group was \$12,471,702, or 0.1128785100% which was an increase of 0.0061317100% from its proportion, measured as of June 30, 2022. Then pension liability for the June 30, 2023 measurement date was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

At December 31, 2023, the Borough's deferred outflow of resources and deferred inflow of resources related to PFRS were from the following sources, if GASB 68 was recognized:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience	\$ 534,013	\$ 594,790
Change in assumptions	26,918	842,139
Net difference between projected and actual earnings		
On pension plan investments	635,160	
Changes in proportion and differences between Borough		
Contributions and proportionate share of contributions	1,037,888	20,000
Borough contributions subsequent to the		
measurement date	<u>1,546,113</u>	-
Total	<u>\$ 3,780,092</u>	<u>\$ 1,456,929</u>

The \$1,546,113 is reflected above as deferred outflows of resources related to pensions resulting from Borough contributions subsequent to the measurement date. Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions would be recognized in pension expense as follows, if GASB 68 was recognized:

<u>Year ending</u>	<u>Amount</u>
2024	\$(156,159)
2025	(203,922)
2026	908,355
2027	74,127
2028	134,492
2029	<u>20,157</u>
Total	<u>\$ 777,050</u>

Actuarial Assumptions- The total pension liability in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>June 30, 2023</u>	
Inflation rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	3.25 - 16.25%
	based on years of service
Investment rate of return	7.00%

Employee mortality rates were based on the PubS-2010 amount-weighted mortality table with a 105.6% adjustment for males and 102.5% adjustment for females. For healthy annuitants, mortality rates were based on the PubS-2010 amount-weighted mortality table with a 96.7% adjustment for males and 96.0% adjustment for females. Disability rates were based on the PubS-2010 amount-weighted mortality table with a 152.0% adjustment for males and 109.3% adjustment for females. Mortality improvement is based on Scale MP-2021.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2023) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic rates of return for each major asset class included in PFRS's target asset allocation as of June 30, 2023 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	28.00%	8.98%
Non-U.S. Developed Market Equity	12.75%	9.22%
International Small Cap Equity	1.25%	9.22%
Emerging Market Equity	5.50%	11.13%
Private Equity	13.00%	12.50%
Real Estate	8.00%	8.58%
Real Assets	3.00%	8.40%
High Yield	4.50%	6.97%
Private Credit	8.00%	9.20%
Investment Grade Credit	7.00%	5.19%
Cash Equivalents	2.00%	3.31%
U.S. Treasuries	4.00%	3.31%
Risk Mitigation Strategies	<u>3.00%</u>	<u>6.21%</u>
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00% as of June 30, 2023. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

Sensitivity of Net Pension Liability – the following presents the net pension liability of PFRS calculated using the discount rates as disclosed above as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
PFRS	\$17,377,133	\$12,471,702	\$8,386,650

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

B. Police and Firemen's Retirement System (PFRS) (cont'd):

Plan Fiduciary Net Position – The plan fiduciary net position for PERS, including the State of New Jersey, at June 30, 2023 was \$32,567,234,286.00. The portion of the Plan Fiduciary Net Position that was allocable to the Local (Non-State) Group at June 30, 2023 was \$30,766,525,115.00.

Additional Information

Collective Local Group balances at June 30, 2023 are as follows:

Collective deferred outflows of resources	\$1,753,080,638
Collective deferred inflows of resources	1,966,439,601
Collective net pension liability	13,084,649,602
Borough's Proportion	0.1128785100%

Collective pension expense (benefit) for the Local Group for the measurement period ended June 30, 2023 is \$844,810,693. The average of the expected remaining service lives of all plan members is 6.16, 6.22, 6.17, 5.90, 5.92, and 5.73 years for 2023, 2022, 2021, 2020, 2019 and 2018, respectively.

State Contribution Payable Dates

Chapter 83, P.L. 2016 requires the State to make pension contributions on a quarterly basis: at least 25% by September 30, at least 50% by December 31, at least 75% by March 31, and at least 100% by June 30. As such, contributions are assumed to be made on a quarterly basis. Local employer's contributions are expected to be paid on April 1st, 21 months after the associated valuation date.

Receivable Contributions

The Fiduciary Net Position (FNP) includes Local employers' contributions receivable as reported in the financial statements provided by the Division of Pensions and Benefits. In determining the discount rate, the FNP at the beginning of each year does not reflect receivable contributions as those amounts are not available at the beginning of the year to pay benefits. Local contributions expected to be paid the April 1st, following the valuation are discounted by the interest rate used at the valuation date.

Special Funding Situation

The Borough is responsible for the actuarially determined annual contributions to the PFRS, except where legislation was passed that legally obligates the State if certain circumstances occur. A special funding situation exists for the Local employers of the PFRS. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers based upon the provisions of several legislative actions. The provisions of GASB Statement No. 68 define this relationship as a "special funding situation", and the State of New Jersey is defined as a "non-employer contributing entity".

Unaudited data provided by the PFRS indicates that the total Non-employer contributions made to the PFRS by the State for the year ended June 30, 2023 was \$232,824,730. The portion of that contribution allocated to the Borough in 2023 was \$262,809, or 0.11287847%. The June 30, 2022 State special funding situation pension expense of \$231,575,656 was actuarially determined and represents the required contribution due from the State for the year. The special funding situation net pension liability under the special funding situation was reported at \$2,035,866,759 at June 30, 2023 and represents the accumulated difference between the actuarially determined annual contributions required and the actual State contributions through the valuation date. The Borough's allocated shares of the special funding situation pension expense for the year ended June 30, 2023 and its share of the special funding situation NPL at that date were \$261,399 and \$2,298,056, respectively.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Note 7. PENSION PLANS (CONT'D.)

C. Defined Contribution Retirement System (DCRP):

The Defined Contribution Retirement Plan (DCRP) is a multiple employer defined contribution plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The Division has selected Prudential Financial to manage the DCRP on its behalf. The more significant aspects of the DCRP are as follows:

Plan Membership and Contributing Employers- Enrollment in the DCRP is required for state or local officials, elected or appointed on or after July 1, 2007; employees enrolled in PFRS or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PFRS or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least \$5,000 annually; and employees otherwise eligible to enroll in PFRS or PERS after May 21, 2010, who do not work the minimum number of hours per week required for tier 4 or tier 5 enrollment, but who earn salary of at least \$5,000 annually.

Contribution Requirement and Benefit Provisions - State and local government employers contribute 3% of the employees' base salary. Active members contribute 5.5% of base salary. Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and non-forfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and non-forfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan members and employer contributions may be amended by State of New Jersey legislation, with the amount of contributions by the State of New Jersey contingent upon the annual Appropriations Act. As defined, the various retirement systems require employee contributions based on 7.50% for PERS, 10% for PFRS and 5.5% for DCRP of employees' base wages.

Note 8: POST-RETIREMENT HEALTH COVERAGE

Plan Description

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*; therefore, assets are accumulated to pay associated benefits. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Annual Comprehensive Financial Report (ACFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

Benefits Provided

The Plan provides medical and prescription drug to retirees and their covered dependents of the participating employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees.

BOROUGH OF SOMERVILLE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024 AND 2023

Note 8: POST-RETIREMENT HEALTH COVERAGE (CONT'D)

Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989.

Contributions

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

Plan Membership and Contributing Employers

Plan membership and contributing employers/non-employers consisted of the following at June 30, 2023:

	<u>2023</u>
Inactive plan members or beneficiaries currently receiving benefits	34,771
Active plan members	<u>65,613</u>
 Total	 <u>100,384</u>
 Contributing Employers	 590
Contributing Nonemployers	1

Nonspecial Funding Situation – The State of New Jersey's Total OPEB Liability for nonspecial funding situation was \$14,889,576,786 at June 30, 2023.

Components of Net OPEB Liability – The components of the collective net OPEB liability for Local Government Retired Employees Plan, including the State of New Jersey, is as follows:

	<u>June 30, 2023</u>
Total OPEB Liability	\$14,889,576,786
Plan Fiduciary Net Position (Deficit)	<u>(116,962,691)</u>
 Net OPEB Liability	 <u>\$15,006,539,477</u>
Plan fiduciary net position as a percentage of the total OPEB liability	(0.79)%

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 8: POST-RETIREMENT HEALTH COVERAGE (CONT'D)

Actuarial Assumptions and Other Inputs:

The total OPEB liability as of June 30, 2023 was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to 2023 in the measurement:

Inflation	2.50%
Salary Increases*:	
Public Employees' Retirement System (PERS)	
Rate for all future years	2.75% to 6.55% based on years of service
Police and Firemen's Retirement System (PFRS)	3.25% to 16.25%
Rate for all future years	based on years of service

* Salary increases are based on years of service within the respective plan.

Mortality rates were based on the Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2021. Actuarial assumptions used in the July 1, 2022 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2018 to June 30, 2021. 100% of active members are considered to participate in the Plan upon retirement.

Healthcare Trend Assumptions:

For pre-Medicare medical benefits, the trend is initially 6.50% and decreases to a 4.50% long-term trend rate after nine years. For post-65 medical benefits PPO, the trend is increasing to 14.8% in fiscal year 2026 and decreases to 4.50% in fiscal year 2033. For HMO, the trend is increasing to 17.4% in fiscal year 2026 and decreases to 4.50% in fiscal year 2033. For prescription drug benefits, the initial trend rate is 9.5% and decreases to a 4.50% long-term trend rate after seven years. For Medicare Part B reimbursement, the trend rate is 5.00%.

Discount Rate:

The discount rate for June 30, 2023 was 3.65%. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of the State's Net OPEB Liability to Changes in the Discount Rate:

The following presents the collective net OPEB liability as of June 30, 2023, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage- point higher than the current rate:

	1% Decrease (2.65%)	At Discount Rate (3.65%)	1% Increase (4.65%)
Total Net OPEB Liability - 2023	\$ 17,382,355,978	\$ 15,006,539,477	\$ 13,095,561,553
Borough's Proportionate Share of the Net OPEB Liability	\$ 6,478,578	\$ 5,593,087	\$ 4,880,847

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 8: POST-RETIREMENT HEALTH COVERAGE (CONT'D)

Sensitivity of the State's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:

The following presents the net OPEB liability as of June 30, 2023, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Healthcare Cost		
	1% Decrease	Trend Rate	1% Increase
Total Net OPEB Liability - 2023	\$ 12,753,792,805	\$ 15,006,539,477	\$ 17,890,743,651
Borough's Proportionate Share of the Net OPEB Liability	\$ 4,753,466	\$ 5,593,087	\$ 6,668,059

Special Funding Situation - The State of New Jersey's Total OPEB Liability for special funding situation was \$3,489,093,208 at June 30, 2023.

Special Funding Situation

Under Chapter 330, P.L. 1997, the State shall pay the premium or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan, there is no net OPEB liability, deferred outflows of resources or deferred inflows of resources to report in the financial statements of the local participating employers related to this legislation. The amounts of the State's Non-employer OPEB Liability that are attributable to employees and retirees of the Borough of Somerville was \$10,455,940 at June 30, 2023. These allocated liabilities represent 0.299675% of the State's Total Non-employer OPEB Liability for June 30, 2023. The OPEB Expense attributed to the Borough was \$(1,895,866) at June 30, 2023.

Note 9: ACCRUED SICK AND VACATION BENEFITS

Under the existing policy of the Borough, employees are allowed to accumulate unused sick pay over the life of their working careers which may be taken as time off or paid at a later date up to a maximum number of days as specified by contract. It is estimated that the cost of such unpaid sick pay would approximate \$2,361,003.35 and \$2,364,371.50 for 2024 and 2023. This amount represents the current value of all accumulations, and is not intended to portray amounts that would be recorded under GAAP. Expenditures for payment of accrued sick and vacation benefits are recorded in the period in which payments are made as part of the current year's operating budget appropriations.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 10: RISK MANAGEMENT

The Borough, together with other governmental units, is a member of the Statewide Insurance Fund (the Fund). The Fund, which is organized and operated pursuant to the regulatory authority of the Departments of Insurance and Community Affairs, State of New Jersey, provides for a pooling of risks, subject to established limits and deductibles. The Fund's governing board based upon actuarial and budgetary requirements calculates payments to the Fund. Each participant in the Fund is jointly and severally obligated for any deficiency in the amount available to pay all claims. Lines of coverage provided by the Fund include property; boiler and machinery; equipment floater; auto physical; blanket bond; auto liability; general liability; law enforcement liability; public official liability and worker compensation and employer liability. At December 31, 2022, the Fund reported for all years' combined, total assets of \$47,188,767.00, liabilities of \$34,787,575.00 and expenses of \$32,801,506.00, which includes loss reserves of \$34,528,956.00 and net position for all years of \$12,401,193.00. This is the latest available information.

New Jersey Unemployment Compensation Insurance – The Borough has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan, the Borough is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Borough is billed quarterly for amounts due to the State. The following table is a summary of Borough contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Borough's trust fund for the 2024 and the previous two years.

Fiscal Year	Borough Contributions and Interest	Employee Contributions	Amount Reimbursed	Ending Balance
2024	\$ 4,227.85	\$ 9,955.06	\$ 11,914.19	\$ 125,764.00
2023	3,393.24	9,070.41	2,393.08	123,495.28
2022	5,274.29	8,693.37	1,465.18	113,424.71

Note 11: LENGTH OF SERVICE AWARD PROGRAM (LOSAP)

The Borough has authorized a Length of Service Award Program (LOSAP) pursuant to section 457 (e) of the Internal Revenue Code and P.L. 1997, C. 388 as amended by P.L. 2001, C. 272 of the Statutes of New Jersey. The program provides for fixed annual contributions to a deferred income account for volunteer firefighters and first aid and rescue squad members who meet specified service criteria. The Borough sponsors the Program, which is administrated by a private contractor. The LOSAP Program is subject to an annual review in accordance with AICPA standards for attestation engagements. LOSAP review reports are available in the office of the Borough Clerk during scheduled working hours.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 12: COMMITMENTS AND CONTINGENCIES

The Borough participates in several federal awards and state financial assistance grant programs. Entitlement to the funds is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditures of funds for eligible purposes. These programs are also subject to compliance and financial audits by the grantors or their representatives. As of December 31, 2024, the Borough does not believe that any material liabilities will result from such audits.

Contractual Commitments

The Borough of Somerville was a party to various construction contracts and commitments that totaled \$3,270,148.70 and \$3,104,423.71 in its General Capital Fund as of December 31, 2024 and 2023, respectively.

Litigation

As of the date of this report, the Borough has litigation pending that traditionally would be covered through the procurement of liability insurance coverages.

Tax Appeals

As of December 31, 2024, there were tax appeals pending before the New Jersey Tax Court of an undetermined amount. Judgments favorable to the taxpayers generally extend to two years following the year adjudicated and would also subject the Borough to a liability for statutory interest on the amount of taxes refunded from the date of payment to the date of refund (R.S. 54:3-27.2).

County taxes paid on the reductions in assessed valuations are subject to credits against the County tax levy of the year subsequent to the year in which the appeals are adjudicated.

As of December 31, 2024 and 2023, the Borough has \$309,431.15 and \$299,787.06, respectively, set aside for potential tax appeals.

Federal and State Awards

The Borough participates in several Federal and State grant programs which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the Borough has not complied with the rules and regulations governing the grant, refunds of any money received may be required and the collectability of any related receivable at December 31, 2024 may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying regulatory basis financial statements for such contingencies.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 13: DEFERRED COMPENSATION

The Borough has instituted a Deferred Compensation Plan pursuant to section 457 of the Internal Revenue Code and P.L. 1977, C. 381; P.L. 1978, C. 39; P.L. 1980, C. 78; and P.L. 1997, C. 116 of the Statutes of New Jersey. The Plan is an arrangement whereby a public employer may establish a plan and permit its employees to voluntarily authorize a portion of their current salary to be withheld and invested in one or more of the types of investments permitted under the governing regulations. The Borough has engaged a private contractor to administer the plan.

Note 14: INTERFUND

The following interfund balances remained on the balance sheet date at December 31, 2024:

<u>Fund:</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Current Fund	\$ 24,053.20	\$ 325,723.79
Grant Fund		1,949.99
Animal Control Fund		22,103.21
Trust Assessment Fund	12,439.62	22,875.06
Trust Other Fund	215,510.42	25,533.60
General Capital Fund	120,648.81	
Public Assistance Trust Fund	25,533.60	
	<hr/>	<hr/>
	\$ 398,185.65	\$ 398,185.65
	<hr/>	<hr/>

These interfund balances are not an indication that the respective fund cannot meet its obligation. The interfund amounts are reflective of year-end closing journals and adjustments. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note 15: GASB 77 TAX ABATEMENTS

The Borough has entered into several property tax abatement agreements in order to provide incentives to redevelop areas that are in need for improvement or to create economic growth. These agreements are authorized under various New Jersey state statutes. The following represent the Borough's tax abatement agreements:

<u>Entity Name</u>	<u>Commencement Date</u>	<u>Termination Date</u>	<u>Pilot Billing</u>	<u>Taxes if Billed In Full</u>	<u>Abated Taxes</u>
Cobalt	January 30, 2015	January 30, 2035	\$ 288,815.95	\$ 574,817.59	\$ 286,001.64
46 Main St. - Desapio	August 15, 2016	August 15, 2036	89,848.40	316,611.58	226,763.18
Soma	February 9, 2017	February 9, 2037	130,971.10	282,754.14	151,783.04
6 North Doughty	February 23, 2018	February 23, 2038	36,296.10	82,119.62	45,823.52
Davenport	March 20, 2018	March 20, 2038	98,813.13	301,076.29	202,263.16
Station House	September 5, 2018	September 5, 2038	252,937.28	691,514.10	438,576.82
Parc View	January 25, 2019	January 25, 2039	424,983.28	827,793.78	402,810.50
Avalon Bay	April 6, 2020	April 6, 2040	1,097,624.39	2,011,484.05	913,859.66
Somerville Town Center	May 27, 2020	May 27, 2040	556,972.20	758,157.73	201,185.53
Pulte Homes	July 21, 2020	July 21, 2040	1,286,624.38	2,078,795.73	792,171.35
50 Kirby	August 1, 2024	December 31, 2049	18,713.27	158,120.00	139,406.73
			<hr/>	<hr/>	<hr/>
			\$ 4,282,599.48	\$ 8,083,244.61	\$ 3,800,645.13

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 16: GOVERNMENTAL FIXED ASSETS

The Borough's governmental fixed assets are reported as follows:

	Balance December 31, <u>2023</u>	Increases	Decreases	Balance December 31, <u>2024</u>
Land	\$ 10,571,500.00	\$ 917,100.00		\$ 11,488,600.00
Buildings/Improvements	10,498,600.00	20,537,600.00		31,036,200.00
Equipment	<u>7,845,577.00</u>	1,024,489.00	\$ 763,173.00	<u>8,106,893.00</u>
	<u><u>\$ 28,915,677.00</u></u>	<u><u>\$ 22,479,189.00</u></u>	<u><u>\$ 763,173.00</u></u>	<u><u>\$ 50,631,693.00</u></u>
	Balance December 31, <u>2022</u>	Increases	Decreases	Balance December 31, <u>2023</u>
Land	\$ 10,571,500.00			\$ 10,571,500.00
Buildings/Improvements	10,498,600.00			10,498,600.00
Equipment	<u>7,000,227.00</u>	\$ 871,406.00	\$ 26,056.00	<u>7,845,577.00</u>
	<u><u>\$ 28,070,327.00</u></u>	<u><u>\$ 871,406.00</u></u>	<u><u>\$ 26,056.00</u></u>	<u><u>\$ 28,915,677.00</u></u>

Note 17: SALE OF WASTEWATER COLLECTION SYSTEM

The Borough sold its wastewater collection system to its water service provider, New Jersey American Water, on October 3, 2023, for a purchase price of \$7,000,000 of which \$4,890,246.59 sale proceeds were used by the Borough to effectuate the defeasance and redemption of the outstanding Series 2016 Bonds, Series 2020 Bonds, and the payment of the 2023B Note. The sale followed a voter referendum that took place in November 2022, which passed with 75 percent of the voters approving the sale of the system.

On such date, the Borough provided funds (cash), for deposit with the Escrow Agent which will be sufficient to pay the principal and interest on the Defeased Bonds, through and including February 15, 2026, with respect to the Series 2016 Bonds and through and including November 1, 2027, with respect to the Series 2020 Bonds and the principal of the 2023B Note at maturity on January 30, 2024.

In addition, the Borough established a liability to the United States Department of Housing and Urban Development in the amount of \$407,000.00 for the repayment of Community Development Block Grant funding.

As a result of the transaction, the Sewer Utility Operating Fund will no longer be operational or presented in the financial statements. Comparative prior-year balances are shown for informational purposes only.

Note 18:BUILD TO SUIT LEASE

The Borough entered into a build to suit lease with FD Stonewater, LLC. on January 17, 2022 for a building of approximately 45,475 gross square feet and associated improvements in Somerville, NJ. The lease is for forty years, commencing on the date the work is substantially completed which became effective on August 15, 2024. The rental payments will be made in quarterly installments on each February 1, May 1, August 1 and November 1 throughout the term of the lease in payments ranging from \$431,667.48 to \$628,198.11. Total fixed net rent over the 40 year term of the lease is \$96,508,840.

BOROUGH OF SOMERVILLE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024 AND 2023

Note 19: SUBSEQUENT EVENTS

The Borough has evaluated subsequent events occurring after December 31, 2024, through the date of June 27, 2025, which is the date the financial statements were available to be issued. Based on this evaluation, the Borough has determined that no subsequent event has occurred which requires disclosure in the financial statements.

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APPENDIX C
FORM OF CONTINUING DISCLOSURE CERTIFICATE

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CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking (the “Undertaking”) dated as of January 1, 2026 by the Borough of Somerville, in the County of Somerset, New Jersey, a public body corporate and politic of the State of New Jersey (the “Issuer”) is executed and delivered in connection with the issuance of the Issuer’s \$6,321,000 aggregate principal amount of Bond Anticipation Notes, Series 2026A (the “Notes”). Capitalized terms used in this Undertaking shall have the respective meanings specified above or in Article IV hereof.

ARTICLE I

THE UNDERTAKING

Section 1.1. Purpose. This Undertaking shall constitute a written undertaking for the benefit of the holders of the Notes, and is being executed and delivered solely to assist the successful bidder in complying with subsection (b)(5) of the Rule.

Section 1.2. Disclosure Event Notices. If a Disclosure Event occurs, the Issuer shall provide, in a timely manner not in excess of ten business days following the occurrence of any Disclosure Event, a Disclosure Event Notice to the MSRB.

Section 1.3. Additional Disclosure Obligations. The Issuer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Issuer, and that under some circumstances compliance with this Undertaking, without additional disclosures or other action, may not fully discharge all duties and obligations of the Issuer under such laws.

Section 1.4. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Disclosure Event Notice, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information in any Disclosure Event Notice in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such information or include it in any future Disclosure Event Notice.

ARTICLE II

OPERATING RULES

Section 2.1. Disclosure Event Notices. Each Disclosure Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Notes.

Section 2.2. Transmission of Notices. (a) Unless otherwise required by law and, in the Issuer’s sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of notice transmission as shall be requested or recommended by the herein-designated recipients of the Issuer’s notices.

ARTICLE III

TERMINATION, AMENDMENT AND ENFORCEMENT

Section 3.1. Termination. (a) The Issuer's obligations under this Undertaking shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Notes.

(b) This Undertaking, or any provision hereof, shall be null and void in the event that the Issuer (1) receives an opinion of Counsel, addressed to the Issuer, to the effect that those portions of the Rule which require this Undertaking, or any of the provisions hereof, do not or no longer apply to the Notes, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion and (2) delivers copies of such opinion to the MSRB.

Section 3.2. Amendment. (a) This Undertaking may be amended, in writing, without the consent of the holders of the Notes (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have received an opinion of Counsel, addressed to the Issuer, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have received an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel) and acceptable to the Issuer, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the holders of the Notes or (ii) the holders of the Notes consent to the amendment to this Undertaking and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to the MSRB.

(b) In addition to subsection (a) above, this Undertaking may be amended and any provision of this Undertaking may be waived, in writing, without the consent of the holders of the Notes, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) the Issuer shall have received an opinion of Counsel, addressed to the Issuer, to the effect that performance by the Issuer under this Undertaking as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to the MSRB.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Undertaking shall inure solely to the benefit of the holders from time to time of the Notes, except that beneficial owners of Notes shall be third-party beneficiaries of this Undertaking.

(b) Except as provided in this subsection (b), the provisions of this Undertaking shall create no rights in any person or entity. The obligations of the Issuer to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide

notices, by any holder of outstanding Notes, or (ii) in the case of challenges to the adequacy of the notices so provided, by the holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding. The holders' rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Notes pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Notes for purposes of this subsection (b).

(c) Any failure by the Issuer to perform in accordance with this Undertaking shall not constitute a default with respect to the Notes.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV

DEFINITIONS

Section 4.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Counsel" means Gibbons P.C. or other nationally recognized bond counsel or counsel expert in federal securities laws.

(2) "Disclosure Event" means any of the following events with respect to the Notes, whether relating to the Issuer or otherwise:

- (i) principal and interest delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes;
- (vii) modifications to rights of Noteholders; if material;

- (viii) Note calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Notes, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the Issuer;
- (xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (xv) incurrence of a “financial obligation” (as defined in the Rule) of the Issuer, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders, if material; and
- (xvi) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Issuer, any of which reflect financial difficulties.

(3) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934. MSRB filings to be made at <http://emma.msrb.org/>.

(4) “Disclosure Event Notice” means notice of a Disclosure Event.

(5) “Official Statement” means the “final official statement”, as defined in paragraph (f)(3) of the Rule.

(6) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this undertaking and as may be amended from time to time, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(7) “SEC” means the United States Securities and Exchange Commission.

(8) “State” means the State of New Jersey.

IN WITNESS WHEREOF, the Issuer has caused this Undertaking to be executed by its Chief Financial Officer as of the date first above written.

BOROUGH OF SOMERVILLE, NEW JERSEY

By:_____

Name: Paige Elster
Title: Chief Financial Officer

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APPENDIX D
FORM OF APPROVING OPINION OF GIBBONS P.C.

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January __, 2026

Mayor and Borough Council
Borough of Somerville
25 West End Avenue
Somerville, New Jersey 08876

Dear Mayor and Council Members:

We have examined certified copies of the proceedings of the Borough Council of the Borough of Somerville, in the County of Somerset, State of New Jersey (the "Borough"), including ordinances, affidavits and certificates delivered by officials of the Borough, and other proofs submitted to us relative to the issuance and sale of \$6,321,000 aggregate principal amount of the Borough's Bond Anticipation Notes, Series 2026A (the "Notes"). The Notes are issued in registered form, are dated January 23, 2026, bear interest at the rate of _____ and _____ Hundredths Percent (____%) per annum and are payable at maturity on January 22, 2027.

The Notes are issued pursuant to the Local Bond Law, constituting Chapter 2 of Title 40A of the New Jersey Statutes (the "Local Bond Law"), and the bond ordinance of the Borough, in all respects duly adopted by the Mayor and Council of the Borough. The Notes are temporary obligations issued in anticipation of the issuance of bonds.

We have examined the Local Bond Law and such other laws and originals (or copies certified or otherwise identified to our satisfaction) of such instruments, certificates and documents as we deem necessary to render the opinions set forth herein. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies.

Based upon the foregoing and subject to the qualifications set forth herein, we are of the opinion that:

1. The aforementioned proceedings and proofs show lawful authority for the issuance and sale of the Notes pursuant to the Local Bond Law, and other applicable provisions of law, and that

the Notes have been duly authorized, executed and delivered and are a valid and legally binding obligation of the Borough.

2. The Borough has the power and is obligated to levy *ad valorem* taxes upon all the taxable property within the Borough for the payment of the principal of and interest on the Notes, without limitation as to rate or amount.

3. Under existing law, interest on the Notes is excluded from the gross income of the owners of the Notes for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and interest on the Notes is not an item of tax preference under Section 57 of the Code for purposes of computing alternative minimum tax, however, interest on the Notes is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under the Code. We express no opinion regarding any other Federal income tax consequences arising with respect to the Notes.

4. Under existing law, interest on the Notes and net gains from the sale of the Notes are exempt from the tax imposed by the New Jersey Gross Income Tax Act.

With respect to our federal income tax opinion, we note that the Code imposes certain requirements that must be met on the date of issuance and on a continuing basis subsequent to the issuance of the Notes in order for interest on the Notes to be excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code. The Borough has made certain representations and covenants in its tax certificate, which is executed on the date of issuance of the Notes, as to various tax requirements. In addition, the Borough has covenanted to comply with the provisions of the Code applicable to the Notes and has covenanted not to take any action or fail to take any action to be taken which would cause the interest on the Notes to lose the exclusion from gross income for Federal income tax purposes under Section 103 of the Code or cause interest on the Notes to be treated as an item of tax preference under Section 57 of the Code. With your permission, we have relied upon the representations made in the tax certificate and have assumed continuing compliance by the Borough with the above covenants in rendering our federal tax opinion with respect to the exclusion of interest on the Notes from gross income for Federal income tax purposes and with respect to interest on the Notes not constituting an item of tax preference.

Attention is called to the fact that for purposes of this letter we have not been requested to examine and have not examined any documents or information relating to the Borough other than the certified copies of the proceedings and proofs referred to hereinabove, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to any purchaser of said Notes.

Our opinion concerning the enforceability of the Notes is subject to federal and state laws regarding bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and remedies generally (including, without limitation, laws relating to fraudulent conveyance, and by general principles of law and equity (regardless of whether enforcement is considered or sought in proceedings at law or in equity) and by limitation on remedial rights under

applicable law). Their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

The opinions expressed herein are based upon the laws and judicial decisions of the State of New Jersey and the federal laws and judicial decisions of the United States as of the date hereof and are subject to any amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for our opinions, or laws or judicial decisions hereafter enacted or rendered. Our engagement by the Borough with respect to the opinions expressed herein does not require, and shall not be construed to constitute, a continuing obligation on our part to notify or otherwise inform the addressee hereof of the amendment, repeal or other modification of the applicable laws or judicial decisions that served as the basis for this opinion letter or of laws or judicial decisions hereafter enacted or rendered which impact on this opinion letter.

This opinion letter is rendered to you in connection with the above described transaction. This opinion letter may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other person, firm or corporation without our prior written consent. This is only an opinion letter and not a warranty or guaranty of the matters discussed herein.

Very truly yours,

Gibbons P.C.

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