

PRELIMINARY OFFICIAL STATEMENT DATED JULY 1, 2026

NEW ISSUE

**RATING: S&P: “SP-1+”
(See “RATING” herein)**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Borough, under existing statutes and court decisions, and assuming compliance with certain tax covenants described herein, (i) interest on the Notes (as defined herein) is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax under the Code, interest on the Notes is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In addition, in the opinion of Bond Counsel to the Borough, under existing statutes, interest on the Notes is not included in gross income under the New Jersey Gross Income Tax Act. See “TAX MATTERS” herein for a description of certain other provisions of the Code that may affect the tax treatment of interest on the Notes for certain noteholders.

**THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY
\$14,542,000 BOND ANTICIPATION NOTES
(NON-CALLABLE)**

Interest Rate: ___% Yield: ___% CUSIP*: _____

Dated: Date of Delivery

Due: July 23, 2027

The \$14,542,000 Bond Anticipation Notes (the “Notes”) of the Borough of Stone Harbor, in the County of Cape May, New Jersey (the “Borough”) are payable as to principal and interest at maturity upon presentation and surrender at the office of the Chief Financial Officer of the Borough (the “Paying Agent”). The Notes will be issued in the form of one certificate for the aggregate principal amount of the Notes and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, Brooklyn, New York (“DTC”), which will act as securities depository. See “DESCRIPTION OF THE NOTES – Book-Entry System” herein. Individual purchases of the Notes will be made in book-entry only form in the principal amount of \$5,000 or any integral multiple of \$1,000 in excess thereof.

The Notes are being issued to: (i) refund, on a current basis, the Borough’s \$6,942,000 Bond Anticipation Notes dated July 24, 2025 and maturing on July 24, 2026; (ii) temporarily finance various improvements in and by the Borough; and (ii) pay the costs of issuance of the Notes.

The Notes are not subject to redemption prior to maturity.

The Notes are valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the Borough without limitation as to rate or amount; provided, however, that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See “NOTEHOLDERS’ REMEDIES IN THE EVENT OF DEFAULT” and “MUNICIPAL BANKRUPTCY” herein.

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 Hawkins Delafield & Wood LLP, Newark, New Jersey. Certain legal matters will be passed upon for the Borough by the Borough Attorney, Anthony Bocchi, Esq., Montclair, New Jersey. 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. Delivery of the Notes is anticipated to take place on or about July 23, 2026.

* Registered trademark of the American Bankers Association. CUSIP data herein are 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 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 the Notes.

**THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

MAYOR

Tim Carney

COUNCIL MEMBERS

Robin Casper, Council President

Ken Biddick

Frank Dallahan

Bunny Parzych

Bob Ross

Frank Vault

BOROUGH CLERK

Jeanne Parkinson

CHIEF FINANCIAL OFFICER

Francine Springer

BOROUGH ATTORNEY

Anthony Bocchi, Esq.

Montclair, New Jersey

AUDITOR

Ford, Scott and Associates LLC

Ocean City, New Jersey

BOND COUNSEL

Hawkins Delafield & Wood LLP

Newark, New Jersey

MUNICIPAL ADVISOR

Phoenix Advisors,

a division of First Security Municipal Advisors, Inc.

Hamilton, New Jersey

No dealer, broker, salesperson or other person has been authorized by the Borough to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Borough. 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 by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Borough since the date hereof.

The information which is set forth herein has been provided by the Borough and by other sources, but the information provided by such other sources is not guaranteed as to accuracy or completeness by the Borough. References in this Official Statement to the State of New Jersey statutes, 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 or exceptions to statements made herein. Copies of such above-mentioned documents may be inspected at the offices of the Borough during normal business hours. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

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

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
DESCRIPTION OF THE NOTES.....	1
Terms and Interest Payment Dates.....	1
Denominations and Place of Payment	1
Redemption.....	1
Book-Entry System.....	2
Discontinuance of Book-Entry System.....	3
AUTHORIZATION AND PURPOSE	3
CERTAIN RISK FACTORS.....	5
Climate.....	5
Cyber Security	5
SECURITY AND SOURCE OF PAYMENT	5
SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO MUNICIPAL AND COUNTY DEBT AND FINANCIAL REGULATION.....	5
Legal Framework.....	5
Debt Limit.....	6
Exceptions to Debt Limit - Extensions of Credit	6
Short-Term Financing.....	6
Assessment Bonds	6
Refunding Bonds	6
Tax Anticipation Notes.....	7
School Debt Subject to Voter Approval	7
The Local Budget Law	7
Appropriations Not Required for Payments on Debt.....	8
Appropriation Caps.....	8
Property Tax Levy Cap.....	8
Miscellaneous Revenues.....	9
Real Estate Taxes.....	9
Emergency Appropriations/Deferral of Current Expenses	9
Budget Transfers.....	10
Municipal Public Utilities	10
Capital Budget	10
Fiscal Year Adjustment Law	11
State Supervision	11
Tax Assessment and Collection Procedure	11
Tax Appeals.....	12
The Local Fiscal Affairs Law	12
Basis of Accounting.....	13
NOTEHOLDERS' REMEDIES IN THE EVENT OF DEFAULT	13
MUNICIPAL BANKRUPTCY	13
NO DEFAULT	14
ABSENCE OF MATERIAL LITIGATION.....	14
TAX MATTERS	14
Opinion of Bond Counsel	14
Certain Ongoing Federal Tax Requirements and Covenants	15
Certain Collateral Federal Tax Consequences	15
Information Reporting and Backup Withholding	15
Note Premium.....	16
Miscellaneous	16
QUALIFIED TAX-EXEMPT OBLIGATIONS.....	16
SECONDARY MARKET DISCLOSURE	16
CREDIT RATING.....	17
UNDERWRITING	18
MUNICIPAL ADVISOR	18
APPROVAL OF LEGAL PROCEEDINGS.....	18

FINANCIAL STATEMENTS 18
PREPARATION OF OFFICIAL STATEMENT 18
ADDITIONAL INFORMATION 19
MISCELLANEOUS 19

APPENDIX A: GENERAL INFORMATION REGARDING THE BOROUGH A-1
APPENDIX B: FINANCIAL STATEMENTS OF THE BOROUGH.....B-1
APPENDIX C: FORM OF OPINION OF BOND COUNSELC-1

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**OFFICIAL STATEMENT
RELATING TO**

**THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY
\$14,542,000 BOND ANTICIPATION NOTES
(NON-CALLABLE)**

INTRODUCTION

This Official Statement (the “Official Statement”), which includes the cover page hereof and the appendices hereto, has been prepared by the Borough of Stone Harbor, in the County of Cape May (the “Borough”), in the State of New Jersey (the “State”) and provides certain information regarding the financial and economic condition of the Borough in connection with the sale of the Borough’s \$14,542,000 Bond Anticipation Notes (the “Notes”). This Official Statement has been executed by and on behalf of the Borough by the Chief Financial Officer and its distribution and use in connection with the sale of the Notes have been authorized by the Borough.

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

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

DESCRIPTION OF THE NOTES

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

Terms and Interest Payment Dates

The Notes will be dated the date of delivery thereof and will bear interest at the interest rate per annum, payable at maturity, as set forth on the cover page hereof.

Denominations and Place of Payment

The Notes will be issued in the denominations of \$5,000 each or any integral multiple of \$1,000 in excess thereof. Principal of and interest on the Notes are payable at maturity upon presentation at the office of the Chief Financial Officer of the Borough in the capacity as paying agent (the “Paying Agent”). The Notes will be issued in registered form.

Redemption

The Notes are not subject to redemption prior to maturity.

Book-Entry System

The Depository Trust Company, Brooklyn, New York (“DTC”) will act as securities depository for the Notes. 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 Notes certificate will be issued for the note and will be deposited with DTC.

DTC, the world’s largest 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 Moody’s rating of AA+. The DTC rules applicable to its Direct Participants and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com or www.dtc.org.

Purchases of 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 each Bond (a “Beneficial Owner”) is in turn to be recorded on the Direct Participants’ and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 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 Participants 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.

Redemption notices shall be sent to DTC. If less than all of the Notes are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 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, redemption price 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 detailed information from the Borough or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Direct Participant or Indirect Participant and not of DTC, the Paying Agent or the Borough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price 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 the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the Borough or the Paying Agent. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository). In that event, note certificates will be printed and delivered.

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

Discontinuance of Book-Entry System

In the event that the book-entry system is discontinued and the Beneficial Owners become registered owners of the Notes, the following provisions shall apply: (i) the Notes may be exchanged for an equal aggregate principal amount of the Notes in other authorized denominations and of the same maturity, upon surrender thereof at the office of the Borough/Paying Agent; (ii) the transfer of any Notes may be registered on the books maintained by the Borough/Paying Agent for such purposes only upon the surrender thereof to the Borough/Paying Agent together with the duly executed assignment in form satisfactory to the Borough/Paying Agent; and (iii) for every exchange or registration of transfer of Notes, the Borough/Paying Agent may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer of the Notes. Interest on the Notes will be payable by check or draft mailed on each Interest Payment Date to the registered owners thereof as of the close of business on the Record Date next preceding an Interest Payment Date.

AUTHORIZATION AND PURPOSE

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 New Jersey Statutes, as amended (N.J.S.A. §40A:2-1, et seq.) (the "Local Bond Law"). The Notes are authorized by bond ordinances adopted by the governing body of the Borough. Such bond ordinances, or summaries thereof, were published after their adoption along with a statement to the effect that the twenty-day period of limitation within which a suit, action or proceeding questioning the validity of the accompanying bond ordinance can be commenced, began to run from the date of

the first publication of such estoppel statement. The Local Bond Law provides that after issuance all obligations shall be conclusively presumed to be fully authorized and issued by all laws of the State, and any person shall be barred from questioning the sale, execution or delivery of such obligations.

Proceeds of the Notes, along with other available funds of the Borough, will be used to: (i) refund, on a current basis, the Borough’s \$6,942,000 Bond Anticipation Notes dated July 24, 2025 and maturing on July 24, 2026 (the “Prior Notes”); (ii) temporarily finance the cost of various improvements in and by the Borough; and (iii) pay the costs of issuing the Notes. The following table sets forth certain information with respect to the bond ordinances authorizing the Notes:

<u>Ordinance Number</u>	<u>Purpose</u>	<u>Amount of Notes</u>
1546-19	Various improvements in and by the Borough finally adopted on May 7, 2019.	\$642,872.02
1566-20	Various improvements in and by the Borough finally adopted on May 5, 2020.	1,116,025.09
1622-23	Various improvements in and by the Borough finally adopted on February 7, 2023.	141,077.89
1641-23	Various improvements in and by the Borough finally adopted on June 20, 2023.	1,760,025.00
1691-25	Various improvements in and by the Borough finally adopted on August 19, 2025.	6,000,000.00
1418-13	Various improvements of the water and sewerage system, finally adopted on April 2, 2013.	27,237.89
1456-15	Various improvements of the water and sewerage system, finally adopted on March 3, 2015.	22,756.31
1496-17	Various improvements of the water and sewerage system, finally adopted on April 18, 2017.	641,832.24
1518-18	Various improvements of the water and sewerage system finally adopted on April 17, 2018.	259,095.65
1567-20	Various improvements of the water and sewerage system finally adopted on May 5, 2020.	36,928.76
1590-21	Various improvements of the water and sewerage system finally adopted on July 20, 2021.	2,434,149.15
1693-25	Various improvements of the water and sewerage system finally adopted on August 19, 2025.	<u>1,460,000.00</u>
	Total:	<u>\$14,542,000.00</u>

CERTAIN RISK FACTORS

Climate

As a coastal community located on a barrier island, the Borough is susceptible to the effects of extreme weather events and natural disasters, including coastal storms and flooding, which could result in negative economic impacts. These effects may be amplified by a prolonged global temperature increase over the next several decades (commonly referred to as “climate change”), which scientific studies indicate may be occurring. Scientific studies on climate change predict that, among other effects on the global ecosystem, sea levels will rise, extreme temperatures will become more common, and extreme weather events like Superstorm Sandy will become more frequent. Coastal areas like the Borough are at risk of substantial flood damage over time, potentially affecting private development and public infrastructure. The economic impacts resulting from such extreme weather events could include a loss of ad valorem tax revenue, interruption of municipal services, and escalated recovery costs. No assurance can be given as to whether future extreme weather events will occur that could materially adversely affect the financial condition of the Borough.

Cyber Security

The Borough relies on a complex technology environment to conduct its various operations. As a result, the Borough faces certain cyber security 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 cyber-attacks, the Borough has invested in multiple forms of cybersecurity and operational safeguards. In addition, the Borough maintains certain insurance coverage for cyberattacks and related events. No assurances can be given that the Borough’s efforts to manage cyber security threats and attacks will be successful or that any such attack will not materially impact the operations or finances of the Borough.

SECURITY AND SOURCE OF PAYMENT

The Notes are valid and legally binding obligations of the Borough and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the Borough without limitation as to rate or amount; provided, however, that the rights of the holders of the Notes and the enforceability thereof may be subject to bankruptcy, reorganization, insolvency, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases. See “NOTEHOLDERS’ REMEDIES IN THE EVENT OF DEFAULT” and “MUNICIPAL BANKRUPTCY” herein.

SUMMARY OF CERTAIN STATUTORY PROVISIONS RELATING TO MUNICIPAL AND COUNTY DEBT AND FINANCIAL REGULATION

Set forth below is a summary of various statutory provisions and requirements relevant to the Borough’s debt and financial regulation and budget process. This summary does not purport to be complete, and reference should be made to the statutes referred to for a complete statement of the provisions thereof.

Legal Framework

The Local Bond Law governs the issuance of bonds and notes to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects financed and that bonds be retired in serial installments. A five percent (5%) cash down payment is generally required toward the financing of such projects. Generally, all bonds and notes issued by a local unit are general full faith and credit obligations.

Debt Limit

The authorized bonded indebtedness of a local unit is limited by statute, subject to the exceptions noted below, to an amount equal to three and one-half percent (3½%), in the case of a municipality, and two percent (2%), in the case of a county, of its average equalized valuation basis. The average equalized valuation basis of a local unit is set by statute as the average for the last three (3) years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries as annually determined by the State Board of Taxation.

Exceptions to Debt Limit - Extensions of Credit

Except for the funding of certain notes, the authorization of certain bonds for municipal utility purposes, if the utilities are self-liquidating, and certain formula allowances, the debt limit of a local unit may be exceeded only with the approval of the Local Finance Board, in the Division of Local Government Services, Department of Community Affairs of the State (the “Local Finance Board”), a State regulatory agency. If all or any part of a proposed debt authorization would exceed its debt limit, a 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 credit of a local unit or substantially reduce the ability of a local unit to meet its obligations or to provide essential public improvements or services, or makes other statutory determinations, approval is granted.

Short-Term Financing

Pursuant to the Local Bond Law, a local unit may sell short-term notes to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Any such note is designated a “bond anticipation note”. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the bond ordinance, as the same may be amended and supplemented, creating such capital expenditure. Bond anticipation notes, which are full faith and credit obligations of the local unit, may be issued for a period not exceeding one (1) year and may be renewed from time to time for a period that does not exceed one (1) year. Such notes shall mature and be paid not later than the first day of the fifth month following the close of the tenth fiscal year following the date of the original note, provided, however, that no such notes shall be renewed beyond the third anniversary date of the original notes unless an amount of such notes, at least equal to the first legally payable installment of the bonds in anticipation of which these notes are issued, is paid and retired on or before each subsequent anniversary date beyond which such notes are renewed from funds other than the proceeds of obligations.

Assessment Bonds

Assessment bonds may be issued pursuant to the Local Bond Law in annual serial installments with the first principal payment due within two (2) years and the final principal payment due within twenty (20) years of an issue’s date. No principal payment may be larger than a prior year’s principal payment.

Refunding Bonds

Refunding bonds may be issued pursuant to the Local Bond Law for the purpose of paying, funding or refunding outstanding bonds, including emergency appropriations, temporary emergency appropriations, advance funding of pension obligations as part of an early retirement program offered by the State, the actuarial liabilities of a non-State administered public employee pension system, amounts owing to others for taxes levied and for paying the cost of issuance of refunding bonds. The Local Finance Board must consent to the authorization for the issuance of refunding bonds and approve the maturity schedule thereof; provided, however, that the issuance of refunding bonds to realize debt service savings on outstanding obligations does not require Local Finance Board

approval when authorized by conditions set forth in rules and regulations of the Local Finance Board and upon a resolution adopted by a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body of the local unit.

Tax Anticipation Notes

Tax anticipation notes may be issued pursuant to the Local Budget Law (as hereinafter defined). The issuance of tax anticipation notes is limited in amount by law to collectively thirty percent (30%) of the tax levy plus thirty percent (30%) of realized miscellaneous revenues of the next preceding fiscal year. Tax anticipation notes must be paid in full within one hundred and twenty (120) days of the close of the fiscal year in which they were issued.

School Debt Subject to Voter Approval

State law permits a school district, upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limit, by using the available borrowing capacity of the municipality. If such debt is in excess of the school district's debt limit and the remaining borrowing capacity of the municipality, the State Commissioner of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The Local Budget Law

The foundation of the State local finance system is the annual cash basis budget. Under N.J.S.A. §40A:4-1 *et seq.* (the "Local Budget Law"), every local unit must adopt an operating budget in the form required by the Division of Local Government Services in the Department of Community Affairs of the State (the "Division"). Certain items of revenue and appropriation are regulated by law and the proposed budget cannot be finally adopted until it is certified by the Director of the Division (the "Director"), or in the case of a local unit's examination of its own budget, such budget cannot be finally adopted until a local examination certificate has been approved by the chief financial officer and governing body of the local unit. The Local Budget Law requires each local unit to appropriate sufficient funds for the payment of current debt service, and the Director or, in the case of local examination, the local unit may review the adequacy of such appropriations. Among other restrictions, the Director must examine the budget with reference to all estimates of revenue and the following appropriations: (a) payment of interest and debt redemption charges, (b) deferred charges and statutory expenditures, (c) cash deficit of preceding year, (d) reserve for uncollected taxes and (e) other reserves and non-disbursement items. Anticipated tax revenues are limited to the same proportion as actual cash collections or to the total levy in the previous year, and the reserve amount must be factored into the budget to make up for the expected shortfall in actual collections. Anticipated non-tax revenues are limited to the amount actually realized the previous year unless the Director permits higher levels of anticipation should there be sufficient statutory or other evidence to substantiate that such anticipation is reasonable.

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

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

Each municipality is required to forward to the County Board of Taxation (the "County Board") a certified copy of its operating budget, as adopted, not later than April 10 of the then current fiscal year. In the event that the County Board has not received a copy of the budget resolution or other evidence showing the amount to be raised by taxation for the purposes of a taxing district, the Director shall transmit to the County Board a certificate setting forth the amount required for the operation of the local unit for that fiscal year. The operating budget of the preceding year shall constitute and limit the appropriations for the then current year with suitable adjustments

for debt service, other mandatory charges and changes in revenues, but excluding the amount to be raised by taxes for school purposes where required to be included in the municipal budget. The certificate shall be prepared by using the revenues and appropriations appearing in the adopted budget of the preceding year with suitable adjustments to include, without limitation: (a) any amounts required for principal and interest of indebtedness falling due in the fiscal year and (b) any deferred charges, including a deficit, if any, or statutory expenditures required to be raised in the fiscal year. See the sub caption “Tax Assessment and Collection Procedure” below.

Appropriations Not Required for Payments on Debt

It is not necessary to have an appropriation in order to release money for debt service on obligations. N.J.S.A. §40A:4-57 states that “no officer, board, body or commission shall, during any fiscal year, expend money (except to pay notes, bonds or interest thereon), incur any liability, or enter into any contract which by its terms involves the expenditure of money for any purpose for which no appropriation is provided, or in excess of the amount appropriated for such purpose” (emphasis added).

Appropriation Caps

Chapter 89 of the New Jersey Laws of 1990 extended and amended Chapter 203 of the New Jersey Laws of 1986 and Chapter 68 of the New Jersey Laws of 1976 (N.J.S.A. §40A:4-45.3), commonly referred to as the “CAP Law”. The CAP Law places limits on county tax levies and municipal expenditures. This limitation is commonly referred to as a “CAP”. The actual calculation of the CAP is somewhat complex and the actual CAP computations are prepared by the Division and distributed to each municipality. In addition to the CAP increase in expenditures, other increases allowable include increases funded by increased service fees, proceeds from the sale of municipal assets and increased expenditures mandated by State and federal laws. Appropriations for items excluded from the CAP computation, including debt service requirements, may be set at any necessary level and are not subject to the CAP. The CAP may be exceeded if approved by referendum of the voters of the municipality.

In summary, in determining the CAP for each budget year, the prior year’s total general appropriations are reduced by certain statutory-type appropriations with the resulting balance multiplied by two and one-half percent (2½%) or the cost-of-living adjustment (the rate of annual percentage increase, rounded to the nearest half-percent, in the Implicit Price Deflator for State and Local Government Purchases of Goods and Services, computed and published quarterly by the United States Department of Commerce) (the “Cost-of-Living Adjustment”), whichever is less, thereby producing the basic CAP, which then may be increased by certain known increases in revenues and State or federal expenditures mandated after July 18, 1976. A municipality may, by the adoption of an ordinance, elect to increase its final appropriations by a percentage up to, but not to exceed, three and one-half percent (3½%). A municipality may, by referendum, increase its final appropriations by a higher percentage rate.

Property Tax Levy Cap

Chapter 44 of the Pamphlet Laws of 2010 imposed restrictions upon the allowable annual increase in the tax levy. In general, municipalities have their tax levies limited to a two percent (2%) increase. The tax levy is subject to certain adjustments, including the sum of new ratables. In addition, the following exclusions are added to the calculation of the adjusted tax levy: increases in amounts required to be raised by taxation for capital expenditures, including debt service as defined by law; increases in pension contributions and accrued liability for pension contributions in excess of two percent (2%); increases in health care costs equal to that portion of the actual increase in total health care costs for the budget year that is in excess of two percent (2%) of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the State Health Benefits Program, as annually determined by the Division of Pensions and Benefits in the Department of the Treasury; and extraordinary costs incurred by a local unit directly related to a declared emergency, as defined by regulation promulgated by the Commissioner of the Department of Community Affairs, in consultation with the Commissioner of Education, as appropriate. The law also

authorizes a municipality to submit public questions to the voters for approval (by affirmative vote of at least fifty percent (50%)) to increase the amount to be raised by taxation by more than the allowable adjusted tax levy.

Miscellaneous Revenues

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

In addition, budget amendments must be approved by the Director, except federal and State categorical grants-in-aid contracts may be realized for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with the municipality’s calendar fiscal year. However, grant revenue is generally not realized until received in cash.

Real Estate Taxes

The same general principle that revenue cannot be anticipated in a budget in excess of that realized in the preceding year applies to property taxes. N.J.S.A. §40A:4-29, which governs the anticipation of delinquent tax collections, provides that: “[t]he 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”.

N.J.S.A. §40A:4-41 provides, with regard to current taxes, that: “[r]eceipts 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 the preceding fiscal year”.

This provision and N.J.S.A. §40A:4-40 require that an additional amount, commonly known or referred to as the “reserve for uncollected taxes”, be added to the tax levy required to balance the budget so that when the percentage of the prior year’s tax collection is applied to the combined total, the product will at least be equal to the tax levy required to balance the budget. The reserve requirement is calculated as follows:

The levy required to balance the budget, divided by the prior year’s percentage of current tax collection (or lesser percent) levied, will equal the total taxes to be levied for the current fiscal year.

Chapter 99 of the Pamphlet Laws of 1997 of New Jersey authorizes any municipality to sell its “total property tax levy” to the highest responsible bidder therefor in accordance with the procedures and limitations set forth therein.

Upon the filing of certified adopted budgets by (i) a local governmental unit, (ii) a local and/or a regional school district, (iii) the county in which the local governmental unit is situated and (iv) any special improvement districts within the local governmental unit, the current year’s tax rate is struck by a county’s board of taxation based upon the amount of taxes required in each taxing district to fund the respective budgets.

Emergency Appropriations/Deferral of Current Expenses

Emergency appropriations made under N.J.S.A. §40A:4-46, after the adoption of the budget and the determination of the tax rate, may be authorized by a local unit. However, with minor exceptions set forth below,

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

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

Under the CAP Law, emergency appropriations aggregating less than three percent (3%) of the previous year's final current operating appropriations may be raised in the portion of the local unit's budget outside the CAP if approved by at least two-thirds ($\frac{2}{3}$) of the members of the governing body and the Director. Emergency appropriations that aggregate more than three percent (3%) of the previous year's final current operating appropriations must be raised within the CAP. Emergency appropriations for debt service, capital improvements, the local unit's share of federal or State grants and other statutorily permitted items are outside the CAP.

Budget Transfers

Budget transfers provide a local unit with a degree of flexibility and afford a control mechanism over expenditure needs. Transfers between major appropriation accounts are prohibited by N.J.S.A. §40A:4-58 until the last two (2) months of the fiscal year. Appropriation reserves may also be transferred during the first three (3) months of the year to the previous year's budget (N.J.S.A. §40A:4-59). Both types of transfers require a two-thirds ($\frac{2}{3}$) vote of the full membership of the governing body. However, no transfers may be made (a) to appropriations for contingent expenses, deferred charges or emergency appropriations or (b) from appropriations for contingent expenses, deferred charges, cash deficits of the preceding year, reserve for uncollected taxes, down payments, the capital improvement fund or interest and redemption charges. Although budget transfers among subaccounts (line items) within an appropriation are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

Municipal Public Utilities

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

Capital Budget

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than the next ensuing six (6) years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next

three (3) or six (6) years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or by the annual operating budget if the items were detailed.

Fiscal Year Adjustment Law

Chapter 75 of the Pamphlet Laws of 1991, signed into law on March 28, 1992, requires certain municipalities and permits all other municipalities to adopt the State fiscal year in place of the existing calendar fiscal year (N.J.S.A. §40A: 4-3.1). Municipalities that change fiscal years must adopt a six (6) month transition budget for January to June. Since expenditures would be expected to exceed revenues primarily because State aid for the calendar year would not be received by the municipality until after the end of the transition year budget, the law authorizes the issuance of fiscal year adjustment bonds to fund the one time deficit for the six (6) month transition budget (N.J.S.A. §40A:2-51.2). The law provides that the deficit in the six (6) month transition budget may be funded initially with bond anticipation notes based on the estimated deficit in the six (6) month transition budget. Notes issued in anticipation of fiscal year adjustment bonds, including renewals, can only be issued for up to one (1) year unless the Local Finance Board permits the municipality to renew them for a longer period of time. The Local Finance Board must confirm the actual deficit experienced by the municipality. The municipality then may issue fiscal year adjustment bonds to finance the deficit on a permanent basis. The purpose of the law is to assist municipalities that are heavily dependent on State aid and that have had to issue tax anticipation notes to fund operating cash flow deficits each year. While the law does not authorize counties to change their fiscal years, it does provide that counties with cash flow deficits may issue fiscal year adjustment bonds as well.

State Supervision

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

Tax Assessment and Collection Procedure

A local governmental unit is the entity responsible for the levying and collection of taxes on all taxable property within its borders, including the tax levies for the county and the school district. The levying of taxes is for a fiscal year, which starts July 1 and ends June 30. The collection of taxes to support a local governmental unit's current budget requirement is based upon a calendar year, January 1 to December 31.

Property taxes are based on a municipality's assessor's valuation of real property, as confirmed by the tax board of the county in which a municipality is situated. The taxes for municipal, local and regional school districts and a county cover the current calendar year. Turnover of the tax moneys by a municipality to a school district are based on school needs and are generally made on a periodic basis throughout the year with any balance transferred by June 30 (the end of the school district's fiscal year). A municipality remits one hundred percent (100%) of the county taxes, payable quarterly on the fifteenth days of February, May, August and November.

Property valuations (assessments) are determined on true values as arrived at by a cost approach, market data approach and capitalization of net income where appropriate. Current assessments are the result of new assessments on a like basis with established comparable properties for newly assessed or purchased properties. This method assures equitable treatment to like property owners. But it often results in a divergence of the

assessment ratio to true value. Because of the changes in property resale values, annual adjustments could not keep pace with the changing values.

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

Tax bills are sent in June of the current fiscal year. Taxes are payable in four (4) quarterly installments on the first days of February, May, August and November. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged as the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either one-quarter ($\frac{1}{4}$) or one-half ($\frac{1}{2}$) of the full tax levied for municipal, county and school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) per annum on the first \$1,500 of the delinquency and eighteen percent (18%) per annum on any amount in excess of \$1,500. The governing body may also fix a penalty to be charged to a taxpayer with a delinquency in excess of \$10,000 who fails to pay that delinquency prior to the end of the calendar year. The penalty so fixed shall not exceed six percent (6%) of the amount of the delinquency. These penalties and interest rates are the highest permitted under State statutes. Delinquent taxes open for one (1) year or more are annually included in a tax sale in accordance with State statutes.

Tax Appeals

State statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. Prior to the first day of February in each year, a municipality must mail to each property owner a notice of the current assessment and taxes on the property. The taxpayer has a right to petition the County Board on or before the first day of April of the current tax year for its review. The County Board has the authority after a hearing to increase, decrease or reject the appeal petition. These adjustments are usually concluded within the current tax year and reductions are shown as canceled or remitted taxes for that year. If the taxpayer believes the petition was unsatisfactorily reviewed by the County Board, appeal of the decision may be made to the Tax Court of New Jersey for further hearing. Tax Court of New Jersey appeals tend to take several years to conclude by settlement or trial and any losses in tax collections from prior years, after an unsuccessful trial or by settlement, are charged directly to operations or with the permission of the Local Finance Board, may be refinanced, generally over a three (3) to five (5) year period.

The Local Fiscal Affairs Law

N.J.S.A. §40A:5-1 et seq. (the "Local Fiscal Affairs Law") regulates the nonbudgetary financial activities of local governments. The chief financial officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit and all constituent boards, agencies and commissions.

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

A local unit's funds are invested strictly in accordance with the provisions of the Local Fiscal Affairs Law, in particular N.J.S.A. §40A:5-12.1. A local unit is not authorized to invest funds in derivative products or reverse repurchase agreements.

Basis of Accounting

The accounting policies applicable to local governmental units have been prescribed by the Division. The following is a summary of the significant policies:

Basis of Accounting - A modified accrual basis of accounting is followed, with minor exceptions. Revenues are recorded as received in cash except for certain amounts which may be due from the State. Expenditures are recorded on the accrual basis. Appropriation reserves covering unexpended appropriation balances are automatically created on December 31 of each year and recorded as liabilities, 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 or entered into during the preceding fiscal year. Lapsed appropriation reserves are recorded as income.

Interfunds - Interfund receivables in the Current Fund are recorded with offsetting reserves. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Fixed Assets - Property and equipment purchased through the Current Fund and the General Capital Fund are recorded as expenditures at the time of purchase and are not capitalized.

A local unit finances its operations primarily through the Current Fund. All tax receipts and most revenues are paid into the Current Fund and substantially all expenditures made by appropriations are paid from the Current Fund.

Expenditures are comprised of those made for general purposes, certain expenditures made from restricted federal, State and private grants, certain federal or State mandated expenditures, deferred charges, debt service and capital improvements. Budgeted expenditures for general purposes include payments made primarily in support of a local unit's various departments.

NOTEHOLDERS' REMEDIES IN THE EVENT OF DEFAULT

Neither the Notes nor the proceedings with respect thereto specifically provide any remedies to the noteholders if the Borough defaults in the payment of principal of or interest on the Notes, nor do they contain any provisions for the appointment of a trustee to enforce the interests of the noteholders upon the occurrence of such default. Upon any default in the payment of the principal of or interest on a Bond, a noteholder could, among other things, seek to obtain a writ of mandamus from a court of competent jurisdiction requiring the Borough to levy and collect a tax upon all taxable property within the Borough, without limitation as to rate or amount, sufficient to pay when due the principal of and interest on the Notes as the same shall come due. The mandamus remedy, however, may be impractical and difficult to enforce. Further, the right to enforce payment of the principal of or interest on the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws and equitable principles, which may limit the specific enforcement of certain remedies. See the caption "MUNICIPAL BANKRUPTCY" herein.

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. The powers of the Municipal Finance Commission of New Jersey have been vested in the Local Finance Board.

Bankruptcy proceedings by the Borough could have adverse effects on the noteholders including (1) delay in the enforcement of their remedies, (2) subordination of their claims to those supplying goods and services to the Borough after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (3) imposition without their consent of a reorganization plan reducing or delaying payment of the Notes. The federal bankruptcy act contains provisions intended to ensure that, in any reorganization plan not accepted by at least a majority of a class of creditors, such as the holders of general obligation indebtedness or the Notes, such creditors will have the benefit of their original claim or the “indubitable equivalent”. The effect of these and other provisions of the federal bankruptcy act cannot be predicted and may be significantly affected by judicial interpretation.

The above references to the federal bankruptcy act are not to be construed as an indication that the Borough expects to resort to the provisions of the federal bankruptcy act or that, if it did, such action would be approved by the Municipal Finance Commission.

NO DEFAULT

There is no record of default in the payment of principal of or interest on bonds or notes of the Borough.

ABSENCE OF MATERIAL LITIGATION

In the opinion of the Borough Attorney, Anthony Bocchi, Esq., Montclair, New Jersey (the “Borough Attorney”), no litigation of any nature is now pending or, to their knowledge, threatened restraining or enjoining the issuance or delivery of the Notes or the levy or collection of any taxes to pay the interest on or principal of the Notes, or in any manner questioning the authority or proceedings for the issuance of the Notes or for the levy or collection of said taxes, or relating to the Notes or affecting the validity thereof or the levy or collection of said taxes, and neither the corporate existence or boundaries of the Borough nor the title of any of the present officers thereof to their respective offices is being contested, and no authority or proceedings for the issuance of the Notes has or have been repealed, revoked or rescinded. A signed statement to that effect will be supplied upon delivery of the Notes. In the opinion of the Borough Attorney, there is no litigation pending or, to their knowledge, threatened against the Borough which if adversely decided would have a material adverse effect on the financial condition of the Borough or which is not otherwise adequately covered by Borough insurance.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Borough, under existing statutes and court decisions, and assuming compliance with certain tax covenants described herein, (i) interest on the Notes is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”) and (ii) interest on the Notes is not treated as a preference item in calculating the alternative minimum tax under the Code, interest on the Bonds is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Borough in connection with the Notes, and Bond Counsel has assumed compliance by the Borough with certain provisions and procedures set forth in the Arbitrage and Use of Proceeds Certificate of the Borough to be delivered in connection with the issuance of the Notes.

In addition, in the opinion of Bond Counsel to the Borough, under existing statutes, interest on the Notes is not included in gross income under the New Jersey Gross Income Tax Act.

Bond Counsel expresses no opinion regarding any other federal, state or local tax consequences arising with respect to the Notes, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion after the issue date to reflect any future action, taken or not taken, any fact or circumstance that may come to its attention, or any change in law or interpretation thereof, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Notes.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Notes in order that interest on the Notes be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Notes, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the Notes to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. By executing its Arbitrage and Use of Proceeds Certificate to be delivered concurrently with the delivery of the Notes, the Borough will certify that, to the extent it is empowered and allowed under applicable law, it will comply with certain applicable requirements of the Code to assure the exclusion of interest on the Notes from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral federal income tax matters with respect to the Notes. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Note. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Notes.

Prospective owners of the Notes should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Notes may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Information Reporting and Backup Withholding

Information reporting requirements apply to interest paid on tax-exempt obligations, including the Notes. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code.

For the foregoing purpose, a “payor” generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Note through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Notes from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner’s federal income tax once the required information is furnished to the Internal Revenue Service.

Note Premium

In general, if an owner acquires the Notes for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Notes after the acquisition date (excluding certain “qualified stated interest” that is unconditionally payable at least annually at prescribed rates), that premium constitutes “note premium” on that Note (a “Premium Note”). In general, under Section 171 of the Code, an owner of a Premium Note must amortize the note premium over the remaining term of the Premium Note, based on the owner’s yield over the remaining term of the Premium Note determined based on constant yield principles (in certain cases involving a Premium Note callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such note). An owner of a Premium Note must amortize the note premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the note premium allocable to that period. In the case of a tax-exempt Premium Note, if the note premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Note may realize a taxable gain upon disposition of the Premium Note even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Notes should consult their own tax advisors regarding the treatment of note premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of note premium on, sale, exchange, or other disposition of Premium Notes.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Notes under federal or state law or otherwise prevent beneficial owners of the Notes from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) and such decisions could affect the market price or marketability of the Notes.

Prospective purchasers of the Notes should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Notes **will not** be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Code.

SECONDARY MARKET DISCLOSURE

In order to assist the purchaser in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (“Rule 15c2-12”), the Borough has undertaken to provide to the Municipal Securities Rulemaking Board (the “MSRB”), in a timely manner not in excess of ten (10) business days after the occurrence of the specified event, the notices required to be provided by Rule 15c2-12 and described below (the “Notices”).

The Notices include notices of any of the following events with respect to the Notes: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Notes, or other material events affecting the tax-exempt status of the Notes; (7) modifications to rights of holders of the Notes, if material; (8) Note calls (other than mandatory sinking fund redemptions), if material, and tender offers; (9) defeasances; (10) release, substitution or sale of property securing repayment of the Notes, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Borough; (13) the consummation of a merger, consolidation or acquisition involving the Borough or the sale of all or substantially all of the assets of the Borough, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation (as defined in Rule 15c2-12) of the Borough, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar items of a financial obligation of the Borough, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Borough, any of which reflect financial difficulties.

The sole and exclusive remedy for breach or default under the undertaking to provide continuing disclosure described above is an action to compel specific performance of the undertaking of the Borough, and no person, including any holder of the Notes, may recover monetary damages thereunder under any circumstances. In addition, if all or any part of Rule 15c2-12 ceases to be in effect for any reason, then the information required to be provided under the undertaking, insofar as the provision of Rule 15c2-12 no longer in effect required the providing of such information, shall no longer be required to be provided.

The undertaking may be amended or modified without consent of the holders of the Notes under certain circumstances set forth in the undertaking. Copies of the undertaking when executed by the Borough upon the delivery of the Notes will be on file at the office of the Borough Clerk.

The Borough has previously entered into secondary market disclosure undertakings in accordance with Rule 15c2-12. The Borough appointed Phoenix Advisors, Hamilton, New Jersey to serve as continuing disclosure agent to assist in the filing of certain information with the MSRB as required under its prior secondary market disclosure undertakings.

CREDIT RATING

S&P Global Ratings, acting through Standard & Poor's Financial Services, LLC (the "Rating Agency"), has assigned a rating of "SP-1+" to the Notes based upon the creditworthiness of the Borough.

The rating reflects only the views of the Rating Agency, and an explanation of the significance of such rating may only be obtained from the Rating Agency. The Borough provided the Rating Agency with certain information and materials concerning the Notes and the Borough. There can be no assurance that the rating will be maintained for any given period of time or that the rating will not be raised, lowered or withdrawn entirely if, in the Rating Agency's judgment, circumstances so warrant. Any downward change in or withdrawal of such rating may have an adverse effect on the marketability or market price of the Notes.

UNDERWRITING

The Notes have been purchased from the Borough at a public sale by _____ (the “Underwriter”) at a price of \$_____. The Underwriter intends to offer the Notes to the public initially at the offering yield set forth on the front cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Notes to the public. The Underwriter may offer and sell Notes to certain dealers (including dealers depositing Notes into investment trusts) at a yield higher than the public offering yield set forth on the front cover page, and such public offering yield may be changed, from time to time, by the underwriter without prior notice.

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 Bond Anticipation Notes (the “Municipal Advisor”) and has assisted in matters related to the planning, structuring and terms of the note. 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.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters relating to the authorization, the issuance, the sale and the delivery of the Notes are subject to the approval of Hawkins Delafield & Wood LLP, Newark, New Jersey, Bond Counsel to the Borough, whose approving opinion will be delivered with the Notes substantially in the form set forth in Appendix C hereto. Certain legal matters will be passed upon for the Borough by the Borough Attorney.

FINANCIAL STATEMENTS

The audited financial statements of the Borough for the years ended December 31, 2025 and 2024 are presented in Appendix B to this Official Statement (the “Financial Statements”). The Financial Statements have been prepared by Ford, Scott and Associates LLC, independent certified public accountants (the “Auditor”), as stated in their Independent Auditors’ Report appearing in Appendix B hereto. See “APPENDIX B - Financial Statements of the Borough”. The Auditor has consented to the inclusion of their report in this Official Statement. Copies of the complete Reports of Audit may be obtained upon request to the office of the Chief Financial Officer of the Borough.

PREPARATION OF OFFICIAL STATEMENT

The Chief Financial Officer of the Borough will confirm to the Underwriter, by certificate signed by the Chief Financial Officer, that, to the knowledge of the Chief Financial Officer, the descriptions and statements relating to the Borough herein, as of the date of this Official Statement and as of the date of delivery 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 such descriptions and statements, in light of the circumstances under which they were made, not misleading.

The Municipal Advisor has assisted in the preparation of this Official Statement with information obtained from the Borough and other sources, including publicly available sources, considered reliable, but does not make any warranty or other representation with respect to the accuracy and completeness of such information.

The Auditor takes responsibility for the financial statements to the extent specified in the Independent Auditor's Report as presented in Appendix B.

Bond Counsel and the Borough Attorney have not participated in the preparation of the financial or statistical information contained in this Official Statement, nor have they verified the accuracy, completeness or fairness thereof and, accordingly, express no opinion with respect thereto.

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

ADDITIONAL INFORMATION

Inquiries regarding this Official Statement, including information additional to that contained herein, may be directed to Francine Springer, Chief Financial Officer, Borough of Stone Harbor, 9508 Second Avenue, Stone Harbor, New Jersey 08247, (609) 368-5102, or the Borough's Municipal Advisor, Phoenix Advisors, a division of First Security Municipal Advisors, Inc., 2000 Waterview Drive, Suite 101, Hamilton, New Jersey 08691, telephone (609) 291-0130.

MISCELLANEOUS

All quotations from and summaries and explanations of provisions of laws of the State herein do not purport to be complete and are qualified in their entirety by reference to the official compilation thereof.

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 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 part of any contract with the holders of the Notes.

This Official Statement has been duly executed on behalf of the Borough by its Chief Financial Officer.

**THE BOROUGH OF STONE HARBOR,
IN THE COUNTY OF CAPE MAY, NEW JERSEY**

By: _____
Francine Springer
Chief Financial Officer

Dated: July __, 2026

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APPENDIX A

GENERAL INFORMATION REGARDING THE BOROUGH

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INFORMATION REGARDING THE BOROUGH¹

The following material presents certain economic and demographic information of the Borough of Stone Harbor (the “Borough”), in the County of Cape May (the “County”), State of New Jersey (the “State”).

General Information

The Borough occupies the lower half of an island, known as Seven Mile Beach, located in the County along the Atlantic Ocean. The early uses of the island were as hunting and fishing area for bands of Native Americans and later as pasture land for mainland cattle farmers.

The development of what is now the Borough began in 1891 shortly after the Stone Harbor Improvement Company purchased the area and started fashioning it as a resort. The first building was a hotel and opened for business on July 4, 1892. The early developers wisely laid out and began dredging a series of basins (seven in number today) which are an important asset to the present day Stone Harbor.

The area was incorporated on May 12, 1914. Its location has made it a popular vacation resort from its inception and steady progress with preservation of its natural resources has caused the Borough to adopt as its slogan, "The Seashore at Its Best."

Form of Government

The original Borough government was elected in 1914. The first election was held for mayor, six members of Council, a tax collector, assessor and a justice of the peace. Presently, the form of government consists of a mayor and six Council members. In addition, the Borough has appointed an administrator who supervises the day-to-day operations of the Borough departments and also is responsible for formulating the budget. The Borough is strictly zoned and has a Master Plan and an active Planning Board.

Retirement Systems

All full-time permanent or qualified Borough employees who began employment after 1944 must enroll in one of two retirement systems depending upon their employment status. These systems were established by acts of the State Legislature. Benefits, contributions, means of funding and the manner of administration are set by State law. The Division of Pensions, within the New Jersey Department of Treasury (the “Division”), is the administrator of the funds with the benefit and contribution levels set by the State. The Borough is enrolled in the Public Employees' Retirement System (“PERS”) and the Police and Firemen's Retirement System (“PFRS”).

¹ Source: The Borough, unless otherwise indicated.

Pension Information²

Employees, who are eligible to participate in a pension plan, are enrolled in PERS or PFRS, administered by the Division. The Division annually charges municipalities and other participating governmental units for their respective contributions to the plans based upon actuarial calculations. The employees contribute a portion of the cost.

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:

	<u>Total Labor Force</u>	<u>Employed Labor Force</u>	<u>Total Unemployed</u>	<u>Unemployment Rate</u>
<u>Borough</u>				
2025	324	304	20	6.2%
2024	321	305	16	5.0%
2023	324	312	12	3.7%
2022	323	312	11	3.4%
2021	322	299	23	7.1%
<u>County</u>				
2025	44,834	40,690	4,144	9.2%
2024	44,490	40,793	3,697	8.3%
2023	45,247	41,613	3,634	8.0%
2022	44,926	41,703	3,223	7.2%
2021	44,582	40,139	4,443	10.0%
<u>State</u>				
2025	0	0	0	5.2%
2024	4,898,008	4,676,064	221,944	4.6%
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%

Source: New Jersey Department of Labor, Bureau of Labor Force Statistics, Local Area Unemployment Statistics

² Source: State of New Jersey Department of Treasury, Division of Pensions and Benefits

Income (as of 2024)

	<u>Borough</u>	<u>County</u>	<u>State</u>	<u>National</u>
Median Household Income	\$169,167	\$91,128	\$103,556	\$80,734
Median Family Income	233,750	111,635	127,025	99,999
Per Capita Income	144,148	55,694	54,253	44,673

Source: U.S. Bureau of the Census, American Community Survey 5-Year Estimates

Population

The following table summarizes population increases and the decreases for the Borough, the County, and the State.

<u>Year</u>	<u>Borough</u>		<u>County</u>		<u>State</u>	
	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>	<u>Population</u>	<u>% Change</u>
2024 est.	893	12.2%	93,875	-1.5%	9,506,354	2.3%
2020	796	-8.1%	95,263	-2.1%	9,288,994	5.7%
2010	866	-23.2%	97,265	-4.9%	8,791,894	4.5%
2000	1,128	10.0%	102,326	7.6%	8,414,350	8.9%
1990	1,025	-13.6%	95,089	15.6%	7,730,188	5.0%

Source: U.S. Bureau of the Census

Largest Taxpayers

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

<u>Taxpayers</u>	<u>2025 Assessed Valuation</u>	<u>% of Total Assessed Valuation</u>
100th Street LLC	\$23,426,200	0.46%
Taxpayer #1	14,711,700	0.29%
NACL Associates	12,775,600	0.25%
Taxpayer #2	11,198,700	0.22%
Taxpayer #3	9,622,100	0.19%
1 110th Street LLC	9,384,900	0.18%
Immaculate Heart of Mary Convent	9,161,500	0.18%
Charles Street Developers, LLC	9,154,900	0.18%
JKM22 LLC	8,970,000	0.18%
Peace & Serenity 390 LLC	<u>8,684,900</u>	<u>0.17%</u>
Total	<u>\$117,090,500</u>	<u>2.30%</u>

Source: School District ACFR & 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>
2025	\$39,712,949	\$39,385,627	99.18%
2024	38,223,534	37,878,342	99.10%
2023	37,034,224	36,808,241	99.39%
2022	34,605,289	34,390,142	99.38%
2021	32,523,047	32,419,370	99.68%

Source: Annual Audit Reports and/or Annual Financial Statements (unaudited)

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>Delinquent % of Tax Levy</u>
2025	\$0	\$341,601	\$341,601	0.86%
2024	0	383,563	383,563	1.00%
2023	525	149,243	149,767	0.40%
2022	458	229,490	229,948	0.66%
2021	395	175,317	175,712	0.54%

Source: Annual Audit Reports and/or Annual Financial Statements (unaudited)

Property Acquired by Tax Lien Liquidation

<u>Year</u>	<u>Property Acquired For Taxes</u>
2025	\$0
2024	0
2023	0
2022	0
2021	0

Source: Annual Audit Reports and/or Annual Financial Statements (unaudited)

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>General Municipal</u>	<u>Local School</u>	<u>Total County</u>	<u>Total</u>
2025	\$0.335	\$0.053	\$0.388	\$0.776
2024	0.312	0.052	0.384	0.748
2023	0.302	0.052	0.381	0.735
2022	0.292	0.053	0.347	0.692
2021	0.292	0.053	0.311	0.656

Source: Abstract of Ratables, Table of Equalized Valuations & Municipal Tax Assessor

Valuation of Property

<u>Year</u>	<u>Assessed Value of Real Property</u>	<u>True Value of Real Property</u>	<u>Ratio of Assessed to True Value</u>	<u>Assessed Value of Public Utility Equip.</u>	<u>Equalized Valuation</u>
2025	\$5,082,550,500	\$10,120,570,490	50.22%	\$0	\$10,120,570,490
2024	5,065,574,600	9,503,892,308	53.30%	0	9,503,892,308
2023	5,010,257,500	8,512,160,211	58.86%	0	8,512,160,211
2022	4,976,349,700	7,469,753,377	66.62%	0	7,469,753,377
2021	4,922,999,400	6,086,794,510	80.88%	0	6,086,794,510

Source: Abstract of Ratables, Table of Equalized Valuations & Municipal Tax Assessor

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	\$101,773,700	\$4,818,901,400	\$0	\$161,875,400	\$0	\$0	\$5,082,550,500
2024	117,011,500	4,784,045,200	0	164,517,900	0	0	5,065,574,600
2023	113,250,900	4,730,382,700	0	166,623,900	0	0	5,010,257,500
2022	95,829,000	4,711,146,400	0	166,623,900	0	2,750,400	4,976,349,700
2021	93,895,100	4,635,430,200	0	190,923,700	0	2,750,400	4,922,999,400

Source: Abstract of Ratables, Table of Equalized Valuations & Municipal Tax Assessor

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>REVENUE</u>	Adopted <u>2022</u>	Adopted <u>2023</u>	Adopted <u>2024</u>	Adopted <u>2025</u>	Adopted <u>2026</u>
Fund Balance Utilized	\$1,598,379	\$2,709,463	\$2,486,508	\$2,400,000	\$1,500,000
Miscellaneous Revenues	3,363,855	3,317,529	3,331,088	3,186,672	3,700,333
Municipal Grants	141,342	176,467	652,885	1,253,477	0
Receipts from Delinquent Taxes	160,000	200,000	148,926	150,000	250,000
Amount to be Raised by Taxation	<u>14,515,000</u>	<u>15,090,000</u>	<u>15,806,000</u>	<u>16,999,581</u>	<u>17,967,705</u>
Total Revenue:	<u>\$19,778,576</u>	<u>\$21,493,459</u>	<u>\$22,425,407</u>	<u>\$23,989,730</u>	<u>\$23,418,038</u>
<u>APPROPRIATIONS</u>					
General Purpose (Inside CAP)	\$12,489,879	\$12,910,429	\$13,938,498	\$14,506,918	\$15,216,601
Operations (Outside CAP)	521,050	904,193	723,321	861,709	1,100,996
Municipal Grants	141,342	176,467	652,885	1,253,477	0
Capital Improvement Fund	1,567,050	1,710,650	1,947,883	2,425,000	2,065,000
Municipal Debt Service	4,104,255	4,968,688	4,627,820	4,181,567	4,322,502
Deferred Charges	440,000	298,032	0	200,000	138,347
Reserve for Uncollected Taxes	<u>515,000</u>	<u>525,000</u>	<u>535,000</u>	<u>561,059</u>	<u>574,593</u>
Total Appropriations:	<u>\$19,778,576</u>	<u>\$21,493,459</u>	<u>\$22,425,407</u>	<u>\$23,989,730</u>	<u>\$23,418,038</u>

Source: Municipal Introduced and/or Adopted Budgets

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>Fund Balance</u>	<u>Utilized in Budget of Succeeding Year</u>
2025	\$4,233,080	\$1,500,000
2024	4,149,319	2,400,000
2023	4,679,043	2,486,508
2022	4,161,791	2,709,463
2021	3,090,949	1,598,379

Source: Annual Audit Reports and/or Annual Financial Statements (unaudited)

Water and 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 Water and Sewer Utility Operating Fund for the past five (5) fiscal years ending December 31.

<u>Fund Balance - Water and Sewer</u>		
<u>Year</u>	<u>Balance</u>	<u>Utilized in Budget</u>
	<u>12/31</u>	<u>of Succeeding Year</u>
2025	\$676,837	\$409,000
2024	480,101	334,509
2023	757,983	606,705
2022	1,253,536	1,123,668
2021	1,582,220	605,721

Source: Annual Audit Reports and/or Annual Financial Statements (un

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Borough Indebtedness as of December 31, 2025

General Purpose Debt

Serial/Term Bonds	\$24,345,000
Bond Anticipation Notes	3,660,000
Bonds and Notes Authorized but Not Issued	7,262,147
Other Bonds, Notes and Loans	<u>1,530,434</u>
Total:	\$36,797,581

Local/Regional School District Debt

Serial/Term Bonds	\$0
Temporary Notes Issued	0
Bonds and Notes Authorized but Not Issued	0
Other Bonds, Notes and Loans	<u>0</u>
Total:	\$0

Self-Liquidating Debt

Serial/Term Bonds	\$17,615,000
Bond Anticipation Notes	3,282,000
Bonds and Notes Authorized but Not Issued	7,815,360
Other Bonds, Notes and Loans	<u>5,864,332</u>
Total:	\$34,576,692

TOTAL GROSS DEBT

\$71,374,273

Less: Statutory Deductions

General Purpose Debt	\$0
Local/Regional School District Debt	0
Self-Liquidating Debt	<u>34,576,692</u>
Total:	\$34,576,692

TOTAL NET DEBT

\$36,797,581

Source: Annual Audit Reports and/or Annual Debt Statements (unaudited)

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Overlapping Debt (as of December 31, 2025)

<u>Name of Related Entity</u>	<u>Related Entity Debt Outstanding</u>	<u>Borough Percentage</u>	<u>Borough Share*</u>
Local School District	\$0	100.0%	\$0
County	365,456,942	10.4%	38,080,613
			<hr/>
Net Indirect Debt			\$38,080,613
Net Direct Debt			36,797,581
Total Net Direct and Indirect Debt			<u>\$74,878,194</u>

**Percentage of County debt is based on the Net Valuation on Which County Taxes are Apportioned. County debt reflects total Gross Debt without statutory deductions.*

Source: Annual Audit Reports and/or Annual Debt Statements (unaudited)

Debt Limits

Average Equalized Valuation Basis (2023, 2024, 2025)	\$9,378,874,336
Permitted Debt Limitation (3.50%)	328,260,602
Less: Net Debt	36,797,581
Remaining Borrowing Power	<u>\$291,463,021</u>
Percentage of Net Debt to Average Equalized Valuation	0.392%
Gross Debt Per Capita based on 2020 population of 0,796	\$89,666
Net Debt Per Capita based on 2020 population of 0,796	\$46,228

Source: Annual Audit Reports and/or Annual Debt Statements (unaudited)

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APPENDIX B

FINANCIAL STATEMENTS OF THE BOROUGH

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FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

1535 HAVEN AVENUE • OCEAN CITY, NJ • 08226

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of Borough Council
Borough of Stone Harbor
County of Cape May, New Jersey

Report on the Financial Statements

Opinions

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the Borough of Stone Harbor, as of December 31, 2025 and 2024, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2025 and the related notes to the financial statements, which collectively comprise the Borough's basic financial statements as listed in the table of contents.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the Borough of Stone Harbor as of December 31, 2025 and 2024, or changes in financial position for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis balances sheets and account group as of December 31, 2025 and 2024, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2025 in accordance with the basis of financial reporting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Borough of Stone Harbor 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.

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

As described in Note 1 of the financial statements, the financial statements are prepared by the Borough of Stone Harbor on the basis of the financial reporting provisions prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of New Jersey.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 of Stone Harbor'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.

Auditor's Responsibility 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 auditor's 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, *Government Auditing Standards* and audit requirements prescribed by the Division of Local Government Services 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 an 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 judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and audit requirements prescribed by the Division of Local Government Services, we:

- exercise professional judgement 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.
- Obtain an understanding of the 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 of Stone Harbor'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 of Stone Harbor's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those in charge 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Borough of Stone Harbor's basic financial statements. The supplementary information listed in the table of contents and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents is fairly stated, in all material respects, in relation to the regulatory basis financial statements as a whole.

The letter of comments and recommendations section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2026, on our consideration of the Borough of Stone Harbor's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Borough of Stone Harbor's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Michael S. Garcia
Michael S. Garcia
Certified Public Accountant
Registered Municipal Accountant
No. 472

June 15, 2026

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	2025	2024
<u>ASSETS</u>		
Regular Fund:		
Cash:		
Treasurer	\$ 9,586,837.87	3,460,438.22
Change and Petty Cash Funds	1,111.00	1,111.00
Investment in Bond Anticipation Note	-	4,100,000.00
Total Cash	9,587,948.87	7,561,549.22
Deferred Charges		
Emergency	-	200,000.00
Special Emergency	675,000.00	-
Total Deferred Charges	675,000.00	200,000.00
Receivables and Other Assets with Full Reserves:		
Delinquent Property Taxes Receivable	341,601.34	383,562.78
Revenue Accounts Receivable		
Municipal Court	3,178.81	3,055.87
Interfund Receivable:		
Due from Federal & State Grant Fund	320,140.80	288,943.76
Due from Utility Operating Fund	-	22,046.32
Due from General Capital Fund	-	28,848.43
Due from COAH Trust	967.98	-
Due from Animal Control Fund	152.75	149.20
Total Receivables and Other Assets	666,041.68	726,606.36
Total Regular Fund	10,928,990.55	8,488,155.58
Federal and State Grant Fund:		
Cash	531.94	531.94
Federal and State Grants Receivable	5,397,702.71	4,182,833.21
Total Federal and State Grant Fund	5,398,234.65	4,183,365.15
Total Current Fund	\$ 16,327,225.20	12,671,520.73

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>LIABILITIES, RESERVES AND FUND BALANCE</u>	<u>2025</u>	<u>2024</u>
Regular Fund:		
Liabilities:		
Appropriation Reserves	\$ 1,947,470.82	969,049.24
Encumbrances Payable	597,636.31	609,761.59
Accounts Payable	9,285.46	42,189.37
Prepaid Taxes	1,212,265.20	1,093,126.43
Overpaid Taxes	108,436.54	57,692.99
Due to State of New Jersey		
Senior Citizens and Veterans	4,450.19	4,450.19
DCA Training Fees	5,463.45	15,403.45
Marriage Licenses	150.00	-
Local School Tax Payable	427,632.15	401,172.15
Payroll Taxes Payable	13,732.40	1,643.30
County Added Tax Payable	136,375.45	89,211.76
Prepaid Beach Fees	82,430.00	79,264.00
Prepaid Uniform Fire Code Fees	131,059.00	117,208.00
Due to General Capital	540,585.04	-
Due to Trust Other	5,839.50	-
Other		
Reserve for HRA Funding	45,554.97	45,554.97
Reserve for Tax Appeals	2,435.00	2,435.00
Reserve for Building Repairs	3,779.55	3,779.55
Reserve for Reassessment Program	755,287.88	80,287.88
	6,029,868.91	3,612,229.87
Reserve for Receivables and Other Assets	666,041.68	726,606.36
Fund Balance	4,233,079.96	4,149,319.35
Total Regular Fund	10,928,990.55	8,488,155.58
Federal and State Grant Fund:		
Unappropriated Reserves	15,918.01	9,938.53
Appropriated Reserves	3,753,802.19	3,535,648.78
Due to Current Fund	320,140.80	288,943.76
Due to General Capital Fund	126,552.00	-
Encumbrances Payable	1,181,821.65	348,834.08
Total Federal and State Grant Fund	5,398,234.65	4,183,365.15
Total Current Fund	\$ 16,327,225.20	12,671,520.73

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	2025	2024
Revenue and Other Income Realized		
Fund Balance	\$ 2,400,000.00	2,486,507.94
Miscellaneous Revenue Anticipated	5,631,635.24	4,782,676.13
Receipts from Delinquent Taxes	383,334.08	149,883.05
Receipts from Current Taxes	39,385,627.17	37,878,341.56
Non Budget Revenue	34,872.32	181,640.23
Other Credits to Income:		
Unexpended Balance of Appropriation Res.	1,282,694.56	837,272.50
Interfund Returned	34,414.96	
Prior Year Senior Deduction	250.00	-
Total Income	49,152,828.33	46,316,321.41
Expenditures		
Budget and Emergency Appropriations:		
Appropriations Within "CAPS"		
Operations:		
Salaries and Wages	7,310,024.00	7,158,909.00
Other Expenses	6,216,463.00	5,214,737.00
Deferred Charges & Statutory Expenditures	1,655,431.00	1,710,521.00
Appropriations Excluded from "CAPS"		
Operations:		
Other Expenses	2,887,219.99	1,803,190.96
Capital Improvements	2,345,000.00	1,532,314.00
Municipal Debt Service	4,180,803.40	4,620,916.16
Deferred Charges & Statutory Expenditures	200,000.00	-
Local District School Tax	2,698,945.00	2,646,025.00
County Tax	19,698,119.96	19,424,185.83
County Share of Added Tax	136,375.45	89,211.75
Interfund Created	15,685.92	339,763.65
Prior Year Accounts Payable	-	17,374.75
Refund of Prior Revenue	-	2,387.60
Total Expenditures	47,344,067.72	44,559,536.70
Excess in Revenue	1,808,760.61	1,756,784.71

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	2025	2024
Adjustments to Income before Fund Balance:		
Expenditures included above which are by Statute Deferred Charges to Budgets of Succeeding Year	675,000.00	200,000.00
Total Adjustments	675,000.00	200,000.00
Statutory Excess to Fund Balance	2,483,760.61	1,956,784.71
Fund Balance January 1	4,149,319.35	4,679,042.58
	6,633,079.96	6,635,827.29
Decreased by:		
Utilization as Anticipated Revenue	2,400,000.00	2,486,507.94
Fund Balance December 31	\$ 4,233,079.96	4,149,319.35

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Budget	Anticipated N.J.S. 40A:4-87	Realized	Excess or (Deficit)
Fund Balance Anticipated	\$ 2,400,000.00		2,400,000.00	-
Total Fund Balance Anticipated	2,400,000.00	-	2,400,000.00	-
Miscellaneous Revenues:				
Section A: Local Revenues				
Licenses:				
Alcoholic Beverages	10,000.00		10,376.00	376.00
Fees and Permits	500,000.00		459,269.00	(40,731.00)
Fines and Costs:				
Municipal Court	80,000.00		80,734.46	734.46
Interest and Costs on Taxes	75,000.00		103,663.15	28,663.15
Parking Meters	340,000.00		370,816.70	30,816.70
Interest on Investments and Deposits	80,000.00		131,730.83	51,730.83
Beach Fees	846,000.00		963,965.15	117,965.15
Cell Tower Rent	55,000.00		50,188.93	(4,811.07)
Uniform Fire Code Official	169,000.00		226,651.00	57,651.00
Cable TV Franchise Fee	36,600.00		36,536.52	(63.48)
Beach Concession	95,000.00		153,501.00	58,501.00
Recreation & Tourism Fees	108,000.00		326,724.32	218,724.32
Total Section A: Local Revenues	2,394,600.00	-	2,914,157.06	519,557.06
Section B: State Aid Without Offsetting Appropriations				
Energy Receipts Tax	216,872.00		216,872.16	0.16
Total Section B: State Aid Without Offsetting Appropriations	216,872.00	-	216,872.16	0.16

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Anticipated		Excess or (Deficit)
	Budget	N.J.S. 40A:4-87	
Section C: Uniform Construction Code Fees			
Uniform Construction Code Fees	375,000.00		273,149.00 (101,851.00)
Total Section C: Uniform Construction Code Fees	375,000.00	-	273,149.00 (101,851.00)
Section E: Special Items - General Revenue Anticipated with Prior Written Consent of the Director			
Lifeguards (Prior Year Beach Fee Rate Increase)	190,000.00		190,000.00 -
Total Section E: Special Items - General Revenue Anticipated with Prior Written Consent of the Director	190,000.00	-	190,000.00 -
Section F: Special Items - Public and Private Programs Off-Set with Appropriations			
NJ DOT Grant	126,552.00		126,552.00 -
Clean Communities Program		19,533.99	19,533.99 -
Green Acres 82nd Ave Jakes Law		750,000.00	750,000.00 -
JIF Safety Grant	2,225.00		2,225.00 -
County Open Space - Recreation	1,124,700.00		1,124,700.00 -
Raynier Institute & Foundation		2,500.00	2,500.00 -
Total Section F: Special Items - Public and Private Programs Off-Set with Appropriations	1,253,477.00	772,033.99	2,025,510.99 -

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Budget</u>	<u>Anticipated N.J.S. 40A:4-87</u>	<u>Realized</u>	<u>Excess or (Deficit)</u>
Section G: Special Items of General Revenue Anticipated with Prior Written Consent of Director of Local Government Services - Other Special Items; Uniform Fire Safety Act	10,200.00		11,946.03	1,746.03
Total Section G: Special Items of General Revenue Anticipated With Prior Written Consent of Director of Local Government Services - Other Special Items	<u>10,200.00</u>	<u>-</u>	<u>11,946.03</u>	<u>1,746.03</u>
Total Miscellaneous Revenues:	4,440,149.00	772,033.99	5,631,635.24	419,452.25
Receipts from Delinquent Taxes	<u>150,000.00</u>		<u>383,334.08</u>	<u>233,334.08</u>
Amount to be Raised by Taxes for Support of Municipal Budget Local Tax for Municipal Purposes	\$ 16,999,580.98		17,413,245.74	413,664.76
Total Amount to be Raised by Taxes for Support of Municipal Budget	<u>16,999,580.98</u>	<u>-</u>	<u>17,413,245.74</u>	<u>413,664.76</u>
Budget Totals	<u>23,989,729.98</u>	<u>772,033.99</u>	<u>25,828,215.06</u>	<u>1,066,451.09</u>
Non- Budget Revenues: Other Non- Budget Revenues:	<u>-</u>		<u>34,872.32</u>	<u>34,872.32</u>
	<u>\$ 23,989,729.98</u>	<u>772,033.99</u>	<u>25,863,087.38</u>	<u>1,101,323.41</u>

**CURRENT FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

Analysis of Realized Revenues

Allocation of Current Tax Collections:

Revenue from Collections	\$	39,385,627.17
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Allocated to:

School, County and Other Taxes		<u>22,533,440.41</u>
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Balance for Support of Municipal Budget Appropriations		16,852,186.76
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Increased by:

Appropriation "Reserved for Uncollected Taxes"		<u>561,058.98</u>
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Amount for Support of Municipal Budget Appropriations		<u><u>17,413,245.74</u></u>
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Receipts from Delinquent Taxes:

Delinquent Tax Collection	383,334.08	
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Tax Title Lien Collections	-	
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Total Receipts from Delinquent Taxes		<u><u>383,334.08</u></u>
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Analysis of Non-Budget Revenue:

Treasurer:

Police - MRNA	425.00	
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JIF Reimbursements	4,000.00	
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Pro Flight Paddle Tournament Donation	5,000.00	
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IDEAMART Donation	5,000.00	
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NSF Fees - Tax Collector	10.00	
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DMV Inspection Fines	50.00	
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Refunds & Rebates	14,293.98	
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Senior & Vets Admin Fees	160.00	
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Property List	800.00	
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Miscellaneous	<u>5,133.34</u>	
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		<u>34,872.32</u>
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Total Miscellaneous Revenue Not Anticipated:	\$	<u><u>34,872.32</u></u>
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The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
OPERATIONS WITHIN "CAPS"						
GENERAL GOVERNMENT						
General Administration						
Salaries and Wages	\$ 182,000.00	142,000.00	107,836.67		34,163.33	
Other Expenses	28,500.00	28,500.00	8,566.11	1,833.69	18,100.20	
Human Resources	68,000.00	68,000.00	68,000.00		-	
Mayor and Council						
Salaries and Wages	90,800.00	90,800.00	90,068.23		731.77	
Other Expenses	14,650.00	14,650.00	3,744.62		10,905.38	
Municipal Clerk						
Salaries and Wages	71,500.00	88,500.00	88,430.95		69.05	
Other Expenses	38,634.00	38,634.00	32,300.30	3,190.77	3,142.93	
Financial Administration						
Salaries and Wages	267,000.00	267,000.00	237,054.85		29,945.15	
Other Expenses	60,765.00	60,765.00	43,505.50	1,349.28	15,910.22	
Elections						
Other Expenses	3,500.00	3,500.00	53.11		3,446.89	
Audit Services						
Other Expenses	35,000.00	35,000.00	32,000.00		3,000.00	
Collection of Taxes						
Salaries and Wages	37,000.00	37,000.00	34,492.27		2,507.73	
Other Expenses	12,800.00	12,800.00	12,386.13		413.87	
Assessment of Taxes						
Salaries and Wages	66,700.00	66,700.00	64,268.91		2,431.09	
Other Expenses	11,275.00	11,275.00	3,820.62	704.96	6,749.42	
Reassessment		675,000.00	675,000.00		-	
Legal Services						
Other Expenses	225,000.00	225,000.00	184,365.57	31,351.30	9,283.13	
Data Processing	75,000.00	75,000.00	49,640.00		25,360.00	
Engineering Services and Costs						
Other Expenses	70,000.00	70,000.00	18,988.41	1,364.09	49,647.50	
Insurance						
Other Insurance Premiums	393,379.00	393,379.00	353,208.87		40,170.13	
Employee Group Health	1,867,840.00	1,867,840.00	1,607,560.38	10,721.92	249,557.70	
Health Benefits Waiver						
Salaries and Wages	8,500.00	8,500.00	6,250.00		2,250.00	

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
LAND USE ADMINISTRATION:						
Planning Board						
Salaries and Wages	9,570.00	9,570.00	5,216.00		4,354.00	
Other Expenses	35,000.00	35,000.00	13,462.80	1,577.65	19,959.55	
Zoning Board of Adjustment						
Salaries and Wages	106,000.00	131,000.00	127,016.08		3,983.92	
Other Expenses	74,950.00	74,950.00	39,062.15	3,712.48	32,175.37	
PUBLIC SAFETY:						
Fire Department						
Salaries and Wages	792,000.00	792,000.00	754,183.83		37,816.17	
Other Expenses	66,450.00	66,450.00	40,982.42	6,105.25	19,362.33	
Stipends	200,000.00	200,000.00	152,400.00		47,600.00	
Police Department						
Salaries and Wages	1,950,000.00	1,950,000.00	1,814,253.46		135,746.54	
Other Expenses	141,048.00	141,048.00	80,430.16	34,023.03	26,594.81	
Office of Emergency Management						
Salaries and Wages	19,900.00	19,900.00	19,870.29		29.71	
Other Expenses	8,400.00	8,400.00	3,209.65		5,190.35	
Aid to Volunteer Rescue Squad						
Uniform Fire Code Official						
Salaries and Wages	86,000.00	99,500.00	99,316.25		183.75	
Other Expenses	11,650.00	11,650.00	5,033.01	377.47	6,239.52	
Fire Hydrant Service						
Other Expenses	2,850.00	2,850.00			2,850.00	
PUBLIC WORKS:						
Public Building and Grounds						
Other Expenses	234,050.00	234,050.00	197,277.30	34,877.51	1,895.19	
Public Works						
Salaries and Wages	1,400,000.00	1,330,500.00	1,183,079.68		147,420.32	
Other Expenses	169,395.00	179,395.00	164,218.34	15,176.66	-	
Solid Waste Collection						
Salaries and Wages	860,054.00	860,054.00	740,005.88		120,048.12	
Other Expenses	258,281.00	258,281.00	213,997.46	7,333.92	36,949.62	
NATURAL RESOURCES						
Natural Resources Committee						
Salaries and Wages	113,100.00	113,100.00	83,540.32	500.00	29,059.68	
Other Expenses						

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
ANIMAL CONTROL						
Animal Control						
Other Expenses	26,805.00	26,805.00	23,303.80		3,501.20	
HEALTH AND HUMAN SERVICES:						
Safety Compliance						
Other Expenses	30,000.00	30,000.00	26,885.75	3,058.67	55.58	
RECREATION AND EDUCATION:						
Beach Patrol						
Salaries and Wages	1,050,000.00	1,050,000.00	1,050,000.00		-	
Other Expenses	68,400.00	72,900.00	70,204.09	135.63	2,560.28	
Parks and Playgrounds						
Salaries and Wages	224,000.00	224,000.00	134,345.08		89,654.92	
Other Expenses	75,674.00	75,674.00	62,610.61	4,155.04	8,908.35	
Tourism						
Salaries and Wages	15,000.00	15,000.00	14,677.71		322.29	
Other Expenses	195,157.00	195,157.00	116,573.02	34,206.00	44,377.98	
Museum	30,500.00	30,500.00	22,875.00	7,625.00	-	
UNIFORM CONSTRUCTION CODE:						
State Uniform Construction Code						
Construction Official						
Salaries and Wages	99,500.00	109,000.00	108,412.47		587.53	
Other Expenses	74,910.00	104,910.00	75,594.90		29,315.10	
UNCLASSIFIED:						
Longevity Pay for Employees	19,000.00	19,000.00	12,369.76		6,630.24	
UTILITY EXPENSES AND BULK PURCHASES:						
Electric	240,000.00	240,000.00	106,322.96		133,677.04	
Gasoline	170,000.00	170,000.00	108,309.75	1,090.00	60,600.25	
Street Lighting	150,000.00	150,000.00	127,633.75		18,701.72	
Telephone	60,000.00	60,000.00	42,406.10	179.59	17,414.31	
Natural Gas	80,000.00	80,000.00	44,026.98		35,973.02	
TOTAL OPERATIONS WITHIN "CAPS"	12,845,487.00	13,520,487.00	11,674,648.31	208,314.44	1,637,524.25	-

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Expended		(Over expended) Unexpended Balance Canceled
	Budget	Budget After Modifications	Paid or Charged	Encumbered Reserved	
Contingent	6,000.00	6,000.00		6,000.00	
TOTAL OPERATIONS INCLUDING CONTINGENT WITHIN "CAPS"	12,851,487.00	13,526,487.00	11,674,648.31	208,314.44	-
Detail:					
Salaries and Wages	7,354,524.00	7,310,024.00	6,691,148.37	-	618,875.63
Other Expenses	5,496,963.00	6,216,463.00	4,983,499.94	208,314.44	1,024,648.62
DEFERRED CHARGES/STATUTORY EXPENDITURES					
Statutory Expenditures:					
Contributions to:					
Public Employees Retirement System	379,854.00	379,854.00	379,854.00		-
Social Security System (O.A.S.I.)	595,000.00	595,000.00	511,938.59		83,061.41
Police and Fire Retirement System of N.J.	634,577.00	634,577.00	634,577.00		-
Unemployment Compensation Insurance	35,000.00	35,000.00	30,029.60		4,970.40
Defined Contribution Retirement Plan	11,000.00	11,000.00	9,746.68		1,253.32
TOTAL DEFERRED CHARGES AND STATUTORY EXPENDITURES:	1,655,431.00	1,655,431.00	1,566,145.87	-	89,285.13
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES WITHIN "CAPS"	14,506,918.00	15,181,918.00	13,240,794.18	208,314.44	-
OPERATIONS - EXCLUDED FROM "CAPS"					
(A) Operations - Excluded from "CAPS"					
Insurance					
Employee Group Health	32,160.00	32,160.00			32,160.00
Solid Waste Collection	123,865.00	123,865.00			123,865.00
Municipal Stormwater Management:					
Salaries & Wages	16,770.00	16,770.00			16,770.00
Other Expenses	9,605.00	9,605.00	8,462.96		1,142.04
Interlocal Municipal Service Agreements					
County of Cape May Interlocal Agreement					
Police Dispatch Services					
Other Expenses	269,000.00	269,000.00	269,000.00		-
Construction Wildwood Crest	60,000.00	60,000.00	60,000.00		-
Municipal Court - Shared Services	160,309.00	160,309.00	158,308.00		2,001.00
Lifeguards (Prior Year Beach Fee Rate Increase)					
Salaries and Wages	190,000.00	190,000.00	152,374.56		37,625.44
TOTAL OTHER OPERATIONS EXCLUDED FROM CAPS	861,709.00	861,709.00	648,145.52	-	213,563.48

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Canceled
	Budget	Budget After Modifications		Encumbered	Reserved	
(A) Public and Private Programs Off-Set by Revenues						
NJ DOT Grant	126,552.00	126,552.00	126,552.00	-	-	
Clean Communities Program		19,533.99	19,533.99	-	-	
Green Acres 82nd Ave Jakes Law		750,000.00	750,000.00	-	-	
JIF Safety Grant	2,225.00	2,225.00	2,225.00	-	-	
County Open Space - Recreation	1,124,700.00	1,124,700.00	1,124,700.00	-	-	
Raynier Institute & Foundation		2,500.00	2,500.00	-	-	
Total Public and Private Programs Off-Set by Revenues	1,253,477.00	2,025,510.99	2,025,510.99	-	-	-
Total Operations - Excluded from "CAPS" Detail:						
Salaries and Wages	2,115,186.00	2,887,219.99	2,673,656.51	-	213,563.48	-
Other Expenses	-	-	-	-	213,563.48	-
Total Operations - Excluded from "CAPS" Detail:	2,115,186.00	2,887,219.99	2,673,656.51	-	213,563.48	-
(C) Capital Improvements						
Capital Improvement Fund	500,000.00	500,000.00	500,000.00	-	-	
Computers/ Phones/ Door Lock System	120,000.00	120,000.00	34,907.04	3,995.00	1,097.96	80,000.00
Recreation Improvements	330,000.00	330,000.00	4,673.13	325,326.87	-	-
Fire Department - Roof/Building Repairs	575,000.00	575,000.00	575,000.00	-	-	-
Back Bay Dredge Management	350,000.00	350,000.00	350,000.00	60,000.00	-	-
Beach Replenishment	350,000.00	350,000.00	290,000.00	-	-	-
Bulkhead Replacement	200,000.00	200,000.00	200,000.00	-	-	-
Total Capital Improvements	2,425,000.00	2,425,000.00	1,954,580.17	389,321.87	1,097.96	80,000.00
(D) Debt Service						
Payment of Bond Principal	2,820,000.00	2,820,000.00	2,820,000.00	-	-	-
Payment of BANs and Capital Notes		-	-	-	-	-
Interest on Bonds	1,045,665.00	1,045,665.00	1,045,665.00	-	-	-
Interest on Notes		-	-	-	-	-
New Jersey Environmental Infrastructure Trust						
Principal	273,692.00	273,692.00	273,691.78	-	-	0.22
Interest	42,210.00	42,210.00	41,446.62	-	-	763.38
Total Debt Service	4,181,567.00	4,181,567.00	4,180,803.40	-	-	763.60

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**CURRENT FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Canceled
	Budget	Budget After Modifications		Encumbered	Reserved	
(E) Deferred Charges						
Emergency Authorizations	200,000.00	200,000.00	200,000.00	-	-	
Total Deferred Charges	<u>200,000.00</u>	<u>200,000.00</u>	<u>200,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES EXCLUDED FROM "CAPS"	8,921,753.00	9,693,786.99	9,009,040.08	389,321.87	214,661.44	80,763.60
SUBTOTAL GENERAL APPROPRIATIONS	<u>23,428,671.00</u>	<u>24,875,704.99</u>	<u>22,249,834.26</u>	<u>597,636.31</u>	<u>1,947,470.82</u>	<u>80,763.60</u>
(M) Reserve for Uncollected Taxes	561,058.98	561,058.98	561,058.98	-	-	
TOTAL GENERAL APPROPRIATIONS	<u>\$ 23,989,729.98</u>	<u>25,436,763.97</u>	<u>22,810,893.24</u>	<u>597,636.31</u>	<u>1,947,470.82</u>	<u>80,763.60</u>
Budget		23,989,729.98				
Appropriations by 40A-4-87		772,033.99				
Special Emergency		675,000.00				
		<u>25,436,763.97</u>				
Reserve for Uncollected Taxes			561,058.98			
Federal and State Grants			2,025,510.99			
Deferred Charges - Emergency			200,000.00			
Reserve for Reassessment			675,000.00			
Disbursements			19,349,323.27			
			<u>22,810,893.24</u>			

TRUST FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,

	2025	2024
ASSETS		
Animal Control Fund:		
Cash	\$ 332.81	304.66
	332.81	304.66
Other Funds:		
Cash - Treasurer	5,289,937.85	4,375,852.37
Due from Current Fund	4,871.52	-
	5,294,809.37	4,375,852.37
	\$ 5,295,142.18	4,376,157.03
 LIABILITIES, RESERVES AND FUND BALANCE		
Animal Control Fund:		
Due to State of New Jersey	\$ -	7.40
Due to Current Fund	152.75	149.20
Reserve for Expenditures	180.06	148.06
	332.81	304.66
Other Funds:		
Reserves - Miscellaneous	3,751,755.91	4,375,852.37
Due to General Capital Fund	350,000.00	-
Encumbrances	1,193,053.46	-
	5,294,809.37	4,375,852.37
	\$ 5,295,142.18	4,376,157.03

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**GENERAL CAPITAL FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

<u>ASSETS</u>	<u>Ref.</u>	<u>2025</u>	<u>2024</u>
Cash	\$	5,810,916.51	1,507,470.94
Deferred Charges to Future Taxation -			
Funded		25,875,433.74	28,969,125.50
Unfunded		10,922,147.23	4,035,498.85
Interfunds and Receivables			
Due from State of New Jersey - EIT		595,381.40	595,381.40
Due from Current Fund		540,585.04	-
Due From Grant Fund		126,552.00	-
Due from Trust Other		350,000.00	-
		<u>44,221,015.92</u>	<u>35,107,476.69</u>
 <u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Contracts Payable		1,947,297.88	2,188,326.69
Serial Bonds Payable		24,345,000.00	27,165,000.00
NJEIT Loan Payable		1,530,433.74	1,804,125.50
Bond Anticipation Notes Payable		3,660,000.00	-
Improvement Authorizations:			
Funded		58,165.23	360,293.82
Unfunded		7,452,621.02	626,364.23
Due to Current Fund		-	28,848.43
Reserve for Payment of NJEIT Loan		231,544.69	231,544.69
Reserve for Payment of Bonds		27,995.36	1,013.36
Reserve for Arbitrage Liability		1,699.33	1,699.33
Reserve for Preliminary Costs		841.69	841.69
Reserve for Back Bay Dredging		1,842,000.00	1,492,000.00
Reserve for Bulkhead Replacement		400,000.00	200,000.00
Reserve for Beach Replenishment		881,457.91	591,457.91
Reserve for Fire Department Building Repairs		575,000.00	-
Reserve for IHM Capital		350,000.00	-
Capital Improvement Fund		336,975.00	236,468.00
Fund Balance		579,984.07	179,493.04
		<u>\$ 44,221,015.92</u>	<u>35,107,476.69</u>

There were bonds and notes authorized but not issued at December 31

2024	4,035,498.85
2025	7,262,147.23

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

**GENERAL CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>Ref.</u>	<u>2025</u>	<u>2024</u>
Beginning Balance January 1	\$	179,493.04	119.76
Cancellation of Funded Improvement Authorizations		<u>400,491.03</u>	<u>179,373.28</u>
Ending Balance December 31	\$	<u><u>579,984.07</u></u>	<u><u>179,493.04</u></u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2025</u>	<u>2024</u>
<u>ASSETS</u>			
Operating Fund:			
Cash	\$	359,029.84	3,501,150.33
Change Fund		50.00	50.00
Due from Water & Sewer Capital		1,063,104.27	-
		<u>1,422,184.11</u>	<u>3,501,200.33</u>
Receivables and Other Assets:			
Water & Sewer Rents Receivable		291,546.17	255,925.76
		<u>291,546.17</u>	<u>255,925.76</u>
Total Operating Fund		<u>1,713,730.28</u>	<u>3,757,126.09</u>
Capital Fund:			
Cash - Treasurer		1,561.26	1,561.26
Due from N.J. Environ. Infrastructure Trust			
2010 Series A		2,830.00	2,830.00
2012 Series A		224,742.87	224,742.87
2015 Series		845,361.30	845,361.30
Due from Operating Fund		-	2,600,036.46
Fixed Capital		45,559,064.46	45,559,064.46
Fixed Capital - Authorized and Uncompleted		16,245,981.09	14,075,804.74
Total Capital Fund		<u>62,879,540.98</u>	<u>63,309,401.09</u>
	\$	<u>64,593,271.26</u>	<u>67,066,527.18</u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
COMPARATIVE BALANCE SHEET - REGULATORY BASIS
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2025</u>	<u>2024</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>			
Operating Fund:			
Appropriation Reserves	\$	501,865.03	223,617.65
Reserve for Encumbrances		22,222.22	47,982.71
Accounts Payable		1,575.00	1,575.00
Utility Overpayments		29,427.88	31,863.81
Due to Current Fund		-	22,046.32
Due to Water Sewer Capital		-	2,600,036.46
Accrued Interest on Bonds and Notes		190,257.35	93,977.07
		<u>745,347.48</u>	<u>3,021,099.02</u>
Reserve for Receivables		291,546.17	255,925.76
Fund Balance		676,836.63	480,101.31
Total Operating Fund		<u>1,713,730.28</u>	<u>3,757,126.09</u>
Capital Fund:			
Encumbrances Payable		380,278.45	3,617,426.55
Serial Bonds Payable		17,615,000.00	18,275,000.00
IBANK Temporary Financing		3,205,410.00	3,205,410.00
N.J. Environmental Infrastructure Trust Loans		2,658,921.55	3,240,726.08
Bond Anticipation Notes		3,282,000.00	4,100,000.00
Improvement Authorizations:			
Funded		1,242,786.05	1,428,322.05
Unfunded		5,419,433.32	2,816,620.27
Reserve for Amortization		26,989,654.43	25,901,409.04
Deferred Reserve for Amortization		238,700.00	238,700.00
Reserve for Payment of Bonds		87,128.51	62,221.84
Reserve for Payment of BANs		226,954.29	226,954.29
Reserve for Insurance Reimbursement		71,505.06	71,505.06
Due to Water & Sewer Operating		1,063,104.27	-
Capital Improvement Fund		202,575.77	82,575.77
Fund Balance		196,089.28	42,530.14
Total Capital Fund		<u>62,879,540.98</u>	<u>63,309,401.09</u>
	\$	<u>64,593,271.26</u>	<u>67,066,527.18</u>

There were bonds and notes authorized but not issued at December 31

	2024	4,673,624.08
	2025	7,815,359.57

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
COMPARATIVE STATEMENT OF OPERATIONS AND CHANGES
IN FUND BALANCE - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	<u>Ref.</u>	<u>2025</u>	<u>2024</u>
Revenue and Other Income Realized			
Fund Balance	\$	334,509.00	606,705.00
Water & Sewer Rents		5,571,122.04	4,576,166.96
Miscellaneous Revenue		179,697.19	176,067.40
Other Credits to Income:			
Unexpended Balance of Appropriation Res.		222,424.62	556,507.65
Cancelled Prior Year Payables			2,190.00
Total Income		<u>6,307,752.85</u>	<u>5,917,637.01</u>
Expenditures			
Operations			
Salaries and Wages		690,000.00	490,000.00
Other Expenses		996,622.00	724,400.00
Interlocal Agreement - CFO		-	8,855.00
Cape May County MUA		1,694,100.00	1,560,000.00
Capital Improvements		120,000.00	-
Debt Service		2,105,733.53	2,744,721.11
Statutory & Deferred Charges		170,053.00	40,550.00
Due to Utility Capital Fund			19,506.43
Refund of Prior Year's Revenue		-	781.19
Total Expenditures		<u>5,776,508.53</u>	<u>5,588,813.73</u>
Excess/(Deficit) in Revenue		<u>531,244.32</u>	<u>328,823.28</u>
Excess in Operations		<u>531,244.32</u>	<u>328,823.28</u>
Fund Balance January 1		<u>480,101.31</u>	<u>757,983.03</u>
		1,011,345.63	1,086,806.31
Decreased by:			
Utilization as Anticipated Revenue		<u>334,509.00</u>	<u>606,705.00</u>
Fund Balance December 31	\$	<u><u>676,836.63</u></u>	<u><u>480,101.31</u></u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY CAPITAL FUND
COMPARATIVE STATEMENT OF FUND BALANCE -
REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31,**

	<u>Ref.</u>	<u>2025</u>	<u>2024</u>
Beginning Balance January 1	\$	42,530.14	34,616.39
Increased by:			
Funded Improvement Authorizations Cancelled		153,559.14	7,913.75
		<hr/>	<hr/>
		196,089.28	42,530.14
Decreased by:			
No Activity			
		<hr/>	<hr/>
		-	-
		<hr/>	<hr/>
Ending Balance December 31	\$	<u>196,089.28</u>	<u>42,530.14</u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY OPERATING FUND
STATEMENT OF REVENUES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Anticipated Budget	Realized	Excess or (Deficit)
Surplus Anticipated	\$ 334,509.00	334,509.00	-
Rents - Water & Sewer	4,300,000.00	4,605,122.04	305,122.04
Water & Sewer Rate Increase	966,000.00	966,000.00	-
Miscellaneous	176,000.00	179,697.19	3,697.19
	<u>\$ 5,776,509.00</u>	<u>6,085,328.23</u>	<u>308,819.23</u>

Analysis of Realized Revenue:

Consumer Accounts Receivable:

Water and Sewer Rents	
Current Collections	5,539,258.23
Prepayments & Overpayments Applied	31,863.81
	<u>5,571,122.04</u>

Miscellaneous	
Meter Boxes & Fittings	89,176.00
Water & Sewer Penalties	15,364.48
Street Openings	27,645.00
Turn off/on	15,135.00
Interest on Investments	31,452.39
Miscellaneous	924.32
	<u>179,697.19</u>

The Accompanying Notes To The Financial Statements Are An Integral Part Of This Statement

**WATER AND SEWER UTILITY FUND
STATEMENT OF EXPENDITURES - REGULATORY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Appropriations		Paid or Charged	Expended		(Over expended) Unexpended Balance Cancelled
	Budget	Budget After Modifications		Encumbered	Reserved	
Operations:						
Salaries and Wages	\$ 690,000.00	690,000.00	540,153.06		149,846.94	
Other Expenses	1,028,722.00	996,622.00	640,001.65	22,222.22	334,398.13	
Cape May County MUA	1,662,000.00	1,694,100.00	1,694,076.00		24.00	
	<u>3,380,722.00</u>	<u>3,380,722.00</u>	<u>2,874,230.71</u>	<u>22,222.22</u>	<u>484,269.07</u>	<u>-</u>
Capital Improvements:						
Capital Outlay	120,000.00	120,000.00	120,000.00		-	
	<u>120,000.00</u>	<u>120,000.00</u>	<u>120,000.00</u>	<u>-</u>	<u>-</u>	<u>-</u>
Debt Service:						
Payment of Bond Principal	660,000.00	660,000.00	660,000.00		-	0.47
Payment on NJEIT	581,805.00	581,805.00	581,804.53		-	-
Interest on Bonds	797,500.00	797,500.00	797,500.00		-	-
Interest on NJEIT	66,429.00	66,429.00	66,429.00		-	-
	<u>2,105,734.00</u>	<u>2,105,734.00</u>	<u>2,105,733.53</u>	<u>-</u>	<u>-</u>	<u>0.47</u>
Deferred Charges and Statutory Expenditures:						
Public Employees Retirement System	114,053.00	114,053.00	114,053.00		-	
Social Security System	53,000.00	53,000.00	36,288.21		16,711.79	
Unemployment	3,000.00	3,000.00	2,115.83		884.17	
	<u>170,053.00</u>	<u>170,053.00</u>	<u>152,457.04</u>	<u>-</u>	<u>17,595.96</u>	<u>-</u>
Total	<u>\$ 5,776,509.00</u>	<u>5,776,509.00</u>	<u>5,252,421.28</u>	<u>22,222.22</u>	<u>501,865.03</u>	<u>0.47</u>

STATEMENT OF GENERAL FIXED ASSETS
DECEMBER 31,
REGULATORY BASIS

	<u>2025</u>	<u>2024</u>
General Fixed Assets:		
Land	\$ 78,321,333.00	78,321,333.00
Land Improvements	66,635.00	66,635.00
Buildings and Improvements	4,431,896.18	4,431,896.18
Investment in COAH Properties	1,536,468.29	1,536,468.29
Machinery and Equipment	11,805,897.82	11,803,694.39
	<u>96,162,230.29</u>	<u>96,160,026.86</u>
 Investment in General Fixed Assets	 \$ <u>96,162,230.29</u>	 <u>96,160,026.86</u>

The Accompanying Notes To The Financial Statements Are An Integral Part of This Statement

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Except as noted below, the financial statements of the Borough of Stone Harbor include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the Borough of Stone Harbor, as required by N.J.S. 40A:5-5.

Component units are legally separate organizations for which the entity is financially accountable. The entity is financially accountable for an organization if the entity appoints a voting majority of the organization's governing board and (1) the entity is able to significantly influence the programs or services performed or provided by the organization; or (2) the entity is legally entitled to or can otherwise access the organization's resources; the entity is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the entity is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the entity in that the entity approves the budget, the issuance of debt or the levying of taxes. The entity has no component units.

B. Description of Funds

The accounting policies of the Borough of Stone Harbor conform to the accounting principles applicable to municipalities which 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 the respect to public funds. Under this method of accounting, the Borough of Stone Harbor 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.

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

General Capital Fund -- receipt and disbursement of funds for the acquisition of general facilities, other than those acquired in the Current Fund.

Water and Sewer Operating and Capital Funds -- account for the operations of the water and sewer utility and acquisition of water and sewer capital facilities other than those acquired in the Current and General Capital Funds.

General Fixed Assets Account Group -- All fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds.

C. Basis of Accounting

The accounting principles and practices prescribed for municipalities by the State of New Jersey differ in certain respects from generally accepted accounting principles applicable to local governmental units. The more significant policies in New Jersey follow.

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

Revenues -- are recorded as received in cash except for certain amounts, which are due from other governmental units. Receipts from Federal and State grants are realized as revenue when anticipated in the entity budget. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the entity's Current Fund, in addition the receivables for utility billings are recorded with offsetting

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

reserves in the Utility Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the entity which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue when received.

Expenditures -- are recorded on the "budgetary" basis of accounting. Generally 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. Outstanding encumbrances at December 31 are reported as a cash liability in the financial statements. Appropriation reserves covering unencumbered appropriation balances are automatically created at December 31st of each year and recorded as liabilities, except for amounts which may be canceled 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 during the preceding fiscal year. Lapsed appropriation reserves are recorded as income. Appropriations for principal payments on outstanding general capital bonds and notes are provided on the cash basis; interest on general capital indebtedness is on the cash basis; interest on utility capital indebtedness is on the accrual basis. Compensated absences are treated on a pay as you go basis with no amount charged to operations in the year incurred.

Foreclosed Property -- Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved.

Interfunds -- Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset 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 is not included on the various balance sheets.

General Fixed Assets -- The entity has developed a fixed assets accounting and reporting system, as promulgated by the Division of Local Government Services, which differs in certain respects from generally accepted accounting principles.

As required by New Jersey Statutes, foreclosed property is reported in the current operating fund of the municipality.

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

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for land which is valued at estimated market value on the date of acquisition. Expenditures for long lived assets with an original cost in excess of \$2,000.00 are capitalized.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the Capital funds until such time as the construction is completed and put into operation.

Fixed assets acquired through grants in aid or contributed capital have not been accounted for separately.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Property and equipment purchased by the Water and Sewer Utility Fund 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 fund represents charges to operations for the costs of acquisitions of property, equipment and improvements.

Levy of Taxes -- The County Board of Taxation certifies the tax levy of the municipality each year. The tax levy is based on the assessed valuation of taxable property within the municipality. Taxes are payable on the first day of February, May, August, and November. Any taxes that have not been paid by 11th day of the 11th month in the fiscal year levied are subject to being included in the tax sale and the lien enforced by selling the property in accordance with NJSA 54:5 et. seq.

The municipality is responsible for remitting 100% of the school and county taxes to the respective agency. The loss for delinquent or uncollectible accounts is borne by the municipality and not the school district or county.

Interest on Delinquent Taxes – It is the policy of the Borough of Stone Harbor to collect interest for the nonpayment of taxes or assessments on or before the date when they would become delinquent. The Tax Collector is authorized to charge eight percent (8%) per annum on the first \$1,500.00 of taxes becoming delinquent after due date and eighteen percent (18%) per annum on any amount of taxes in excess of \$1,500.00 becoming delinquent after due date and if a delinquency is in excess of \$10,000.00 and remains in arrears beyond December 31st, an additional penalty of six percent (6%) shall be charged against the delinquency. There is a ten day grace period.

Levy of Utility Charges – The entity operates a water and sewer utility fund. Rates are determined by ordinance and changed as necessary. Water and sewer charges are based on flat fees and usage based on the type of entity. Charges are billed annually and due in quarterly installments on December 1, March 1, June 1 and September 1.

Interest on Delinquent Utility Charges -- It is the policy of the entity to collect interest for the nonpayment of utility charges on or before the date when they would become delinquent. The Utility Collector is authorized to charge eight percent (8%) per annum on the first \$1,500.00 of charges becoming delinquent after due date and eighteen percent (18%) per annum on any amount of charges in excess of \$1,500.00 becoming delinquent after due date.

Capitalization of Interest -- It is the policy of the Borough of Stone Harbor to treat interest on projects as a current expense and the interest is included in both the current and utility operating budgets with the exception of certain projects financed by the New Jersey Environmental Infrastructure Trust.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles or the statutory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Required Financial Statements

The State of New Jersey requires the following financial statements to be presented for each fund on the regulatory basis of accounting: Balance Sheet, Statement of Operations and Changes in Fund Balance, Statement of Revenue and Statement of Expenditures. These statements differ from those presented under Generally Accepted Accounting Principles, which requires a Statement of Net Position and Statement of Activities in addition to the fund financial statements.

E. Comparative Data

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statement of Operations in order to provide an understanding of changes in the entity's financial position. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in the Statement of Revenue-Regulatory Basis and Statement of Expenditures-Regulatory Basis since their inclusion would make the statements unduly complex and difficult to read.

F. Recent Accounting Pronouncements Not Yet Effective

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, "Financial Reporting Model Improvements". This statement, which is effective for periods beginning after June 15, 2025, and all reporting periods thereafter, will not have any effect on the Borough's financial reporting.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, "Disclosure of Certain Capital Assets". This statement, which is effective for periods beginning after June 15, 2025, and all reporting periods thereafter, will not have any effect on the Borough's financial reporting.

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, "Subsequent Events". This statement, which is effective for periods beginning after June 15, 2026, and all reporting periods thereafter, will not have any effect on the Borough's financial reporting.

NOTE 2: BUDGETARY INFORMATION

Under New Jersey State Statutes, the annual budget is required to be a balanced cash basis document. To accomplish this, the municipality is required to establish a reserve for uncollected taxes. The 2025 and 2024 statutory budgets included a reserve for uncollected taxes in the amount of \$561,058.98 and \$535,000.00, respectively. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2025 and 2024 statutory budgets was \$2,400,000.00 and \$2,486,507.94, respectively. In addition, the entity operates a self-liquidating water and sewer utility. Under New Jersey Statutes a separate budget for the utility must be adopted concurrently with the operating budget of the entity. The utility budget must be a balanced cash basis budget with fund balance being used to balance the budget. The amount of fund balance budgeted to balance the 2025 and 2024 statutory budgets was \$334,509.00 and \$606,705.00.

The Chief Financial Officer has the discretion of approving intra department budgetary transfers throughout the year. Inter department transfers are not permitted prior to November 1. After November 1 these transfers can be made in the form of a resolution and approved by Borough Council.

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NOTE 2: BUDGETARY INFORMATION – Continued

The following significant budget transfers were approved in the 2025 and 2024 calendar years:

<u>Budget Category</u>	<u>2025</u>	<u>2024</u>
<u>Current Fund:</u>		
General Administration		
Salaries and Wages	(40,000.00)	(20,000.00)
Municipal Clerk		
Salaries and Wages	17,000.00	
Other Expenses		
Zoning Board of Adjustment		
Salaries and Wages	25,000.00	
Electricity		
Other Expenses		25,000.00
Telephone		
Other Expenses		13,000.00
Street Lighting		
Other Expenses	7,000.00	16,500.00
Engineering Services and Costs		
Other Expenses		(52,800.00)
Fire Department		
Salaries and Wages		37,800.00
Other Expenses		
State Uniform Construction Code		
Construction Official		
Salaries and Wages	30,000.00	
Public Buildings and Grounds		
Salaries and Wages		(10,000.00)
Other Expenses		31,000.00
Public Works		
Salaries and Wages	(69,500.00)	(20,000.00)

NJSA 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2025 and 2024, the following significant budget insertions were approved:

<u>Budget Category</u>	<u>2025</u>	<u>2024</u>
Clean Communities	\$ 19,533.99	19,695.19
DCA Local Recreation Grant		67,000.00
Police Body Armor Grant		3,359.98
Stormwater Grant		10,000.00
NJ DOT - 85th - 87th Street		169,430.00
FEMA - OEM - Flood Mitigation Grant		157,500.00
NJ DOT - 2025		
Green Acres 82nd Ave Jakes Law	750,000.00	
Raynier Institute & Foundation	2,500.00	
	\$ <u>772,033.99</u>	\$ <u>426,985.17</u>

NOTE 2: BUDGETARY INFORMATION – Continued

The Borough may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year.

Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. The Borough approved a Special Emergency Appropriation totaling 675,000.00 that is being used to fund the Borough-wide Re-Assessment. The Special Emergency will be funded in the next 5 Budgets.

NOTE 3: INVESTMENTS

As of December 31, 2025 and 2024, the municipality had no investments.

Interest Rate Risk. The municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk. New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk. The municipality places no limit on the amount the entity can invest in any one issuer.

NOTE 4: CASH

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The municipality's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, all demand deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the municipality in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings, bail funds or funds that may pass to the municipality relative to the happening of a future condition. As of December 31, 2025 and 2024 none of the municipality's bank balances in the amount of \$21,171,592.35 and \$13,177,764.40, respectively, was exposed to custodial credit risk.

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NOTE 5: FIXED ASSETS

The following schedules are a summarization of the changes in general fixed assets for the calendar years ended December 31, 2025 and 2024:

	Balance 12/31/2024	Additions	Retirements	Balance 12/31/2025
Land	\$ 78,321,333.00			\$ 78,321,333.00
Building	66,635.00			66,635.00
Building Improvements	4,431,896.18			4,431,896.18
Investment in COAH Property	1,536,468.29			1,536,468.29
Equipment and Machinery	11,803,694.39	214,218.40	212,014.97	11,805,897.82
	<u>\$ 96,160,026.86</u>	<u>214,218.40</u>	<u>212,014.97</u>	<u>96,162,230.29</u>

	Balance 12/31/2023	Additions	Retirements	Balance 12/31/2024
Land	\$ 78,321,333.00			\$ 78,321,333.00
Building	66,635.00			66,635.00
Building Improvements	4,431,896.18			4,431,896.18
Investment in COAH Property	1,536,468.29			1,536,468.29
Equipment and Machinery	11,668,722.96	212,014.97	77,043.54	11,803,694.39
	<u>\$ 96,025,055.43</u>	<u>212,014.97</u>	<u>77,043.54</u>	<u>96,160,026.86</u>

Note 6: SHORT-TERM OBLIGATIONS

At December 31, 2025, the Borough has a bond anticipation outstanding in the amount of \$6,942,000.00, due July 24, 2026 bearing interest at 4.00%.

	Balance 12/31/24	Issued	Retired	Balance 12/31/25
Bond Anticipation Notes payable:				
General	\$ -	3,660,000.00		3,660,000.00
Water & Sewer	4,100,000.00	3,282,000.00	4,100,000.00	3,282,000.00
	<u>\$ 4,100,000.00</u>	<u>6,942,000.00</u>	<u>4,100,000.00</u>	<u>6,942,000.00</u>

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Note 6: SHORT-TERM OBLIGATIONS - Continued

At December 31, 2024, the Borough has a bond anticipation outstanding in the amount of \$3,470,000.00, due October 11, 2025 and \$630,000.00, due December 31, 2025, held by the Current Fund, both bearing interest at 0.00%.

	<u>Balance 12/31/23</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/24</u>
Bond Anticipation				
Notes payable:				
General	\$ 10,000,000.00		10,000,000.00	-
Water & Sewer	20,568,000.00	4,100,000.00	20,568,000.00	4,100,000.00
	<u>\$ 30,568,000.00</u>	<u>4,100,000.00</u>	<u>30,568,000.00</u>	<u>4,100,000.00</u>

NOTE 7: LONG TERM DEBT

Long-term debt as of December 31, 2024 and 2023 consisted of the following:

	<u>Balance 12/31/24</u>	<u>Issued</u>	<u>Retired</u>	<u>Cancelled</u>	<u>Balance 12/31/25</u>	<u>Amounts Due Within One Year</u>
Bonds payable:						
General	\$ 27,165,000.00		2,820,000.00		24,345,000.00	2,940,000.00
Utility	18,275,000.00		660,000.00		17,615,000.00	685,000.00
Total	<u>45,440,000.00</u>		<u>3,480,000.00</u>	<u>-</u>	<u>41,960,000.00</u>	<u>3,625,000.00</u>
Other liabilities:						
Loans Payable:						
General	1,804,125.50		273,691.77		1,530,433.73	275,856.82
Utility	3,240,726.08		581,804.54		2,658,921.54	538,075.78
Total long-term liabilities	<u>\$ 50,484,851.58</u>		<u>4,335,496.31</u>	<u>-</u>	<u>46,149,355.27</u>	<u>4,438,932.60</u>

	<u>Balance 12/31/23</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 12/31/24</u>	<u>Amounts Due Within One Year</u>
Bonds payable:					
General	\$ 20,845,000.00	\$ 8,335,000.00	2,015,000.00	27,165,000.00	2,820,000.00
Utility	-	18,275,000.00	-	18,275,000.00	660,000.00
Total	<u>20,845,000.00</u>	<u>26,610,000.00</u>	<u>2,015,000.00</u>	<u>45,440,000.00</u>	<u>3,480,000.00</u>
Other liabilities:					
Loans Payable:					
General	2,073,378.22		269,252.72	1,804,125.50	273,691.77
Utility	3,821,447.19		580,721.11	3,240,726.08	581,804.54
Total long-term liabilities	<u>\$ 26,739,825.41</u>	<u>26,610,000.00</u>	<u>2,864,973.83</u>	<u>50,484,851.58</u>	<u>4,335,496.31</u>

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NOTE 7: LONG TERM DEBT - Continued

Outstanding Bonds Whose Principal and Interest are Paid from the Current Fund Budget of the Entity:

\$8,335,000.00 General Improvement Bonds dated October 10, 2024, due in annual installments through October 1, 2034, bearing interest at a rate of 4.00%. The balance remaining as of December 31, 2025 is \$7,615,000.00

\$27,455,000.00 General Improvement Bonds dated November 1, 2018, due in annual installments through November 1, 2032, bearing interest at a varying rate ranging from 3.250% to 5.00%. The balance remaining as of December 31, 2025 is \$16,730,000.00.

\$1,013,511.00 N.J. Environmental Trust Loan Bond Series B dated December 2, 2010, due in annual installments beginning August 1, 2012 through August 1, 2030, bearing interest at 5.00%. The balance remaining as of December 31, 2025 is \$252,059.22

\$358,462.00 N.J. Environmental Fund Loan Bond dated December 2, 2010, due in semi-annual installments through August 1, 2030, bearing no interest. The balance remaining at December 31, 2025 is \$69,485.34.

\$141,786.00 N.J. Environmental Trust Loan Bond Series ABC dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2025 is \$22,235.82.

\$105,536.00 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2025 is \$38,372.00.

\$1,070,575.00 N.J. Environmental Trust Loan Bond Series A dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2025 is \$293,526.96

\$493,799.00 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2025 is \$139,018.18.

\$346,667.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2017 through August 1, bearing interest ranging from 4.00% to 5.00%. The balance remaining at December 31, 2025 is \$200,000.00.

\$1,123,006.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2017 through August 1, bearing no interest. The balance remaining at December 31, 2025 is \$420,120.67.

\$161,181.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2017 through August 1, bearing interest ranging from 4.00% to 5.00%. The balance remaining at December 31, 2025 is \$31,666.55.

\$177,296.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in annual installments beginning August 1, 2017 through August 1, bearing no interest. The balance remaining at December 31, 2025 is \$63,949.00.

NOTE 7: LONG TERM DEBT – Continued

Outstanding Bonds Whose Principal and Interest are Paid From the Utility Operating Fund of the Entity:

\$18,275,000.00 Water & Sewer Utility Bonds dated October 10, 2024, due in annual installments through October 1, 2044, bearing interest at a rate of 4.00%. The balance remaining as of December 31, 2025 is \$17,615,000.00.

\$920,000.00 N.J. Environmental Trust Loan Bond Series A dated November 8, 2007, due in annual installments beginning August 1, 2009 through August 1, 2027, bearing interest at varying rates. The balance remaining as of December 31, 2025 is \$124,000.00.

\$901,733.00 N.J. Environmental Fund Loan Bond Series A dated November 8, 2007, due in semi-annual installments through August 1, 2027, bearing no interest. The balance remaining at December 31, 2025 is \$94,423.69.

\$707,506.00 N.J. Environmental Trust Loan Bond Series A dated March 10, 2010, due in annual installments beginning August 1, 2011 through August 1, 2029, bearing no interest. The balance remaining as of December 31, 2025 is \$199,000.00.

\$2,023,865.00 N.J. Environmental Fund Loan Bond Series A dated March 10, 2010, due in semi-annual installments through August 1, 2029, bearing no interest. The balance remaining at December 31, 2025 is \$133,058.29

\$273,203.37 N.J. Environmental Trust Loan Bond Series B dated December 2, 2010, due in annual installments beginning August 1, 2012 through August 1, 2030, bearing interest at 5.00%. The balance remaining as of December 31, 2025 is 67,940.77.

\$111,087.48 N.J. Environmental Fund Loan Bond dated December 2, 2010, due in semi-annual installments through August 1, 2030, bearing no interest. The balance remaining at December 31, 2025 is \$18,729.29.

\$728,304.13 N.J. Environmental Trust Loan Bond Series ABC dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2025 is \$85,830.18.

\$728,304.00 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2025 is \$148,115.90.

\$906,832.75 N.J. Environmental Trust Loan Bond Series A dated May 3, 2012, due in annual installments beginning August 1, 2013 through August 1, 2031, bearing interest ranging from 2.00% to 5.00%. The balance remaining as of December 31, 2025 is \$241,821.05.

\$406,814.50 N.J. Environmental Fund Loan Bond dated May 3, 2012, due in semi-annual installments through August 1, 2031, bearing no interest. The balance remaining at December 31, 2025 is \$114,529.61.

\$2,063,781.00 N.J. Environmental Fund Loan Bond dated May 21, 2015, due in semi-annual installments through September 1, 2034, bearing interest ranging from 4.00% to 5.00%. The balance as of December 31, 2025 is \$400,000.00.

NOTE 7: LONG TERM DEBT – Continued

\$1,522,720.00 N.J. Environmental Fund Loan Bond dated May 21, 2017, due in semi-annual installments through September 1, 2034, bearing no interest. The balance remaining at December 31, 2025 is \$840,241.33.

\$326,362.00 N.J. Environmental Fund Loan Bond dated May 21, 2017, due in semi-annual installments through September 1, 2034, bearing interest ranging from 4.00% to 5.00%. The balance as of December 31, 2025 is \$63,333.45.

\$354,593.00 N.J. Environmental Fund Loan Bond dated May 21, 2017, due in semi-annual installments through September 1, 2034, bearing no interest. The balance remaining at December 31, 2025 is \$127,897.97.

Schedule of Annual Debt Service for Principal and Interest for Bonded Debt Issued and Loans Outstanding

Year	General Fund		Utility Fund	
	Principal	Interest	Principal	Interest
2026	3,215,856.82	957,283.79	1,223,075.78	761,880.36
2027	3,289,756.74	834,471.62	1,205,163.08	724,739.40
2028	3,350,146.39	708,863.98	1,122,087.49	684,881.87
2029	3,406,706.62	579,837.55	1,128,961.15	649,560.11
2030	3,487,475.07	447,350.82	1,033,050.12	610,678.10
2031-2035	9,125,492.10	651,671.72	4,916,583.93	2,498,624.48
2036-2044	-	-	9,645,000.00	2,010,200.00
	<u>\$ 25,875,433.74</u>	<u>4,179,479.48</u>	<u>20,273,921.55</u>	<u>7,940,564.32</u>

As of December 31, 2025, the carrying value of the above bonds and notes approximates the fair value of the bonds. The total interest charged to the current budget was \$1,087,111.62 and to the utility budget was \$863,929.00.

<u>Summary of Municipal Debt</u>	<u>Year 2025</u>	<u>Year 2024</u>	<u>Year 2023</u>
<u>Issued:</u>			
General - Bonds and Notes	\$ 29,535,433.74	\$ 28,969,125.50	\$ 32,918,378.22
Water/Sewer Utility - Bonds and Notes	26,761,331.55	28,821,136.08	24,389,447.19
Total Issued	<u>56,296,765.29</u>	<u>57,790,261.58</u>	<u>57,307,825.41</u>
<u>Authorized but not issued:</u>			
General - Bonds and Notes	7,262,147.23	4,035,498.85	16,919,706.00
Water/Sewer Utility - Bonds and Notes	7,815,359.57	4,673,624.08	13,254,375.00
Total Authorized But Not Issued	<u>15,077,506.80</u>	<u>8,709,122.93</u>	<u>30,174,081.00</u>
Total Bonds & Notes Issued and Authorized But Not Issued	<u>\$ 71,374,272.09</u>	<u>\$ 66,499,384.51</u>	<u>\$ 87,481,906.41</u>

NOTE 7: LONG TERM DEBT – Continued

Summary of Statutory Debt Condition - Annual Debt Statement

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 0.392%.

	Gross Debt	Deductions	Net Debt
Water/Sewer Utility Debt	\$ 34,576,691.12	\$ 34,576,691.12	\$ -
General Debt	36,797,580.97		36,797,580.97
	<u>\$ 71,374,272.09</u>	<u>\$ 34,576,691.12</u>	<u>\$ 36,797,580.97</u>

Net Debt \$36,797,580.97÷ Equalized Valuation Basis per N.J.S.A. 40A:2-2 as amended, \$9,378,874,336.33 = 0.392%.

Borrowing Power Under N.J.S.A. 40A:2-6 as Amended

3 1/2 % of Equalized Valuation Basis (Municipal)	\$ 328,260,601.77
Net Debt	36,797,580.97
Remaining Borrowing Power	<u>\$ 291,463,020.80</u>

Calculation of “Self-Liquidating Purpose”, Water and Sewer Utility Per N.J.S.A. 40A:2-45:

Cash Receipts from Fees, Rents or Other Charges for the Year	\$ 6,307,752.85
Deductions:	
Operating & Maintenance Costs	\$ 3,380,722.00
Capital Improvements	120,000.00
Statutory & Deferred Charges	170,053.00
Debt Service per Water and Utility Fund	<u>2,105,733.53</u>
Total Deductions	<u>5,776,508.53</u>
Excess in Revenue	<u>\$ 531,244.32</u>

NOTE 8: FUND BALANCES APPROPRIATED

Fund balances at December 31, 2025 and 2024, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2026 and 2025 were as follows:

	2025	2024
Current Fund	\$ 1,500,000.00	\$ 2,400,000.00
Water/Sewer Utility	409,000.00	334,509.00

NOTE 9: SCHOOL TAXES

Local District School Taxes have been raised and a liability deferred by statute, resulting in the school tax payable set forth in the Current Fund liabilities as follows:

	<u>12/31/2025</u>	<u>12/31/2024</u>
Balance of Tax	\$ 1,349,469.75	\$ 1,323,009.75
Deferred	921,837.60	921,837.60
Tax Payable	<u>\$ 427,632.15</u>	<u>\$ 401,172.15</u>

NOTE 10: TAXES COLLECTED IN ADVANCE

Taxes collected in advance are recorded as cash liabilities in the financial statements. Following is a comparison of the liability for the previous two years:

	<u>Balance 12/31/25</u>	<u>Balance 12/31/24</u>
Prepaid Taxes	\$ 1,212,265.20	\$ 1,093,126.43
Cash Liability for Taxes Collected in Advance	<u>\$ 1,212,265.20</u>	<u>\$ 1,093,126.43</u>

NOTE 11: PENSION FUNDSDescription of Plans

Substantially all of the entity's employees participate in the Public Employees' Retirement System (PERS) and Police and Fireman's Retirement System (PFRS) cost sharing multiple-employer defined benefit pension plans which have been established by State Statute and are administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the system terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the systems. This report may be obtained by writing to the Division of Pension and Benefits, PO Box 295, Trenton, New Jersey 08625 or the report can be accessed on the internet at <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

Public Employees' Retirement System

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. 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.

Police and Fireman's Retirement System

The contribution policy for the Police and Fireman's Retirement System (PFRS) is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10.0% of employees' annual compensation, as defined. Employers are required to contribute to an actuarially determined rate.

NOTE 11: PENSION FUNDS - Continued

Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provided for employee contributions of 7.50% of employee's annual compensation, as defined. Employers are required to contribute to an actuarially determined rate in PERS. The entity's contributions to PERS for the years ended December 31, 2025, 2024, and 2023 were \$493,907.00, \$482,617.00, and \$438,691.00.

The contribution policy for the PFRS is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 10.0% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate.

The entity's contributions to PFRS for the years ended December 31, 2025, 2024, and 2023 were \$634,577.00, \$611,654.00, and \$533,678.00.

The total payroll for the year ended December 31, 2025, 2024, and 2023 was \$6,682,070.50, \$6,755,813.60, and \$6,426,930.53. Payroll covered by PFRS was \$1,667,414.00, \$1,834,423.00, and \$1,706,551.00. Payroll covered by PERS was \$2,909,275.00, \$3,012,089.00, and \$2,983,236.00.

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of $\frac{1}{4}$ of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%.
- For fiscal year 2013, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.

NOTE 11: PENSION FUNDS - Continued

- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60th from 1/55th, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension

service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7th of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

NOTE 12: PENSION LIABILITIES

In 2012, the Governmental Accounting Standards Board issued GASB statement 68. This statement is effective for fiscal years beginning after June 15, 2014. This statement changes the method of reporting the municipality's pension liabilities. However, due to the fact that the municipality reports on the regulatory basis of accounting, no financial statement impact will be recognized.

The following represents the municipality's pension liabilities as June 30, 2024:

Public Employees' Retirement System

The Municipality has a liability of \$4,932,056 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023 that was rolled forward to June 30, 2024. The Municipality's proportion of the net pension liability was based on a projection of the Municipality's long-term share of contributions to the pension plan relative to the projected contributions of

NOTE 12: PENSION LIABILITIES - Continued

all participating employers, actuarially determined. At June 30, 2024, the Municipality's proportion would be 0.03629702140%, which would be a increase of 0.52% from its proportion measured as of June 30, 2023.

For the year ended December 31, 2025, the Municipality would have recognized pension expense of \$50,782. At December 31, 2025, the Municipality would report deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 98,798	(13,130)
Changes of assumptions	6,127	(56,115)
Changes in proportion	256,217	(216,425)
Net difference between projected and actual earnings on pension plan investments	-	(228,686)
Total	<u>\$ 361,142</u>	<u>(514,356)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,		
2025	\$	(491,365)
2026		651,272
2027		(187,454)
2028		(132,039)
2029		6,372
Total	<u>\$</u>	<u>(153,214)</u>

Actuarial Assumptions

The total pension liability for the June 30, 2024 measurement date was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024. This actuarial valuation used the following assumptions, applied to all periods 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%

NOTE 12: PENSION LIABILITIES – Continued

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 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 the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 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 disable retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on generational basis. Mortality improvement is based on Scale MP-2021.

The actuarial assumptions used in the July 1, 2023 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, 2024) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments 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 real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
US equity	28.00%	8.63%
Non-U.S. developed markets equity	12.75%	8.85%
International small cap equity	1.25%	8.85%
Emerging markets equity	5.50%	10.66%
Private equity	13.00%	12.40%
Real estate	8.00%	10.95%
Real assets	3.00%	8.20%
High yield	4.50%	6.74%
Private credit	8.00%	8.90%
Investment grade credit	7.00%	5.37%
Cash Equivalents	2.00%	3.57%
U.S. Treasuries	4.00%	3.57%
Risk mitigation strategies	3.00%	7.10%

NOTE 12: PENSION LIABILITIES – Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2024. 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 will be made based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for local employers. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all 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 in determining the total pension liability.

Sensitivity of the Municipality’s proportionate share of the net pension liability to changes in the discount rate.

The following presents the Municipality’s proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Municipality’s proportionate share of 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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Municipality's proportionate share of the net pension liability	\$ 6,000,319	4,932,056	4,023,800

Pension plan fiduciary net position.

Detailed information about the pension plan’s fiduciary net position is available in the separately issued PERS financial report.

Police and Firemen’s Retirement System

The Municipality has a liability of \$4,737,446 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as July 1, 2023 that was rolled forward to June 30, 2024. The Municipality’s proportion of the net pension liability was based on a projection of the Municipality’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2024, the Municipality’s proportion would be 0.04587615%, which would be an decrease of 0.16% from its proportion measured as of June 30, 2023.

For the year ended December 31, 2025, the Municipality would have recognized pension expense of \$598,528. At December 31, 2023, the Municipality would have reported deferred outflows of resources and deferred inflows of resources related to PFRS from the following sources:

NOTE 12: PENSION LIABILITIES – Continued

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected & actual experience	\$ 298,455	\$ (162,184)
Changes of assumptions	7,489	(139,131.00)
Changes in proportion	999,213	(75,554)
Net difference between projected and actual earnings on pension plan investments		(37,079)
Total	<u>\$ 1,305,157</u>	<u>\$ (413,948)</u>

Amounts that would be reported as deferred outflows of resources and deferred inflows of resources related to pensions would be recognized in pension expense as follows:

Year ended June 30,	
2025	\$ (13,816,518)
2026	17,479,060
2027	(3,556,975)
2028	(1,305,049)
2029	1,929,628
Thereafter	161,063
Total	<u>\$ 891,209</u>

Actuarial Assumptions

The total pension liability for the June 30, 2024 measurement date was determined by an actuarial valuation of July 1, 2023, which was rolled forward to June 30, 2024. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

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 Pub-2010 Safety Employee mortality table (sex specific), projected generationally from 2010 with scale MP-2021 mortality projection. For healthy annuitants, mortality rates were based on the Pub-2010 Safety Retiree Below Median amount-weighted mortality table (sex specific), projected generationally from 2010 with scale MP-2021 mortality projection. Disability rates were 144% of the Pub-2010 Safety Retiree Below Median amount-weighted mortality table for males and 100% of the Pub-2010 Safety Retiree Below Median amount-weighted mortality table for females, projected generationally from 2010 with scale MP-2021 mortality projection.

The actuarial assumptions used in the July 1, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

NOTE 12: PENSION LIABILITIES – Continued

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2024) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments 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, 2024 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large-Cap Equity	24.00%	6.90%
U.S. Small/Mid -Cap Equity	4.00%	7.40%
Non - U.S. Developed Large-Cap Equity	9.50%	6.70%
Non - U.S. Developed Small-Cap Equity	2.00%	7.50%
Emerging Markets Large-Cap Equity	6.00%	9.60%
Emerging Markets Small-Cap Equity	1.50%	9.60%
U.S. Treasury Bond	7.00%	4.10%
U.S. Corporate Bond	5.00%	5.90%
U.S. Mortgage-Backed Securities	5.00%	4.40%
Global Multisector Fixed Income	6.00%	6.50%
Cash	2.00%	3.40%
Real Estate Core	3.00%	5.10%
Real Estate Non-Core	4.00%	6.50%
Infrastructure	3.00%	7.00%
Private Debt/Credit	8.00%	9.10%
Private Equity	10.00%	10.10%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2024. 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 non-employer contributing entity will be made based on 100% of the actuarially determine contributions for the State employer and 100% of actuarially determined contributions for local employers. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all 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 the Municipality’s proportionate share of the net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2024, calculated using the discount rate as disclosed above as well as what the collective net pension 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:

NOTE 12: PENSION LIABILITIES – Continued

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Municipality's proportionate share of the net pension liability	\$ 6,449,262.26	4,737,446.00	3,311,709.20

In addition to the PFRS liabilities listed above, a special funding situation exists for the Local employers of the Police and Fire Retirement System of New Jersey. The State of New Jersey, as a non-employer, is required to pay the additional costs incurred by Local employers under 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 June 30, 2024 State special funding situation net pension liability amount of \$2,035,866,994 is the accumulated differences between the annual actuarially determined State obligation under the special funding situation and the actual State contribution through the valuation date. The fiscal year ending June 30, 2024 State special funding situation pension expense of \$234,210,000 is the actuarially determined contribution amount that the State owes for the fiscal year ending June 30, 2024. The pension expense is deemed to be a State administrative expense due to the special funding situation.

The contribution policy for PFRS is set by N.J.S.A. 43:16A and required contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's contribution amount is based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. For fiscal year 2024, the State contributed an amount more than the actuarially determined amount.

Although the liabilities related to the special funding situation are the liabilities of the State of New Jersey, the proportionate share of the statewide liability allocated to the Municipality was 0.04587615% for 2024. The net pension liability amount allocated to the Municipality was \$933,977. For the fiscal year ending June 30, 2024 State special funding situation pension expense of \$107,447 is allocated to the Municipality.

Pension plan fiduciary net position.

Detailed information about the pension plan's fiduciary net position is available in the separately issued PFRS financial report.

NOTE 13 – OTHER POST-RETIREMENT BENEFITS

General Information about the Plan:

The Municipality offers Other Post-Retirement Benefits (OPEB) to its employees through the State Health Benefit Local Government Retired Employees Plan (the Plan) a cost-sharing multiple employer defined benefit other postemployment benefit plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. 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>.

NOTE 13 – OTHER POST-RETIREMENT BENEFITS – Continued

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. Under Chapter 48, the employer may assume the cost of post retirement 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.

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.

Allocation Methodology:

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense, however under the Regulatory Basis of Accounting followed by the Municipality these amounts are not accrued or recorded in the financial statements and the information listed in this note is for disclosure purposes only. Statewide across all member employers, the special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. For the special funding situation and the nonspecial funding situation, the Collective Total OPEB liabilities for the year ended June 30, 2024 were \$4,833,833,875 and \$12,914,432,673, respectively.

NOTE 13 – OTHER POST-RETIREMENT BENEFITS – Continued

The nonspecial funding situation’s net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan’s non special funding situation during the measurement period July 1, 2023 through June 30, 2024. Employer and non-employer allocation percentages have been rounded for presentation purposes.

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 non-employer 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. However, the notes to the financial statements of the local participating employers must disclose the portion of the non-employer contributing entities’ total proportionate share of the collective net OPEB liability that is associated with the local participating employer.

Net OPEB Liability:

Components of Net OPEB Liability

The components of the collective net OPEB liability of the participating employers in the Plan as of June 30, 2024 is as follows:

	June 30, 2024	
	Collective Total	Proportionate Share
Total OPEB Liability	\$ 17,748,257,548	13,634,567
Plan Fiduciary Net Position (Deficit)	(157,187,957)	(120,755)
Net OPEB Liability	<u>\$ 17,905,445,505</u>	<u>13,755,322</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	-0.89%	-0.89%

At June 30, 2024 the Municipality’s proportionate share of the Collective Net OPEB Liability was \$13,755,322. The State’s proportionate share for the Special Funding Situation that is associated with the Municipality is \$3,796,176. The Municipality’s proportion of the Collective Net OPEB Liability was 0.076822% which was a decrease from the prior year of 6.56%. The State’s proportionate share attributable to the Municipality of the Collective Net OPEB Liability for the Special Funding Situation was 0.077844% which was a increase from the prior year of 2.17%.

NOTE 13 – OTHER POST-RETIREMENT BENEFITS – Continued

Municipality's Proportionate Share of Collective Net OPEB Liability	\$	13,755,322
State's proportionate share that is associated with the Municipality		3,796,176
Total	\$	<u>17,551,498</u>

For the Year ended June 30, 2024 the Borough's Total OPEB Expense/(Benefit) was \$(302,855) and the State of New Jersey realized Total OPEB Expense/(Benefit) in the amount of \$(367,785) for its proportionate share of Total OPEB Expense that is associated with the Municipality.

The total OPEB liability as of June 30, 2024 was determined by an actuarial valuation as of June 30, 2023, which was rolled forward to June 30, 2024. 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 all periods in the measurement:

Salary increases*:

<u>PERS</u>		
Rate for all future years	2.75% to 6.55%	based on years of service
<u>PFRS</u>		
Rate for all future years	3.25% to 16.25%	based on years of service

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

Pre-Retirement Healthy Mortality:

PERS: Pub-2010 "General" classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2021.

PFRS: Pub-2010 "Safety" classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2021

Post-Retirement Healthy Mortality

Chapter 330 Retirees: PUB-2010 "Safety" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Other Retirees: PUB-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Disable Retiree Mortality:

PERS Future Disabled Retirees: PUB-2010 "General" classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

NOTE 13 – OTHER POST-RETIREMENT BENEFITS – Continued

PFRS Future Disabled Retirees: PUB-2010 “Safety” classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Chapter 330 Current Retirees: PUB-2010 “Safety” classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Other Current Retirees: PUB-2010 “General” classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Actuarial assumptions used in the July 1, 2023 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.

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially 7.5% and decreases to a 4.50% long-term trend rate after nine years. For post-65 medical benefits PPO, the trend is increasing to 22.62% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For HMO, the trend is increasing to 23.58% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For prescription drug benefits, the initial trend rate is 12.75% and decreases to a 4.50% long-term trend rate after nine years. For the Medicare Part B reimbursement, the trend rate is 5.00%.

Discount Rate

The discount rate for June 30, 2024 was 3.93%. The discount rate will change each year based on 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 Net OPEB Liability to Changes in the Discount Rate

The following presents the Net OPEB liability as of June 30, 2024, calculated using the discount rate as disclosed above as well as what the 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 (2.93%)	Discount Rate (3.93%)	1% Increase (4.93%)
Collective				
Net OPEB Liability	\$	20,857,914,273	17,905,445,505	15,540,780,410
Proportionate Share				
Net OPEB Liability	\$	16,023,468	13,755,322	11,938,739

NOTE 13 – OTHER POST-RETIREMENT BENEFITS – Continued

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability as of June 30, 2024, 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:

		<u>1% Decrease</u>	<u>Healthcare cost Trend Rate</u>	<u>1% Increase</u>
Collective				
Net OPEB Liability	\$	15,144,352,142	17,905,445,505	21,455,435,620
Proportionate Share				
Net OPEB Liability	\$	11,634,195	13,755,322	16,482,496

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2024, the State reported deferred outflows of resources and deferred inflows of resources related to retired employees' OPEB from the following sources:

	<u>Collective Totals</u>		<u>Proportionate Share</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 906,784,304	(3,033,798,337)	696,610	2,330,624
Changes of assumptions	2,993,451,517	(2,972,190,924)	2,299,629	2,283,296
Net difference between projected and actual earnings on OPEB plan investments	-	(8,105,194)		6,226
Changes in proportion and differences between contributions and proportionate share of contributions	-		4,906,411	3,081,038
Total	<u>\$ 3,900,235,821</u>	<u>(6,014,094,455)</u>	<u>7,902,650</u>	<u>7,701,184</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to retired employees' OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	Collective Totals	Proportionate Share
2025	\$ (1,123,975,872.00)	107,123.02
2026	(483,903,543.00)	46,119.50
2027	(83,156,324.00)	7,925.40
2028	(443,334,965.00)	42,253.03
2029	(282,447,899.00)	26,919.33
Thereafter	302,959,969.00	(28,874.27)
Total	<u>\$ (2,113,858,634.00)</u>	<u>201,466.00</u>

Detailed information about the plan's fiduciary net position is available in the separately issued OPEB financial report.

NOTE 13 – OTHER POST-RETIREMENT BENEFITS – Continued

Collective OPEB Expenses reported by the State of New Jersey

The components of allocable OPEB Expense (Benefit) related to specific liabilities of individual employers for the year ending June 30, 2023 are as follows:

Service cost	\$ 545,086,159
Interest on Total OPEB Liability	554,448,470
Expected Investment Return	5,026,265
Administrative Expenses	11,119,284
Changes of Benefit Terms	107,670,542
Current Period Recognition (Amortization) of Deferred Inflows/ Outflows of Resources:	
Differences between Expected and Actual Experience	(847,755,885)
Changes in Assumptions	(583,228,782)
Differences between Projected and Actual Investment Earnings on OPEB Plan Investments	(1,033,536)
Total Collective OPEB Expense	<u>\$ (208,667,483)</u>

Schedule of Municipality's Share of Net OPEB Liability

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Municipality's Proportionate Share of Net OPEB Liability	\$ 13,755,322	12,337,777	10,031,160	13,301,838
Municipality's Share of Net OPEB Liability	0.076822%	0.08222%	0.062114%	0.067642%
Municipality's Covered Payroll	6,682,071	6,755,814	7,394,905	7,083,451
Municipality's Proportionate Share of the Net OPEB Liability as a percentage of its Covered-Employee Payroll	205.85%	182.62%	135.65%	187.79%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	-0.89%	-0.79%	-0.36%	0.28%
		<u>2020</u>	<u>2019</u>	<u>2018</u>
Municipality's Proportionate Share of Net OPEB Liability	\$	10,334,019	7,631,179	11,194,425
Municipality's Share of Net OPEB Liability		0.05758%	0.05634%	0.071454%
Municipality's Covered Payroll		5,876,561	5,455,947	4,934,978
Municipality's Proportionate Share of the Net OPEB Liability as a percentage of its Covered-Employee Payroll		175.85%	139.87%	226.84%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		0.97%	1.97%	1.98%

NOTE 14: ACCRUED SICK AND VACATION BENEFITS

The dollar value of employee accumulated time off at December 31, 2025 is \$156,303.08, however the Borough does not permit employees to accrue sick and vacation time. Hence, employees are not compensated upon retirement for accrued time.

NOTE 15: ECONOMIC DEPENDENCY

The Borough of Stone Harbor is not economically dependent on any one business. The tourism industry is a major source of tax revenue for the entity.

NOTE 16: RISK MANAGEMENT

The entity is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The entity maintains commercial insurance coverage for property, liability and surety bonds. During the year ended December 31, 2024 and 2023 the entity did not incur claims in excess of their coverage and the amount of coverage did not significantly decrease.

The entity is a member of the Atlantic County Joint Insurance Fund (JIF) and the Municipal Excess Liability Fund (MEL) which also includes other municipalities throughout the region. The entity is obligated to remit insurance premiums into these funds for sufficient insurance coverage. There is an unknown contingent liability with the Atlantic County Municipal Joint Insurance Fund if there is a catastrophic insurance claim from any member of the fund. The entity has a general liability limit of \$100,000 under JIF, which increases to \$5,000,000 under MEL.

NOTE 17: DEFERRED COMPENSATION

Employees of the Borough of Stone Harbor may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Governments). The deferred compensation plan is available to all employees of the entity. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

An unrelated financial institution administers the deferred compensation plan. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the employees. As part of its fiduciary role, the entity has an obligation of due care in selecting the third-party administrator.

NOTE 18: CONTINGENT LIABILITIES

From time to time, the entity is a defendant in legal proceedings relating to its operations as a municipality. In the best judgment of the entity's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

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NOTE 19: INTERFUND BALANCES

As of December 31, 2025, the following interfunds were included on the balance sheets of the various funds of the Borough of Stone Harbor:

	Due From	Due To
	<u> </u>	<u> </u>
Current Fund:		
Animal Control Fund	\$ 152.75	
General Capital Fund		540,585.04
Coah Trust Fund	967.98	
Trust Other		5,839.50
Grant Fund	320,140.80	
Grant Fund:		
General Capital Fund		126,552.00
Current Fund		320,140.80
Animal Control Fund:		
Current Fund		152.75
General Capital Fund:		
Current Fund	540,585.04	
Grant Fund	126,552.00	
Trust Other	350,000.00	
Water Sewer Operating Fund:		
Water and Sewer Capital Fund	1,063,104.27	
Current Fund		
Trust Other Fund:		
Current Fund	4,871.52	
General Capital Fund		350,000.00
Water and Sewer Capital Fund:		
Water and Sewer Operating Fund		1,063,104.27
	<u>\$ 2,406,374.36</u>	<u>2,406,374.36</u>

NOTE 20: SUBSEQUENT EVENTS

The entity has evaluated subsequent events through June 15, 2026 the date which the financial statements were available to be issued and identified no events requiring disclosure.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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†ADMITTED IN PA ONLY

July 23, 2026

Borough Council of The
Borough of Stone Harbor, in the
County of Cape May, New Jersey

Ladies and Gentlemen:

We have acted as bond counsel to The Borough of Stone Harbor, a municipal corporation of the State of New Jersey, situate in the County of Cape May (the “Borough”), and have examined a record of proceedings relating to the issuance by the Borough of a Bond Anticipation Note in the denomination of \$14,542,000 (the “Note”). The Note is dated July 23, 2026, matures on July 23, 2027, bears interest at the rate of _____ hundredths per centum (____%) per annum payable at maturity, is issued in registered form, is transferable as therein provided, and is issued pursuant to the Local Bond Law of the State of New Jersey, and by virtue of a bond ordinance or ordinances of the Borough and a resolution of its governing body adopted June 16, 2026.

The Note is a temporary obligation issued in anticipation of the issuance of bonds.

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the Note in order that interest on the Note be and remain excluded from gross income under Section 103 of the Code. We have examined the Arbitrage and Use of Proceeds Certificate of the Borough delivered in connection with the issuance of the Note which contains provisions and procedures regarding compliance with the requirements of the Code. By said Arbitrage and Use of Proceeds Certificate, the Borough has certified that, to the extent it is empowered and allowed under applicable law, it will comply with the provisions and procedures set forth therein and that it will do and perform all acts and things necessary or desirable to assure that interest paid on the Note is excludable from gross income under Section 103 of the Code. In rendering this opinion, we have assumed that the Borough will comply with the provisions and procedures set forth in its Arbitrage and Use of Proceeds Certificate.

In our opinion, the Note is a valid and legally binding obligation of the Borough, payable in the first instance from the proceeds of the sale of the bonds in anticipation of the issuance of which the Note is issued but, if not so paid, payable ultimately from ad valorem taxes which may be levied upon all the taxable property within the Borough without limitation as to rate or amount. The enforceability of rights or remedies with respect to the Note may be limited by bankruptcy, insolvency or other laws affecting creditors’ rights or remedies heretofore or hereafter enacted.

In our opinion, under existing statutes and court decisions, interest on the Note is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and interest on the Note is not treated as a preference item in calculating the alternative minimum tax under the Code, however interest on the Note is included in the “adjusted financial statement income” of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In addition, in our opinion, under existing statutes, interest on the Note is not included in from gross income under the New Jersey Gross Income Tax Act.

Attention is called to the fact that we have not been requested to examine and have not examined any documents or information relating to the Borough other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been or may be supplied to the purchaser of the Note.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the Note, or the ownership or disposition thereof, except as stated above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement our opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the Note.

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

Very truly yours,